SCB
Economic Intelligence Center

Outlook

Quarter 3
2020

In focus:
The Crisis in Thai Labor Market is Holding Back Economic Recovery

Special issues:

- Global economy 2020 Bottoming out from the COVID-19 crisis, but outlook remains clouded by uncertainty
- EIC revises Thai economic growth forecast in 2020 downward to -7.8% from its previous projection of -7.3%
- Interest rates and exchange rates outlook in 2020
- Oil prices outlook in Q3 of 2020
- EIC Data Analytics: Condominium prices plummeted with plunging economy, ending firm growth streak

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EIC revises Thai economic growth forecast in 2020 downward to -7.8% from its previous projection of -7.3%

Key forecasts

( ) previous forecast — No change ▲ Revised upward from previous forecast ▼ Revised downward from previous forecast

	2019	2020F
GDP (%YOY)	2.4	-7.8 ▼ (-7.3)
Policy rate (end of year)	1.25	0.5 — (0.5)
Exchange rate (end of year) (THB/USD)	30.3	30.5-31.5 (32 - 33)

GDP: Tourism continued to be subdued, exports recovered somewhat though growth was still negative, while domestic demand recovery should be slow following various pressuring factors

Policy rate: MPC should hold interest at low levels to improve liquidity and reduce the debt burden

Exchange rate: The baht should depreciate following a severe drop in the service account from waning tourist arrivals

Unit: %YOY

	2019	2020F	Key factors in 2020
Private Consumption	4.5	-2.3 ▼ (-1.8)	• Worsening durable goods consumption trend, especially for automobiles • Sluggish non-durable goods consumption growth expected following weakened economic conditions. Despite economic boosts from cash handout measures, the lower-than-expected government support could delay recovery.
Private Investment	2.8	-12.6 ▼ (-10.7)	• Export slowdown impacts investment in export-related businesses • High contractions expected as uncertainties surrounding COVID-19 and weak overall economic conditions linger
Government Consumption	1.4	2.5 — (2.5)	• Accelerated budget disbursements after the Bill has been approved as expected
Government Investment	0.2	8.1 ▲ (4.6)	• Upward revision following higher-than-expected budget disbursements after the Bill has been passed
Exports of goods*	-3.3	-10.4 — (-10.4)	• Although exports have recovered recently, exports should not turn positive within this year
Tourist Arrivals	4.2	-83.1 ▼ (-75.3)	• Downward revision following persistently sluggish international arrival figures and strict measures for international arrivals
Imports of goods*	-5.6	-15.3 ▲ (-18.6)	• Contraction anticipated following sluggish export conditions, the oil price plummet, and the drop in domestic demand. However, EIC revises up its import forecast due to better-than-expected actual figures.
Headline Inflation	0.7	-1.0 ▲ (-1.1)	• Drastically lower crude oil prices in 2020 lowered energy-related inflation • Core inflation to stand at low levels following weakened domestic demand

Supporting factors

- Continual government expenditures injecting in the economy
- Various help programs under THB 1 billion Emergency Decree

Risk factors

- Re-escalation of COVID-19 outbreak throughout the world, including Thailand
- Growing tensions between China and the US
- Scarring effects from increasing business closures and worsening unemployment conditions could hamper consumption and investment in periods ahead
- Growing political tensions within Thailand

Remark: *Export and import value in USD terms (BOP basis)
Source: EIC analysis based on data from NESDC, OAE, FPO, BOT, MOC, TAT, CEIC, and Bloomberg

EIC revises down 2020F GDP growth to -7.8% from -7.3% previously. Looking forward, Thai economic recovery is likely to be gradual amid several risk factors, especially from weak labor market and rising business bankruptcy.

The global economy has recovered from its trough in the second quarter, but recent lockdown easing measures have been reigned-in due to resurgences in COVID-19 in some countries, causing recent stalling economic recovery. Recent high frequency data, such as Google mobility, over the last 1-2 months suggest that global economic activities have seen stalling recovery, consistent with consumption and investment indices from key economic countries. For example, credit and debit cards spending in the US have slowed down and remain lower than their pre-COVID-19 levels. The service-related spending in Japan and investment spending in China remain weak. However, rather than broad-based (nation-wide lockdown), recent lockdown measures are more specific (local lockdown), which should result in smaller negative impacts on economic activities. Looking forward, EIC maintains our view on gradual recovery in global economy. In addition to recent signs on stalling recovery, business bankruptcy and stubbornly high unemployment should result in scarring effects, combined with risks from fiscal cliff in major economies could pose downside risks to global economic recovery.

Several Thai economic sectors have bottomed out from the lowest point in the second quarter, but the recovery seems stalled recently. In Q2/20, Thai economy recorded the lowest growth in 22-year span at -12.2%YOY, reflecting large and abrupt impacts from nationwide lockdown measures. However, after lockdown easing, several economic activities have improved such as private consumption, manufacturing production, capacity utilization, business and consumer confidence indices as well as export values. Regarding tourism sector, recovery, thus far, has been mainly driven by Thai tourists travelling to tourist destinations near Bangkok. Meanwhile, international tourism remains on the halt and hence its related businesses are still subdued. EIC also lowers our forecast on foreign tourist number to 6.7 million in 2020 on the back of very careful and slow border opening measures to control domestic COVID-19 spreading situation. On recovery path, recent high frequency data such as Google mobility suggest that recovery in economic activities have been stalling, consistent with EIC projection that the recovery of Thai economy will likely be gradual on the back of several obstacles, especially scarring effects.

COVID-19 has left economic scars on Thai economy, including rising business bankruptcy and weak labor market conditions, key hindrance and risk factors to the recovery going ahead. Rising numbers of business bankruptcy should keep private investment contracting throughout the year and will likely aggravate the other scar, which is labor market conditions. In Q2/20, the unemployment rate soared to 1.95%, the highest rate in 11 years. Moreover, labor income of employed persons seems to decrease substantially from lower working hours (-11.5%YOY), both from full-time and over-time workers. Some of the employed persons were pushed into underemployment, while furloughed workers increased considerably by 2.5 million. These two scars, business bankruptcy and weak labor market, require some time to heal. On the downside, if the situations of bankruptcy and labor market conditions went worse and prolonged, the economic condition would be exacerbated by lower workers' income, consumption, and investment. Moreover, precautionary saving behavior is another factor to concern. EIC found that deposit amount of every bank account size has been increase after the spread of COVID-19. This might imply that people adjust their behavior to save more in crisis time as there are variety of uncertainties in the future, causing lower consumption and money circulation in the economy.

Relief measures from the government play a crucial role in shoring up the economy. However, from the latest update, EIC foresees lower-than-expected budget disbursement in 2020. The latest update indicates that approved projects ready to disburse in 2020 under THB 1 trillion emergency decree are approximately 475 billion baht, lower than our previous estimate. EIC, therefore, lowers the disbursement to around THB 500 billion (vs THB 600 billion previously). This lower amount of disbursement is one of the main factors that EIC lowers our 2020 GDP forecast. While income from export and tourism sectors in H2/20 tends to remain subdued, the substantial lower government assistances might affect the purchasing power of households whose income and employment are severely hit and still need supports from the government. With significant smaller disbursement from the government budget in H2/20, risks from fiscal cliff are likely to be material and could impact economic recovery going forward.

On Thai monetary policy outlook, EIC expects BOT to keep its policy rate at 0.5% throughout 2020F and stand ready to implement conventional and unconventional measures to support the economy. Overall, the recent Thai financial condition has been less tightening after the BOT has cut its policy rate to 0.5% and implemented measures to inject liquidity and lower expenditure for affected household and business such as soft loan, debt restructuring and payment holiday measures. However, with policy rate at its historical low level and hence limited policy space, BOT is expected to keep its policy rate at 0.5% throughout 2020F and introduce measures to enhance policy transmission to the real economy as well as measures to address deteriorating asset quality and rising NPLs. **For THB outlook, EIC maintains our forecast on USDTHB around 30.5-31.5 at end-2020** due to weakening USD, resulting from bottomed out global economy, Fed's signal on low for long, US widening budget deficit, and potential capital inflows to EM, including Thailand. However, with significant smaller current account surplus on the back of falling foreign tourist revenue, USDTHB is unlikely to see significant strengthening pressure in 2020F.

Risk factors to monitor include resurgence in COVID-19 cases in Thailand and abroad, which will likely adversely affect exports and domestic demand, especially if the strict lockdown measure is employed. Uncertainty from tension between the US and China and US Presidential election in early November could impact global trade and financial markets. Fiscal cliff and scarring effects in Thailand and key trade partners are also key risks requiring closely monitor as well as political stability, which could impact investors' confidence.

Q3/2020

Global economy 2020

Bottoming out from the COVID-19 crisis, but outlook remains clouded by uncertainty

Economic growth

EIC views that the global economy has already bottomed out from the COVID-19 crisis, but the recovery could face obstacles as the number of infections has accelerated again. This caused many countries to delay the re-opening of the cities. Thus, the global economy will recover more slowly and to a considerably lower than the pre-COVID 19 level.

Inflation rate

Inflation will likely remain low as the global economic recession undermines consumer purchasing power.

The relaxation of the lockdown measures led economic activities to start recovering, resulting in growing demand for oil. However, airline industries affected by the COVID-19 remain sluggish. This could adversely affect energy prices for the rest of the year.

Monetary policy direction

Fed keeps policy rate and adopts Average Inflation Targeting (AIT) which would support Fed to keep policy rate low for longer

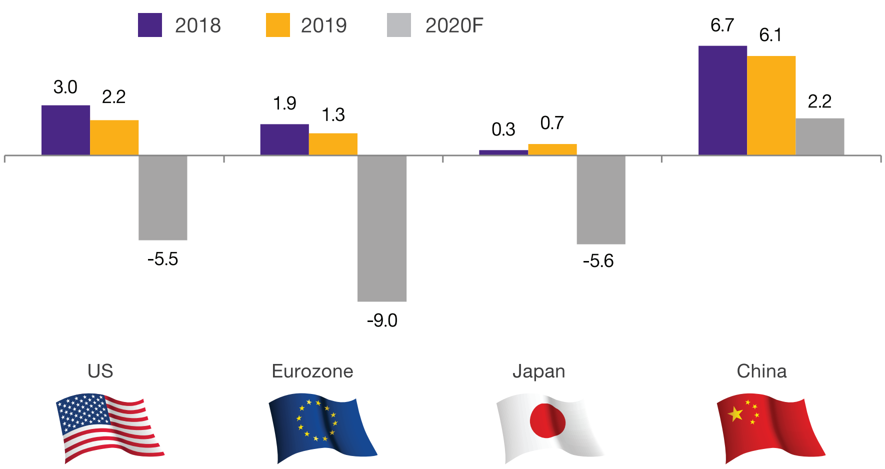
ECB keeps policy rate and is likely to use a full 1.3 trillion asset purchase programme as expected

BOJ keeps policy rate and easing measures, closely monitoring the effectiveness of monetary policy easing

Remark: Gauge indicate direction for the rest of the year

Economic growth for 2018 2019 and 2020

Unit: %YOY



Source: EIC's forecast and global research houses

Support factors

- A slower rise in virus cases
- Massive fiscal and monetary stimulus efforts

Risk factors

- A new wave of COVID-19 outbreak
- Weak labor markets
- Low consumer and business sentiments
- US-China tensions

Global Economy 2020

Bottoming out from the COVID-19 crisis, but outlook remains clouded by uncertainty.

Global economic growth will likely take shape as a stalling recovery as virus resurgences prompt many countries to tighten their lockdown rules. The latest high frequency data shows signs of a slowdown in global economic recovery. In major economies, the Google Mobility retail and recreation index failed to keep pace, while consumption and investment indicators pointed in a similar direction. US total credit and debit card spending slowed and hovered below pre-pandemic levels. Meanwhile, Japan's service consumption remained sluggish while China's manufacturing investment remained subdued. Looking ahead, most nations will likely impose local lockdowns — which have fewer impacts on economies — rather than the nation-wide lockdowns enacted during the second quarter of 2020.

Fiscal cliffs are a key risk to economic recovery ahead. In many countries governments have rolled out massive monetary and fiscal stimulus packages to shore up flagging economies. Nonetheless, most stimulus packages are short-term and temporary — meaning that any future economic rebounds could be at risk if economic activities fail to regain their momentum before those stimulus packages expire without any extension. For example, in the US additional unemployment benefits of USD 600 per week ran out in July 2020. There was a temporary renewal, but the payout was reduced to USD 300-400 a week, and a further extension remains highly uncertain. Similarly, the UK government refused to extend its furlough scheme and began reducing wage subsidies until the measure expires in October.

The stringent country lockdowns pushed many workers out of the workforce and into long-term unemployment. This will have adverse effects on labor productivity and also economic growth in the long term. The spread of the corona virus followed by strict lockdowns have limited commutes between cities, and thus deflated consumption and investment activities. As a result, many businesses are closing down for good after experiencing huge sales slumps, particularly in the service sector. A steady increase in business closures will be a drag on already-weak labor markets and also on long-term economic growth as labor skills and abilities falter. In addition, workers may find difficulty in returning to their previous jobs, and this will affect job-matching capital: specialist skills learned through work experience and understanding of business practices and characteristics. These factors relate to worker's capabilities and are key to higher business performance, which will affect long-term economic expansion.

The EIC sees four major risks to the global economy in 2020: 1) A resurgence of the COVID-19 pandemic, which will prompt country lockdowns and defer economic activities, 2) Stagnant consumer and business sentiment which hinder spending and investment, and later weigh on corporate revenue and employment, 3) Prolonged weakness in the labor market, putting pressure on economic recovery and long-term economic growth, and 4) US-China trade tensions — with bilateral ties continuing to nosedive over political unrest in Hong Kong and the Tech war.

Global Economic Risk Map of 2020

Global Risk Category

- Economic, Financial
- Societal
- Political, Geopolitical
- War, Military

Note

1 2 3

indicate three major risks to the global economy with high probability and high impact in 2020

Source: EIC analysis based on data from global research houses.

Major Events of Global Economy for 2020 and 2021

Year	Month	Date	Event	Description
2020	Sep	10	**ECB meeting with Macroeconomic projections**	ECB's monetary policy meeting and Eurozone economic growth forecasts
2020	Sep	15-16	**FOMC meeting with economic projections**	FOMC meeting and US economic growth forecasts
2020	Sep	30	**2020 Hong Kong Legislative Council election**	The Seventh Hong Kong Legislative Council Election with 35 out of 70 representatives elected by Hong Kong citizens
2020	Nov	3	**The 2020 United States presidential election**	US Presidential Election in 2020 which will have implications for future trade and investment policies
2020	Nov	21-22	**G20 Riyadh summit**	G20 Leaders' Summit to be hosted by Saudi Arabia which will have implications on economic, trade and investment issues in the period ahead
2020	Dec	10	**ECB meeting with Macroeconomic projections**	ECB's monetary policy meeting and Eurozone economic growth forecasts
2020	Dec	15-16	**FOMC meeting with economic projections**	FOMC meeting and US economic growth forecasts
2020	Dec	31	**End of UK transition period**	If the UK fails to reach the free-trade agreement before the deadline, their relationship will be subject to terms of the World Trade Organization (WTO)
2021	Jan	20	**US Inauguration Day**	Inauguration day for the winner of US Presidential Election which will have implications for US policies, especially economic, trade, and foreign policies in the next 4 years
2021	Mar	13	**ECB meeting with Macroeconomic projections**	ECB's monetary policy meeting and Eurozone economic growth forecasts
2021	Mar	16-17	**FOMC meeting with economic projections**	FOMC meeting and US economic growth forecasts
2021	Jul-Aug	23-8	**Tokyo Olympic**	The Olympic Games will have implications for the Japanese economy in 2021, reflecting confidence of foreign tourists following the COVID-19 outbreak

Key theme for Global Economy 2020

Global recession	COVID-19's impact on economy	Fiscal Cliff	Finding a vaccine	US - China tensions

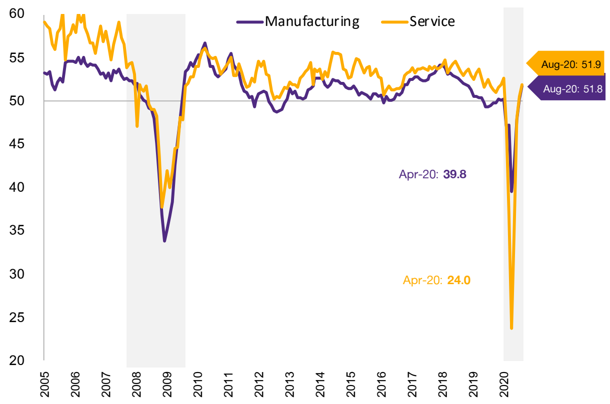
Global Economy 2020:
The Second Half of 2020

The global economy has bottomed out and investors have returned to risk assets, thanks to governments offering massive stimulus packages and easing lockdowns. The slowdown in confirmed cases of infection, massive government stimulus measures, and lockdown easing have helped bolster an economic rebound from the lowest point during the second quarter of 2020. Capital flows began to pour back into emerging markets, particularly into government bond markets where risks are lower than stock markets. Meanwhile, the stock market indexes of many countries have been rising (Figure 1). Some markets even saw a rebound to above pre-pandemic levels, such as the US stock market (S&P500), China's stock market (Shanghai), and the South Korean stock market.

Figure 1: The global economy have bottomed out, while investors return to risk assets.

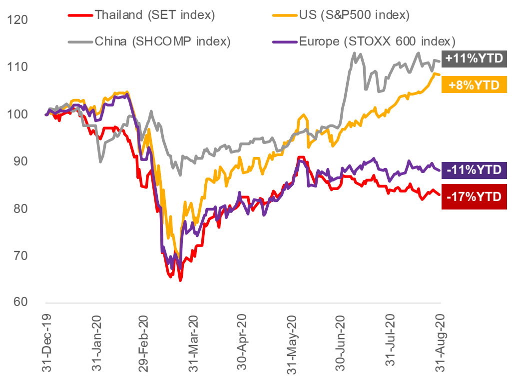
Global Purchasing Managers' Index (PMI)

Unit: Index



Stock index

Unit: Index (December 31, 2019 = 100)



Source: EIC analysis based on data from Bloomberg and JP Morgan (data as of September 3, 2020)

EIC sees three key factors affecting the global economic and financial market outlook through the remainder of 2020. Any global economic recovery ahead will likely face headwinds amidst a post-lockdown Covid-19 resurgence in many countries, fading government stimulus measures, high unemployment levels, and rising business closures. In this report, EIC examines three major factors that will impact the outlook for the global economy and financial markets for the remainder of 2020.

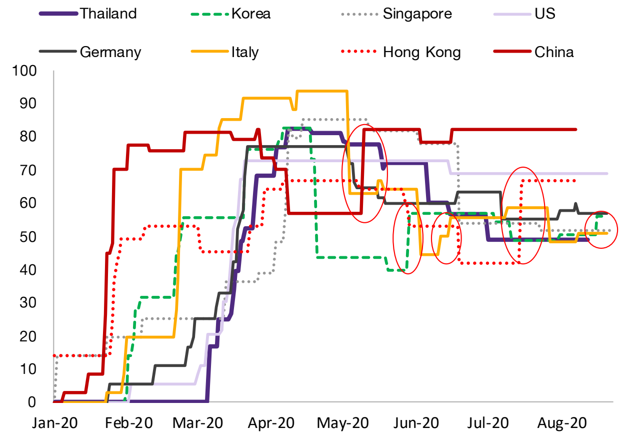
1. The global economy will likely see a stalling recovery as many countries tighten their lockdown rules to tackle a post-lockdown COVID-19 resurgence.

Virus cases have been surging after lockdown measures were lifted in many countries. While some countries may be able to successfully keep the pandemic under control, many still struggle with alarming outbreaks, such as the US, India, Brazil, and other nations. Meanwhile, some countries — such as the European nations, Japan, and South Korea — have not done well in handling the virus pandemic after lockdown easing. The pace of country re-openings differs as each country takes their own measures to curb outbreaks. Countries with a declining number of confirmed cases gradually lifted lockdown rules, while countries facing a virus resurgence delayed lockdown easing or reimposed local lockdowns. These countries include the US, which tightened lockdown restrictions in some states, and South Korea, Germany, and Italy, which imposed more stringent measures (Figure 2).

Figure 2: Governments extended country lockdowns and tightened rules in some areas as virus cases resurged after lockdown easing. Data shows that the strictness of lockdown has an impact on economic contraction.

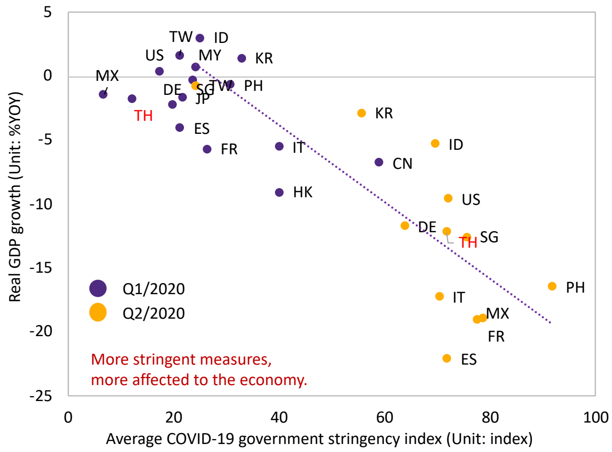
Government Stringency Index

Unit: Index (100 = Most stringent)



Real GDP growth and Government Stringency Index

Unit: Index (December 31, 2019 = 100)



Source: EIC analysis based on data from Oxford University, Bloomberg, and JP Morgan (data as of August 31, 2020)

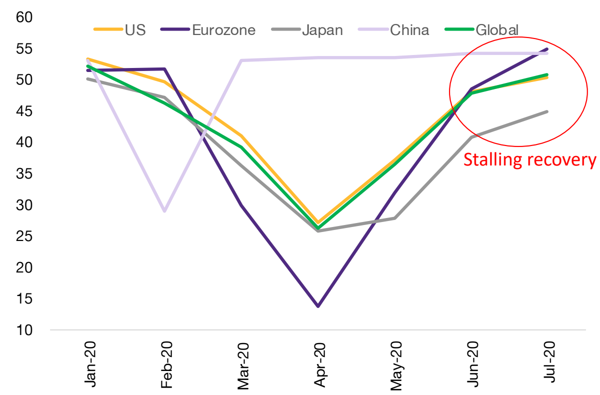
The delay of lockdown easing and the re-imposition of local lockdowns are headwinds to any future economic recovery — which currently looks to be stalling. The past months have seen that the degree of lockdown strictness has a significant impact on economic contraction. That is, countries enforcing stricter lockdowns are likely to face sharper levels of economic shrinkage. In addition, most economies saw their biggest drops in the second quarter of 2020 when their strictest lockdowns were in place, except for China, which eased restrictions ahead of its peers. The latest high frequency data signals a stalling rebound in the global economy, as evident in a slower rebound in the Google Mobility Index (retail and recreation) in several countries (Figure 3). Consumption and investment indicators in major economies also point in the same direction: US total credit and debit card spending started to lose pace and still dwelled below pre-pandemic levels, whereas Japan's service consumption remained weak and China's manufacturing investment stagnated.

Nonetheless, most countries are expected to head for local lockdowns to handle any pandemic resurgence— which are not as strict as the nation-wide lockdowns enacted during the second quarter of 2020. As governments are aware of the impacts from nation-wide lockdown which have put economies to a halt and caused sharp contractions.

Figure 3: The global economy began seeing a stalling recovery after local lockdowns were enforced to curb a resurgence in virus infections.

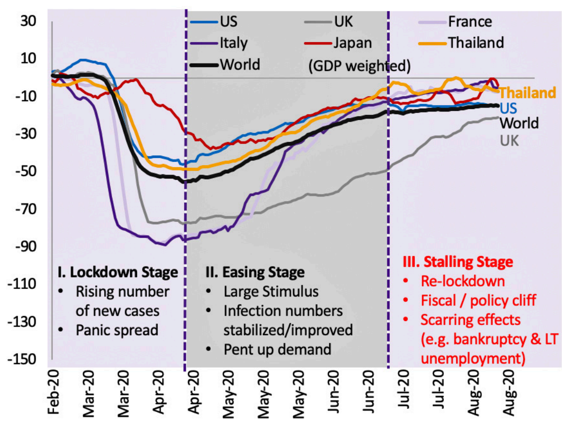
Composite Purchasing Managers' Index (PMI)

Unit: Index (> 50 = expansion)



Google mobility index: Retail and recreation

Unit: % change from baseline (3 Jan- 6 Feb 2020), 7DMA



Source: EIC analysis based on data from CEIC and Google (data as of September 3, 2020)

2. The risk of fiscal cliffs: Government stimulus programs are scheduled to expire or be renewed at a reduced size, while a recovery in income and employment remains sluggish.

In many countries, fiscal packages which helped prop up the economy are heading toward their expiration dates, while some are being extended but at a reduced size. This can lead to a so-called fiscal cliff — a key risk to any future economic recovery. Governments have earmarked massive fiscal and monetary bailouts to shore up their stagnant economies and capital markets which were hit by 'dash for cash' turbulence. Even so, most cash handout programs are temporary. This means that unless a rebound in economic activities takes place before the stimulus expires, or bailout programs are renewed without any cutbacks due to limited policy space, fiscal cliffs will deter household purchasing power and thus become a headwind to economic growth ahead.

For example, US stimulus packages are scheduled to run out, but Congress remains in disagreement over the size of a new bailout. The major USD-2.2-trillion CARES act which included direct support via personal income tax rebates during April-May 2020 and an additional USD-600 payment per week to the unemployed expired in July 2020 without being renewed. President Trump signed off on an executive order to extend this stimulus package, but the subsidy size was cut down to USD 400 per week, and an even lower USD 300 per week in some states. In addition, the allocated budget is expected to cover only one month of payments in September. For now, a further stimulus extension is highly uncertain as Democrats and Republicans still bicker over the size of the deal, and this will weigh on the outlook for economic recovery. **Furthermore, the direction of US fiscal policy is clouded by uncertainties. Biden's campaign for public spending and tax collection could go as planned if he wins the presidential election and Democrats gain a majority in both houses, but it will not be be smooth sailing if he wins the presidency while Democrats fail to gain a congressional majority.**

The UK is also at risk of falling off a fiscal cliff. The UK government has implemented a Furlough scheme providing a subsidy worth 80% of employees' earnings during their temporary job leave and after they return to work part-time. Nevertheless, the UK recently decided not to extend the program and to taper furlough benefits from 80% to 70% of earnings in September, to 60% in October, and eventually conclude this long-term package. Higher unemployment will likely follow the ending of the furlough scheme. **Meanwhile, many Eurozone countries have also opted for a wage subsidy program to bolster employment, and many of them are expected to extend subsidies into 2021.**

Table 1: Massive stimulus packages are scheduled to expire or be renewed at a reduced size. This has fueled the risk of fiscal cliffs, which would cloud economic recovery ahead.

Country	Expired stimulus	Expiration date	Details and chance of extension
US	**CARES Act** — a USD 2.2 trillion program covering unemployment benefit payments, financial support for SMEs and affected businesses, and budgets allocated to hospital and states	Most of the schemes expired in June-July 2020, while some were extended to August-September 2020	• **Unemployment benefits** were temporarily extended to September, but the benefit was reduced from USD 600 to USD 400 per week (USD 300 from the federal government and USD 100 from local governments). • **Congress remained in disagreement over the new stimulus size.** Democrats proposed a USD 3.5 trillion package (later reduced to USD 2 trillion) but Republicans pushed for a 'skinny' relief package worth only USD 1 trillion. • Key elements in the new relief measure include **the extension of unemployment benefits and extra funds to local governments**, both the subject of disagreement between the two political parties.
UK	**Furlough scheme**	October 2020	• **The government helps support 80% of employees' wages** during the furlough (temporary leave required by the employer) and still provides such benefits after employees return to work part-time. • Furlough benefits will be reduced to 70% of earnings in September, 60% in October, and **later expire in case of no extension.**

Country	Renewed stimulus	Expiration date	Details
Germany	**Short-Time Work Scheme** (Kurzarbeit)	March 2021 (extended to December 2021)	• Employers are allowed to reduce employees' working hours, and 60-87% of worker's salaries is covered by the government — at a maximum amount of EUR 2,900 per month for each worker
France	**Short-Time Work Scheme**	September 2020 (extended to 2022)	• Employers are allowed to reduce employees' working hours, and 84% of worker's salaries is guaranteed by the government (workers earning minimum wage receive a 100% subsidy)

Source: EIC analysis based on data from various press.

On the monetary side, central banks are heading toward more dovish moves. Policy rates will likely remain low while other monetary easing is set to be slowed down. To sustain financial system stability, central banks have relaxed their monetary policies via rate cuts and other tools as a backstop, or a liquidity injection. EIC has assessed the outlook of future monetary policy as follows;

- **Policy rates will remain low and asset purchase programs will likely continue in order to bolster the chances of an economic rebound.** Interest rates in the financial market are expected to stay low, especially in developed countries where rates are kept near zero. Fed recently changed its approach from an inflation target of 2% to the Average Inflation Targeting' at 2% — allowing inflation to climb above 2% to make up for a long period at a low inflation rate. Furthermore, The Fed has announced its new approach to 'only' mitigate the maximum employment shortfall — a change from the previous approach which responded to both maximum employment deficits and surpluses. **These changes signal that the Fed's monetary policy will remain accommodative,** at least until the inflation rate exceeds its 2% bar. Meanwhile, the Fed will likely continue its quantitative easing (QE) at least until 2021 and make some changes in its asset purchase program to buttress economic growth and increase the share of purchases of long-maturity assets. As for other central banks, EIC expects both policy rates and QE to remain in place until 2021.

- **Nonetheless, monetary easing via other policy tools will become more specific.** The conditions for soft loans and government guarantees will be more specific instead of offering support to businesses in general. For example, US conditions for loans to small and medium-sized enterprises (SMEs) under the Paycheck Protection Program (PPP) have been restricted to some specific businesses. The program previously offered loans to SMEs in general, and they could apply for funding until August 8, 2020, and the Bank of Thailand recently decided not to extend its general debt moratorium program. But after the measure expires, debtors whose income is severely affected by COVID-19 are allowed to ask for debt restructuring with financial institutions without damaging their credit histories. These uncertainties over stimulus package extensions, conditions, and sizes (possibly reduced) may fuel market concerns for policy cliffs looking ahead.

- **Liquidity easing will continue, albeit at a slower pace since market anxiety has been relieved.** Compared to the previous second quarter when the market experienced a 'dash for cash', additional liquidity injection is expected to be slower (such as US government bond purchases, USD liquidity injection to other countries via USD liquidity swap arrangements, and bridge financing — loans to add short-term liquidity to businesses in bond markets).

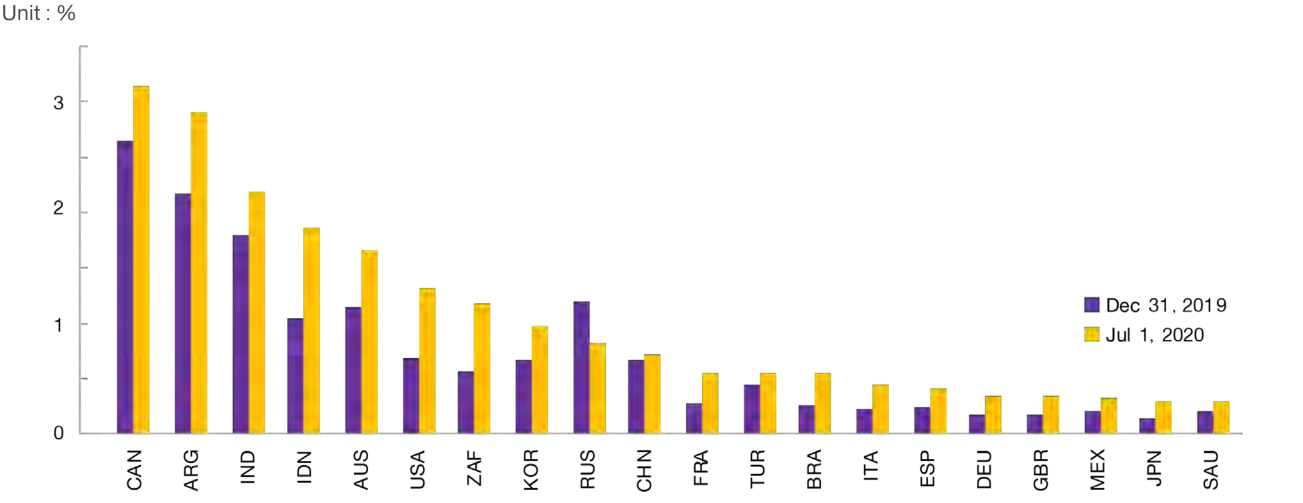
3. Scarring effects from COVID-19: Business bankruptcies are on the rise while a rebound of a weak labor market remains sluggish.

Stringent lockdowns have sent many workers into long periods of unemployment, which may affect labor productivity and economic growth outlook in the long term. In US, the Coronavirus pandemic has resulted in an alarming increase in unemployment, from 4.5% in March 2020 to an historic high of 14.7% in April 2020. The unemployment rate continued to hover as high as 8.4% in August despite some lockdown easing. This slowing of employment recovery is due to a weak economic outlook and low business sentiment, causing wide hesitation among employers and corporates about whether to resume hiring. If this situation continues, a long period of high unemployment is very likely. EIC views that prolonged unemployment will have adverse effects on long-term economic growth since it may lead to human capital depreciation. Moreover, some workers returning to the job market may find difficulties in reclaiming their past jobs, and this will worsen job-matching capital — professional skills gained through experience, knowledge of business operations and characteristics, and teamwork skills with members within former companies. Based on a study in US, over 40% of the unemployed were unable to regain their former careers. These are factors related to labor productivity and thus key to future business performance and the outlook for long-term economic growth.

Meanwhile, the economic recession has resulted in rising business closures worldwide. Coronavirus outbreaks and lockdown measures placed restrictions on traveling and commuting, and thus caused a decline in consumption and investment. Businesses are losing revenue, particularly in the service sector, which experienced a sharp drop in income. Some businesses may have managed to cut costs and obtain government support, but cost reductions are often unable to offset income losses. Therefore, many businesses facing higher deficits are forced to close down for good. Based on an IMF's study, US bankruptcy filings recently reached an historic high as a result of the global financial crisis. Furthermore, an IMF's assessment using data from Moody's found that market-implied probabilities of default among large corporates in the G-20 were also on the rise following the COVID-19 pandemic (Figure 4). **Increased business closures may also exacerbate the current weak labor market. Based on EIC's analysis, there is a correlation between an increase in business closures and higher unemployment rate (Figure 5).** Looking ahead, EIC — in line with the forecasts of government and market participants — expects business bankruptcies and unemployment to remain high.

Figure 4: According to the IMF, the market-implied probabilities of default among large G20 enterprises have been rising amidst the COVID-19 pandemic.

Market-implied probability of default

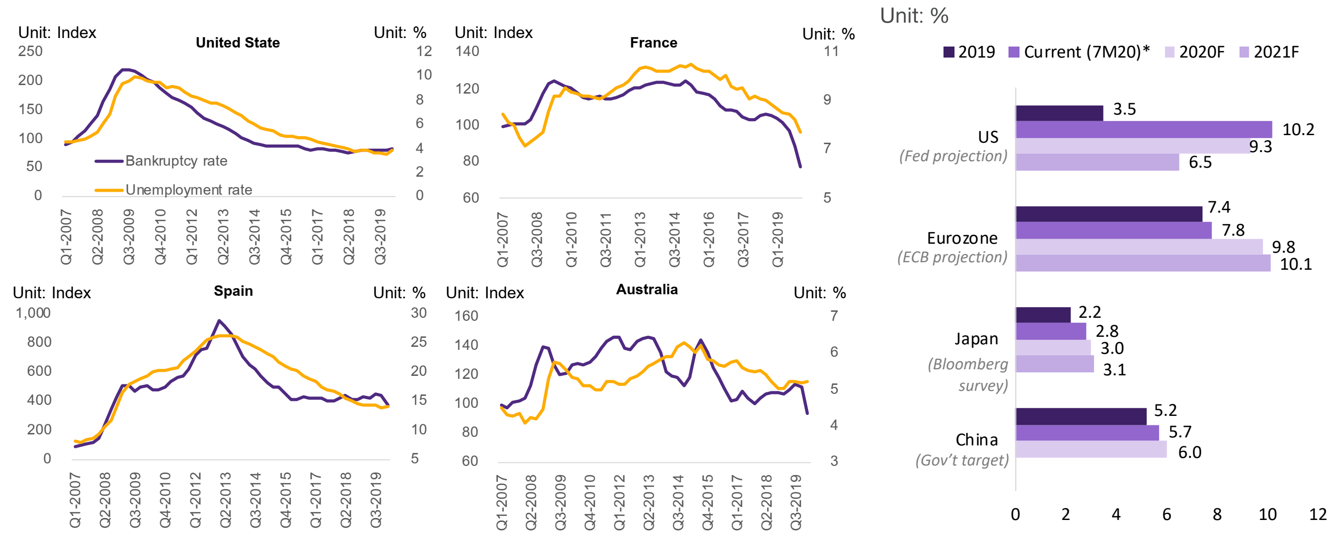


Source: EIC analysis based on data from Bloomberg, National Association of Credit Management (US), IMF, and Moody's

Figure 5: There is a correlation between a surge in business bankruptcies and rising unemployment. Looking ahead, both bankruptcy and unemployment rates are likely to remain high.

Bankruptcy and unemployment rate

Unemployment rate



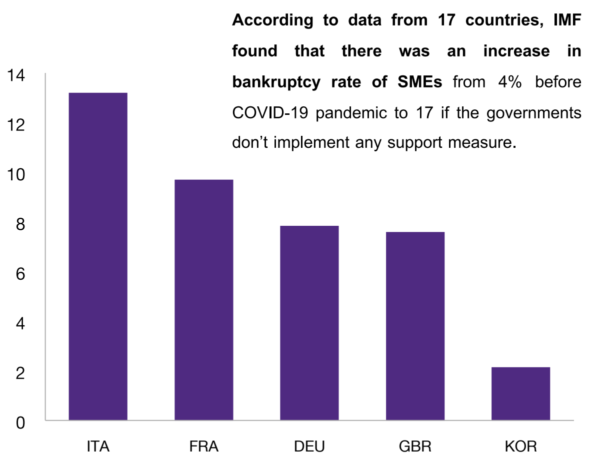
Source: EIC analysis based on data from OECD and Bloomberg

SMEs are more exposed to the risk of bankruptcy compared to large enterprises, whereas the service sector is more affected by COVID-19 than any other industry. Based on an IMF's study, impacts from the COVID-19 crisis are more severe for SMEs than for big firms. This is because SMEs face higher credit access constraints, they are unable to acquire loans during a liquidity crunch. From a study of 17 countries, the IMF found that bankruptcy rates could jump three-fold from 4% of total SMEs before the COVID-19 outbreaks to about 12% of total SMEs in the absence of government support. Among the 17 countries, Italy saw the largest surge in bankruptcy rates (Figure 6, left) due to a high share of production in a contact-intensive industry which caused a larger decline in domestic demand compared to others. Furthermore, the IMF found that the service sector took the worst hit from the virus outbreaks. The bankruptcy rate for service industries (administration services, arts, entertainment and recreation, and education) rose by 20%. Meanwhile, agriculture and water and waste businesses were the least impacted by the pandemic (Figure 6, right).

Figure 6: Compared to large enterprises, SMEs are more likely to go into bankruptcy due to financial access limitations. Meanwhile, the service sector is more affected by the outbreak than other industries.

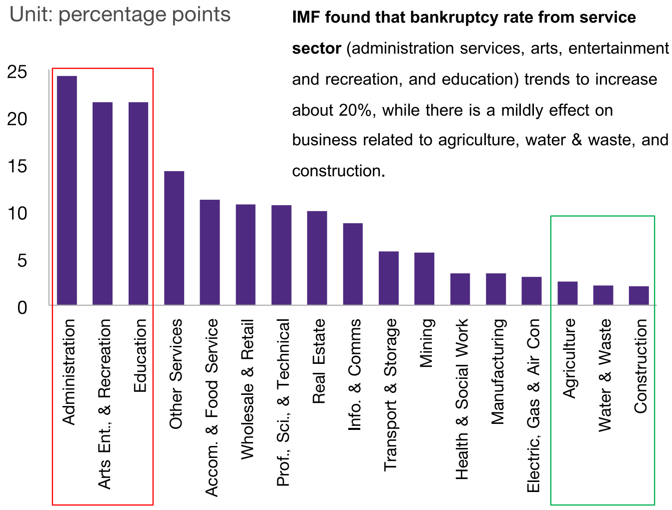
Simulated increase in bankruptcy rates

Unit: percentage points



Simulated increase in bankruptcy rates

Unit: percentage points



Remark: IMF analysis was based on data from 17 countries; Belgium, Czech Republic, Finland, France, Germany, Hungary, Japan, South Korea, Poland, Portugal, Romania, Slovak Republic, Slovenia, Spain, and the UK

Source: IMF

US economy

Bottoming out in the second quarter, but risks remain from a surge in virus cases and a fiscal cliff

US economy bottomed out in the second quarter and will likely continue its recovery, albeit at a slower pace (stalling recovery). In the second quarter of 2020, US economy contracted by -31.7%QOQ SAAR[1], or -9.1%YOY. As the number of new cases continued to rise — cumulative cases exceeded 5 million as of August — many states decided to postpone their lockdown easing or head to a second lockdown which will hold back an economic recovery. The composite PMI improved to 54.7 in August, but pace was slower than that of June. Meanwhile, US payrolls were up by nearly 1.4 million in August, pulling the unemployment rate down to 8.4%, but the number of jobs added rose at a slower pace. EIC sees an economic recovery helping abate the unemployment rate to 7.3% at the end of this year, while real GDP in US in 2020 is expected to shrink by -5.5%. Should US manage to curb the pandemic, the economy will gradually recover in the latter half of the year and resume growth in 2021.

Joe Biden is way ahead of Donald Trump based on US election polls. In EIC's view, if Joe Biden wins the upcoming presidential election, his policy initiatives will lead to higher trade deficits but likely ease current international trade pressures. (Read more in BOX: US Presidential Election 2020, where do they stand on? Trump vs Biden)

Key things to watch are a looming fiscal cliff and economic recovery in the latter half. The previous stimulus package ran out at the end of July, while Democrats and Republicans were unable to reach agreement over a new package. This prompted President Trump to sign executive orders to extend extra unemployment benefits at a rate of USD 400 per week— USD 300 from the Federal Government and USD 100 from the states. Nonetheless, many states are facing a financial difficulty and thus might be unable to fund weekly USD 100 benefit payments. In addition, EIC expects that the USD-44-billion in benefit payments allocated by President Trump will be able to cover only one month.

EIC expects Fed to continue its accommodative monetary policy after a framework review. Fed decided to adopt an average inflation target — aiming at average inflation instead of setting an annual inflation target at 2%. This new monetary framework allows Fed to prolong monetary easing and give leeway to inflation above 2% — making up for a long period of sluggish inflation. Furthermore, EIC expects the Fed to adopt outcome-based forward guidance, which is when Fed communicate to the market that there will be no rate hike until key economic indicators — such as the inflation and unemployment rates — achieve target levels.

Implications for Thai economy

- The US dollar index weakened by 4.5%YTD as of August 31, 2020, amid a surging number of virus cases and Fed's massive monetary policies. EIC believes that the Thai Baht will range between 30.5-31.5 USD by the end of 2020.

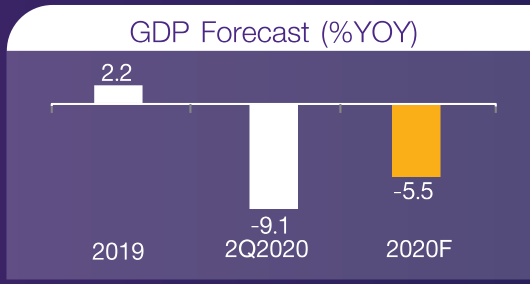
- Thai exports to US rose by 3.47%YOY in the first 7 months of 2020. Major products such as computers accessories and parts (+29%), and semiconductor, transistor and diode (+273.2%) recorded shipment growth, while machinery and parts (-20.1%) and gems and jewelry (-27.3%) saw a slump. Looking ahead, exports to the US will likely regain momentum in the latter half of the year led by US domestic demand recovery. If Joe Biden wins the presidential election on November 3 Thai exports should benefit due to easing trade fluctuation.

- US direct investment in Thailand expanded by 43.6% during the first half of 2020. Sectors with higher investment inflows are wholesale and retail trade; repair of motor vehicles and motorcycles, and financial and insurance activities. In 2020, FDI from US is expected to fall off compared to last year's figure given the coronavirus pandemic worldwide.

[1] Quarter-on-quarter, seasonally adjusted and annualized rate

US economy

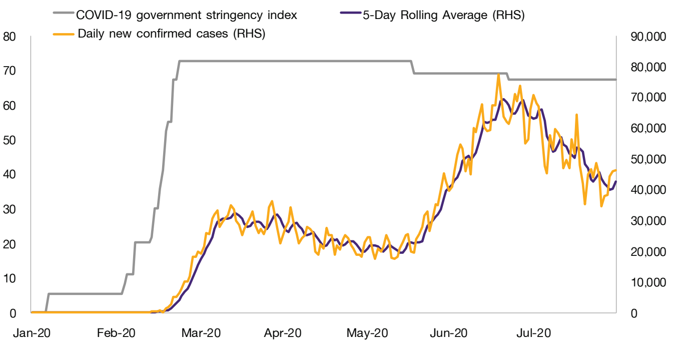
Bottoming out in the second quarter, but risks remain from a surge in virus cases and a fiscal cliff



Lockdown easing postponed due to soaring virus cases.

COVID-19 Government stringency index

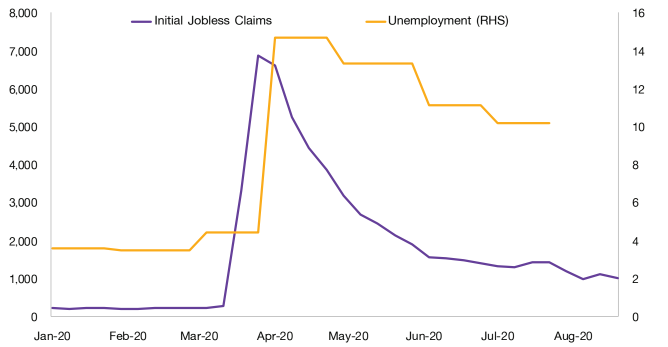
Unit: Index (100 = Full lockdown) Unit: cases



Initial jobless claims have declined but remained higher than pre-pandemic levels.

Initial Jobless Claims and Unemployment rate

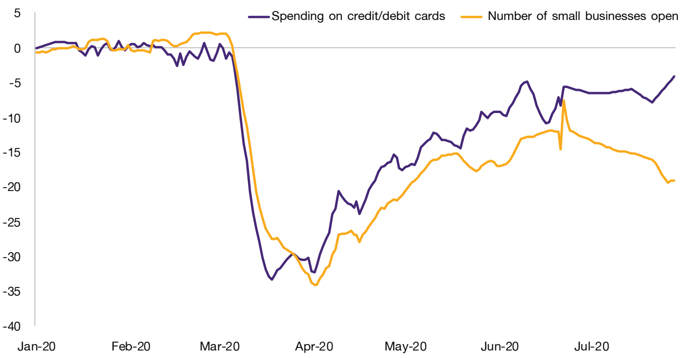
Unit: thousand Unit: %



Consumer spending rebounded, albeit at a slower pace, while the number of businesses open decreased.

Change in consumer spending on credit/debit cards and number of small businesses open

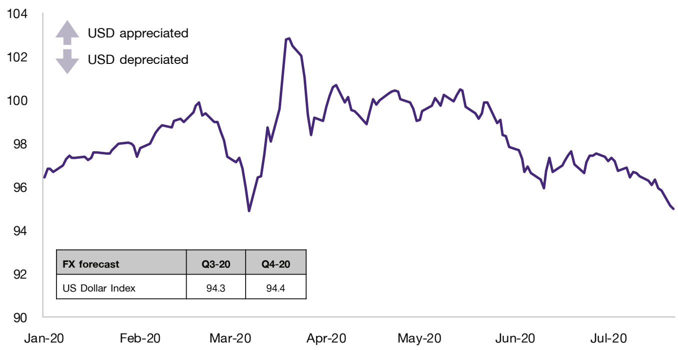
Unit: % change compared to January 2020



The US dollar weakened amid the virus pandemic and Fed's monetary policies.

US Dollar Index

Unit: Index



FX forecast	Q3-20	Q4-20
US Dollar Index	94.3	94.4

Remark: FX forecast based on Bloomberg Consensus as of August 31, 2020

Monetary and fiscal policy

- US extends extra unemployment benefits for temporary
- Fed decided to adopt an average inflation target

Watch list

- Renewal of economic stimulus policy
- COVID-19 infection prevention and control

Link with Thai economy

Tourist arrivals (Jan20-Jul20)

Growth (%YOY)	Share (%)
-69.4	3.1

FDI (H1/2020)

Growth (%YOY)	Share (%)
43.6	11.3

Exports to US (Jan20-Jul20)

Growth (%YOY)	Share (%)
4.5	14.5

Imports from US (Jan20-Jul20)

Growth (%YOY)	Share (%)
-6.7	8.5

Source: EIC analysis as of August 2020 based on data from Oxford, CEIC, Tracktherecovery.org, and Bloomberg

BOX

US Presidential Election 2020, where do they stand on? Trump vs Biden

The upcoming presidential election on November 3, 2020 will be a race between two candidates with a great policy divide — be it tax measures, foreign affairs, or energy and environmental issues. The upcoming 2020 presidential election will be between the Republican nominee and the incumbent President, Donald Trump, and Joe Biden, the Democrat nominee, both have stark stances on policies. Donald Trump has not yet released details of the policies for his second term, but it will likely be in line with his current policy while Joe Biden offers a contrast. Below, EIC summarizes three key policy divergences between the two candidates that will have implications on the US and global economic and financial market outlook ahead.

1. Tax policy

Tax policy is one of the policies that reveals the starkest difference between the two candidates. While Trump pushed for a variety of tax reductions in 2017 via the Tax Cuts and Jobs Act (TCJA), Biden has pledged tax hikes. Joe Biden is looking to raise the corporate tax rate from 21% to 28% (still below the former rate of 35% before the Trump presidency) and set a minimum rate of 15% of reported profits to prevent some corporates from using loopholes to pay tax at a lower effective rate. Biden also plans to raise the top individual income tax rate from 37% to 39.6% — the reverse of Trump's current policy which lowered the maximum rate from 39.6% to 37% — and apply the same rate for capital gains tax for those whose incomes are above USD 1 million per year. On the other hand, Trump has not revealed further details of his tax plan but stands to make more tax cuts. For public spending, Biden presses scaling up government expenditures (and increased tax revenue) while Trump aims to cut the size of federal spending and tax collection.

2. Trade and foreign affairs policy

Under his 'America First' policy, President Trump aimed at reducing long-running US trade deficits which then sparked a trade conflict with China and Eurozone. Biden, however, opposes the use of tariffs. Although, Biden may not return US to be on good terms with China, but it is likely that his stance will not be as tough as Trump's. Instead of the tariff barriers embraced under Trump's trade war, Biden looks to pressure China on a multilateral level by working with the European allies. Moreover, If Biden wins the presidential election, he will likely get the US to rejoin the negotiation for CPTPP (Comprehensive and Progressive Agreement for Trans-Pacific Partnership) — originally known as TPP (Trans-Pacific Partnership). TPP was one of the major trade deals pushed by former President Obama, but Trump decided to withdraw from the deal in January 2017.

3. Other issues

Biden has laid out his new economic stimulus under a 'Buy American' campaign together with energy and environmental policies. To tackle the impacts from the coronavirus pandemic, Biden proposes an economic stimulus worth USD 700 billion — USD 400 billion for the purchase of US-based goods, and USD 300 billion to support research and technology development as well as clean energy projects. Biden's campaign policies also extend to hiking the minimum wage from the current USD 7.25 to USD 15 per hour, and an increase in federal spending on infrastructure investment, health care, education, and environmental issues. In contrast, Trump has shown support for infrastructure investment many times during his first term, but he insists on relying on market mechanisms.

Table 1: Trump vs Biden: policy and stance on key issues

	Biden	Trump
Tax	• Raise the corporate tax rate from 21% to 28% • Raise the top personal income tax rate from 37% to 39.6%	• Extend the Tax Cuts and Jobs Act (TCJA) beyond 2025
Trade and foreign affairs	• Against Trump's aggressive attitude and trade war tariff barriers • Strengthen ties with US allies to pressure China	• Trade war to continue, while the Phase 2 deal is unlikely to be settled in the short term • Oppose EU Digital tax plans
Health care	• Expand the coverage of the Affordable Care Act • Introduce a public health insurance option, offering an alternative to private health insurance • Link pharmaceutical price increases to inflation	• Look to scrap the Affordable Care Act
Energy, Environment, and Infrastructure	• Allocate USD 2 trillion to support investment in clean energy, infrastructure, and other environmental measures	• Encourage more drilling for oil and natural gas
Labor	• Increase the minimum wage to USD 15 per hour	

Source: EIC analysis based on data from Global publications

What if Trump wins?

The US under Trump would likely be a continuation of his economic and foreign policy from the first term, but the tariff measures may soften. During his first term, Trump's approach under his 'America First' policy worsened US international relations, particularly with China, which later escalating into a trade war. Despite both nations reaching a trade truce under a phase 1 trade deal in January 2020, US-China ties have continued to nosedive over a series of tit-for-tat moves. These range from coronavirus outbreaks, political allegations followed by the closure of consulates in Houston and Chengdu, political turmoil in Hong Kong, a Tech war, and China's failure to meet US goods purchase targets under the Phase 1 deal. Given this situation, the chances of a US-China Phase 2 deal and tariff rollback are less likely. **EIC's view is that the possibility is lower for the US to resort to further tariffs against China given the worsening economic condition, imposing stiff trade measures could provoke retaliation and further aggravate the economic downturn.**

The Digital tax urged by the EU will remain a risk to US-EU ties. On July 21, 2020 EU leaders reached an agreement that allows the European Commission to put forward a proposal for digital tax, which would be a new source of revenue to the European Commission. But since American tech firms are likely to be the worst-hit under this new levy Trump is strongly against the plan and has threatened retaliatory tariffs on EU imports.

What if Biden wins?

Biden's tax plans may have adverse impacts on the stock market, but this will be offset by a lower risk of a trade war and higher demand led by infrastructure investment as well as minimum wage hikes. An increase of the corporate tax rate to 28% will directly hit corporate profits and reduce capital expenditure, but Biden's proposed rate is still lower than 35% — the level before the Trump administration. Furthermore, Biden's approach to foreign policy is much less aggressive than Trump's and this will reduce uncertainties over financial markets and thus improve investor sentiment. In the long term, infrastructure investment and a pickup in consumer purchasing power driven by minimum wage hikes will help bolster the stock market. In particular, enterprises that are less affected by the wage hikes— such as those with an expansive supply chains in foreign countries and those that have lower share of wages to total cost — would benefit from higher demand and limited pressure on profit margins.

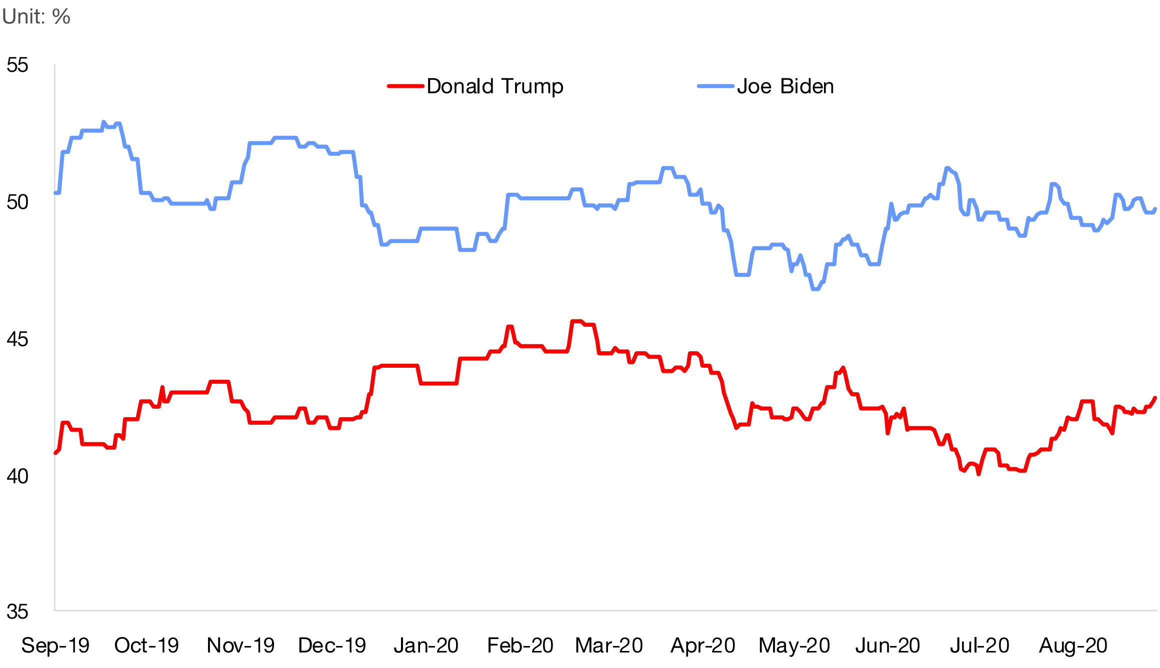
US dollar will be under downward pressure in light of capital outflows from the US and higher fiscal deficits led by Biden's approach. Biden's plan to raise taxes on corporate income and capital gains will worsen both corporate profits and returns for investors, and thus induce capital outflows from the US to emerging markets. Moreover, Biden's call for more government spending will exacerbate current fiscal deficits since higher tax collection may not be able to cover a rise in expenditures. Looking ahead, downward pressure on the greenback will likely continue given expected capital outflows and higher fiscal deficits.

Future legislative processes and policy implementation may face difficulties in case of a divided congress — with the House and the Senate controlled by different parties. November 3rd is the election day for not only the president but also the House of Representatives and the Senate. At present, the Republicans hold a majority in the Senate with 53 to 47 seats (45 Democrats and 2 Independents). However, 23 of the Republican senators and 12 of the Senate Democrats will end their terms in the forthcoming election. Based on the latest polls the Democrats could flip the Senate and take the majority. All 435 seats of the House of Representatives are also open in the election on the same day. Under a divided congress, future policy implementation could face a big obstruction. Although the president can issue executive orders, but any policies that need law amendment or additional legislation still needs the approval of Congress (the constitution gives the president veto power to refuse a bill as well). The executive branch can shape foreign policy without needing the Congress' approval unless the policy is concerned with signing new treaties or setting tariff. Although there are exceptions that these policies do not need Congress' approval such as when President Trump used national security reason to raise import tariffs. On the other hand, Congress's approval is also needed regarding the matters about spending and tax collection. Some previous examples of disputes between Executive and the Legislative branches were in 2013, 2018, and 2019 when failures to pass draft bills led to government shutdowns. A more recent example is the disagreement over coronavirus relief extension which expired in July 2020 without any congressional deal.

Biden currently leads over President Trump in polls. The novel virus outbreaks crashed both Trump's economic performance and approval ratings. According to RealClearPolitics, as of August 31, 2020, Biden leads over President Trump 49.6 to 43.3. In addition, President Trump used to have a high Job Approval rating which peaked at 56.3% on February 10, 2020. In that month, US unemployment was only at 3.5%. However, by the end of August 2020, his economic job approval dropped to 49.3% with August unemployment jumped to 8.4% (the historic high was 14.7% in April 2020 — the worst month of the pandemic). Among virus-hit countries, US currently has the highest record of both cumulative confirmed cases as of August 31, 2020.

Figure 7: Biden currently leads over President Trump in polls.

2020 Presidential Election Poll



Source: EIC analysis based on data from RealClearPolitic

Implications for Thailand

World trade and Thai exports will likely benefit from a Biden victory, given his proposed economic stimulus and foreign policy which would ease trade war tensions. But a weakening US dollar is a negative headwind on the Thai baht and export revenue in THB terms. Biden's stance against tariff barriers and plans to reaffirm US-EU ties will alleviate the risk of trade war escalation. Meanwhile, if his federal spending helps US regain economic momentum it will benefit not only global trade but also Thai exports. Thai industries standing to win under Biden's foreign policy are those with supply chains linked to Chinese exports bound for US, such as computers and parts, electrical circuits, rubber, wood and wooden products, and chemical products. Furthermore, Biden's policies may accelerate capital outflows from the US back to emerging markets, including Thailand. On the minus side, a weakening outlook for US dollar poses a threat to Thai exports. Also, Biden's environmental campaign promises to support clean energy and job creation within US would enhance the nation's production capability for electric vehicles. This would be a drawback to the Thai automobile industry, which is highly concentrated on the manufacturing of cars powered by internal combustion engines.

Eurozone economy

Already bottomed out, but the virus pandemic remains a key risk

Eurozone economy bottomed out in the second quarter and looks to make a gradual recovery in the remainder of 2020. The Eurozone economy shrank by -12.1%QOQ SA or -15%YOY during April-June 2020. However, the economy bottomed out in the second quarter after the government eased some lockdown restrictions. Eurozone retail sales jumped 5.7%MOM or 1.3%YOY in June while the composite PMI improved to above 50 and stood at 51.6 in August. Nonetheless, the most recent month saw a slower pace in economic recovery, reflected by a composite PMI which declined from 54.9 in July and a slower rebound in the google mobility index. This is partly due to virus resurgences in some areas — such as Spain and France — causing the government to tighten lockdown restrictions. EIC expects that Eurozone real GDP will plummet by -9.0% in 2020, but the economy will gradually recover through the remainder of the year and mark 7.0% growth in 2021.

The recovery plan will help ease fiscal burdens in an attempt to revive Eurozone economy. On July 21st, EU leaders agreed on a recovery plan worth over EUR 750 billion to help some member states facing fiscal deficits. The planned budget is separated into EUR 390 billion for grants and EUR 360 billion in loans. Most of the budget will likely be allocated to members with weak fiscal footing, such as Southern European and Eastern European countries, and the European Commission will issue bonds to finance the plan. The next step for this Recovery Plan is ratification by the European Council and then by the parliament of each member state. Despite some likely pressures during the ratification process in each country. EIC believes it will get a green light and take effect in 2021.

EIC expects the Brexit talks to settle only a few issues within this year. Brexit negotiation ended with no progress in July and the EU has set an October deadline, in order for each member state to have enough time to seek parliament's approval before the transition period ends in 2020. EIC expects that the UK and the EU will reach an agreement this year and that both can continue their bilateral trade without tax barriers. Nevertheless, a conclusion within this year will likely come as a limited deal — agreement will settle only some issues while others remain unsolved, thus some former rules will be in effect until a new round of negotiations. **Looking ahead, Brexit uncertainty will remain a key risk to trade and investment between UK and Eurozone. Its effects might extend into the start of 2021 as businesses need to adapt to the new trade rules.**

Though the economy has already passed its worst point, EIC expects ECB to continue monetary easing. ECB will likely keep asset purchases at a maximum amount of EUR 1.35 trillion limit under the Pandemic Emergency Purchase Programme (PEPP), amid a weak inflation outlook and emerging risks from a second virus pandemic wave which will hinder economic recovery.

Implications for Thai economy

- The Euro appreciated by 6.5%YTD against US dollar as of August 31, 2020. For the remainder of this year the Euro will likely strengthen along with economic recovery and a weak US dollar.

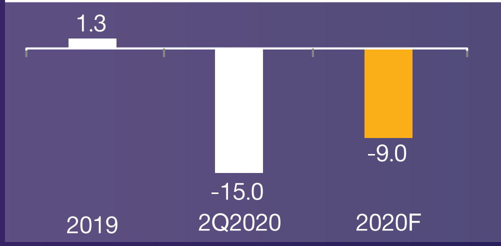
- Thai exports to Eurozone plummeted by -15.4%YOY during the first 7 months of 2020. Key exports seeing slumps were gems and jewelry (-15.5%), electrical appliances (-12.8%), electronic products (-18.8%), and rubber products (-15.3%). On the other hand, products with the highest export growth were pet food (+8.9%) and medical equipment (+7%). Exports to the Eurozone look to recover in the latter half of 2020, following a rebound in domestic demand and lockdown easing, but would remain below the level seen in 2019.

- Eurozone direct investment in Thailand contracted by -9.9% during the first half of 2020. The top sectors with higher investment inflows were wholesale and retail trade; repair of motor vehicles and motorcycles, manufacture of motor vehicles, trailers and semitrailers, and transportation and storage. Meanwhile, other sectors seeing a fall in investment inflows were financial and insurance activities, and the manufacture of computer, electronic, and optical products. In 2020, total direct investment from Eurozone is expected to decline from last year's figure due to the worldwide coronavirus pandemic.

Eurozone economy

Already bottomed out, but the virus pandemic remains a key risk

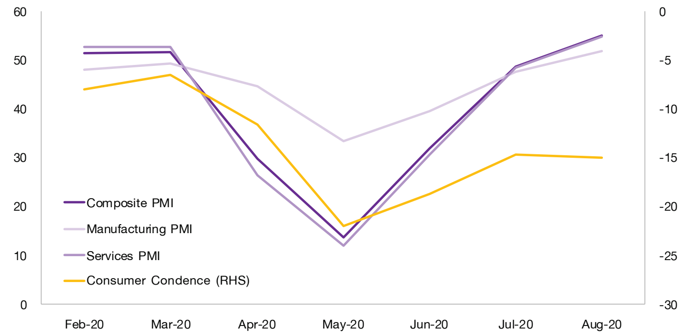
GDP Forecast (%YOY)



The PMI and retail sales index signaled an economic recovery within Eurozone after lockdown easing.

PMI Index and Consumer Condence Index

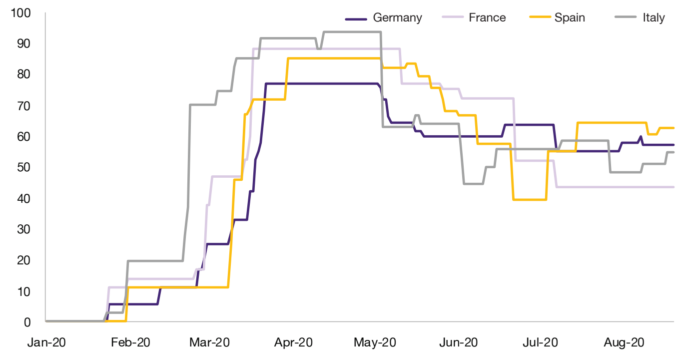
Unit: Index (>50 = Expansion) Unit: Index



Some countries tightened lockdown rules following a rise in the number of infections after the previous lockdown was lifted.

COVID-19 Government stringency index in Europe

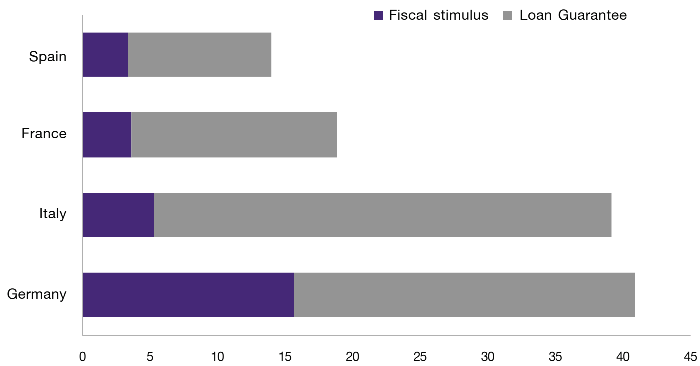
Unit: Index (100 = Most stringent)



The severe effects of the virus epidemic prompted governments to roll out massive economic stimulus programs.

Size of Fiscal Stimulus

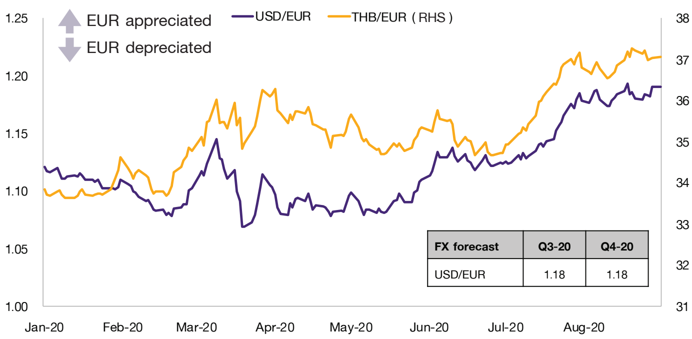
Unit: % of GDP



The Euro will likely strengthen in line with an economic recovery across Eurozone and US dollar depreciation.

Euro

Unit: USD/EUR Unit: THB/EUR



Remark: FX forecast based on Bloomberg Consensus as of August 31, 2020

Monetary and fiscal policy

A recovery plan for Europe worth over EUR 750 billion

ECB will likely keep asset purchases at a maximum amount of EUR 1.35 trillion limit under PEPP

Watch list

A new wave of COVID-19

The outcome of EU-UK trade agreement

Link with Thai economy

Tourist arrivals (Jan20-Jul20)

Growth (%YOY)	Share (%)
-53.7	10.8

FDI (H1/2020)

Growth (%YOY)	Share (%)
-9.9	8.7

Exports to Eurozone (Jan20-Jul20)

Growth (%YOY)	Share (%)
-15.4	6.4

Imports from Eurozone (Jan20-Jul20)

Growth (%YOY)	Share (%)
-13.5	6.5

Source: EIC analysis as of August 2020 based on data from IMF, Bloomberg, CEIC, and Oxford

Japanese economy

Domestic consumption needs some time to recover

The coronavirus pandemic worsened Japan's economy which were already in a recession since late 2019. In the second quarter of 2020, the economy shrank by -9.9%YOY or -27.8%QOQ SAAR — the deepest recession since World War II and even worse than the global financial crisis in the first quarter of 2009 (-17.8%QOQ SAAR). Japan's economy has been in recession for three consecutive quarters, since a consumption tax hike resulted in economic shrinkage in the last quarter of 2019, while an emergency declaration to tackle the virus outbreak led to a contraction in the second quarter of 2020 — domestic consumption saw a sharp decline, especially in the service sector, which plummeted by -42%QOQ SAAR. Nevertheless, economic activities started to pick up after the emergency state was lifted.

Domestic consumption may take longer to recover compared to other components. A breakdown of consumption showed that spending on durable and non-durable goods has returned to pre-COVID-19 levels. On the other hand, spending on services — accounting for 60% of total private consumption — remained sluggish and hovered below the pre-outbreak level. This may be a result of changes in consumer behavior concerning hygiene. Thus, EIC expects overall consumption to pick up gradually in 2020 after the lifting of the state of emergency. Manufacturing has been in modest recovery, as evident in a manufacturing PMI which rebounded from its low in June, but July's reading remained below 50, indicating a contraction. If domestic consumption fails to make a resilient recovery there will be downward pressure on manufacturing growth ahead. EIC expects Japan's economy to see a -5.6% contraction in 2020 before 3.0% growth in 2021.

Fiscal policy will play a crucial role through the rest of 2020 while monetary easing begins to fade. Japanese government has earmarked a massive economic stimulus package worth 42% of GDP to restore consumer confidence and support the business sector. The 'Go to Travel' campaign was among government subsidy programme seeking to boost domestic travel. Nonetheless, such enormous public spending likely poses a challenge ahead. Once the stimulus expires there will be pressure on the government to unveil further measures which will add to Japan's public debt pile — already as high as 237% of GDP. On the monetary side, the Bank of Japan (BOJ) will likely keep its policy rate on hold and continue the current monetary easing for the remainder of 2020. BOJ vowed to closely monitor impacts from monetary easing during the first half of the year, particularly massive asset purchases which may distort financial markets.

Risks through the remainder of 2020 are the resurgence of the virus pandemic and political uncertainties. Although the Japanese government did not declare a state of emergency again in August, but should the outbreak worsen, the economic activities may come to halt again This will also fuel the risk that the upcoming Tokyo Olympics — a likely key driver for economic growth in 2021 — might be called off. Moreover, the abrupt resignation of Prime Minister Shinzo Abe may affect economic policy continuation through the remainder of 2020, since the LDP needs to elect a new Prime Minister.

Implications for Thai economy

- The yen gained 2.9%YTD against the greenback as of August 31, 2020. For the remainder of this year the yen looks to hover around 106 JPY/USD by the end of 2020. Nonetheless, any coronavirus resurgence among the G10 nations will send upward pressure to the yen — a safe-haven asset during the risk-off period.

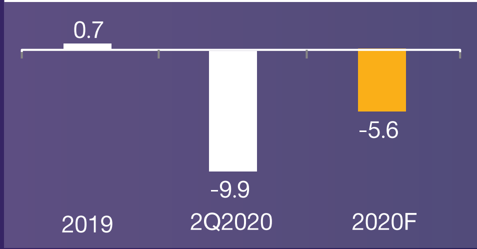
- Thai exports to Japan fell by -10.5%YOY during the first 7 months of 2020. The product categories that saw a decline, represents 76.8% of the total export value to Japan, such as electrical appliances and parts (-38.4%), phones, equipment, and parts (-14.2%) Meanwhile, the remaining export still recorded high growth, such as fresh, chilled, and frozen chicken (+5.0%) and chemical products (+28.5%).

- During the first six months of 2020, Japan's direct investment in Thailand shrank by -15.2%YOY amidst arising uncertainties over virus outbreaks in the first half of this year. Nevertheless, Thailand looks to see higher investment inflows from Japan in the remainder of 2020 as the Japanese government has encouraged local enterprises to shift manufacturing bases out of China.

Japanese economy

Domestic consumption needs some time to recover

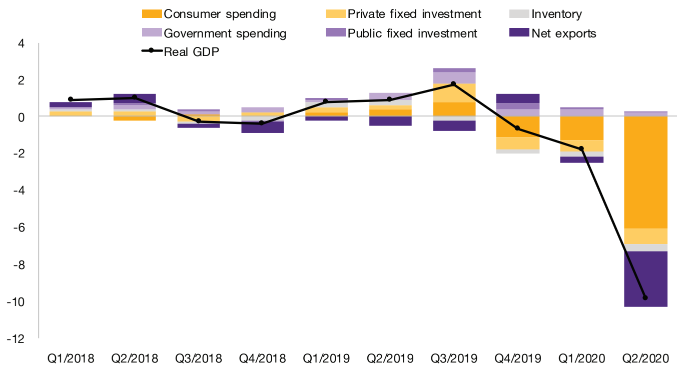
GDP Forecast (%YOY)



Domestic consumption and net exports were major setbacks behind an economic contraction in the second quarter.

Contribution to GDP growth

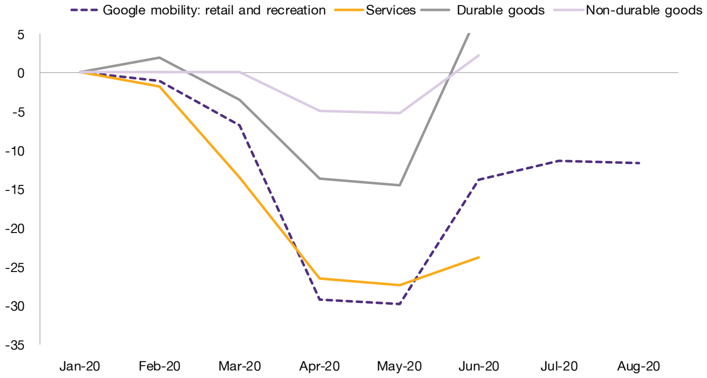
Unit: ppt, %YOY



Activities in the service sector remained weak amid concerns over the virus pandemic.

BOJ Consumption Activity Index

Unit: % change from January 2020

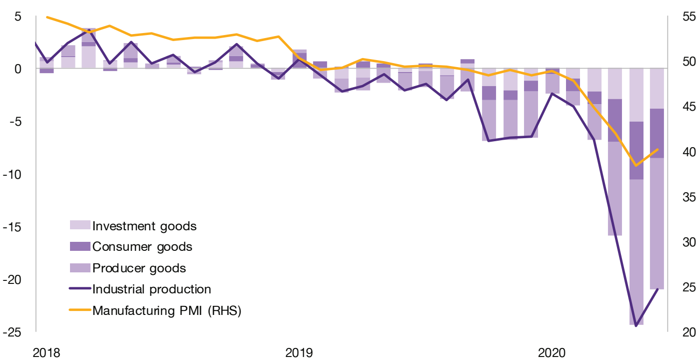


Manufacturing made a gradual rebound despite risks from sluggish domestic consumption.

Industrial Production and Manufacturing PMI

Unit: %YOY

Unit: index (>50 = expansionary)

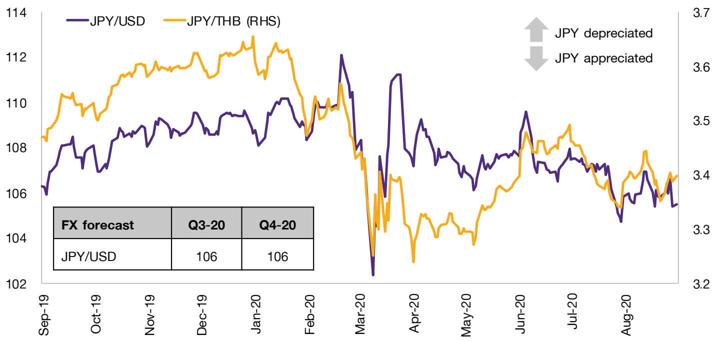


A resurgence of the virus pandemic and political uncertainty will put upward pressure to the yen.

Yen

Unit: JPY/USD

Unit: JPY/THB



FX forecast	Q3-20	Q4-20
JPY/USD	106	106

Remark: FX forecast based on Bloomberg Consensus as of August 31, 2020

Monetary and fiscal policy

A massive economic stimulus package worth 42% of GDP to stimulate the economy

BOJ will likely keep its policy rate on hold and continue the current monetary easing for the remainder of 2020

Watch list

A new wave of COVID-19

Domestic political risk

Link with Thai economy

Tourist arrivals (Jan20-Jul20)

Growth (%YOY) **-68.0** | **Share** (%) **4.8**

FDI (H1/2020)

Growth (%YOY) **-15.2** | **Share** (%) **16.0**

Exports to Japan (Jan20-Jul20)

Growth (%YOY) **-10.5** | **Share** (%) **9.7**

Imports from Japan (Jan20-Jul20)

Growth (%YOY) **-20.5** | **Share** (%) **13.0**

Source: EIC analysis as of August 2020 based on data from BOJ, Bloomberg and CEIC

Chinese economy

First to fall, first to stand up: Public investment to shore up growth

China's economy bounced back into growth as the coronavirus outbreak was contained. The economy recovered with 3.2%YOY growth in the second quarter of 2020 and became the first among major economies to make a rebound. Key industries driven by public policy — such as construction and infrastructure — were the first to pick up pace, followed by the manufacturing sector. Manufacturing PMI returned to an expansion trajectory above 50 from March, while PMI for export orders remained below 50. Nonetheless, China's exports recorded an expansion thanks to high growth in some shipments such as pharmaceutical products and medical masks. Excluding sectors with high growth, China's overall exports still plummeted by -5.4%YOY until June 2020.

A narrow-based recovery in domestic consumption may put pressure on economic growth ahead. Durable good consumption showed a sharp rebound as seen in car sales, which jumped back to pre-COVID-19 levels. Meanwhile, spending on services remained weak due to a shift in consumer behavior with regards to health concerns. This implies that consumer sentiment is key to a broad-based recovery in private consumption. However, any improvement would need some time until a vaccine is available. Therefore, China's economic recovery will be driven mainly by public infrastructure investment, especially from local government. In 2020, local government is allowed to roll out a special-purpose bond worth up to CNY 3.75 trillion — higher than the CNY 1.6 trillion quota in 2019. EIC expects the Chinese economy to make a V-shape recovery, regain a pre-pandemic pace within the fourth quarter, and achieve overall growth of 2.2% in 2020.

The Chinese government adopted a broad fiscal policy to shore up economic growth while opting for a monetary policy that focuses on high-risk sectors. China's government has unveiled massive fiscal stimulus programs — via tax and fee cuts, infrastructure investment, and employment support — to bolster domestic demand, which will be a key economic driver for the rest of 2020. On the monetary side, the People's Bank of China (PBOC) signaled a slower pace of further easing since economic recovery went on as expected. In EIC's view the chance of a policy rate cut for the rest of this year remains low if there is no virus resurgence prompting a second lockdown. Nevertheless, PBOC has shifted its policy focus toward some specific segments, particularly SMEs and the agricultural sector. Such measures include deferrals in loan repayment, incentives to urge commercial bank lending to SMEs at low-interest rates, etc.

Fears of a new wave of COVID-19 and US-China trade tension are key risks to watch out for during the remainder of 2020. If the pandemic gets worse — with a possible virus resurgence — the government may need to impose lockdowns again and this would affect short-term growth and hobble recovery. Moreover, US-China tensions over trade, investment, and technology will be a drag on China's economic growth in the long term.

Implications for Thai economy

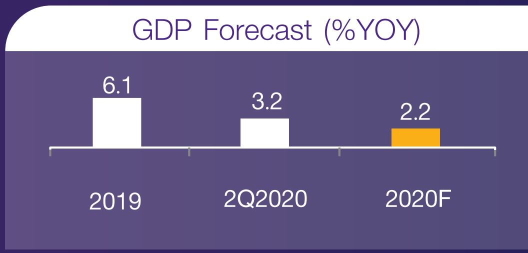
- The yuan appreciated 1.6%YTD versus the US dollar as of August 31, 2020. Fed's policy rate cut has lowered US treasury yields against China's government bond yields, and thus induced large capital inflows to the yuan. Meanwhile, capital outflows from Chinese tourists were limited due to travel restrictions to foreign countries. The key item to watch for the remainder of 2020 is US-China trade tensions, which can exert downward pressure on the yuan.

- Thai exports to China expanded by 4.5%YOY in the first seven months of 2020. Key exports with high growth were fresh, chilled, frozen, and dried fruits (+56.2%), automobile, equipment, and parts (+79.4%), and rubber products (+41.3%). Looking ahead, exports to China will likely improve as Chinese domestic consumption shows signs of recovery.

- China's direct investment in Thailand increased by 4.9%YOY during the first half of 2020. Trade war and investment diversification trends sparked by the virus pandemic were evident in the rising number of investment applications from Chinese investors. From January to June 2020, Chinese investors filed 95 projects worth THB 17 billion, about 23% of total investment application value.

Chinese economy

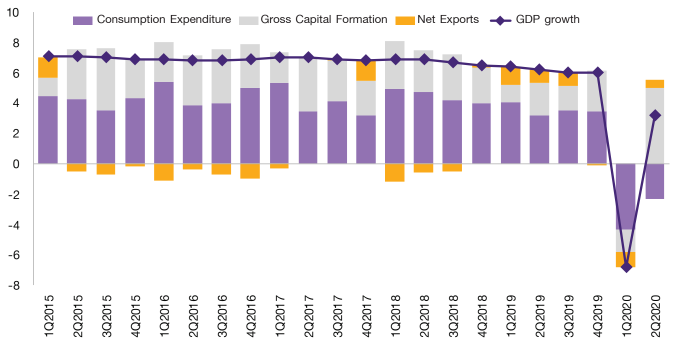
First to fall, first to stand up:
Public investment to
shore up growth



Fiscal stimulus measures remain a key driver for Chinese economic growth for the remainder of 2020.

Contribution to GDP growth

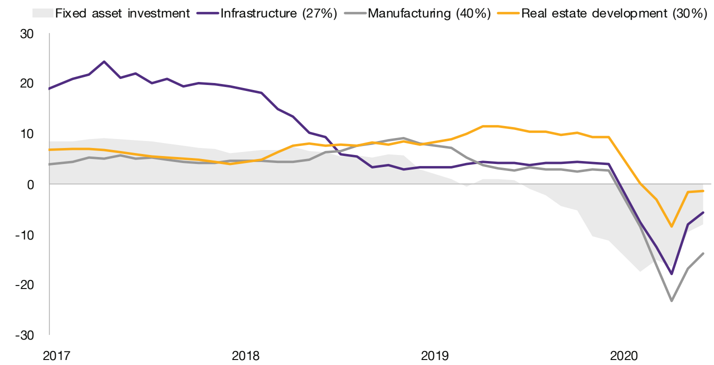
Unit: %YOY



Infrastructure and real estate investment picked up faster than manufacturing investment.

Fixed asset investment

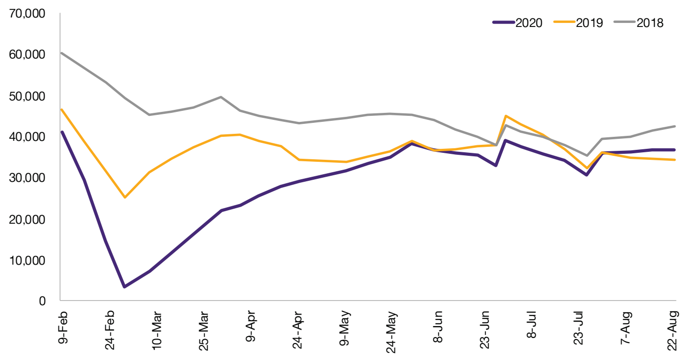
Unit: %YOY, 3MMA, (): Fixed asset investment share in 2019



Car sales returned to pre-pandemic levels.

Passenger car sale volumes

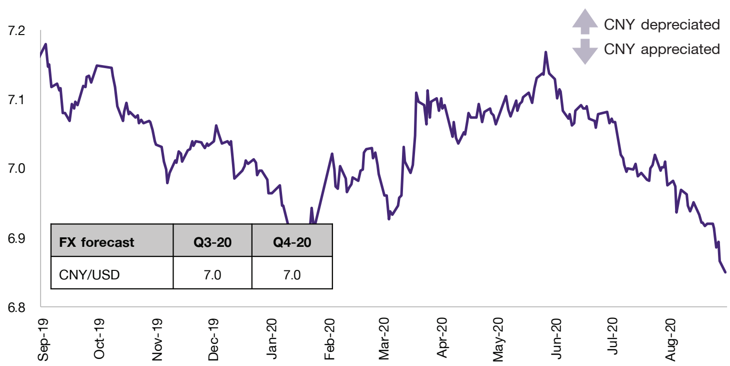
Unit: vehicles per day, 4-Week MA



The yuan strengthened as China's economy started to recover ahead of other major economies.

Yuan

Unit: CNY/USD



FX forecast	Q3-20	Q4-20
CNY/USD	7.0	7.0

Remark: FX forecast based on Bloomberg Consensus as of August 31, 2020

Monetary and fiscal policy

- China's government has unveiled massive fiscal stimulus programs to support private sector
- PBOC has shifted its policy focus toward some specific segments, particularly SMEs

Watch list

- US-China tensions
- A new wave of COVID-19

Link with Thai economy

Tourist arrivals (Jan20-Jul20)

Growth (%YOY)	Share (%)
-81.2	18.6

FDI (H1/2020)

Growth (%YOY)	Share (%)
4.9	15.5

Exports to China (Jan20-Jul20)

Growth (%YOY)	Share (%)
4.5	12.8

Imports from China (Jan20-Jul20)

Growth (%YOY)	Share (%)
-1.7	23.6

Source: EIC analysis as of August 2020 based on data from CEIC and Bloomberg

ASEAN4 economy

A sharp contraction in the second quarter of 2020 due to the COVID-19 pandemic. Bottoming out is expected, but the recovery should be modest since risks and uncertainties remain high.

The COVID-19 pandemic pushed the ASEAN4 economy into a sharp contraction in the second quarter of 2020. But the contraction was seen passing the lowest point in April and May. The stringent lockdown in each country during March-May put a halt to economic activities and led to lower incomes and higher unemployment — which resulted in a contraction in the consumption and manufacturing sectors. Lockdown easing in June helped restore economic activities, but COVID-19 resurgences within ASEAN4 countries, particularly Indonesia and the Philippines, pressed governments to reimpose strict lockdowns from July to August and thus weighed on economic recovery. Meanwhile, a sluggish rebound in the global economy remains a headwind to exports and foreign investment. Both ASEAN4 governments and central banks have rolled out accommodative fiscal and monetary policies in order to boost liquidity and provide support to virus-hit businesses and workers. EIC expects that such accommodative measures will continue in the latter half of this year, but future stimulus efforts may face policy constraints from country-specific factors. Looking ahead, an ASEAN4 economic recovery will likely be modest amidst risks and uncertainties — especially from the COVID-19 pandemic and a cloudy outlook for the global economy.

Indonesia's economy shrank by -5.3%YOY in the second quarter — after 3%YOY growth in the first quarter. Growth was dragged down by a contraction in private consumption and investment, which account for 53.5% and 30.6% of GDP, respectively. The partial lockdown starting in April resulted in falling incomes and employment which then lead to a contraction in consumption and manufacturing. On a monthly basis, the contraction was seen passing the worst point as evident in a rebound in retail sales from the lowest level of -20.6%YOY in May to -17.1%YOY in June and -12.3%YOY in July. Manufacturing PMI and the consumer confidence index also signaled a bottoming out in April-May. Lockdown easing in June will foster a gradual economic recovery during the latter half of 2020, but a continued surge in virus cases remains a key risk weighing on consumer and manufacturer confidence. To shore up the virus-hit economy, the Indonesian government has rolled out stimulus packages totaling 4.4% of GDP, while the Indonesian Central Bank has made rate cuts of 100 bps since early 2020 to bring the level to 4%. Nonetheless, downward pressure on the rupiah has limited room for a further rate cut. EIC sees the Indonesian economy plummeting by -1% in 2020 before reviving to 4.3% growth in 2021.

Malaysia witnessed a -17.1%YOY contraction in the second quarter, after 0.7%YOY growth during the previous 3 months. The economy was hobbled by contractions in major sectors, especially in the service and manufacturing industries, accounting for 55.5% and 21.4% of GDP, respectively. A country lockdown beginning in mid-March resulted in employment and production plummeting. The industrial production index dropped to its lowest point at -32%YOY in April and the unemployment rate climbed to 5.3% in May, but both indices have likely bottomed out. EIC expects Malaysia's economy to gradually regain momentum in the latter half of this year, following lockdown easing in May and June. Furthermore, a rebound in exports in June — particularly shipments of electrical appliances and electronic products — will help drive a recovery in manufacturing, but a sluggish pickup in global oil prices remains a downside risk to overall export value. The Malaysian government has unveiled economic stimulus packages totaling 4.3% of GDP but a further fiscal boost will likely face limited policy space due to high public debt — which rose by 4.7 ppt to 59% of GDP in the second quarter. Meanwhile, the Central Bank of Malaysia has made policy rate cuts of 100 bps to 1.75% since the beginning of 2020. Further rate cuts are likely given low inflation pressure. EIC expects that Malaysia's economy will contract by -7% in 2020 but bounce back to 7.5% growth in 2021.

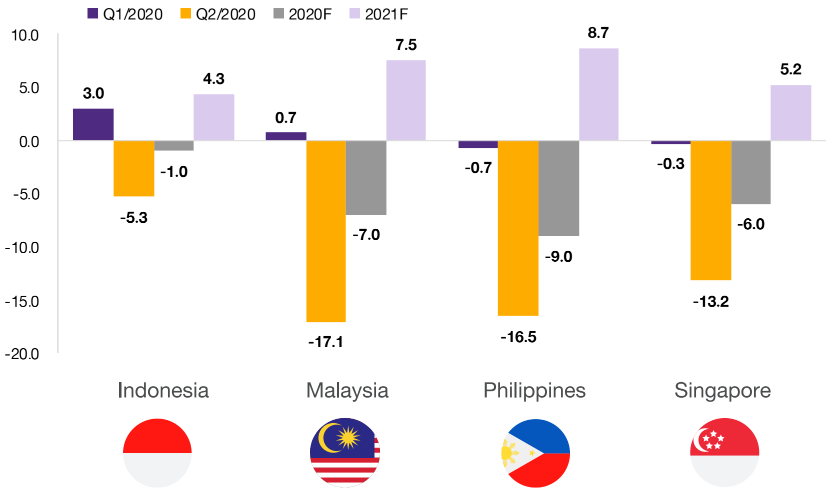
The Philippines contracted by -16.5%YOY in the second quarter, down from -0.7%YOY growth in the previous 3 months. The contraction was mainly due to private consumption, which plummeted by -15.5%YOY, and investment, which sharply dropped by -53.5%YOY, both accounting for 71.2% and 28.2% of GDP, respectively. The stringent country lockdown since mid-March pushed the Philippines into a sharp contraction. On a monthly basis consumption and manufacturing shrinkage have likely bottomed out as evident in retail sales and industrial production indexes rebounding in May, albeit remaining below pre-pandemic levels. EIC believes that lockdown easing from June will help restore growth in the latter half of 2020, but this might be slowed down by a virus resurgence which put Luzon island under strict lockdown again in August. The Philippine government has unveiled economic stimulus efforts totaling 3.1% of GDP and is currently considering an additional boost in the latter half of the year. The Philippines still has fiscal space for more stimulus measures since the public debt level remains low at around 48.1% of GDP in the second quarter (though slightly increased by 4.7 ppt from the first quarter). Meanwhile, the Central Bank of the Philippines has lowered its policy rate by 175 bps to 2.25% from the beginning of 2020 and is likely to maintain the current policy rate through the second half of the year. Nonetheless, unemployment jumped to 17.7% in April and became a key risk to watch for the remainder of 2020 since it may hinder a recovery in domestic consumption. EIC expects that the country's economy will shrink by -9% in 2020 but regain 8.7% growth in 2021.

Singapore saw a -13.2%YOY slump in the second quarter, down from -0.7%YOY during the previous 3 months. The contraction was a result of a drop in private consumption (-28.2%YOY) and investment (-27.2%YOY) — both accounting for 31.3% and 21.3% of GDP, respectively. A partial lockdown imposed in April drove economic activities to a halt, but 3-phase lockdown easing from June helped shore up both the consumption and manufacturing sectors. Retail sales rebounded from their lowest level of -46.28%YOY in May to -25.19%YOY in June, whereas the Whole Economy PMI picked up from its lowest point at 27.1 in May to 43.2 in June. EIC expects a modest recovery in the latter half of 2020 as Singapore's economy heavily relies on external demand, particularly exports, which account for 173.5% of GDP. A gradual rebound in global economic growth together with fears of a virus resurgence within Singapore and trade partners will be two key downside risks weighing on Singapore's economic recovery. The Singaporean government has earmarked massive stimulus measures worth 19.7% of GDP. Some 80% of the total package is financial support directly to households and businesses, while the rest is reserve budget for sectors facing a liquidity dry-up. Meanwhile, the Central Bank of Singapore decided to continue its accommodative stance. EIC expects that Singapore's economy will see a -6% contraction in 2020 before bouncing back to 5.2% growth in 2021.

The ASEAN4 economy saw a sharp contraction in the second quarter of 2020 but showed signs of gradual recovery.

ASEAN4's Economic Growth

Unit: %YOY



Country specific risks

Downward pressure on the rupiah is a key risk to external debt repayment (36.2% of GDP) and a constraint to any policy rate cut. Economic recovery faces headwinds from a rising number of virus cases.

Rising public debt may limit room for additional economic stimulus measures. A sluggish rebound in global oil prices puts pressure on exports.

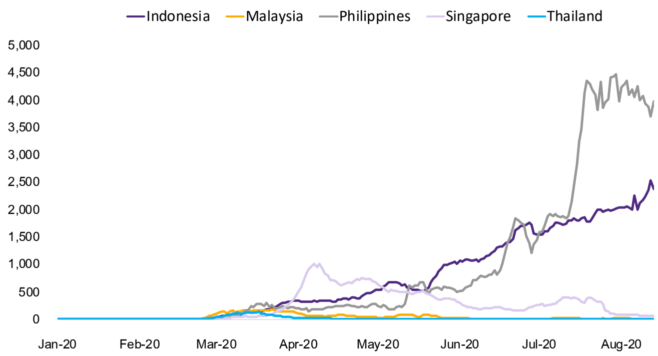
Rising unemployment may weigh down consumption. A second lockdown will further slow economic recovery.

A slower global economic recovery and virus resurgences will be headwinds to exports

Newly confirmed cases continued to rise in Indonesia and the Philippines, while the pandemic was successfully contained in Malaysia and Singapore.

Daily New Confirmed COVID-19 Cases

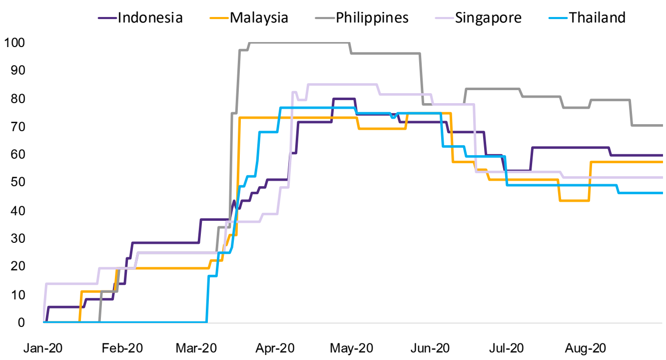
Unit: persons (7 day moving average)



Economic activities started to rebound as the ASEAN4 economy gradually lifted stringent lockdown measures.

COVID-19 Government Response Stringency Index

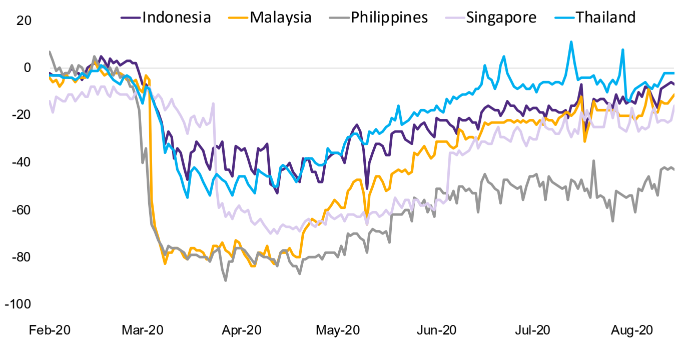
Unit: Index (100 = Most Stringent)



The Google Mobility Index indicated a post-lockdown rebound in economic activities.

Google Mobility Index (Retail and Recreation)

Unit: % change from baseline

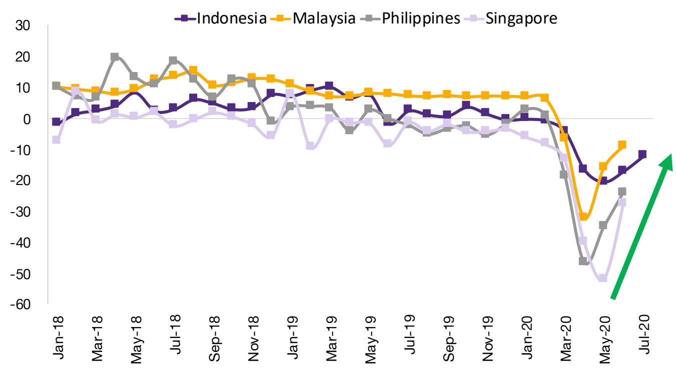


Remark: The baseline period is the median value between January 3rd – February 6th, 2020.

Consumer spending and employment started to pick up as retail sales bottomed out from their lowest levels in April-May.

Retail Sales Growth

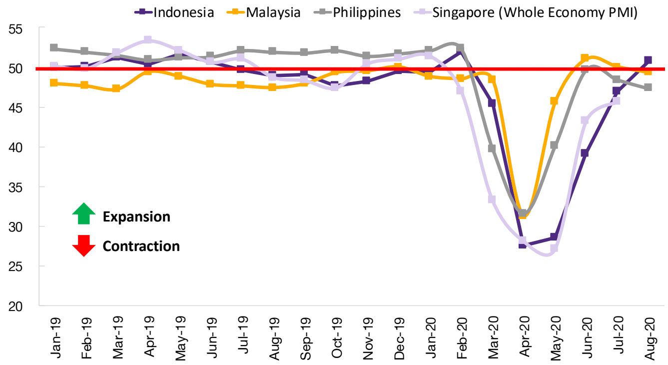
Unit: %YOY



June and July's PMI rebounded from its lowest level during April-May, signaling a recovery in the manufacturing sector.

Manufacturing PMI (Seasonally-Adjusted)

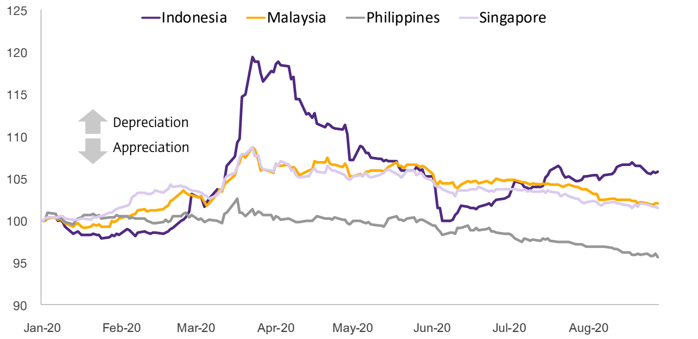
Unit: Index



ASEAN4 currencies weakened in March but look to strengthen in the remainder of 2020, except for the Philippine peso which continued appreciating.

ASEAN4 Currencies Against the US Dollar

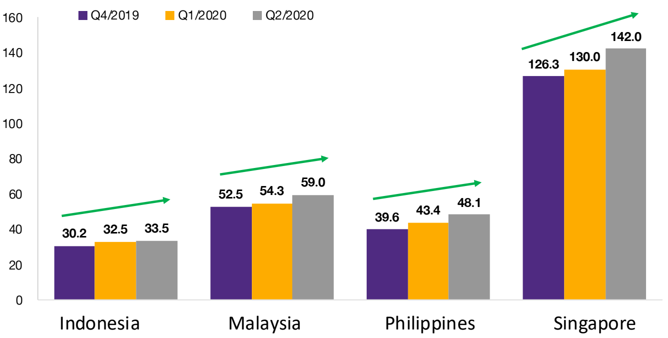
Unit: Index (Jan 2020 = 100)



Public debt to GDP level continued to increase in the second quarter after governments implemented large stimulus packages to shore up the economy.

Public Debt to GDP

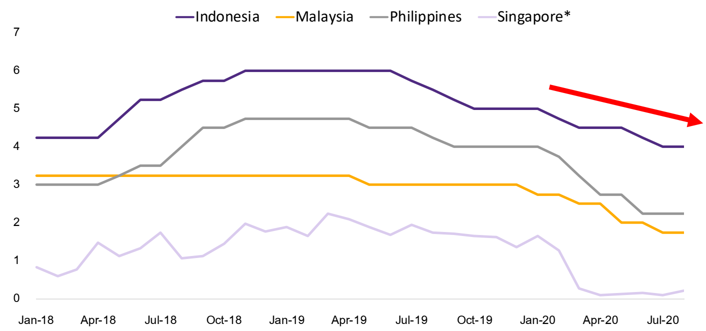
Unit: % of GDP



ASEAN 4 central banks have cut their policy rates in order to stimulate the economy and provide liquidity.

ASEAN 4 Policy Rate

Unit: %pa



Remark: As Singapore does not use a policy rate, the Singapore Overnight Rate Average (SORA) is shown.

Source: EIC analysis based on data from the IMF, World Bank, ADB, Oxford, WHO, CEIC, Bloomberg, Statistics Bureau, and CLMV Central Banks

CLMV economy

Slower-than-expected rebound amid prolonged COVID-19 impacts and higher country-specific risks.

CLMV Outlook
Q3/2020

Though the virus outbreaks in the CLMV countries were contained in the first half of 2020, impacts from the strict lockdown rules and contraction in external demand amidst a global economic recession have resulted in a sharp slowdown in CLMV domestic demand. CLMV economies look to bottom out after lockdown easing but EIC expects a recovery to remain modest. Looking ahead, an economic recovery will likely be slow due to sluggish domestic and external demand amidst rising unemployment, fewer remittances, a rise in virus cases abroad, and extended border closures. This is also evident in Google Mobility Data, which shows lower than pre-pandemic levels in many areas. EIC believes that the CLMV governments and central banks will keep their policies accommodative to foster their frail economies. The remaining downside risks include country-specific risks, the resurgence of virus outbreaks, and structural risks from rising public debt and NPLs, all of which would hinder long-term economic growth. For this reason, EIC has further revised its 2020 growth forecast downward for each CLMV economy and expects 2021 growth to remain below average levels despite a low-base effect.

The partial withdrawal of EBA privilege from the EU and extended border closures should push Cambodia's economy into a -3.0% contraction in 2020. Despite successful virus containment and lockdown easing, sluggish global demand amid the global recession will suppress Cambodia's economic recovery, since the kingdom heavily relies on export and tourism revenue — accounting for 63% and 18% of GDP, respectively. In addition, Cambodian exports are highly concentrated in garments and footwear (a 75% share of total exports) which are sensitive to changes in trade partner consumer incomes and also affected by the partial EBA withdrawal from the EU (23% share in total exports). Meanwhile, business closures — particularly in the manufacturing and tourism sectors — and rising unemployment have weighed down household incomes and domestic consumption. To shore up growth, Cambodia's Central Bank and the government have rolled out a number of stimulus measures totaling 8.3% of GDP, such as tax and fee cuts, concessional loans, and financial relief. These accommodative measures will likely continue to revive economic growth. **EIC expects Cambodia's economy to continue a modest rebound in line with any global economic recovery, before reviving to 5.0% growth in 2021.** Nonetheless, downside risks remain from high household debt, which may lead to rising NPLs within this year.

Laos' economy looks to record only 0.5% growth in 2020, given limited room for fiscal stimulus measures and high risks to fiscal and external stability. The virus outbreak was contained in the first half of this year but impacts from stringent lockdown efforts during April have resulted in rising unemployment and falling household income. This is expected to pressure private consumption, which accounts for 65% of the country's GDP. Meanwhile, higher economic uncertainties will weigh down foreign direct investment — the major growth driver for Laos' economy and infrastructure development — particularly FDI from China. Key risks ahead are a swelling public debt burden — most of which is external, low reserve buffers, and the weakening Lao kip. **Moreover, Moody's recently downgraded Laos' rating to Caa2 with a negative outlook (from B3, positive outlook), meaning that Laos will likely face hurdles in accessing funding and limited room for a further fiscal boost.** In the past several months Laos has unveiled fiscal stimulus measures worth only 0.1% of GDP while the Bank of Lao PDR made a policy rate cut of 100 bps this year. **EIC expects Laos' economy to recover gradually and achieve only 4.5% growth in 2021.**

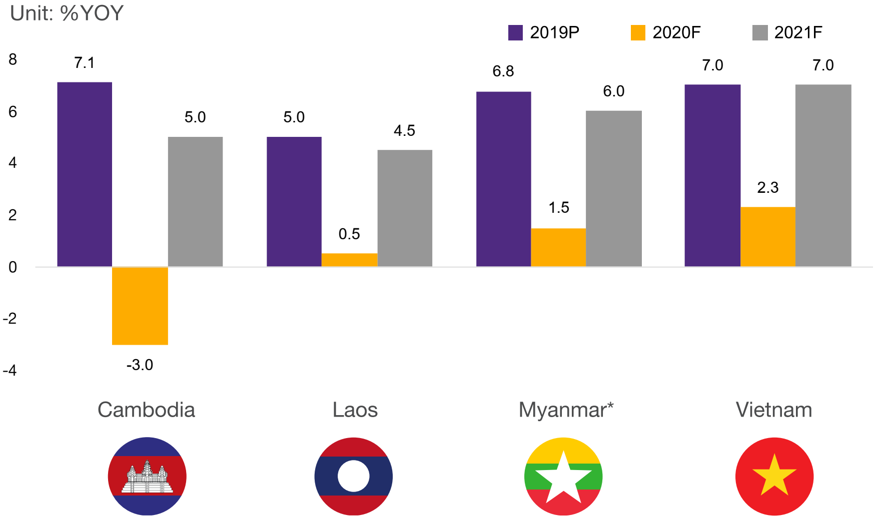
Myanmar is expected to grow slightly by 1.5% in 2020, owing to impacts from a lengthy lockdown and lower demand for key export products. Domestic demand lagged after Myanmar imposed strict lockdown measures such as curfews in some cities and prohibitions on group gathering. A more rigid lockdown is very likely given that Myanmar has been facing a second wave of the virus pandemic within Rakhine state since late August. Meanwhile, Myanmar workers returning home during the lockdown will result in falling remittances, which accounted for 3.7% of GDP in 2019. Myanmar's economy has likely bottomed out already, as evident in the manufacturing PMI jumping back to 53.2 in August. Nonetheless, an economic rebound looks to be modest due to the low demand for major export products such as textiles and natural gas. This year, the Central Bank of Myanmar cut the policy rate by 300 bps (from 10% to 7%) and launched a measure to maintain interbank liquidity. In the meantime, Myanmar's government earmarked the COVID-19 Economic Relief Plan worth 3% of GDP to boost the economy (nevertheless, measures implemented as of August 24 were only worth 0.2% of GDP). **EIC expects that Myanmar's economy will rebound to 6.0% in 2021,** but there are risks from policy and political uncertainties ahead of the general election on November 8, 2020.

A slowdown in world demand amidst a global economic recession and stricter lockdown measures to curb the third wave of the virus pandemic will slow Vietnam's economic growth to 2.3% in 2020. Vietnam's economy recorded 0.4%YOY growth in the second quarter of 2020, down from 3.7%YOY growth during the previous 3 months. The slowdown was broad-based in most industries, especially the service sector, which shrank by -1.8%YOY, while growth in the manufacturing sector dropped to 3.2%YOY versus 7.1%YOY in the first quarter. The unemployment rate also rose to 2.73% — the highest since 2011. Vietnam's economy showed signs of a solid rebound after lockdown easing. In July, retail sales and exports expanded by 5.3%YOY and 8.5%YOY, respectively. Nevertheless, any recovery has been weighed down by a resurgence of the virus pandemic, as evident in a slowdown in retail sales (2.3%YOY) and exports (2.5%YOY) in August while the manufacturing PMI plunged to 45.7. Future recovery looks to be modest due to sluggish global demand. Since the beginning of 2020, the State Bank of Vietnam has lowered its policy rate by 150 bps to 4.5%. A further rate cut is likely if recovery is slower than expected. Meanwhile, Vietnam's government launched an economic stimulus package totaling 10.1% of GDP (soft loans program included) via tax cuts and financial support. **EIC expects the Vietnamese economy to bounce back to 7.0% growth in 2021** thanks to the EU-Vietnam free trade agreement (EVFTA) — in force from August 1, 2020 — as well as investment relocation from China after the virus pandemic subsides.

Given the prolonged impacts from virus outbreaks and higher risks in each country, EIC has further revised its GDP forecast in 2020 downward but expects a gradual rebound in 2021.

CLMV's Economic Growth (2019-2021F)

Unit: %YOY



Remark: *2020 refers to FY2019/2020 for Myanmar

Country specific risks

Withdrawal of Everything but Arms (EBA) trade privileges from the EU took effect on August 12, 2020.

Credit rating and outlook downgrades as a result of high public debt — particularly external debt, low reserve buffers, and a weakening Lao kip.

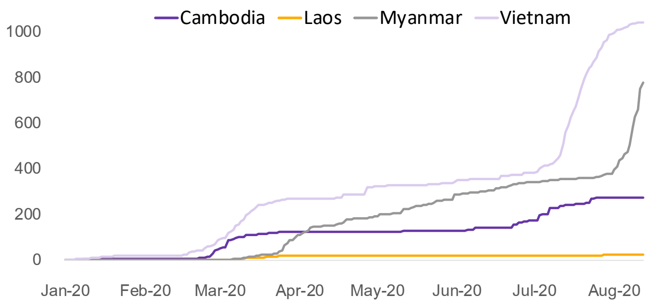
Rising policy and political uncertainties ahead of the general election on November 8, 2020 may slow FDI inflows.

Recovery to pick up at a slower pace amid virus resurgence and tightened lockdown rules.

Though the pandemic was successfully contained in the first half, CLMV countries still face a high risk of a second wave, particularly Vietnam and Myanmar.

Cumulative COVID-19 Cases

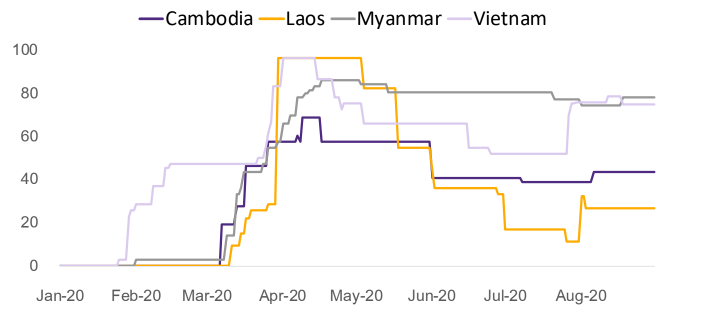
Unit: persons



A resurgence in the virus pandemic in Myanmar and Vietnam prompted the government to tighten lockdown rules, and thus put pressure on economic recovery.

COVID-19 Government Response Strategy Index

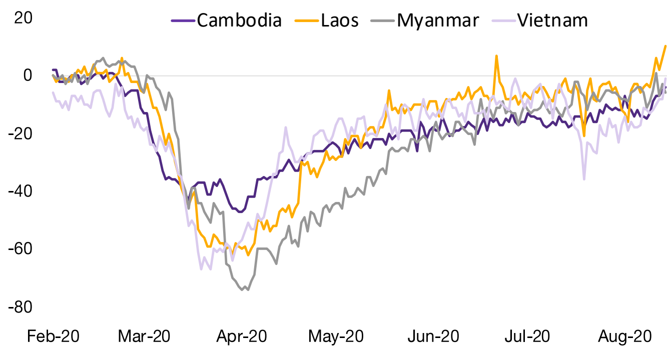
Unit: Index (100 = Most Stringent)



Mobility data showed that CLMV economies are bottoming out, but the figures remain below pre-pandemic levels in many countries.

Google Mobility Data (Retail and Recreation)

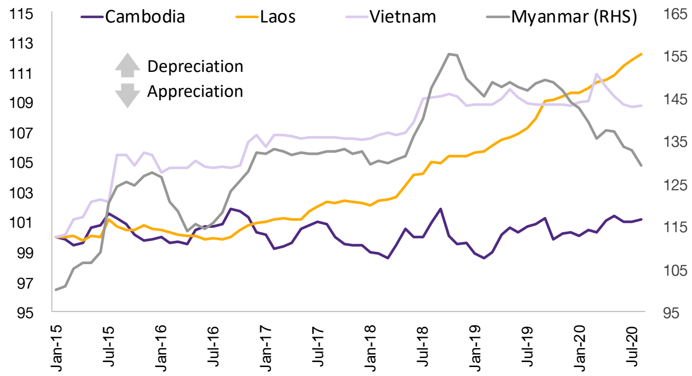
Unit: % change from baseline



CLMV currencies have tended to depreciate against the greenback, with the exception of the Myanmar kyat, which continued strengthening.

CLMV Currencies Against the US Dollar

Unit: Index Jan 2015 = 100



Remark: The baseline period is the median value between January 3rd – February 6th, 2020.

Source: EIC analysis based on data from the IMF, World Bank, ADB, Oxford, WHO, CEIC, Bloomberg, Statistics Bureau, and CLMV Central Banks.

Thai Economy
in 2020

Outlook for Thai economy in 2020

as of Q3/2020

EIC has revised its Thai economic growth forecast in 2020 downward to -7.8% from its previous projection of -7.3%, as sluggish tourism conditions persisted amid lower-than-expected capital injections from government stimulus packages. Looking forward, various challenges and risks that could weigh on recovery warrant monitoring.

Various parts of the Thai economy bottomed out in Q2/2020 and have started to recover, though signs of a stalling recovery have emerged. The Thai economy in Q2/2020 tumbled by -12.2%YOY, marking the largest decline in 22 years. This contraction reflected the harsh and sudden damage caused by lockdown measures enforced in nations around the world. Nevertheless, economic activities improved after lockdown measures were eased, reflecting better readings of various economic indicators, including the private consumption index, export value, manufacturing production, capacity utilization, and consumer and business confidence indicators. On the other hand, analysis of real-time economic data, such as the Google Mobility Index and the number of job openings on JobsDB.com **signaled a slowing or stalling recovery.** This type of recovery is in line with EIC's view that the pace of recovery will be slow. The Tourism sector has already begun recovering with the return of Thai tourists, especially in destinations close to Bangkok, but businesses that rely on foreign tourists continue to stagnate. EIC has therefore cut its foreign tourist arrivals forecast for 2020 to only 6.7 million arrivals, forecasting that foreign tourist arrivals will barely increase during the remainder of 2020.

Government stimulus packages will play a key role in supporting economic growth. However, the latest information reveals potentially lower-than-anticipated support. According to the most recent data, the total budget approved under the THB 1 trillion Emergency Decree was THB 475 billion, an amount significantly lower than previously anticipated. EIC has thus reduced its estimate of the amount of capital expected to be injected

into the economy to THB 500 billion from its previous estimate of THB 600 billion. This reduced stimulus capital also influenced EIC to revise its Thai GDP growth forecast downward this round. Furthermore, **issues regarding a possible fiscal cliff persist** as the sizable government budget disbursements during Q2/2020 could drop drastically during H2/2020 amid weak income from the tourism and export sectors. Worsening conditions could increase the debt burdens of people still severely affected by recent events and may affect the pace of economic recovery going forward.

The harsh and sudden economic contractions will leave an ongoing scarring effect on the economy, which could restrain recovery in the periods ahead. Notable damage includes **growing business closures** that will continue to suppress private investment as well as **mounting labor market vulnerabilities.** According to the latest Q2 information, the unemployment rate in Thailand increased to 1.95%, marking the highest rate in 11 years. Furthermore, the average number of hours worked dropped by as much as -11.5%, reflecting the weak conditions prevailing in the labor market. Issues regarding the trend of **precautionary saving** could also undermine economic growth. EIC found that the amount of savings increased in all types of deposit accounts because citizens are saving more during the crisis due to their fear of uncertainties ahead. This change in behavior could obstruct economic recovery as more cautious spending will reduce the amount of liquidity circulating in the economy.

Risks that warrant monitoring include **returning waves of severe COVID-19 infections globally and in Thailand** that will directly impact Thailand's export sector. The domestic economy could also weaken if strict lockdown measures are re-introduced. Other noteworthy risks include **growing tensions between China and the US** that could hamper trade and cause fluctuations in global financial markets, **lower-than-anticipated government support** that could prompt a higher-than-expected contraction in Thai GDP growth, **the impact of bankruptcies and consequent scarring effects on the labor market, and growing political tensions within Thailand.**

Thai economic outlook for 2020

EIC expects a gradual economic recovery after exiting a trough in Q2/2020. However, going forward, various downside risks and headwinds warrant monitoring.

According to the latest information, the Thai economy in Q2/2020 tumbled by -12.2%YOY, marking the biggest decline in 22 years. This contraction is comparable to the fall during the Asian Financial Crisis in Q2/1998 which dropped -12.5%YOY. During Q2/2020, the strict lockdowns in countries throughout the globe, including Thailand, severely affected all sectors of the Thai economy. The tourism sector suffered from a ban on international travel. The export sector was hampered by a sudden stop in global economic activities that prompted supply chain disruptions. Similarly, the investment sector weakened as various companies delayed or canceled investments following dwindling sales.

Figure 1: Sources of Real GDP growth (%YOY) by expenditure and production approach

Expenditure Approach

(%share 2019)	2018	2019	2019Q2	2019Q3	2019Q4	2020Q1	2020Q2	YTD
RGDP	4.2%	2.4%	2.4%	2.6%	1.5%	-2.0%	-12.2%	-6.9%
Private Consumption (52.1%)	4.6%	4.5%	4.7%	4.3%	4.1%	2.7%	-6.6%	-2.1%
Public Consumption (14.6%)	2.6%	1.4%	1.5%	1.7%	-0.9%	-2.8%	1.4%	-0.7%
Total Investment (23.9%)	3.8%	2.1%	1.9%	2.7%	0.8%	-6.5%	-8.0%	-7.2%
Private Investment (17.8%)	4.1%	2.8%	2.1%	2.3%	2.6%	-5.4%	-15.0%	-10.2%
Public Investment (6.0%)	2.9%	0.2%	1.5%	3.7%	-5.1%	-9.3%	12.5%	1.2%
Export G&S (71.4%)	3.3%	-2.6%	-4.0%	0.6%	-3.4%	-7.3%	-28.3%	-17.6%
Export Goods (54.3%)	3.8%	-3.6%	-4.6%	-0.1%	-5.1%	2.0%	-15.9%	-7.0%
Export Services (17.2%)	2.0%	0.5%	-1.7%	3.2%	1.7%	-32.2%	-70.4%	-49.0%
Import G&S (64.6%)	8.3%	-4.4%	-3.4%	-5.9%	-7.9%	-3.1%	-23.3%	-13.2%
Import Goods (52.3%)	7.9%	-5.5%	-3.7%	-6.8%	-8.6%	-0.3%	-19.3%	-9.9%
Import Services (12.3%)	9.9%	0.5%	-2.1%	-2.1%	-5.3%	-13.0%	-37.9%	-25.3%

Production Approach

(%share 2019)	2018	2019	2019Q2	2019Q3	2019Q4	2020Q1	2020Q2	YTD
RGDP	4.2%	2.4%	2.4%	2.6%	1.5%	-2.0%	-12.2%	-6.9%
Agriculture (6.1%)	5.5%	-0.2%	-1.4%	2.7%	-2.5%	-9.8%	-3.2%	-6.7%
Manufacturing (26.4%)	3.2%	-0.7%	0.1%	-0.8%	-2.2%	-2.6%	-14.4%	-8.3%
Construction (2.7%)	2.4%	1.9%	3.4%	2.7%	-2.1%	-9.9%	7.4%	-1.3%
Wholesale & Retail (15.6%)	6.6%	5.7%	5.5%	5.3%	5.2%	4.8%	-9.8%	-1.9%
Transport & Storage (6.8%)	4.4%	3.4%	3.0%	3.1%	3.9%	-6.0%	-38.9%	-21.7%
Hotel & Restaurant (6.2%)	7.6%	5.5%	3.6%	6.7%	6.8%	-23.3%	-50.2%	-36.2%
Info & Communication (5.3%)	7.6%	8.8%	8.8%	8.2%	10.6%	3.2%	1.7%	2.4%
Finance (7.2%)	3.4%	2.7%	1.8%	3.8%	3.4%	4.5%	1.7%	3.1%
Real Estate (3.9%)	5.7%	3.3%	3.3%	2.2%	2.7%	1.7%	0.4%	1.1%

Source: EIC analysis based on data from NESDC

Nevertheless, during Q2/2020, various drivers supported Thailand's economy, including:

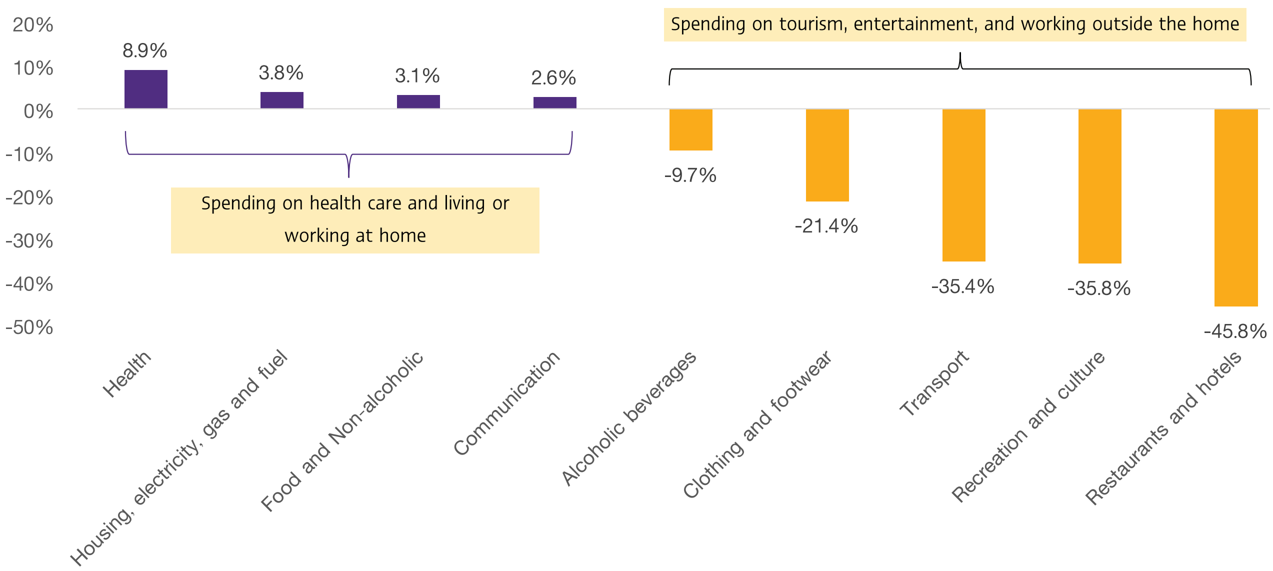
1) Government spending from expedited budget disbursements after the bills was passed, including government consumption and investment. Furthermore, the government issued stimulus packages to assist those affected, such as providing cash handouts of THB 5,000 for 3 months as well as other measures, including soft loans and a debt moratorium scheme. These economic activities helped boost the Thai economy during Q2/2020.

2) Health care spending and a shift in the workforce toward working from home. According to Figure 2, consumer spending for products and services related to tourism, entertainment, and working outside the home dropped drastically during the second quarter. On the other hand, products and services relating to health care and living or working at home expanded instead. These kinds of behavioral shifts also helped sustain the Thai economy during Q2/2020

Figure 2: Health care spending and a shift towards living and working from home partly supported the economy during Q2/2020.

Domestic consumption in the second quarter of 2020 by type of goods and services

Unit: %YOY



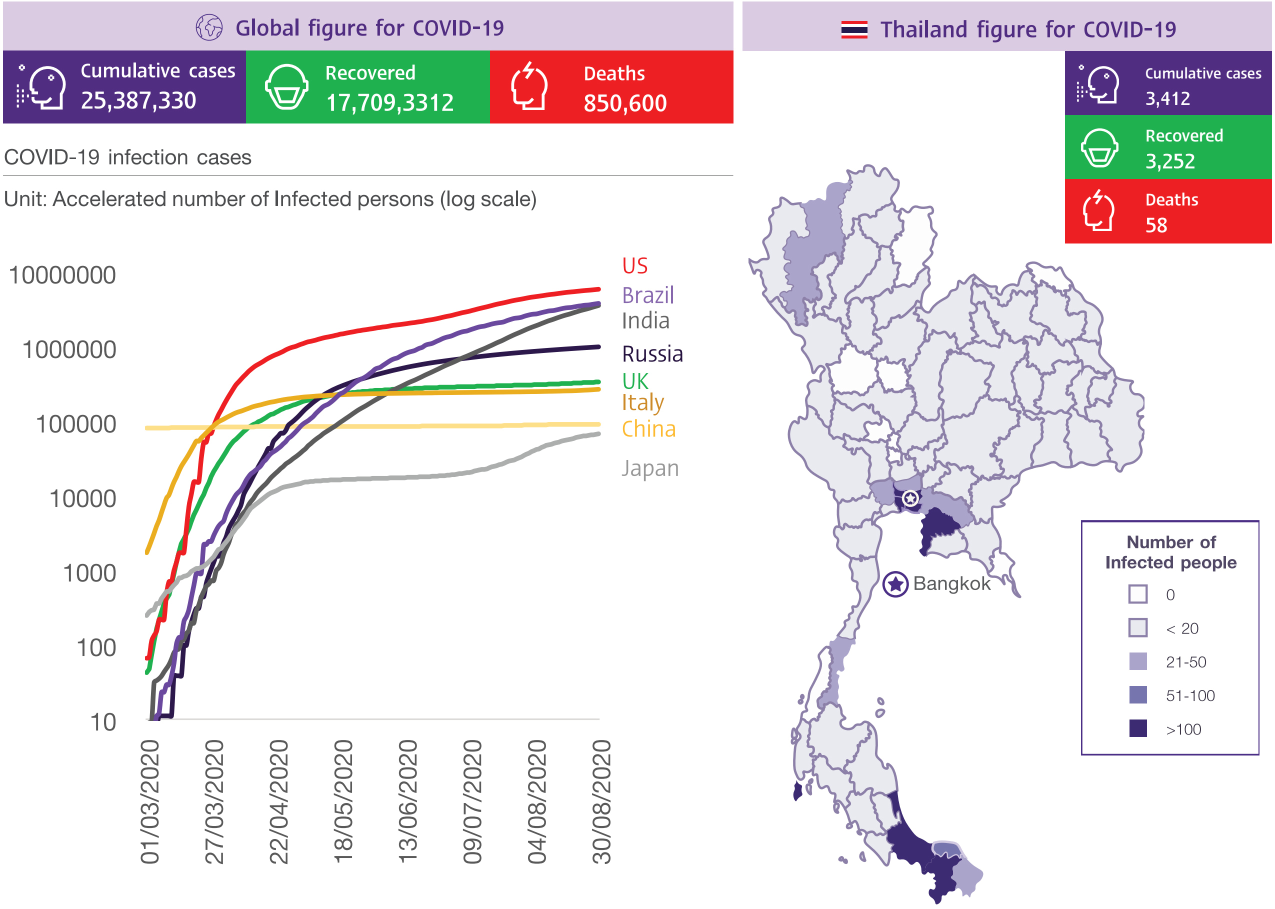
Source: EIC analysis based on data from NESDC

3) A considerable decline in imports, both from merchandise and services (dropping by -23.3%YOY). Expenses used for importing merchandise from overseas are considered money outflow and must be deducted from GDP. However, if import expenses decrease significantly, the outflow will also drop. Therefore, lower imports prevented GDP from dropping further during Q2/2020.

Going forward, EIC sees external demand will remain sluggish due to various challenges and risks, especially tourism sector.

The latest global figure for COVID-19 infections worldwide (as of August 31, 2020) was 25,387,330 cases, with 850,600 confirmed deaths and 17,709,331 patients discharged (Figure 3). Various countries are still experiencing staggering increases in COVID-19 cases, including the US, Brazil, and India. **As for Thailand, the latest COVID-19 case update stood at 3,412,** with 58 confirmed deaths and 3,252 patients discharged. According to released data, the number of cumulative COVID-19 cases in Thailand remained relatively stable with a low growth rate, thus, providing a positive light for domestic economic recovery.

Figure 3: Reported figures for COVID-19 infections globally, including Thailand (as of August 31, 2020).



Remarks: * Information as of August 31, 2020

Source: EIC analysis based on data from the Ministry of Public Health and the WHO

The high uncertainty regarding the COVID-19 pandemic triggered EIC to cut its foreign tourist arrivals estimate in 2020 to only 6.7 million arrivals (-83.1%) from its previous projection of 9.8 million. According to Thai government policy, the international travel ban should still be enforced throughout the remainder of 2020. Some foreigners could be allowed into the country, though in trivial amounts. Furthermore, various challenges continue to undermine a recovery in international tourism (Figure 4), including:

- **Concerns regarding COVID-19 spread** will continue to limit any tourism recovery and this circumstance will remain until an effective vaccine arrives. Furthermore, the recent resurgence of COVID-19 casualties in various countries dims the outlook for a global tourism recovery.

- **Obstacles facing the travel bubble scheme.** Various countries have seen a COVID-19 resurgence, including countries Thailand targeted signing travel bubble agreements with, such as Japan, China, and Hong Kong. Citizens may disapprove of the scheme as it could reintroduce heavy COVID-19 casualties into the country.

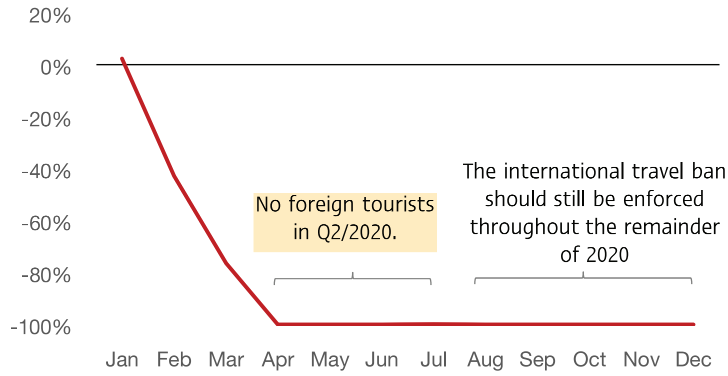
- **Virus containment measures** prompted various airlines to reduce their fleet size. Moreover, airlines had to adopt an empty middle seat policy that drastically reduced the number of passengers allowed per flight, thereby increasing ticket prices. This situation could persuade tourists to delay or cancel their travel plans.

Figure 4: EIC has cut its foreign tourist arrivals forecast for 2020 to only 6.7 million arrivals (-83.1%YOY) due to the global spread of COVID-19 and various other suppressing factors.

International tourist arrivals

Unit: %YOY

Tourist arrivals	% change
6.7 million	-83.1%YOY



Challenges for tourism sector in the period ahead

The travel bubble negotiating countries are facing a COVID-19 resurgence, and Thai people may not agree to the travel bubble.

Many airlines have reduced their fleet size, including measures to leave the seat in the middle. This resulted in a lower overall volume of seats and higher airfare.

Concerns about contracting COVID-19 while no vaccine is currently available.

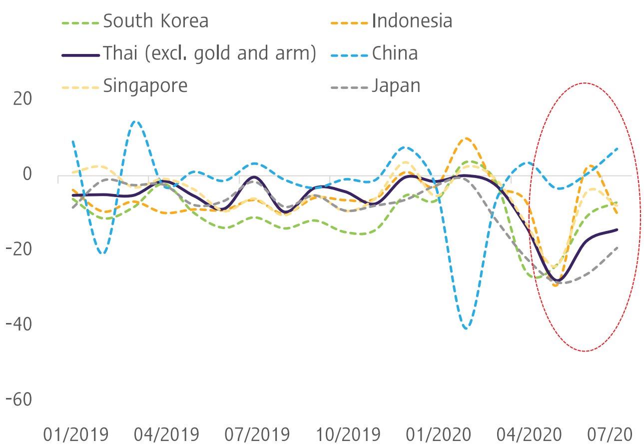
Source: EIC analysis based on data from the Ministry of Tourism and Sports

Global export conditions consistently improved after experiencing a deepest decline in May. Global PMI export orders (Figure 5) showed the weakest reading in May, a month during which various countries imposed stringent lockdowns that prompted a sudden halt to economic activities and supply chain disruptions. After that better readings were continually observed. Export figures for key Asian exporting countries also pointed toward a similar recovery.

Figure 5: Global export conditions have bottomed-out, though recovery will likely be gradual.

Thailand and other Key countries export growth

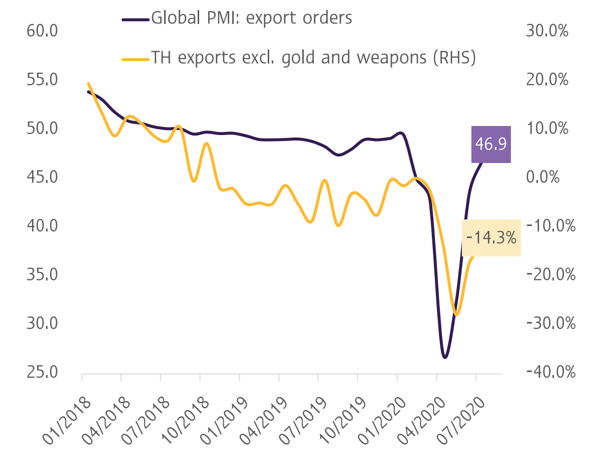
Unit: %YOY



Global PMI: export orders and Thailand exports (excluded gold and arm)

Unit: Index

Unit: %YOY



Source: EIC analysis based on data from the Ministry of Commerce, CEIC, and IHS Markit

For Thai exports situation, during the first 7 months of 2020, overall exports contracted by -7.7%YOY. With the exclusion of gold and weaponry reshipments to the US, exports dropped to -11.1%YOY. Exports of nearly all key merchandise items contracted in May (Figure 6), though exports have gradually recovered since then. Key export products that contracted during the first 7 months of the year were automotive, parts, and components (-32.3%YOY), electrical appliances (-10.6%YOY), agricultural products (-5.4%YOY), and chemicals and plastic (-15.8%YOY). Meanwhile, exports of computer and parts and rubber products improved by 0.6%YOY and 1.6%YOY, respectively. **Regarding exports by destination, during the first 7 months of the year, exports to nearly all destinations contracted, except for China and the US.** Thai export items that performed well in China included computers and parts, rubber products, automotive and parts, and fresh/ chilled/ frozen/ dried fruits. Meanwhile, Thai export products that performed well in the US market included computers and parts, semiconductors, electrical appliances, and canned and processed seafood.

Figure 6: Overview of Thai exports by key products and destinations

Export by product

Unit: %YOY, (Share in 2019)	2018	2019	2019Q4	2020Q1	2020Q2	May-20	Jun-20	Jul-20	YTD
Total (ex. Weapon) (100%)	6.9%	-3.4%	-4.4%	3.1%	-16.2%	-22.5%	-23.2%	-11.4%	-7.3%
Total (ex. Weapon and gold) (96.9%)	7.7%	-4.7%	-4.1%	-1.3%	-19.8%	-27.8%	-17.3%	-14.3%	-11.1%
Auto & parts (11.1%)	7.0%	-5.6%	-10.0%	-13.7%	-53.0%	-62.6%	-43.2%	-30.9%	-32.3%
Electrical appliances (9.9%)	3.6%	-0.4%	0.3%	-0.9%	-21.8%	-31.7%	-15.2%	-6.9%	-10.6%
Agriculture (8.8%)	1.1%	-6.2%	-13.6%	-8.7%	1.1%	14.1%	-15.8%	-15.4%	-5.4%
Chemical & plastics (8.5%)	18.6%	-11.8%	-15.7%	-12.1%	-19.4%	-27.1%	-8.6%	-16.6%	-15.8%
Agro-industry product (7.6%)	7.0%	2.9%	10.3%	3.2%	-3.1%	-10.3%	-3.6%	-5.3%	-0.8%
Computer & parts (7.4%)	6.8%	-7.6%	4.6%	8.8%	-6.8%	-21.3%	4.6%	-0.5%	0.6%
Rubber products (4.6%)	7.5%	1.9%	3.7%	6.6%	-7.7%	-22.2%	10.5%	13.3%	1.6%
IC (3.1%)	0.8%	-8.9%	-1.1%	-6.3%	-5.1%	-9.5%	-7.3%	-9.4%	-6.2%
Machinery & parts (3%)	8.3%	-10.6%	-10.0%	-2.8%	-27.4%	-37.0%	-31.8%	-13.6%	-14.7%
Textile (2.8%)	6.6%	-3.3%	-3.6%	-5.2%	-29.0%	-38.9%	-18.1%	-22.7%	-17.8%

Export by destination

Uni: %YOY, (Share in 2019)	2018	2019	2019Q4	2020Q1	2020Q2	May-20	Jun-20	Jul-20	YTD
ASEAN5 (14.5%)	13.6%	-9.8%	-9.9%	5.7%	-19.7%	-27.9%	-38.8%	-24.6%	-9.7%
China (11.9%)	2.7%	-3.8%	1.6%	-0.9%	12.1%	15.3%	12.0%	-2.7%	4.5%
CLMV (11.2%)	16.7%	-6.3%	-6.2%	2.7%	-25.8%	-28.0%	-17.8%	-13.2%	-11.8%
USA (12.1%)	5.5%	5.0%	5.5%	15.9%	1.1%	-17.3%	14.5%	17.8%	9.7%
Japan (10%)	13.0%	-1.7%	-5.3%	-5.5%	-13.5%	-24.2%	-21.6%	-17.5%	-10.5%
EU15 (8.7%)	5.1%	-6.6%	-6.3%	-4.6%	-30.6%	-40.0%	-22.7%	-16.0%	-17.1%
Hong Kong (4.8%)	1.8%	-6.5%	-1.1%	12.3%	-8.6%	-19.3%	-32.3%	-8.6%	0.0%
Australia (4.2%)	2.6%	-5.1%	-14.9%	-3.3%	-16.1%	-7.4%	-16.7%	-10.4%	-9.8%
Middle East (3.4%)	-5.1%	-1.6%	7.1%	1.7%	-22.0%	-30.6%	-10.4%	-16.4%	-10.5%
India (3%)	17.8%	-3.8%	-14.3%	-11.9%	-67.2%	-76.0%	-63.1%	-39.0%	-39.6%

Remark: *Excluding weaponry shipments to the US in 2019 and 2020

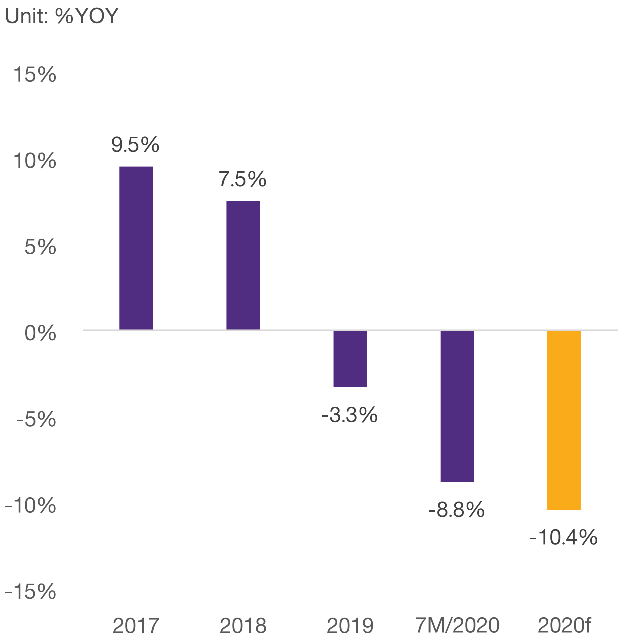
Source: EIC analysis based on data from the Ministry of Commerce

EIC believes that essential goods exports should see the fastest recovery. Meanwhile, intermediate raw materials exports should recover at a slower pace. The latest information indicates that exports of some necessities has already improved, such as canned and processed seafood and fresh/ chilled/ frozen chicken and pork. Similarly, exports relating to living and working at home also edged up, including electronics, computers and parts, and furniture and parts. **Exports of intermediate raw materials used in the manufacturing industry should experience a lagging recovery as the sector was hit by sluggish global economic conditions.** Products include automotive parts, plastic beads, steel and products, and rubber.

EIC has maintained Thailand's export forecast in 2020 at -10.4% (Figure 7). Although exports have recovered recently, exports should continue to contract throughout the remainder of 2020 due to various pressures, including:

Figure 7: Exports in 2020 should contract by -10.4% due to various pressures

Export forecast (USD, BOP basis)



Risk factors that pressure Thai exports.

1. The returning waves of COVID-19 infections and their impact on Thailand's key trading partners.
2. Growing tensions between China and the US both trade war and technological war.
3. Reshoring of supply chains and regionalization trends accelerating in various countries that may impact Thai exports
4. Thai products could face anti-dumping duties under US policies, especially passenger vehicle and light truck tires
5. Risks that Thailand will be placed on the US currency manipulator list.

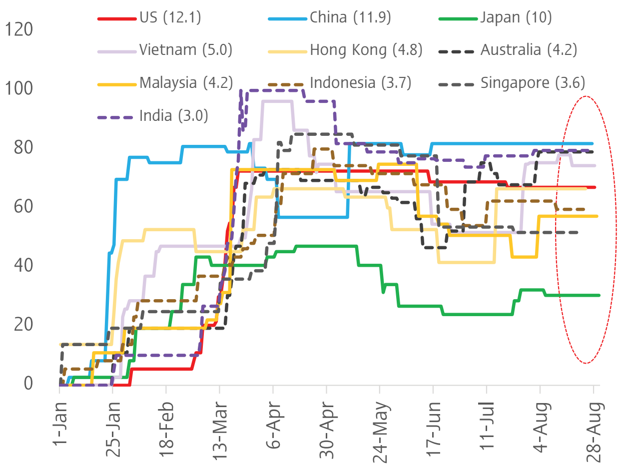
Source: EIC analysis

1) The returning waves of COVID-19 infections and their impact on Thailand's key trading partners. During July–August various countries re-introduced strict measures to curb the virus amid a resurgence of COVID-19 infections. The Government Stringency Index, an index that measures the strictness of government virus containment responses, revealed that countries including Japan, Australia, India, and Vietnam have re-introduced strict virus control measures (Figure 8). Furthermore, the composite stringency index that compiled stringency indexes for 10 key export partners weighted by Thailand's export contribution revealed that deteriorating economic conditions, as well as supply chain disruption issues in Thailand's key trading partners, could resurface. Such a situation could directly impact Thai exports to the previously mentioned trading partners in the periods ahead.

Figure 8: Several of Thailand's key trading partners faced returning waves of severe COVID-19 infections. This could stall the pace of Thai export recovery.

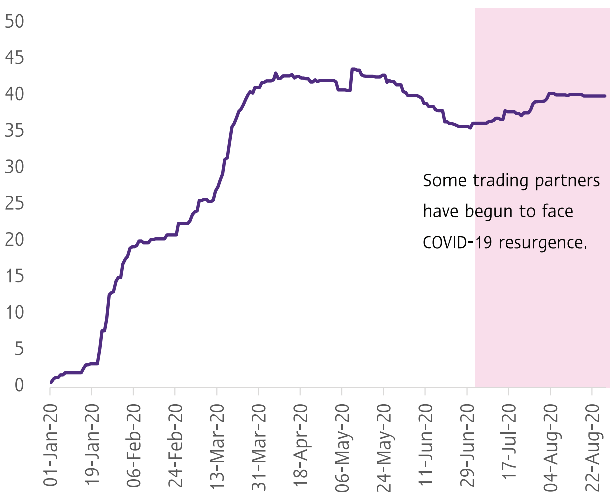
COVID-19 Government stringency index of 10 Thailand's key trading partners

Unit: Index (100 = The strictest)



Composite stringency index of 10 Thailand's key trading partners

Unit: Index (weighed by share of exports in 2019*)



Remark: *Excluding weaponry reshipments to the US

Source: EIC analysis based on data from Oxford

2) Growing tensions between China and the US. During May 2020, trade war tensions between China and the US elevated once again after President Donald Trump announced that the US could terminate its Phase 1 trade agreement with China as the value of US goods imported by China was below the agreed target. The US hence started to issue various policies to pressure China, especially those that launched a technological war, such as restricting the flow of US technology to Huawei and amending the rules for foreign investment in US technology companies. If the US decided to terminate the Phase 1 trade agreement, the outlook for Thai products involved in the trade war could worsen once again. Thai products at risk include intermediate goods with high export proportion reliance on China (proportion according to 2019 figures) such as wood and wood products (47%), rubber (39%), plastic beads (35%), hard disk drives (11%), and electronic integrated circuits (10%). Furthermore, US President Donald Trump recently enforced sanctions on China and revoked Hong Kong's special trade status (withdrawal of bilateral deals, including the extradition treaty and tax exemptions on income from shipping). More importantly, the two countries could impose additional measures that worsen the situation, which will inevitably impact global trade conditions and increasingly cause fluctuations in global financial conditions.

3) Reshoring of supply chains and regionalization trends that accelerated in various countries. The lockdown measures imposed in various countries temporarily or permanently halted operations of numerous businesses globally following weak demand and supply chain disruptions. To reduce such risks, various countries are turning to rely more on domestic production as well as distribute production bases to countries apart from China or relocate production bases to countries with closer proximity. Japan, for example, earmarked JPY 240 billion to support Japanese companies shifting production out of China. The policy seeks to reduce Japanese dependence on Chinese manufacturing supply chains. Meanwhile, the United Kingdom proposed establishing a 5G alliance consisting of 10 countries, including India, Australia, South Korea, and the G7 countries, to cut reliance on Huawei's 5G technology. Furthermore, North American countries established a new United States – Mexico – Canada Agreement (USMCA), effective July 1, 2020, to facilitate increased trade dependency among the group. These trends could distort Thailand's export supply chains and especially hurt Thai intermediate goods exported as inputs for Chinese production. Going forward, if trade becomes more regionalized, Thailand could lose key export markets such as the US and Europe.

4) Thai products could face anti-dumping duties under US policies. In May 2020, US tire companies filed petitions seeking anti-dumping duties on imports of passenger vehicle and light truck tires from South Korea, Taiwan, Vietnam, and Thailand. Preliminary investigation indicated that Thailand is guilty for dumping truck tires in the US. However, the further investigation is in progress and will be finalized in January 2021. If the US concludes that Thai exporters are dumping tires, this will further pressure Thai export growth in periods ahead as Thai tire exports to the US accounted for 8.3% of exports to the US and accounted for 1.1% of total Thai exports in 2019.

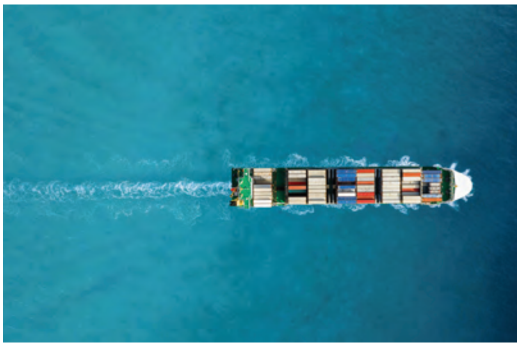
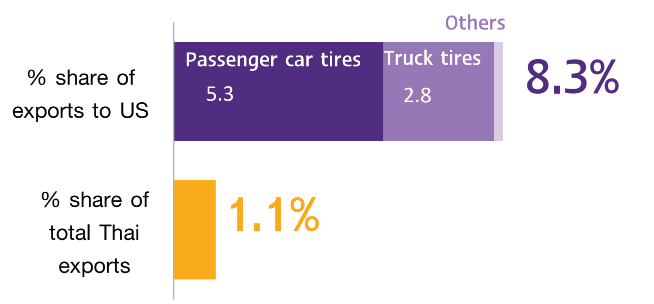


Figure 9: The US could impose anti-dumping duties on passenger vehicle and light truck tires imported from South Korea, Taiwan, Vietnam, and Thailand.

US import of covered product			
Country	Value (2019, USD)	% of US import from World	Rank
Thailand	**2,682,189,642**	**15.6%**	**2nd**
South Korea	1,521,084,335	8.9%	5th
Vietnam	599,354,906	3.5%	8th
Taiwan	538,913,192	3.1%	9th

Share of Thailand's tire exports (2019)



Source: EIC analysis based on data from the Ministry of Commerce and USITC

5) Risks that Thailand will be placed on the US currency manipulator list. Currently, there are increasing concerns that Thailand may be labeled a currency manipulator or placed on a monitoring list maintained by the US Treasury Department. According to information from 2019, Thailand met all three criteria set by the US for currency manipulators (Figure 10), with the following details:

- **A trade surplus with the US exceeding USD 20 billion during the past 12 months.** According to information from the U.S. Census Bureau in 2019, Thailand's trade surplus with the US stood at USD 20,148.4 million, a rate that exceeded the criteria set by the US. Furthermore, information from the U.S. Census Bureau in June 2020 indicated that during the most recent 12 months Thailand's trade surplus increased to USD 22,371.4 million.

- **A current account surplus exceeding 3% of GDP during the past 12 months.** In 2019, Thailand's current account surplus stood at 7.0% of GDP. Furthermore, the current account surplus in the two prior years all stood above 3% of GDP.

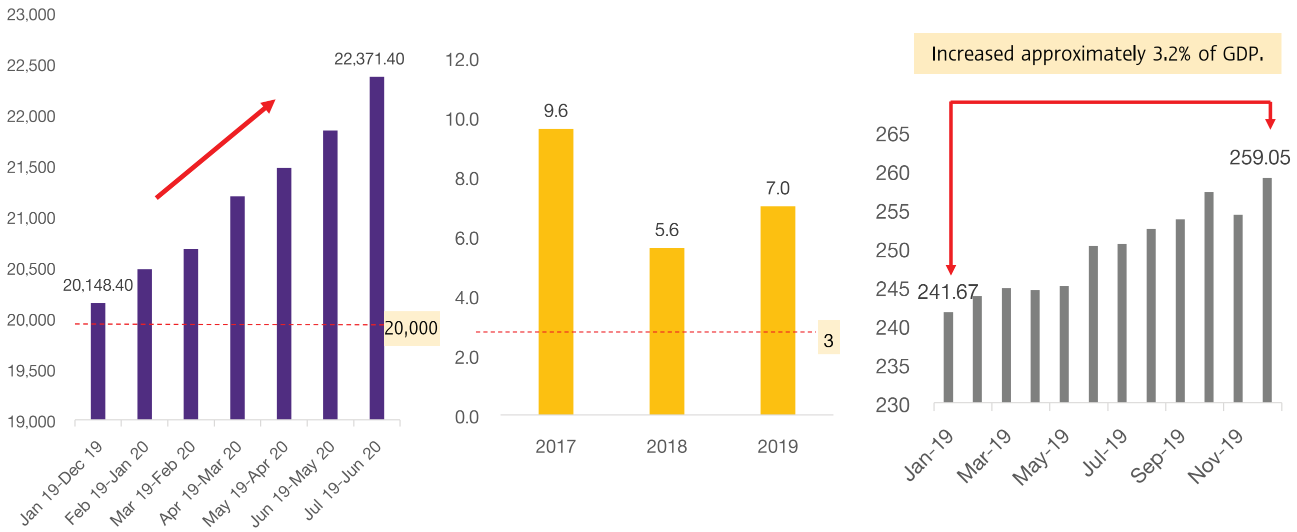
- **Foreign currency reserves constantly increasing and exceeding 2% of GDP.** In December 2019, the value of Thailand's foreign currency reserves increased by USD 17,380 million from January 2019, or some 3.2% of GDP.

If Thailand is labeled a currency manipulator or is placed on a monitoring list, the US could impose additional trade protectionism measures against Thai export products. Products that would see devastating impacts will be those with high export proportions to the US, including rubber products, computers and parts, steel and parts, electrical appliances, and integrated circuits. This would significantly affect the value of Thai exports (in 2019, exports to the US accounted for 12.1% of total Thai exports).

Figure 10: Thailand exceeded all three criteria set by the US for currency manipulators, thereby increasing the chance of Thailand being labeled a currency manipulator.

Trade surplus with the US* | Current account balance | Foreign exchange reserves

Unit: USD million | Unit: % of GDP | Unit: USD billion



Remark: *Trade surplus figures according to the US Census Bureau

Source: EIC analysis based on data from the US Census Bureau, CEIC, and BOT

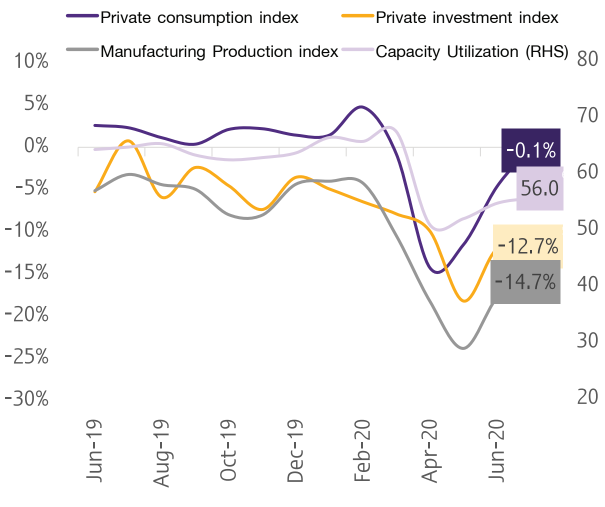
Regarding domestic demand, data suggests that various types of economic activities have bottomed-out, with a gradual recovery expected. However, several downside risks that could weigh on recovery warrant monitoring.

The latest economic indicators (Figure 11) suggest that the Thai economy has bottomed out, with recovery observed in private consumption, private investment, and industrial production. Consumer and business confidence somewhat improved, though the rate was still low in comparison to past levels. On the other hand, **real-time economic data signaled a stalling recovery.** According to Figure 11 (left), the Google Mobility Index indicated that various economic activities experienced a slower pace of recovery (reduced slope). Furthermore, the number of available job openings on JobsDB.com, as per the figure on the right, suggested a similar stalling recovery. Real-time economic data is beneficial for timely analysis. However, the limitations of the dataset require careful interpretation and consideration before use (see more at Box: Precautions on using real-time economic data in economic analysis).

Figure 11: Latest economic data suggest that the Thai economy has bottomed out.

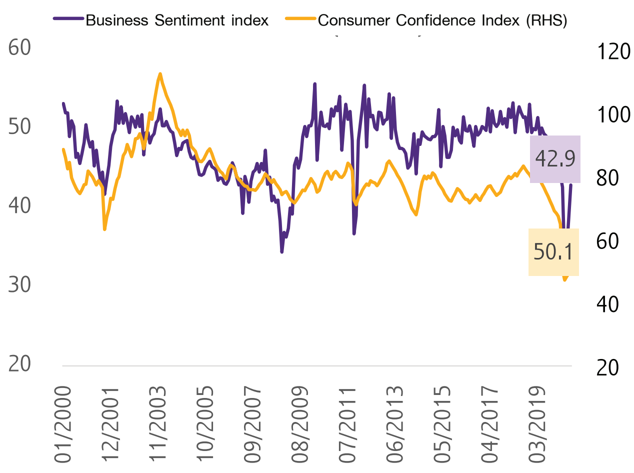
Thailand's key economic indicators

Unit: %YOY Unit: index



Consumer Confidence Index and Business Sentiment Index

Unit: index Unit: index

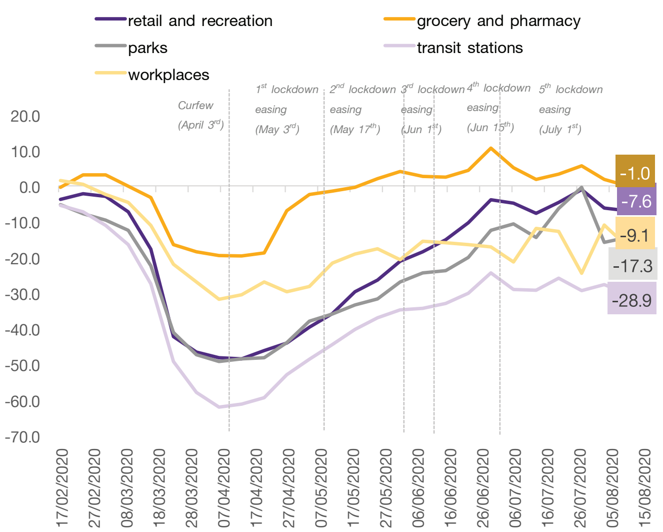


Source: EIC analysis based on data from CEIC, BOT, and OIE

Figure 12: High frequency or real-time data suggests that the Thai economy is experiencing a stalling recovery.

Google Mobility Index

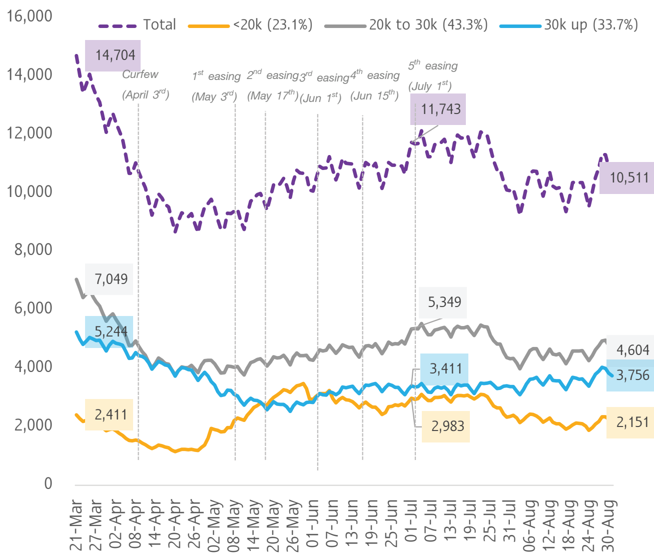
Unit: %change from the baseline (Jan), weekly average



Job opening on JobsDB.com

Unit: number of jobs

() number in parentheses represents share of total jobs in Aug 31st, 2020



Remark: Information during March 21 to August 31, 2020 with a total of 10.4k job openings

Source: EIC analysis based on data from Google and JobsDB.com

BOX

Precautions for using real-time economic data in economic analysis

The COVID-19 outbreak pushed analysts to use real-time economic data in tandem with slower traditional data (such as MPI, PCI, PII, Export, and GDP), to assist in making more informed decisions rather than using traditional data alone. Real-time economic data is widely used, though with limitations that should be understood. This article will point out the precautions and limitations of using such data. The three issues that should be considered are as follows:

- **Mobility may not imply economic activity** – Currently one of the most referenced real-time data sources are mobility indexes published by large companies like Google and Apple. However, users should know that changes in mobility may not be an indicator of changes in economic activity. For example, the mobility index could suggest that a workforce is starting to move back to work at the office. But the change does not mean that all workers will have to use the same transport mode or consume products and services in the same amounts. Therefore, even though a mobility index may move closer to the prevailing rate before COVID-19, the level of post-Covid-19 economic activity could be lower.

- **Seasonal pattern** – Various types of real-time data are in the form of an index or a rate of change compared to the period before COVID-19. A case in point is the Google mobility index that accounts for the rate of change compared to the period before the COVID-19 pandemic (January – early February). As such, higher readings observed after such a period could be influenced by seasonality rather than reflecting any actual economic recovery.

- **Credit and debit card spending data –** Card spending data is another type of real-time data often used for analysis. Nevertheless, behavioral shifts that occur after the spread of COVID-19 should be considered. This is because in the post COVID-19 period people have increasingly turned to using online services, thus increasing card spending. However, the increase in card spending could be offset by a drop in cash spending. Therefore, analysis using only card spending data may not provide an accurate assessment of overall spending.

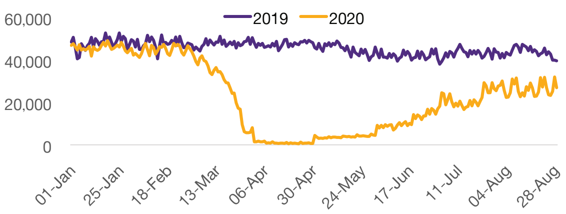
In summary, the use of real-time economic data could be valuable in analyzing the situation and direction of the economy. However, calculations for the magnitude of such economic impacts require careful analysis. The usage of additional data will be benecial.

Domestic tourism improved significantly after lockdown measures were eased. Recovery could be influenced by pent-up demand during the lockdown in addition to the government's tourism stimulus package "Rao Tiew Duay Kan" ("We Travel Together") that partly subsidized accommodation and travel fees. According to Figure 13, the number of domestic passengers traveling via Thailand's 22 main airports continued to improve after local lockdowns were eased. Similarly, hotel occupancy rates increased in all regions, though the southern region saw the slowest recovery due to its focus on foreign tourists. The number of hotel rooms listed on TripAdvisor also edged up, with lower priced rooms (hostels and 1 to 3-star hotels) recovering faster than more expensive rooms.

Figure 13: Domestic tourism recovered after lockdown measures were eased.

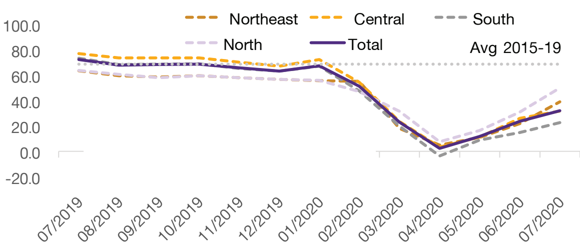
Domestic flight's passengers from 22 airports

Unit: person (daily)



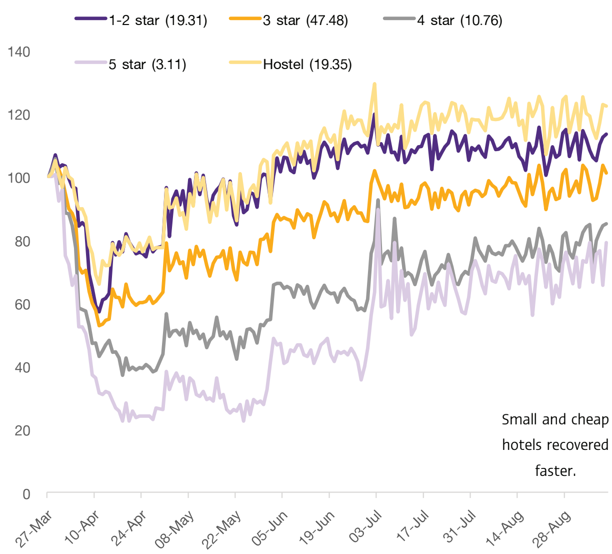
Hotel Occupancy Rate

Unit: %



Number of hotel rooms listed on TripAdvisor

Unit: Index 27Mar2020 = 100, () in parentheses is the share of total room as of Sept. 9.



Source: EIC analysis based on data from the Department of Airports, BOT, and TripAdvisor

Even though domestic tourism appeared to be recovering, the rate of recovery was uneven among the different regions and hotel types. The uneven recovery suggested that different key tourist destinations in Thailand benefited from different factors (see more at BOX: Provinces that benefit from long weekend travel).

BOX

Provinces that benefit from long weekend travel

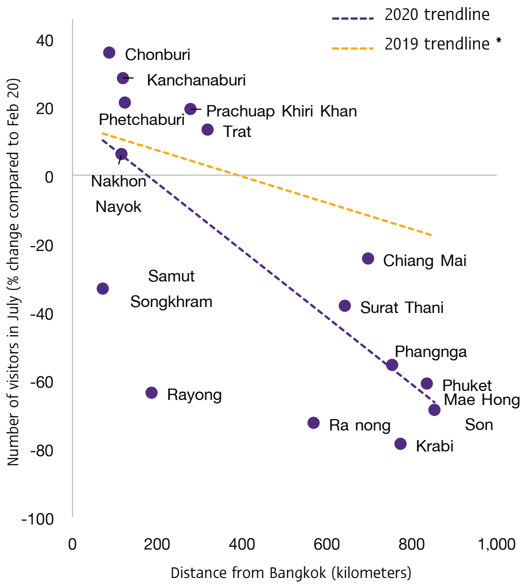
Some provinces were yet to see recovering domestic travel, even after lockdown measures were eased. An analysis of domestic travel by Thai tourists in major tourist provinces (top 15 provinces with the highest number of hotel rooms per population, excluding Bangkok) using visitor data from the Ministry of Tourism and Sports and Facebook Movement Range (high-frequency data reflecting the movement of Facebook users within areas covered), tracked daily with details up to the district level, revealed the following characteristics regarding the recovery (Figure 14):

1) Tourist provinces close to Bangkok saw higher visitor growth after lockdown relaxation compared to tourist provinces further away. The rationale behind this growth was that most Thai tourists live in Bangkok. Furthermore, Thais prefer to travel by car rather than by plane due to fear of COVID-19. The trend may also reflect the impact of slowing purchasing power following sluggish conditions as traveling to provinces further away requires higher travel costs. Provinces that can be reached within a 4-hour drive from Bangkok, such as Prachuap Khiri Khan, Kanchanaburi, Phetchaburi, and Chonburi, saw significantly higher visitor growth than provinces further away from Bangkok.

2) Facebook Movement Range data also suggested similar trends regarding travel during the long weekend, such as during 4-7 July and 25-28 July. A comparison between tourist cities near Bangkok, such as Hua Hin, and cities further away from Bangkok, such as Phuket, revealed that the increase in travel in Hua Hin was higher than the overall average for tourism provinces. Travel activities in Phuket were considerably lower than the average and have not returned to pre-COVID-19 levels. This situation can be partly explained by the disappearance of foreign tourists and the fact that Thais seldom vacation in Phuket.

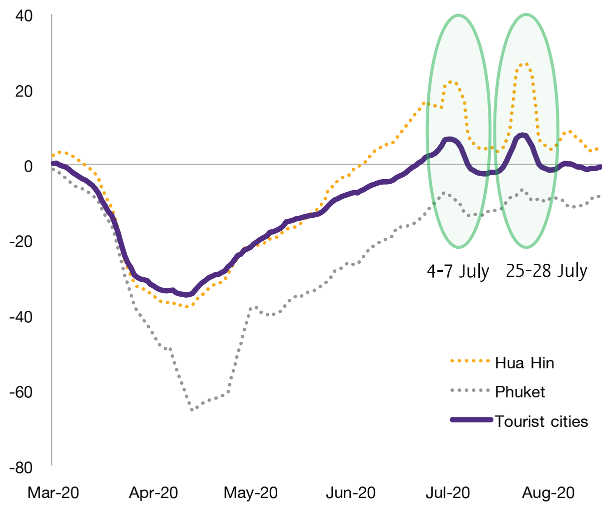
Figure 14: Tourism in provinces near Bangkok saw a faster recovery than tourism in provinces further away.

Thais prefer to visit provinces near Bangkok.



Facebook Movement Range

Unit: % change compared to Feb. 2020, 7-day historical average.



Remark: * The number of visitors in April compared to February 2020.

Source: EIC analysis based on data from Facebook and the Ministry of Tourism and Sports

Nevertheless, the pace of the Thai economic recovery should be very gradual during the remainder of 2020. In H2/2020 the Thai economy will be supported by economic activities slowly recovering from the relaxation of virus containment measures as well as continual capital injections from government spending (from budget disbursements excluding economic stimulus packages). However, risk factors that could weigh on a recovery include:

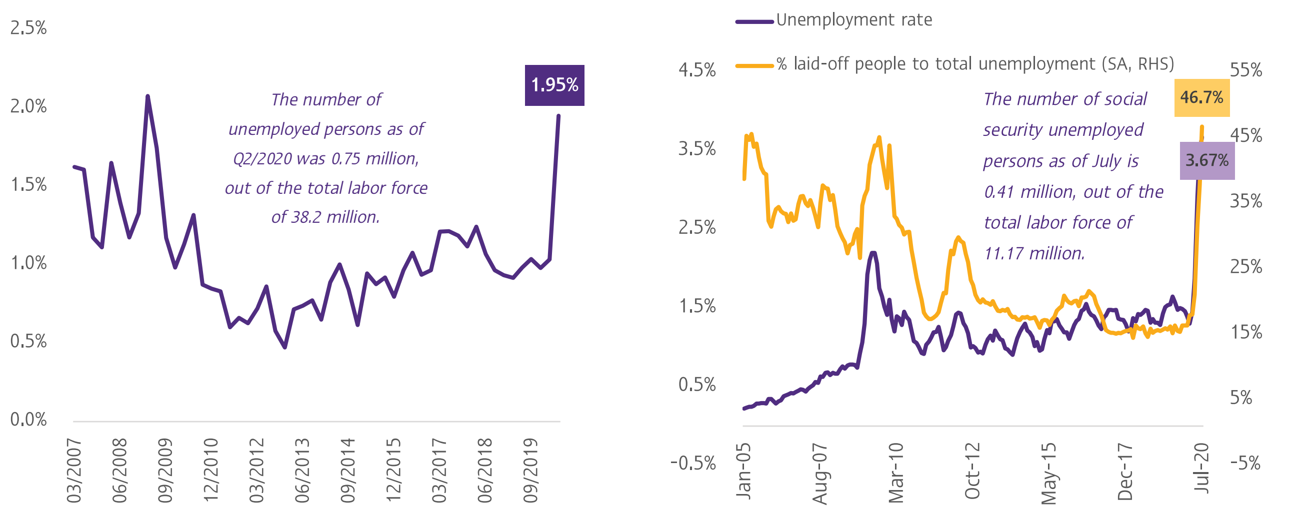
- **Risks of external demand considerably contracting, despite the recovering trend.** EIC believes that merchandise exports should recover, but the growth rate will not turn positive within this year. Meanwhile, the foreign tourism sector will continue to worsen with no signs of recovery in 2020.

- **Risks of a stalling private consumption recovery due to battered labor market conditions prompted by the economic crisis.** According to data from the National Statistical Office, Thailand's unemployment rate during Q2/2020 stood at 1.95%, increasing by only 1.0% from the previous quarter. This rate marks an 11-year high. Additional factors that worsened labor market conditions included reduced working hours and changing working characteristics. These factors could impact worker's income in the periods ahead (see more at In Focus: Crisis in Thai Labor Market is Pulling Back Economic Recovery). Information from the Social Security Office revealed surging unemployment as the number of insured persons seeking unemployment benefits increased considerably. Recent data as of July 2020 indicates the unemployment rate for May and June at 2.91% and 3.50%, respectively. These unemployment figures grew despite the easing of lockdown measures. The unemployment rate in July recorded a historic high (databased established in the year 2005), surpassing the unemployment rate during the previous economic crisis in 2009. Further examination of unemployment data found that the proportion of those laid-off increased significantly. In July, the proportion of laid-off unemployment to total insured unemployment (seasonally adjusted) stood at 46.7%, a record high rate as well. Sluggish labor market conditions will thus be an important determinant that restrains household income recovery and private investment growth. Government stimulus packages supporting the labor market and household sector are therefore necessary.

Figure 15: Official unemployment rate recently hit the highest level since 2008-09 global financial crisis.

Unemployment rate | SSO unemployment rate

Unit: % labor force | Unit: % labor force in Social Security Act.33 Unit : % labor force



Source: EIC analysis based on data from the National Statistical Office and the Social Security Office

- **A change in spending behavior toward precautionary saving.** The latest information from the Bank of Thailand showed that in the second quarter of 2020, the growth of commercial bank deposits (%YOY) was significantly higher than during the first quarter. This increase could be observed in both small and large deposit accounts (Figure 16). However, growth in large deposit accounts (THB 1 million or more) accelerated by a significantly higher rate at 10%YOY. EIC's view is that the recent increase in deposits reflects a precautionary saving phenomenon, with people saving due to the fear of future risks. The phenomenon could be detected from the immense growth of deposits since April, a month with strict lockdowns and high economic uncertainty. The fact that deposit accounts of THB 1 million or more grew faster than small accounts suggested higher savings in high-income individuals (growth could include sales of stocks or funds to reduce risks and a reduction in big-ticket spending such as trips abroad). **If the precautionary saving stance persists it may slow the pace of any spending recovery and could pressure interest rates to remain at sustained low levels due to excess liquidity.**

Figure 16: The surge in deposits, especially in large deposit accounts, reflected precautionary saving.

Growth of deposit in commercial bank system by account size

Unit : %YOY	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20
50,000 THB and less	2.6	0.5	2.7	7.5	7.2	10.0
> 50,000 THB to 100,000 THB	2.2	0.6	1.9	6.4	7.3	8.1
> 100,000 THB to 200,000 THB	2.2	1.2	1.6	5.1	6.9	7.6
> 200,000 THB to 500,000 THB	3.0	2.2	2.4	4.8	6.6	6.9
> 500,000 THB to 1,000,000 THB	4.8	3.9	3.7	5.4	7.3	7.2
> 1,000,000 THB to 10,000,000 THB	5.1	4.6	6.2	9.0	12.1	11.6
> 10,000,000 THB to 25,000,000 THB	1.8	1.6	5.5	7.9	11.1	10.8
> 25,000,000 THB to 50,000,000 THB	3.2	3.3	8.6	10.4	11.7	12.2
> 50,000,000 THB to 100,000,000 THB	6.1	4.8	8.9	8.1	11.3	10.2
100,000,000 THB and more	1.0	1.5	18.5	14.5	12.0	12.7

Deposit, esp. large account, grew significantly since April when strict lockdown was imposed, and uncertainty was high. ***This reflects "precautionary saving" behavior.***

Low deposit growth *High deposit growth*

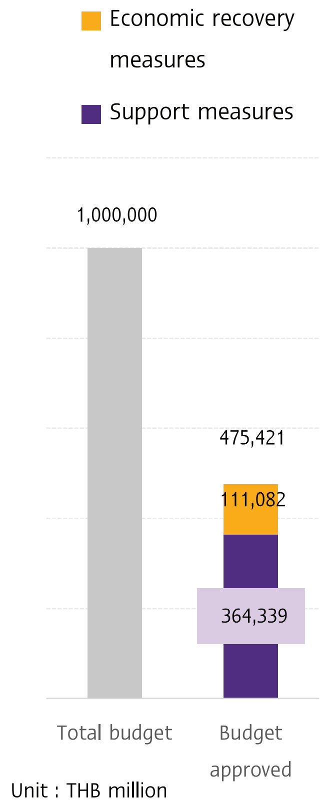
Source: EIC analysis based on data from the Bank of Thailand

- **Stricter commercial bank loan approval.** The slow-moving economy directly influenced the quality of loans. Banks will therefore be more cautious with loan approvals, thereby restricting additional growth from private consumption.

Regarding the government's stimulus package under the THB 1 trillion Emergency Decree, EIC has revised the amount of capital expected to be injected into the economy in 2020 downward to THB 500 billion from its previous estimate of THB 600 billion. Figure 17 contains a list of measures the cabinet approved under the THB 1 trillion Emergency Decree. According to this information, the total budget amount approved as of September 2, 2020 was THB 475 billion, an amount significantly lower than previously anticipated. The approved measures included measures to resolve health care issues and alleviate affected individuals worth THB 360 billion (from a total budget of THB 600 billion) and measures to rehabilitate the economy worth THB 110 billion (from a total budget of THB 400 billion). Furthermore, various measures were not as effective, evident from the number of registered users. For example, the We Travel Together campaign provided a total of 5 million privileges, though actual usage was still below 1 million (information as of September 2, 2020). Thus, the amount of budget injected into the economy in 2020 will drop to approximately THB 500 billion, down from the previous projection of THB 600 billion.

Figure 17: Details of measures approved under the THB 1 trillion Emergency Decree.

(THB million)	budget	Detail	Period	Budget approved	% of each measure budget
Public health and support measures (THB 600,000 million)					
For public health	**45,000**	Public health measures to solve the problem from COVID-19	Not specified	**102**	**0.2%**
For helping affected people	**555,000**			**364,339**	**65.6%**
- General affected people		THB 5,000 /person/month approximately 15 million people	Apr - Jun 20	225,000	
- Farmers		THB 5,000 /person/month approximately 7.7 million people	May - Jul 20	115,500	
- Fragile groups (children, elderly, handicapped)		THB 1,000 /person/month approximately 6.8 million people	May - Jul 20	20,346	
- Welfare card holders who have not yet received assistance		THB 1,000 /person/month approximately 1.2 million people	May - Jul 20	3,493	
Restoring economic recovery measures (THB 400,000 million)					
Support economic recovery	**400,000**			**111,082**	**27.8%**
- We travel together + Kum lung Jai campaigns		Support travel expenses for people and public officials	Jul - Oct 20	22,400	
- Other projects		Projects in many areas, including the community's economic activities and short-term stimulus	Oct 20 - Sep 21	20,682	
- Support expenditure		Help 50% of expenditure, not over THB3000/person approximately 15 million people	Within 2020	45,000	
- Support new graduate's employment		Support 50% of new graduates' salary, about 0.26 million jobs.	1-year period, expected to begin in Q4/20	23,000	
Total	1,000,000			475,421	47.5%



Remarks: * Information as of September 2, 2020

Source: EIC analysis based on data from ThaiME, the Ministry of Finance, and several media sources

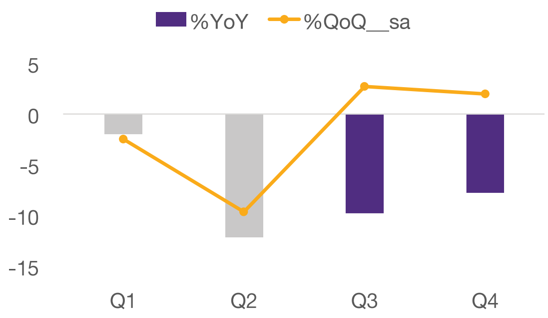
In summary, EIC expects that the Thai economy will contract by -7.8% in 2020, down from its previous estimate of -7.3%. A notable factor that will drag any economic recovery down is a sustained low number of tourist arrivals. EIC has therefore revised the number of tourist arrivals down to only 6.7 million from its previous estimate of 9.8 million. Moreover, EIC has lowered the amount of capital expected to be injected into the economy from the THB 1 trillion Emergency Decree in 2020 to THB 500 billion from its previous estimate of THB 600 billion. This revision will directly impact the spending ability of some citizens. Private investment figures should also be lower-than-expected. On the other hand, the capital injected from government investments should be higher-than-anticipated following higher disbursement efficiency as well as some projects from the Emergency Decree to rehabilitate the economy (THB 400 billion budget).

Figure 18: Forecast Summary

2020 Forecast	Unit	Previous	Current
GDP	%YOY	**-7.3**	**-7.8**
Private Consumption	%YOY	-1.8	-2.3
Public Consumption	%YOY	2.5	2.5
Private Investment	%YOY	-10.7	-12.6
Public Investment	%YOY	4.6	8.1
Exports of goods & services	%YOY	-23.0	-21.8
Imports of goods & services	%YOY	-15.8	-15.5
Exports value (USD BOP basis)	%YOY	-10.4	-10.4
Imports value (USD BOP basis)	%YOY	-18.6	-15.3
Number of Tourists	million	9.8	6.7
	%YOY	-75.3	-83.1
Headline Inflation	%YOY	-1.1	-1.0
Brent oil price	USD/Brl.	38.1	42.5
Policy rate (end-period)	%	0.50	0.50

Forecast Thailand's GDP quarterly growth

Unit: %YOY



Going forward, various downside risks warrant monitoring

- Lower-than-anticipated support from government stimulus packages and fiscal cliff risks.
- The onset of bankruptcies, with significant scarring effects on the economy.
- Risks from subsequent waves of severe COVID-19 infections globally and in Thailand.

Source: EIC analysis

The inflation rate could stand at -1.0% in 2020 as energy prices continuously dropped following global crude oil prices. Furthermore, core inflation slowed according to sluggish economic conditions. However, going forward, the economic recovery and increasing global crude oil prices boosted by stronger global crude oil demand will push inflation rates into positive territory and the risk of deflation may not be high.

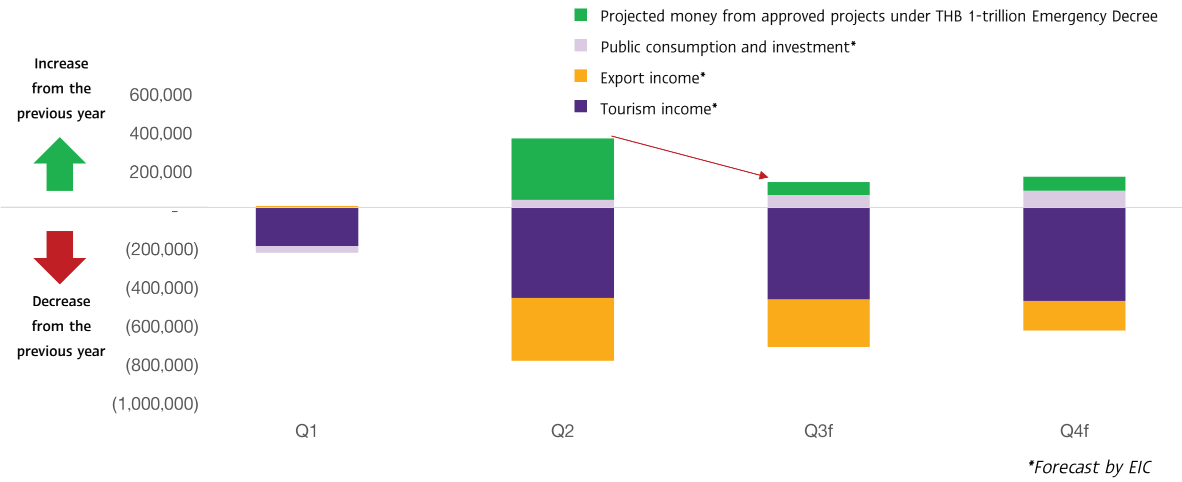
Going forward, several downside risks may weigh on an economic recovery, including:

1) Lower-than-anticipated support from government stimulus packages and fiscal cliff risks. If the government does not issue additional measures to support the economy, the amount of capital injected into the economy will be less than expected and fiscal cliff (Figure 19) could emerge. Fiscal cliff is the scenario that the amount of fiscal stimulus injected to support the economy will drop drastically during H2/2020 amid dwindling tourist revenue receipts and sluggish export sector conditions. Furthermore, other government support schemes that will soon expire, including the debt moratorium scheme, could increase debt burdens of some groups of people and may affect the stability of the financial sector.

Figure 19: If the government does not issue additional measures, the amount of capital injected into the economy will be less than expected and fiscal cliff risks could emerge, impacting on economic recovery pace going ahead.

Change of money compared to the same period of the previous year (YOY difference)

Unit: THB million, seasonally adjusted



Information as of September 2, 2020

Remark: *Not including stimulus measures from the central budget for emergency situations.

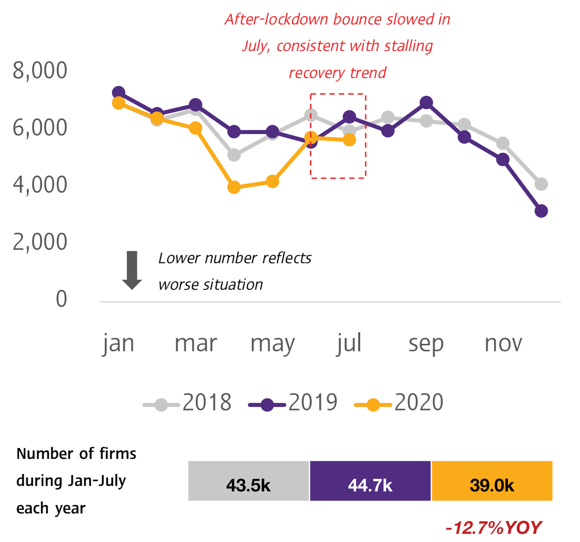
Source: EIC analysis based on data from ThaiME, the Ministry of Finance, and news agencies

2) The onset of bankruptcies, which is a scarring effect on the economy. Data regarding business registration and status from the Department of Business Development during the first 7 months of 2020 revealed that in Q1/2020 the number of new business registrations was lower in comparison to the 2 prior years. This reflects weak business confidence. A sizable number of businesses that ceased operations during April-May when widespread COVID-19 infections appeared and strict lockdown measures were in effect. Even though the number of new business registrations improved in June from postponed business activities during the lockdown, the growth of new business registrations weakened again in July. The number of new business registrations in July was 5,700 companies, contracting by -12.3%YOY. This trend was in line with the gradually recovering economic conditions. During the first 7 months of 2020 the number of new business registrations dropped by -12.9%YOY. Meanwhile, the number of businesses that ceased operation accelerated in June-July by 38.4%YOY compared to the same period the previous year. During such periods, the number of business closures jumped from the average rate during the first 5 months of 2020, despite the easing of lockdown measures. **EIC believes that the growth of business closures due to the economic crisis will be one of scarring effects on the economy.** Furthermore, business closures will continue to increase as purchasing power in various industries has not sufficiently recovered and various businesses do not have adequate liquidity to survive the crisis. The current sluggish economic conditions amid dwindling support from the government hence could spur an increase in business closures going forward.

Figure 20: During the first 7 months of 2020 the number of new business registrations dropped while number of business closures increased.

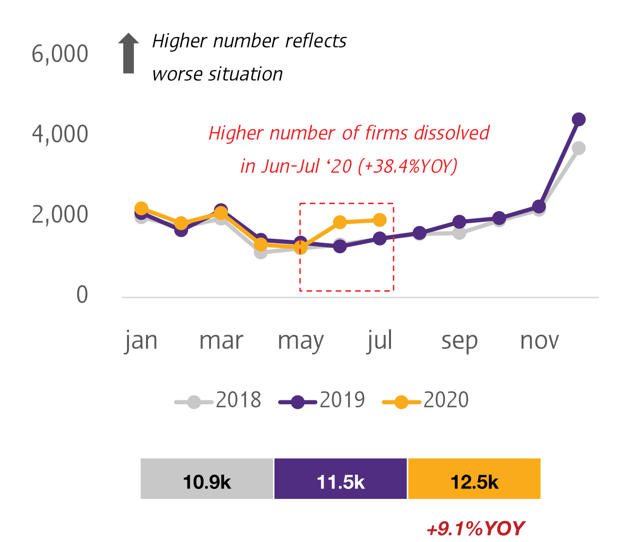
Newly-registered firms

Unit: firms



Firms dissolved

Unit: firms

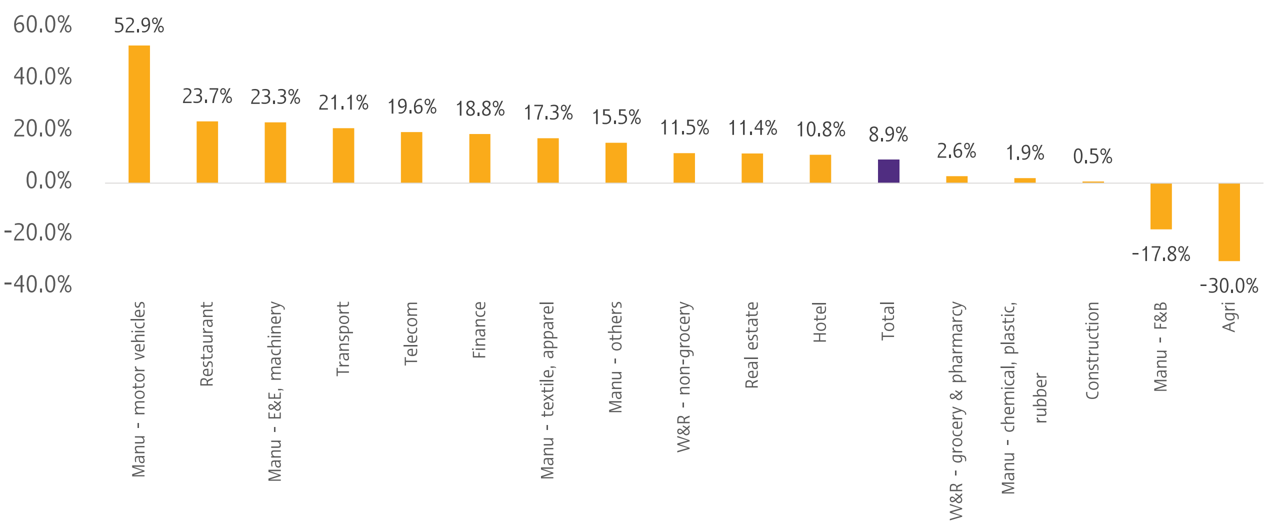


Source: EIC analysis based on data from the Department of Business Development

Figure 21: Growth in business closures was observed in nearly all sectors.

%change in the number of businesses closing in the first 31 weeks of 2020.

Unit: %YOY



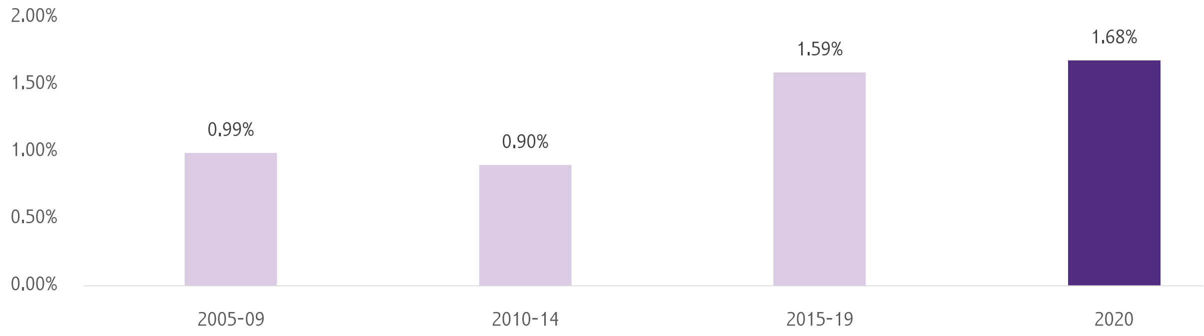
Source: EIC analysis based on data from the Department of Business Development

An analysis of the business closure ratio (the number of business closures divided by the total number of businesses at the end of the previous year) revealed that in the first 7 months of 2020 the ratio was at 1.68%. This rate was higher than the average rate during the 5 previous years and significantly higher than the average rate since 2005 (Figure 22), indicating that this crisis in 2020 is one of the worst in the past 15 years.

Figure 22: During the first 7 months of 2020 the business closure ratio was higher than the historical average.

Average closing rates for the first 31 weeks by year

Unit: % of the average number of businesses closed during the 31 weeks that year per the total number of businesses at the end of the previous year.



Source: EIC analysis based on data from the Department of Business Development

3) Risks from subsequent waves of severe COVID-19 infections globally and in Thailand. Returning waves of COVID-19 casualties abroad will inevitably impact global economic conditions and Thailand's export sector. If the spread resumes in Thailand, a panic effect will directly impair economic activities. For example, the number of trips to risk areas will decline, and strict virus control measures may be re-introduced. A case in point was a COVID-19 case in Rayong province on July 10, 2020, where an infected Egyptian soldier was found in the area. EIC conducted an analysis using the Facebook movement range index and found that from July 10, 2020 to the end of July 2020 the movement index in Rayong dropped considerably when compared to the country average. Before the incident, the movement index in Rayong was higher than the country average (Figure 23). The incident shows that this type of news incited panic as citizens were concerned about their health and responded by limiting travel, especially among the areas the infected soldier visited. Furthermore, buildings, such as the department stores the soldier visited, were temporarily closed, while related businesses were once again hampered as tourists avoided traveling to Rayong. The businesses most affected were hotels and restaurants and similar enterprises. The government should therefore provide clear measures and communications to reduce panic effects that could eventually undermine economic growth.

Figure 23: Movement within Rayong dropped significantly after a COVID-19 case was identified. The incident drastically hampered economic conditions in Rayong.

Impact if a second outbreak of COVID-19 occurs

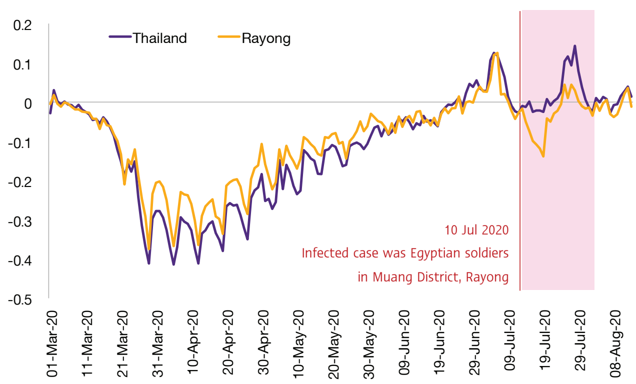
Panic effect among people, which will affect economic activities such as shopping in malls/ shops.

There may be another lockdown measure, causing sudden stop in economic activities.

The rising infected cases in the country will put pressure on the economic recovery, especially the exposure of foreign tourists and cross-country travel in the tourism sector going forward.

Facebook Movement Range

Unit: % change from baseline (February)



Source: EIC analysis based on data from Facebook

4) Risks of growing political tensions within Thailand. Several groups of citizens stepped up to voice their concerns and gathered like-minded individuals in joining flash mobs. If these types of situations turn violent, a prolonged event could directly hurt the economy. Therefore, rallies and tensions regarding Thai politics could be an important risk factor that could place a drag on Thai economic recovery going forward.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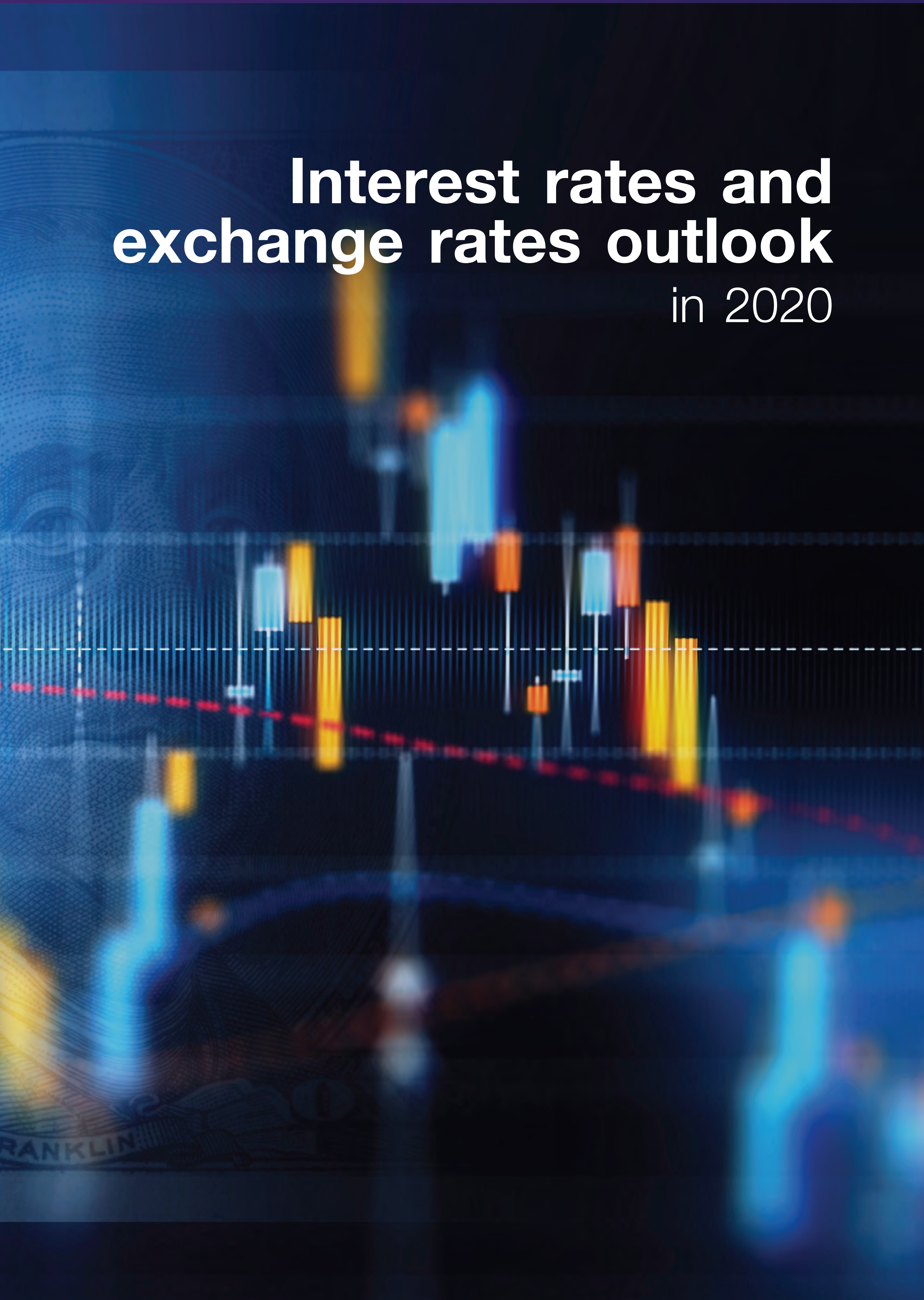
Interest rates and exchange rates outlook in 2020



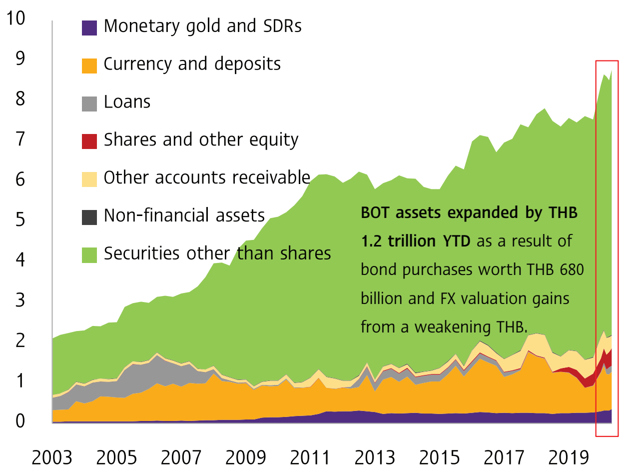
Financial Condition in the third quarter of 2020 and government measures to ease liquidity

Liquidity in the overall financial system remained high, partly due to the BOT's recent liquidity measures. In July 2020, M2 (broad money supply) expanded 11.4%YOY, while M1 (narrow money supply) expanded 17.3%YOY despite a 14.5%YOY contraction in nominal GDP (Figure 1). This increased the proportion of money supply to income. The increased money supply reflected increased liquidity in the financial system due to the BOT's continuous measures supporting liquidity, ranging from open market operations (OMOs), government bond purchases, and soft loan measures.

Figure 1: Liquidity in the financial market continued to rise due to recent open market operations (OMOs), government bond purchases, and soft loan measures.

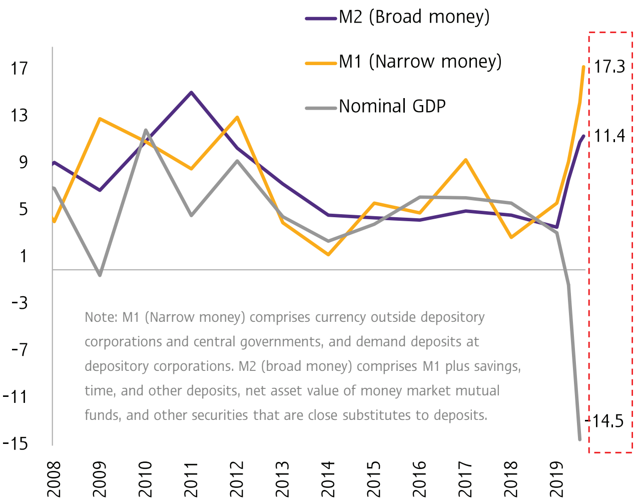
The Bank of Thailand's balance sheet (asset side)

Unit: THB trillion (July 2020)



Thailand money supply and nominal GDP growth

Unit: %YOY



Remark: Securities other than shares includes both domestic and foreign assets.

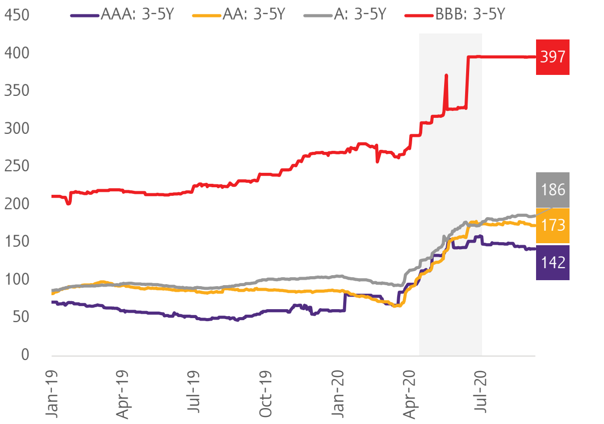
Source: EIC analysis based on data from Bank of Thailand

The private sector's ability to raise funds through the corporate bond market was limited due to increased credit risk and high funding costs. Meanwhile, fund raising through equity markets also remained low, although the SET index slightly recovered from its lowest point. Investors are still very worried about the debt service ability of businesses, despite government liquidity support. This was reflected in a continual widening in corporate spreads (Figure 2, left), which hiked up funding costs for the business sector and led to a decrease in corporate bond issuance since the second quarter of 2020. A downward trend in corporate bond issuance occurred at all credit levels and was most prominent at the non-investment grade level (Figure 2, right). In the equity market, the SET index has slightly recovered from its lowest point (Figure 3, left). However, initial public offerings (IPOs) significantly declined in the first half of 2020, dropping to THB 17 billion from THB 47 billion in the same period last year (Figure 3, right).

Figure 2: Corporate spreads remained high despite slightly better investor sentiment after government support, while corporate bond issuance contracted significantly.

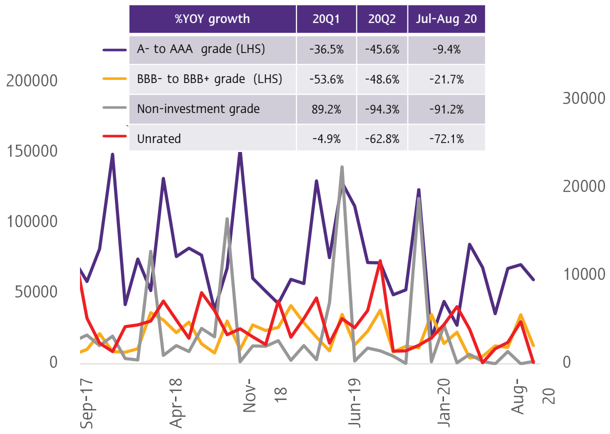
Corporate spread by rating

Unit: bps (data as of September 8, 2020)



Corporate bond issuance (excluding financial sector)

Unit: THB million | Unit: THB million



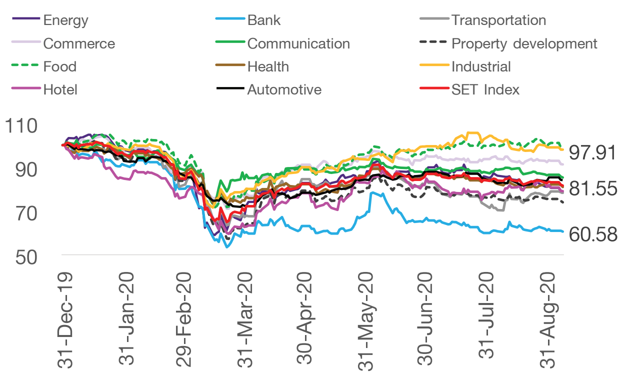
%YOY growth	20Q1	20Q2	Jul-Aug 20
A- to AAA grade (LHS)	-36.5%	-45.6%	-9.4%
BBB- to BBB+ grade (LHS)	-53.6%	-48.6%	-21.7%
Non-investment grade	89.2%	-94.3%	-91.2%
Unrated	-4.9%	-62.8%	-72.1%

Source: EIC analysis based on data from Thai BMA

Figure 3: The SET index recovered after investor sentiment improved. Nevertheless, initial public offerings significantly declined.

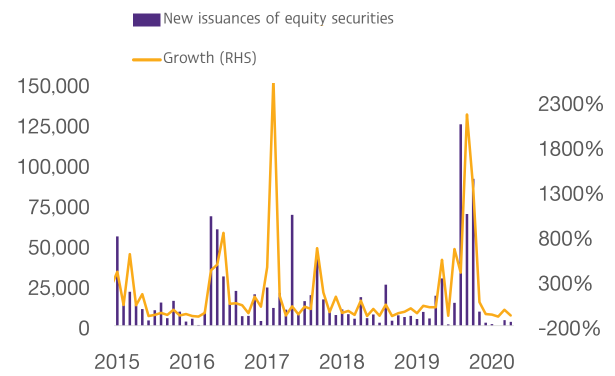
SET index classied by business types

Unit: Index (December 31, 2019 = 100), data as of September 8, 2020



New issuances of equity securities

Unit: THB million | Unit: %



Source: EIC analysis based on data from Thai BMA, Bloomberg, and Bank of Thailand

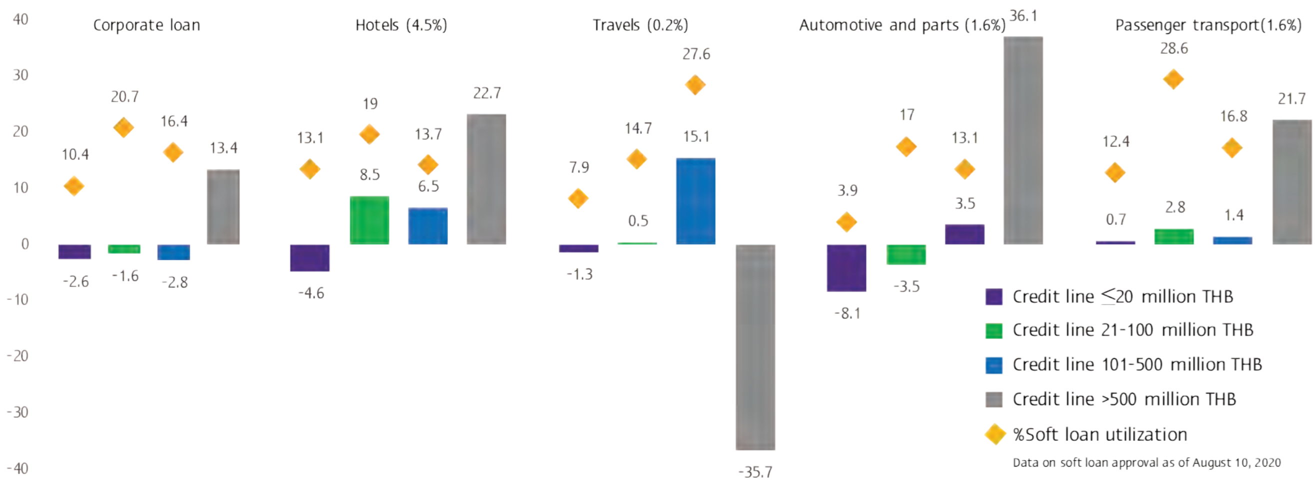
Large businesses were able to switch to bank loans for funding, while SME loans continued to shrink, reflecting uneven liquidity distribution among business sectors. When soft loans given to businesses were categorized by loan size, loans to small SMEs (loan value of less than THB 20 million) contracted -2.6%YTD from the end of 2019, while loans to large businesses (loan values of more than THB 500 million) expanded 13.4%YTD. A large proportion of the loans provided to large businesses were observed in the hotel, automotive and parts, and transportation sectors, which reflected an uneven distribution of liquidity in the financial system. (Figure 4)

In addition, small SMEs had lower soft loan utilization rates, with only 10.4% of loan applications by qualified businesses being approved. The rate was much lower than medium SMEs and large businesses that saw utilization rates of 16.4% and 20.7%, respectively. (Figure 4) Businesses with the most constricted access to loans were small automotive and parts businesses, whose loans contracted -8.1%YTD from the end of 2019 and had only a 3.9% soft loan utilization rate.

Figure 4: A large proportion of loans given to large businesses were observed in the hotel, automotive and parts, and transportation sectors.

Corporate loan growth

Unit : %YTD



Source: Bank of Thailand

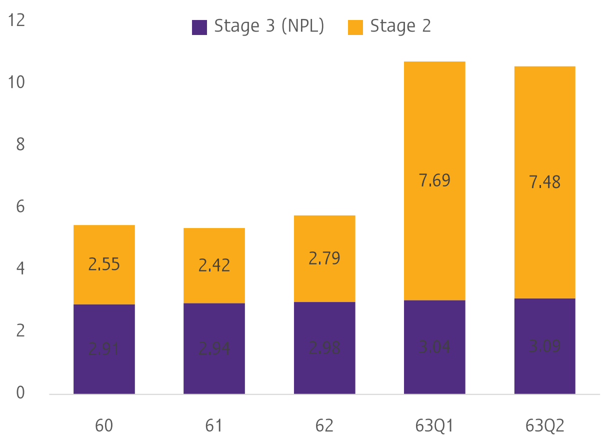
The spread of COVID-19 has made fund raising for businesses more difficult, especially for SMEs with reduced access to loans compared to larger businesses. Heightened economic risk has made market players more cautious in their investments and commercial banks have become more careful with loan consideration. SME fund raising activities contracted, while large business fund raising activities were still possible. Although fund raising through the corporate bond market was more difficult, large businesses were still able to raise funds through bank loans. Government measures to provide liquidity support to affected businesses showed limited effects. Highly affected businesses (small and automotive businesses) were able to receive a smaller proportion of soft loans due to risk aversion during the crisis. Since smaller businesses have fewer assets and cash flow or less collateral, they tend to have lower access to loans.

Debt repayment leniency measures were able to delay deterioration in loan quality during the previous period. However, as the measures approach their end, default risk may be heightened. The number of non-performing loans (NPLs) or Stage 3 outstanding in the commercial banking system stood at THB 509 billion, or 3.1% of total outstanding loans, which increased from 3.0% in the previous quarter. The increase was mainly due to the large airline business sector. Meanwhile, loans with Significant Increase in Credit Risk (SICR) or Stage 2 stood at 7.5% of total outstanding loans, a decrease of 7.7% from the previous quarter (Figure 5). Loan quality has not deteriorated much as a result of continuous government support, which included the relaxation of loan classification, extension of loan repayment periods, reductions in interest rate ceilings, and loan restructuring support. Nevertheless, repayment leniency measures will expire by the end of the fourth quarter of 2020, while loan classification relaxation measures will expire at the end of 2021. If the measures are not extended, the economy will likely not recover, borrowers will not be able to adjust to the crisis, and the NPL ratio could increase.

Figure 5: In the second quarter of 2020, the number of NPLs (Stage 3 loans) increased due to large businesses, while loans with Significant Increase in Credit Risk (SICR) or Stage 2 loans decreased due to government measures.

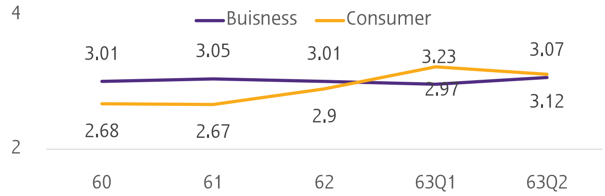
Stage 3 (NPL) and Stage 2 of total loan

Unit: %



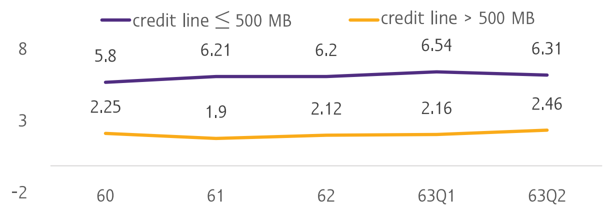
Stage 3 classied by loan portfolios

Unit: %



Stage 3 of corporate loan classied by size

Unit: %



Remark: stage 2 is defined as loans with significant increase in credit risk (SICR), having a wider coverage than SM.

Source: EIC analysis based on data from Bank of Thailand

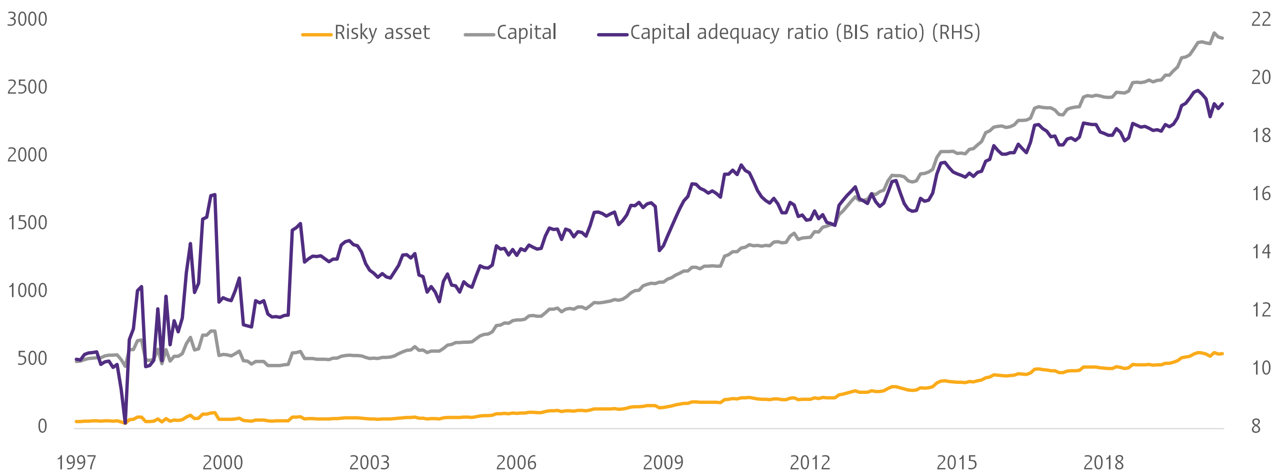
The stability of the Thai commercial bank system remains strong, with high capital adequacy and NPL coverage ratios. The total capital fund of the Thai banking system was THB 2,877 billion, which raised the capital adequacy ratio (BIS ratio) to 19.2%. The ratio was higher than the period after the Asian financial crisis in 1998, which stood at 10.9% (Figure 6) and the NPL coverage ratio at 144.1%, which was higher than 29% in 1988. Meanwhile, the liquidity coverage ratio (LCR) stood at 183.4%. Nevertheless, if borrowers are still unable to adjust to the crisis when liquidity drops, NPL levels could spike upward and affect the stability of the banking system.

Figure 6: The capital adequacy ratio (BIS ratio) was 19.2%, which was higher than 10.9% in the period after the Asian financial crisis in 1998.

Capital adequacy ratio (BIS ratio)

Unit: THB billion

Unit: %



Source: EIC analysis based on data from the Bank of Thailand (data as of June 2020)

View on policy interest rate and short-term government bond yields

EIC expects the Monetary Policy Committee (MPC) to hold the policy interest rate at an historically low 0.5% for the remainder of this year, with further accommodation in the period ahead focusing more on other tools. This is because the Thai economy is recovering from its lowest point and the MPC wants tomaintain space for future monetary policy, but the BOT will likely continue to relax monetary policy via other tools to support economic recovery.

- **The Thai economy has recovered from its lowest point after the continued relaxation of lockdown measures both at home and abroad, reducing the chance of the policy rate being lowered.** Thai economic activities have resumed, as reflected by private consumption and private investment indices for July showing less contraction than previous months. In addition, consumer and business confidence has improved, although they remain low. Thai exports (excluding gold and military weapons) also contracted less than previously, making it likely that the MPC will maintain the policy rate at 0.5% for the remainder of 2020. EIC believes that the BOT will continue to maintain policy relaxation through other tools, such as soft-loan measures and measures to promote debt restructuring which have been continuously rolled out.

- **Nevertheless, if the Thai economy ends up faring much worse than expected EIC believes that the BOT will consider relaxing monetary policy and might communicate this to the public more clearly through forward guidance.** If the Thai economy performs much below the BOT's expectations, the possibility of further policy relaxation would be greater and the communication stance might be made clearer. As for Yield Curve Control (YCC) measures and Negative Interest Rate Policy (NIRP), EIC sees the chances for these as rather low because given the current situation their effectiveness in stimulating the economy is likely to be limited and might add vulnerability to the financial system (read more at BOX: the Yield Curve Control (YCC) measure and Negative Interest Rate (NIRP))

EIC maintains the view that the short-term 1-year Thai government bond yield at the end of 2020 will move between 0.5-0.6%. As of August 31, 2020, the 1-year Thai government bond yield stood at 0.5%, down by 71 bps from the end of 2019 in line with a decrease in the policy rate. EIC sees short-term government bond yields at the end of 2020 remaining at current levels because:

- **Expectations that the policy rate will be maintained at 0.5% for the remaining of this year.** Normally, short-term Thai government bond yields move in line with the policy rate, but might be somewhat volatile due to adjustments in expectations about the MPC's policy rate changes. Therefore, EIC believes that the short-term 1-year Thai government bond yield will be close to the policy rate, expecting it to be 0.5% by the end of this year.

- **Short-term bond yields might be a little more volatile than the policy rate at 0.5% due to the recovery trend of the Thai and global economies.** Risks to the Thai economy are beginning to subside, leading some investors to sell short-term Thai government bonds which are low-risk and highly liquid assets. This might cause a slight increase in government bond yields. The market expectation on the policy rate 6 months ahead stands at 0.54% (as of August 31, 2020), reflecting investors' views that the Thai economy has already bottomed out, and reflecting the MPC's communication indicating that the ability to further reduce the policy rate is limited and that the BOT has other monetary policy tools at its disposal, driving away market expectations of a policy rate reduction.

View on long-term government bond yields

EIC has adjusted its projection for the long-term 10-year Thai government bond yield at the end of 2020 upward to 1.40-1.50% from its previously projected 1.30-1.40%. As of 31 August 2020, the long-term 10-year Thai government bond yield decreased from the beginning of this year by 6 bps to stand at 1.4%, close to the previously projected range. Going forward, EIC sees long-term Thai government bond yields slightly increasing due to the following factors.

The long-term US treasury bond yield (10 year) will trend upward during the remainder of this year. The 10-year US government bond yield as of 31 August 2020 stood at 0.7%, down 118 bps from the beginning of the year. Going forward, EIC expects that the yield will increase from the current level because:

1) The global economy will recover from its lowest point, reducing demand for US treasury bonds. In the latter half of this year economic activities will increase after the governments of many countries start to relax lockdown measures. Therefore, EIC expects that demand for safe assets will be lower, leading to a slight increase in US treasury bond yields from their current levels by the end of this year.

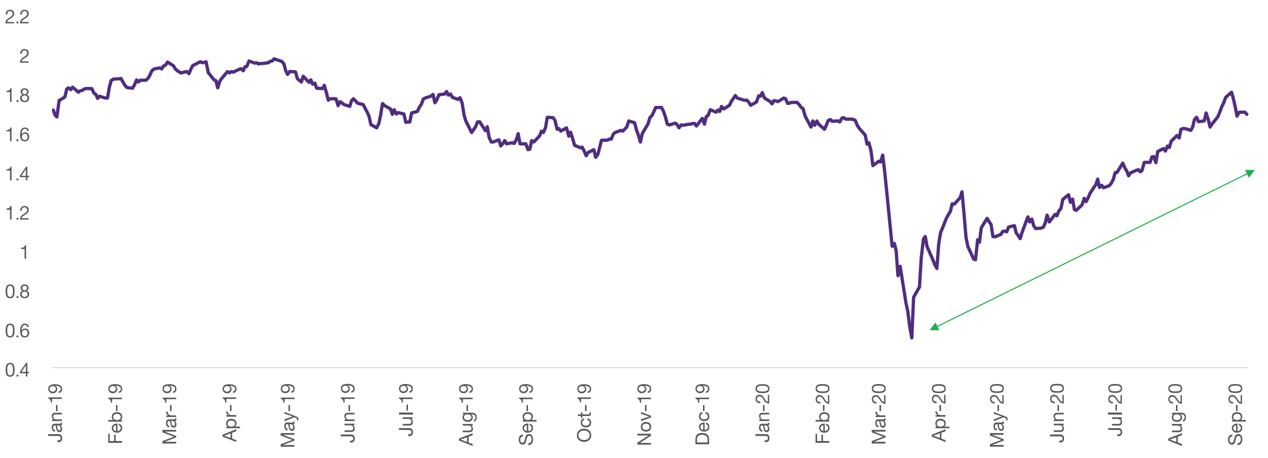
2) The US treasury generally raises more funds through long-term bonds. Previously, most funding came from treasury bills, placing the proportion of short-term bonds to total US treasury securities at 21.9% in August 2020, which is very high compared to the ratio for the past 10 years, which after the global financial crisis of 2008-2009 averaged approximately 10-15%. Furthermore, the Treasury Borrowing Advisory Committee also presented a report to the US Treasury suggesting that the current proportion of T-bills to total US treasury securities was significantly higher than the previous average. Therefore, going forward, the committee argued for a reduction in the ratio in order to remain closer to the historical average. **Also, given the projected increase in fiscal deficits, EIC believes that the US Treasury will resort more to long-term bonds as a source of funding in the medium- to long-term,** making an increase in long-term bond yields likely toward the end of this year.

3) Pressure from an upward trend in US inflation expectations. The Fed's monetary policy accommodation is the main factor behind a rapid increase in US inflation expectations, as reflected by a rise of 114 bps for 10-year US break-even inflation from its lowest point in March (Figure 7). In the period ahead, EIC sees US inflation expectations possibly increasing even further, in part due to the change to average inflation targeting (AIT), allowing the Fed to let the inflation rate rise above 2%.

Figure 7: 10-year US break-even inflation increased significantly by 114 bps from its lowest point in March

10-year US break-even inflation

Unit: %



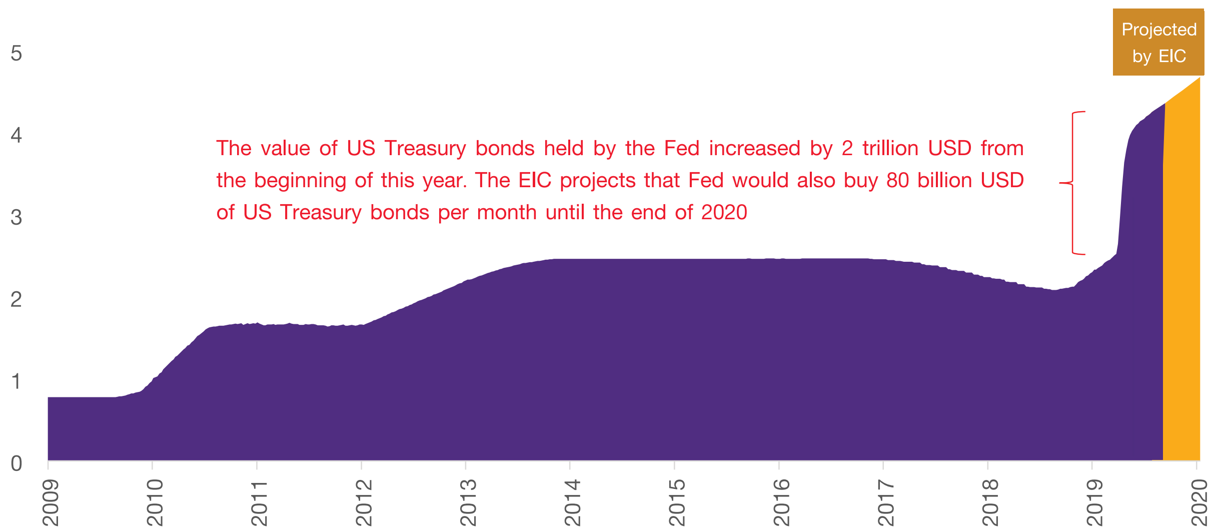
Source: EIC analysis based on data from Bloomberg

Nevertheless, the Fed's buying of US Treasury bonds at a rate higher than that during previous crises is a factor preventing a significant increase in US Treasury bond yields. At present, the value of US Treasury bonds held by the Fed stands at USD 4.3 trillion, an increase of USD 2 trillion from the beginning of this year. In addition, EIC projects that the Fed will continue to buy USD 80 billion in bonds per month until the end of 2020, which is a rate higher than during previous rounds of QE (Figure 8), resulting in an increase in the size of Fed's balance sheet to USD 7-8 trillion. This pressure will prevent a significant increase in US Treasury bond yields.

Figure 8: EIC projects that the Fed will continue to buy 80 billion USD in US Treasury bonds per month until the end of 2020

Value of US Treasury bonds held by the Fed

Unit: USD Trillion



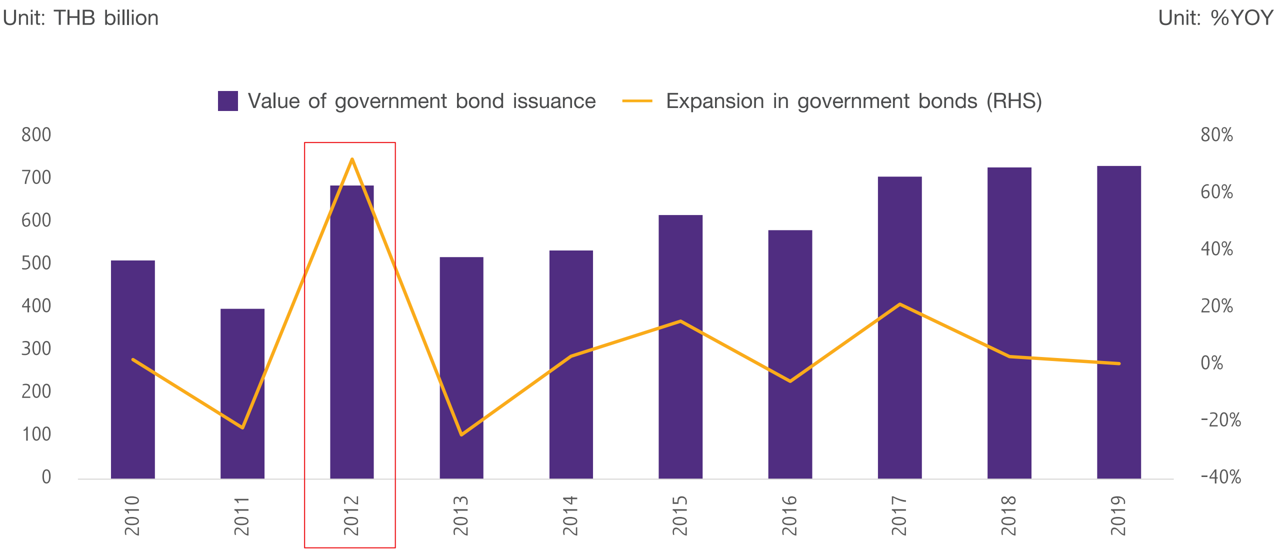
Source: EIC analysis based on data from Federal Reserve

A domestic factor that could contribute to an increase in 10-year Thai government bond yields is that the Thai economy will likely bottom out in the latter half of the year. The global economy recovering in the latter half of 2020 could lead to a reduced contraction in Thai exports. Furthermore, the continued relaxation of lockdown measures will lead to a recovery in domestic economic activities. These could prompt investors to buy riskier assets, resulting in an increase in Thai government bond yields.

Going forward, there is a chance that the Thai government will issue more bonds as a source of financing, leading to a potentially larger-than-expected supply of Thai government bonds. In 2012, just after the 2011 flooding, the Thai government needed to implement a fiscal deficit policy, necessitating the greater issuance of government bonds to finance deficits (Figure 9). As for the current situation, the government has a plan to borrow THB 1 trillion to stimulate the economy. Preliminary details suggest that the government has already borrowed THB 30 billion from financial institutions, sold government bonds worth THB 67 billion, and sold savings bonds worth 150 billion baht. EIC sees the possibility that the Thai government will resort to issuing more government bonds as a source of financing, which will lead to a rise in Thai government bond yields.

Figure 9: After the 2011 flooding, the Thai government needed to implement a fiscal deficit policy, boosting bond issuance as a source of finance

Issuance of Thai government bonds



Source: EIC analysis based on data from Thai BMA

View on the Thai baht

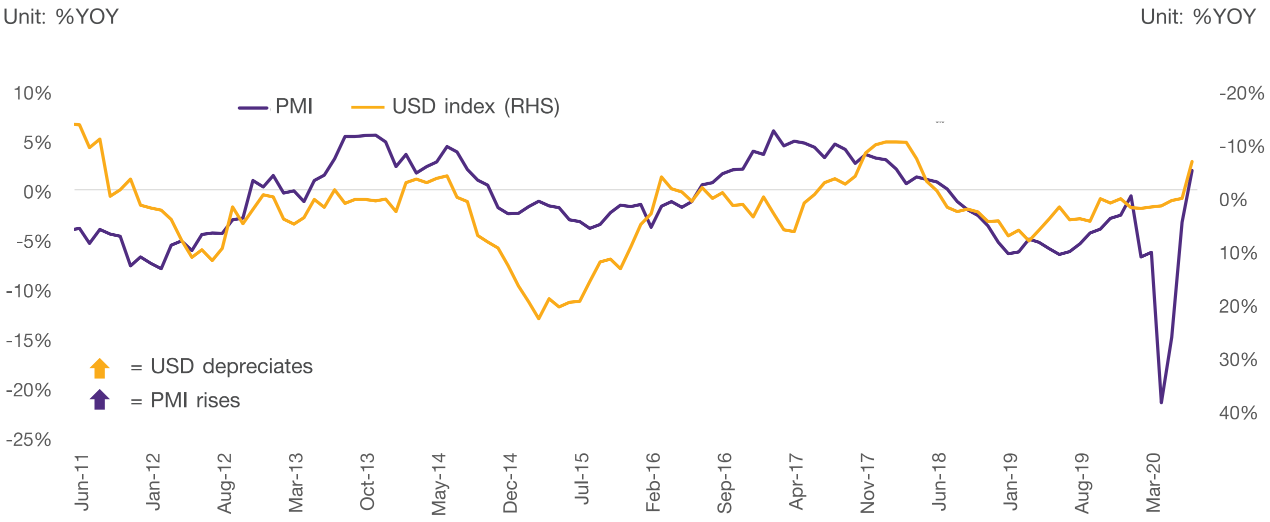
EIC maintains the view that the Thai baht will appreciate from its current value to stand at a range of 30.5-31.5 baht per USD at the end of 2020. Although as of August 31, 2020 the Thai baht is down from the beginning of this year by 4.3%, in August the baht appreciated rather rapidly due to (1) a depreciation in the USD from the recovering global economy and worsening pandemic situation in the US and (2) pressure from a rise in gold prices, leading gold traders in Thailand to sell gold in dollar terms. Going forward, EIC sees the Thai baht facing factors that cause appreciation, as follows.

The USD remains subject to factors causing depreciation for the remaining of this year. As of August 31, 2020, the USD index stood at 92.2, down 4.3% from the beginning of this year. EIC feels that the USD could depreciate further slightly due to the following factors:

1) Global economic recovery in the latter half of this year. Generally, the USD tends to appreciate when the global economy enters into recession or is in crisis as investors want to hold safe assets that are stable and garner high confidence among investors. Nevertheless, as the global economy bottoms out and many countries start to implement lockdown easing, investor confidence will improve, leading to a fall in demand for safe assets (Figure 10). In the period ahead, EIC believes that although the global economic recovery might be slower than expected because of the escalating spread of COVID-19 in some countries, lockdown measures tend to be more local with fewer adverse economic consequences than nation-wide lockdowns. These factors would maintain depreciating pressure on the USD.

Figure 10: The USD faces depreciating pressure from the global economic recovery in the latter half of this year

Purchasing Managers' Index (PMI) and USD index



Source: EIC analysis based on data from Bloomberg, Google, and JP Morgan

2) The chance that Biden will win the US presidential election. The latest polls suggest that Biden is strongly leading Trump. Biden winning the election and implementing policies as promised would add pressure leading to further depreciation of the USD. Individual income tax (currently at 21%, reduced from 35% due to Trump's tax reduction policy) and capital gains tax (currently at 15%-20%) tending higher would affect business profits and investor returns, leading to the possibility of capital outflow from the US. Furthermore, government spending under a Biden presidency could potentially increase the fiscal deficit, causing a depreciation in the USD.

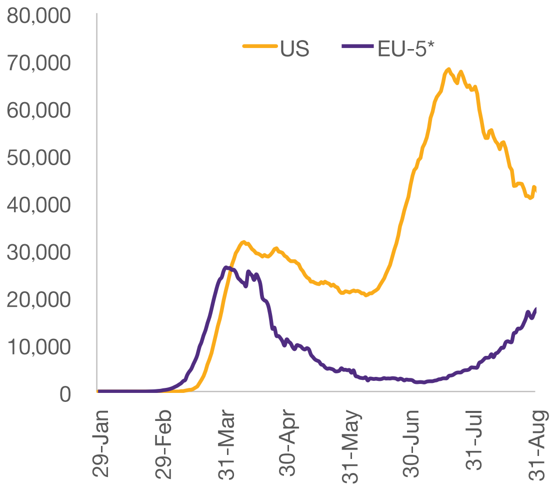
3) The Fed's monetary policy relaxation. Although a negative interest-rate policy is not likely to happen in the US anytime soon, the Fed is continuing to buy financial assets, with the Fed expected to buy around USD 80 billion per month in US treasury bonds and around USD 40 billion per month in MBS. Furthermore, the Fed also changed the monetary policy target to average inflation targeting (AIT), allowing monetary policy to be accommodative even if the inflation rate rises above 2%. Meanwhile, emerging markets including Thailand remain subject to the limits of monetary policy relaxation (the limit in bringing policy rates towards zero), maintaining pressure contributing USD depreciation against emerging market currencies.

EIC sees the US economy recovering faster than other major economies if there is a second phase of COVID-19 spreading outside the US, which would cause the USD to resume appreciation in the future. If the relaxation of lockdown measures in other major economies (excluding the US) is followed by widespread infection by COVID-19, then recovery of those economies would be slower than that of the US, causing heightened concern among investors and USD appreciation against those currencies. For example, in August the number of those infected in the eurozone rapidly increased in contrast to a continued decline in the US, causing a slower recovery of the eurozone economies compared with the US. This is consistent with the slower depreciation of the USD. EIC found that the euro (which counts for 57% of the dollar index (DXY)) against the USD tends to depreciate in periods when eurozone PMI decreases compared with that of the US (Figure 11).

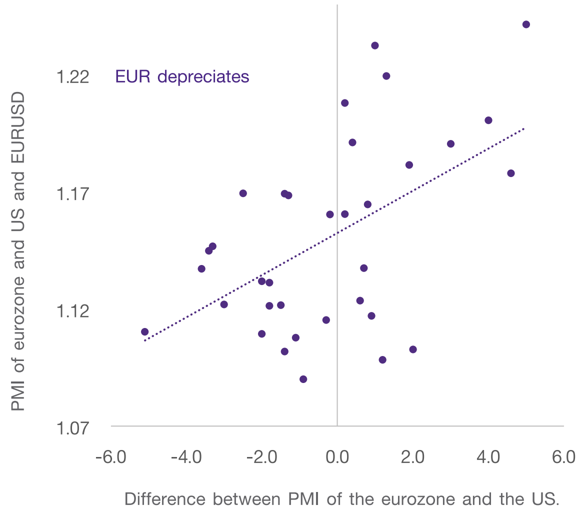
Figure 11: The EIC found that the euro against the USD tends to depreciate in periods when the PMI of the eurozone decreases compared with that of the US

The number of newly infected people

Unit: person (7-day moving average)



PMI of eurozone and US and EURUSD



Remark: The EU-5 comprises France, Germany, Italy, Spain and the United Kingdom.

Source: EIC analysis based on data from Bloomberg, WHO and JP Morgan

In addition to factors contributing to a depreciation of the USD, there are factors that could lead to an appreciation of the Thai baht, including:

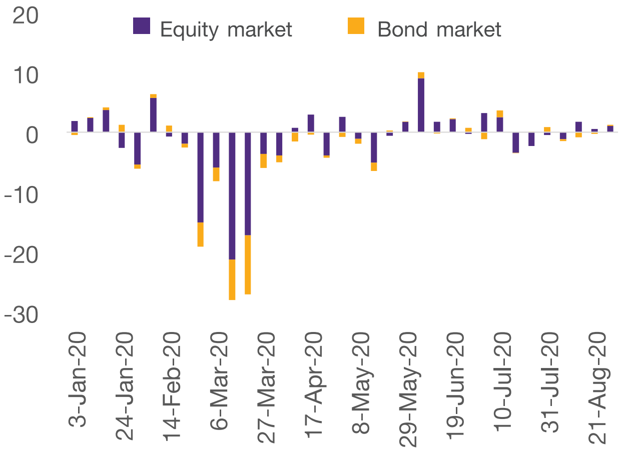
1) Capital has recently started to flow back into emerging markets, including Thailand, due to reduced risks to the global economy and financial markets. In the case of Thailand this is due to capital inflow into the bond market Figure 12. In the period ahead, EIC believes that capital will continue to flow into Thai financial markets as volatility in global financial markets subsides, improving investor confidence and appetites for risky assets. EIC found that during periods of high volatility in global financial markets capital tends to flow out of emerging markets, but if volatility is at a medium or low level capital tends to flow into emerging markets at a medium or high rate consecutively (Figure 13 middle). In addition, the possibility that the Thai government will raise more funds through government bonds to finance economic stimulus measures is another factor attracting capital inflow into the Thai bond market.

Nevertheless, in EIC's view capital inflow would be gradual, as volatility in global financial markets remains higher than the average of the past 5 years and returns from investing in Thai assets to volatility of the Thai baht remain low. Volatility in global financial markets could stem from (1) the possibility of COVID-19 spreading further, which might lead to a rise in the number of infected people as long as widespread vaccination programs are not in place (2) the risk that governments will implement strict lockdown measures if there is another phase of severe infection (3) geopolitical risks from the US-China trade war and uncertainty over the outcome of US presidential election which might prevent volatility from returning to pre-pandemic levels. Furthermore, EIC see capital inflow into the Thai equity market not being too high as the Thai economy gradually recovers, so foreign investors would not significantly relocate their assets into Thai equities. In addition, returns from investing in short-term Thai government bonds and from changes in currency values compared to the Thai baht's volatility (Sharpe ratio) remain low compared with those of other countries in the region. This is another factor that prevents high inflow into Thai financial markets (figure 13 right).

Figure 12: A reduction in risks to the global economy has recently prompted capital inflow into emerging markets, including Thailand

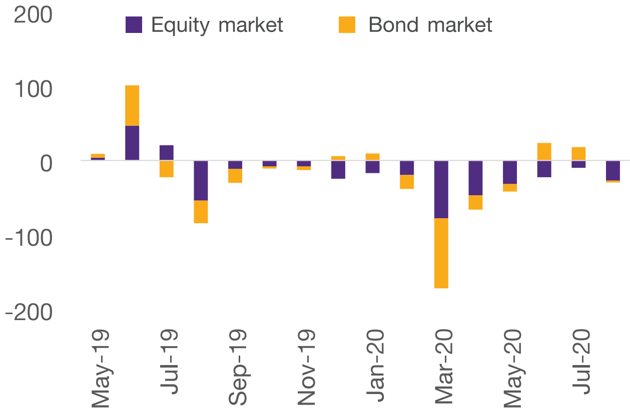
Capital movement in EM nancial markets

Unit: USD billion



Capital movement in Thai nancial markets

Unit: THB billion

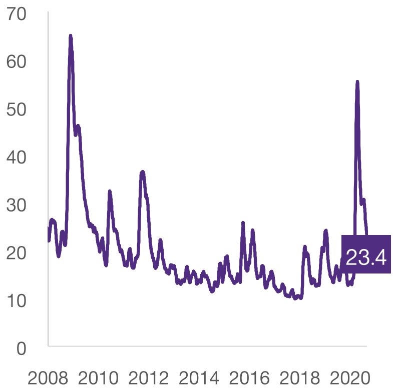


Source: EIC analysis based on data from the IIF, SET and Thai BMA (data as of August 31, 2020)

Figure 13: Capital inflow into Thai financial markets tends to be gradual as volatility in global financial markets remains higher than the past average and returns from Thai government bonds to Thai baht volatility remain low

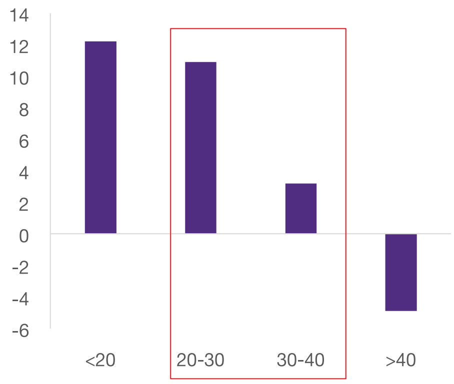
VIX index

Unit: index (30-day moving average)



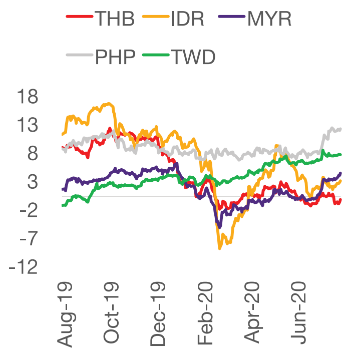
Capital movement in EM-Asia during corresponding values of VIX index

Unit: USD billion



Returns from government bonds to currency risks

Unit: Ratio



Remarks: *Calculated from average monthly capital movement from January 2010 to June 2020 during the corresponding VIX index

**Calculated from returns from holding 3-month government bonds and returns from currency movement during a one-year period. Currency risk is calculated from each currency's volatility.

Source: EIC analysis based on data from Bloomberg and the IIF (data as of August 31, 2020)

2) The BOT will face more limitations in currency management as there is a risk that Thailand will be included in the US monitoring list of currency manipulators. According to a "Macroeconomics and FX Policy of Major Trading Partners" report issued by the US Treasury in January 2020, Thailand was categorized as a major US trade partner, with the value of US-Thailand trade from July 2018 to August 2019 exceeding USD 20 billion, but Thailand was not included in the monitoring list. Countries that meet 2 out of 3 conditions can be included in the list as shown in Table 1. Those that meet all three conditions would be classified as currency manipulators.

As for the next issue of the report, which is to be published later than usual (generally, the report is published in April and uses data across 2019), EIC believes that there is a high risk that Thailand would at least meet 2 of the currency manipulator conditions. This is because Thailand tends to run a trade surplus with the US of around USD 20 billion and the current account in 2019 registered a surplus at 6.4% of GDP. As for the condition that central banks intervene in foreign exchange markets, the situation is highly uncertain as the BOT does not publish foreign-currency transactions. Nevertheless, evaluating from changes in international reserves, we found that in 2019 Thailand's international reserves increased in 8 out of 12 months, with the value rising by around 3.2% of GDP in the first quarter of 2020 and reserves increasing by 2.4% of GDP from the first quarter of 2019. Nevertheless, in an investor meeting the BOT announced that it has been continuously conducting talks with the US Treasury. Therefore, the US Treasury might deem that the recent changes in the Thai baht were not aimed at creating trade advantages. **Thus, Thailand might only be included in the monitoring list rather than be labeled a currency manipulator. Nevertheless, the BOT's currency management would face greater limitations.**

Table 1: The BOT would face greater limitations in currency management if Thailand is included on the US monitoring list

Conditions for classication as a currency manipulator

Conditions		Jan 2020 report	EIC's projection of the next report* (generally published in April)	
			2019 data	Data from 2019Q2 to 2020Q1
1) Trade surplus with the US from 20 billion USD and higher during one-year period		✗ (19 billion USD)	✓ 20 billion USD	✓ 21 billion USD
2) Current account surplus 2% of GDP during one-year period		✓ 5.3% of GDP	✓ 7.0% of GDP	✓ 6.4% of GDP
3) Central bank intervenes in FX markets (need to fulfill both conditions	Central bank intervention greater than 2% of GDP	✗ 1.5% of GDP	✓ 3.2% of GDP	✓ 2.4% of GDP
	Central bank intervenes for 6 months or more out of 12 months	✓	✓ 8 out of 12 months	✓ 7 out of 12 months

Remark: *In the next report, we expect the US will use data across 2019 to make decisions.

Source: EIC analysis based on data from the US Department of Treasury

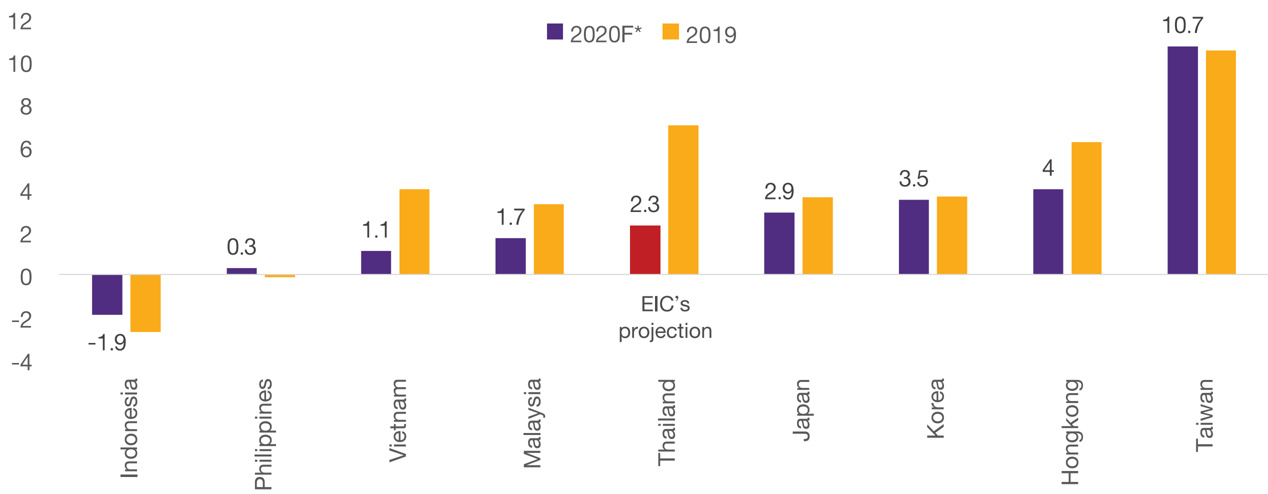
3) A rise in gold prices might place additional pressure on the Thai baht. In the past, baht appreciation tended to be consistent with periods when gold prices were rising. When gold prices increase significantly, gold traders in Thailand tend to sell gold by exporting it to foreign countries. When they receive payment in USD and want to convert it into baht, this therefore creates appreciating forces on the baht. Going forward, risks to the global economy remain heightened– including the spread of COVID-19, geopolitical risks, political tensions between countries, a deterioration in trust in global reserve currencies, as well as the possibility that global inflation might rapidly increase after governments around the world implement fiscal deficit policies and inject liquidity to stimulate economies. Therefore, if gold prices rise again, the baht would face forces leading to appreciation.

Nevertheless, EIC does not see the baht appreciating at a pace as high as observed during the second quarter of 2020 because the Thai current account surplus will contract significantly, reducing demand for baht. The projection for the current account surplus for 2020 is 2.3% of GDP (from 6.8% of GDP in 2019), reflecting a reduction in demand for the Thai baht due to a decline in income receipts from foreign tourists and a contraction in exports. In EIC's view, this great reduction would make the Thai current account surplus low compared with other countries in the region (figure 14).

Figure 14: Thailand's current account surplus will decrease significantly this year and will be low compared with other countries in the region

Current account surplus of countries in the region

Unit: USD hundred billion



Remark: *Data from Bloomberg consensus conducted on August 31, 2020

Source: EIC analysis based on data from Bloomberg and CEIC

BOX

Yield Curve Control (YCC) and Negative Interest Rate Policy (NIRP)

After the Global Financial Crisis in 2008-2009, monetary policy easing through policy rate has been increasingly limited. Several Central Banks have resorted to unconventional monetary policy, such as Yield Curve Control (YCC) and Negative Interest Rate Policy (NIRP). The Chairman of the Federal Reserve (the Fed) stated that the Fed has been exploring the possibility of YCC during a press conference following its June 2020 Monetary policy meeting, while the Deputy Governor of the Bank of Thailand mentioned YCC in its Analyst Meeting in July 2020. When looking at the market-implied policy rate, some analysts believe that both the Fed and the Bank of England (BOE) may implement negative interest rate policies in the near future. They suspect that the Fed may implement a negative interest rate policy by the end of 2020, while the BOE may implement their version in the first quarter of 2021. EIC has therefore explored the implementation of YCC and NIRP in selected countries and assessed the implications for the Thai market.

Yield Curve Control (YCC): Case studies from Japan and Australia
Central Banks that have noticeably implemented YCC for extended periods are the Bank of Japan (BOJ) and the Reserve Bank of Australia (RBA). In the case of the BOJ, the BOJ implemented a quantitative easing (QE) policy and NIRP prior to YCC, while the RBA implemented QE at the same time as YCC.

Similarities and differences of YCC implementation by the two Central Banks were as follows:

1) Differences in government bond maturity. The BOJ implemented yield curve control by maintaining the 10-year government bond yield at around 0% from September 2016, labeled as a 'targeting long-term YCC by market participants. On the other hand, the RBA implemented yield curve control by targeting the yield of medium-term bonds with 3-year maturity at around 0.25% per year beginning in March 2020. called as a 'front-end YCC'.

2) In addition to having the same objectives, controlling government bond yields, both YCCs were used as forward guidance to enhance the effectiveness of monetary easing communication. The BOJ announced YCC at the same time as the announcement of its inflation-overshooting commitment to signal that it will maintain monetary easing until inflation returns to 2% inflation target. On the other hand, the RBA implemented YCC to maintain its standing in maintaining the policy rate at 0.25% for the following 3 years or until full employment is reached and inflation returns to a 2-3% target band.

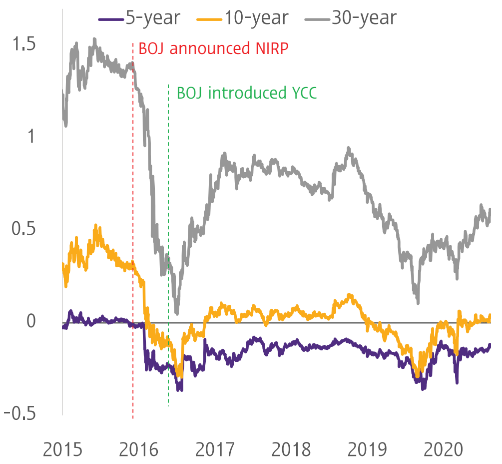
3) Difference in financial stability target. Before YCC was announced in September 2016, the BOJ had adopted a negative policy rate, which led investors to "search for positive yields" from long-term government bonds. Such "search for positive yields" behavior drove long-term government bond yields into negative territory, which negatively impacted insurance companies and pension funds, and caused households to increase their savings and reduce consumption due to lower interest income. **Therefore, the objective of the BOJ in implementing YCC was to increase long-term bond yields (Figure 15, left). On the other hand, the objective of the RBA was to bring 3-year bond yields lower to keep a positive slope in the yield curve and maintain the stability of financial institutions (Figure 15, right).** If the yield curve is flattened, financial institutions risk losing their ability to make profits as their financial costs tend to rely on short term yields, while their income structure tends to rely on long term yields. This type of YCC leads to a different result from quantitative easing (QE), which often makes purchases in long-term bonds to drive the short-term yield down and flatten the yield curve.

4) YCC has helped reduce the amount of government bond purchases by both central banks. After the BOJ announced YCC, government bond purchases dropped significantly. YCC provides assurance to the market participants that the Central Bank will hold yields at target, therefore causing transactions in opposite directions to lessen. This leads to fewer bond purchases (Figure 16, left). Meanwhile, the RBA had to continue buying government bonds after announcing YCC in order to keep 3-year bond yields lower at the 0.25% target and maintain investors' confidence. After the yields reached target levels, the amount of bond purchases saw a significant reduction (Figure 16, right).

Figure 15: The BOJ targeted long-term YCC to raise long-term bond yields, while the RBA implemented front-end YCC to keep short-term bond yields low.

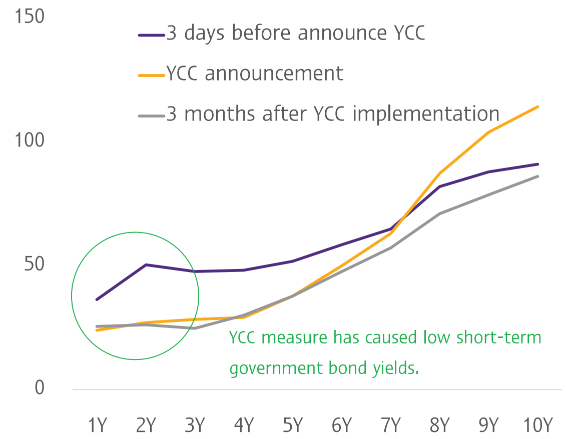
Japan government bond yields

Unit: %



Australia yield curve

Unit: bps

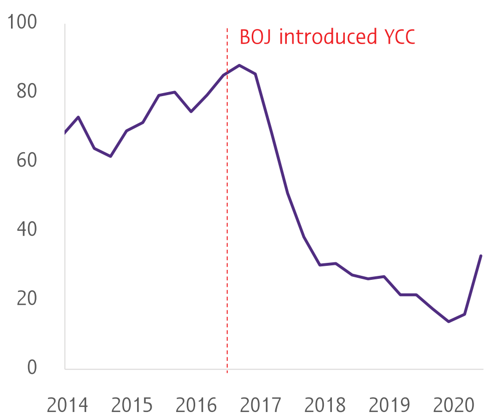


Source: EIC analysis based on data from Bloomberg

Figure 16: Both the BOJ and the RBA reduced their government bond purchases after implementing YCC.

Change of government bond outstanding held by the BOJ

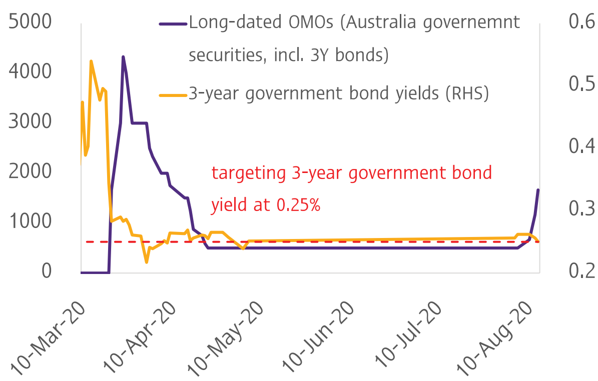
Unit: JPY trillion (Change compared to the same period last year)



Government bonds purchased by RBA and 3-year government bond yield

Unit: AUD million

Unit: %



Source: EIC analysis based on data from Bloomberg, RBA, and BOJ

Possibility of yield curve control in Thailand.
The EIC views the chance of the Bank of Thailand implementing yield curve control as limited due to the following reasons:

1) Although the BOT has not been purchasing Thai government bonds, long-term government bond yields have remained low. Thai government bond yields rose sharply in March due to panicky investors, and the BOT had to purchase THB 88 billion in Thai government bonds in March and April 2020 to reduce yields. Yields have remained low since then, partly because US treasury yields have stabilized as well. 10-year Thai government bond yields have stabilized around 1.3-1.4%, while the yield of 1-3 year bonds remained close to the policy rate at 0.5% per year. Thai government bond yields have not increased too much, although the BOT did not purchase Thai government bonds from May through July.

2) Thai government bond yield curves have not been too flat. As of September 7, 2020, the spread between 1-year and 10-year Thai government bond yields was 90 bps, which was slightly higher than the 5-year average, so the yield curve is sufficiently steep. There was therefore a limited need for the BOT to stabilize bond yields as in the case of Australia, where the yield curve is so flat that it may pose risks to the financial sector.

3) Market participants expect that the policy rate will remain close to the current level in the next year. Reflecting the forward market, market expectations for the policy rate in the next 3 and 6 month periods was 0.51% and 0.55%, respectively, which is close to the current policy rate. Next year's policy rate is expected to remain around 0.59%, which is slightly higher than the current policy rate. **There is thus not much need to use YCC for forward guidance.**

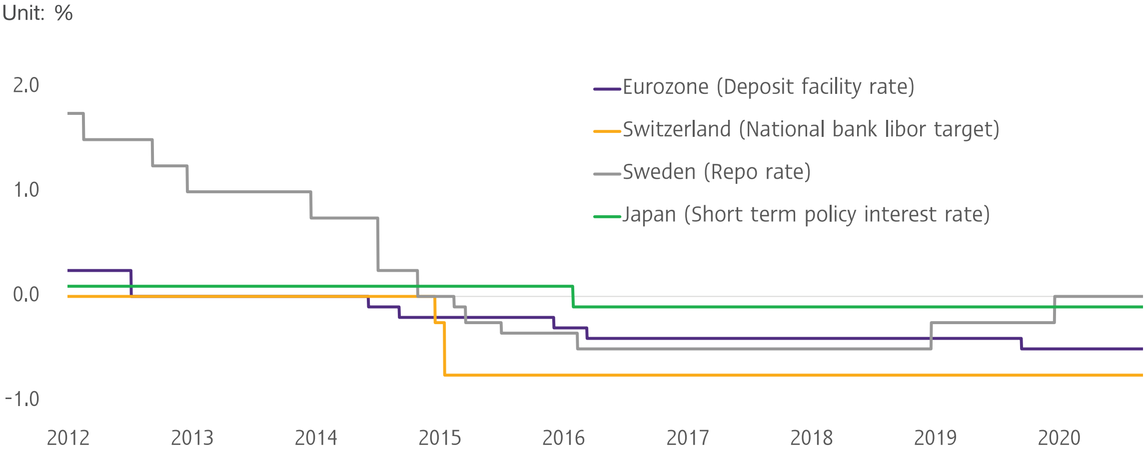
Nevertheless, EIC believes that if domestic or foreign factors force government bond yields to rise sharply in the future, the BOT may need to purchase government bonds and may announce YCC for forward guidance. These risks include a sharp increase in US government bond yields, large capital outflows from Thailand, higher demand for Thai government bonds, or worries concerning the Thai political situation.

Negative Interest Rate Policy (NIRP) : Case studies from selected countries

NIRP played a role in easing financial conditions in some countries. Among the G10 countries, three countries and one group of countries implemented NIRP prior to the COVID-19 pandemic: the Eurozone, Japan, Switzerland, and Sweden (Figure 17). EIC has assessed the effect of NIRP on financial conditions as seen in Table 1 and found that Financial conditions improved after NIRP was introduced: government bond yields decreased, stock market indexes increased, and exchange rates weakened. Financial conditions in Japan, Switzerland, and Sweden showed similar improvement, while results were less prominent in the Eurozone as some market players had already priced-in the policy before it was implemented.

Figure 17: The Eurozone, Japan, Switzerland, and Sweden implemented NIRP prior to COVID-19.

Policy rates



Source: EIC analysis based on data from Bloomberg

Table 2: Effects of NIRP on financial indicators (change 1 day after announcement)

	Financial conditions index*	Exchange rate (negative = depreciation against the USD)	Bond yield		Stock market index	CDS**
			1-year	10-year		
Eurozone	-6 bps	+0.4%	stable	-3 bps	+0.4%	-0.2 bps
Switzerland	-21 bps	-0.7%	-5 bps	stable	+2.7%	-3.7 bps
Sweden	-24 bps	-0.8%	-14 bps	-10 bps	+2.0%	stable
Japan	-27 bps	-1.9%	-5 bps	-13 bps	+2.8%	stable

Remarks: *Financial Conditions Index calculated by Goldman Sachs. Negatives mean easing.
**CDS = Credit default swap

Source: EIC analysis based on data from Bloomberg and Goldman Sachs

Nevertheless, NIRP may have limitations in supporting economy. Policy rate reductions may not be able to stimulate domestic demand as monetary policy hit its effective lower bound. Limitations occur when policy rate is very low due to the following reasons:

- **Financial institutions cannot lower their deposit rates to negative levels as it may cause depositors to liquidate their deposits to keep cash. Moreover, financial institutions tend to lower borrowing rates below deposit rates to keep their interest margins.** Normally, one objective of NIRP is to lower borrowing rates to lower financing costs and stimulate investment and consumption. However, when policy rate is reduced below zero, financial institutions cannot lower their deposit rates below zero as households may withdraw their deposits to hold cash instead. If financial institutions only lower their borrowing rates, their net interest margin will be lowered, which could affect their financial stability. Therefore, financial institutions often make smaller reductions in their borrowing rates than central bank's policy rate to keep their net interest margin. As a result, NIRP cannot effectively lower borrowing costs and stimulate demand.

- **COVID-19 may have a negative impact on bank balance sheets and hamper bank lending.** COVID-19 has increased business closures and unemployment, caused higher non-performing loans (NPLs). NIRP is less effective when compared to normal economic conditions as the increasing number of NPLs weigh down bank balance sheets. Banks therefore become more cautious in their lending and banks with lower capital ratios may need to slow down their lending.

The possibility of implementing Negative Interest Rate Policy in Thailand.

EIC views that the chance of a Negative Interest Rate Policy being implemented in Thailand is limited due to the following reasons:

1) The Thai economy has shown signs of recovery from its lowest point. Economic indicators showed signs of recovery after lockdown measures were relaxed in Thailand and abroad, allowing business activities to resume, and the economy was supported by government stimulus packages. Most indicators improved from their lowest points. Consumption and investment indices showed smaller contractions (the consumption index improved from its lowest point in April and the investment index improved from its lowest point in May) (Figure 18). Consumer and business confidence indices improved, although they remained at low levels. Exports, excluding gold and military weapons, also improved from their lowest point of -27.8%YOY in May to a -14.3%YOY contraction in July. Therefore, EIC views that the Monetary Policy Committee (MPC) will maintain the policy rate at 0.5% to preserve policy space for future down-side risks.

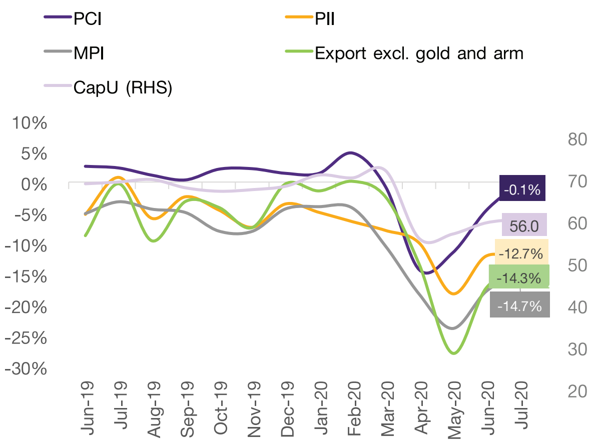
2) Further cutting the policy rate is less effective in stimulating the economy. With an historically low policy rate closing in on zero (currently at 0.5%), EIC views that interest rates have approached their effective lower bound, which makes further cuts less effective (EIC estimates that the effective lower bound for Thailand is 0.25%). In addition, credit standards have been increasingly tightened as risks remain high, despite government measures to support lending. Demand for loans to support new investment also declined, while high household debt weighs down consumption. Policy rate cuts thus may not be able to stimulate domestic demand.

3) Ultra-low interest rate for an extended period of time might lead to the financial system vulnerabilities, as households and businesses take on more risks in a search for higher yields. In addition, low interest rates pose higher risks to pension funds and insurance companies. As returns on investment shrink, pension funds and life insurance companies may need to invest in riskier assets. Further rate cuts my increase risks in the financial institution system as net interest margins are squeezed and lending slows down.

Figure 18: Indicators show that Thai economy has passed its bottom.

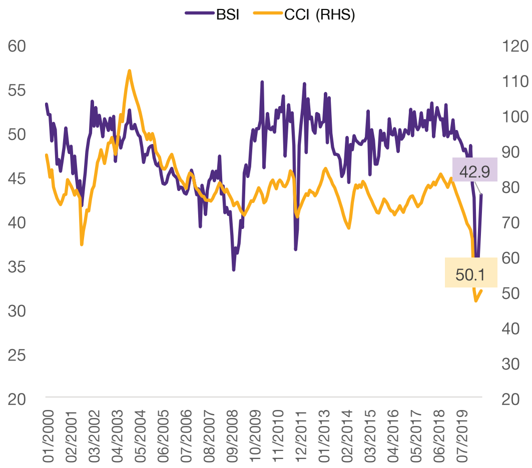
Important Thailand economic indicators

Unit: %YOY Unit: index



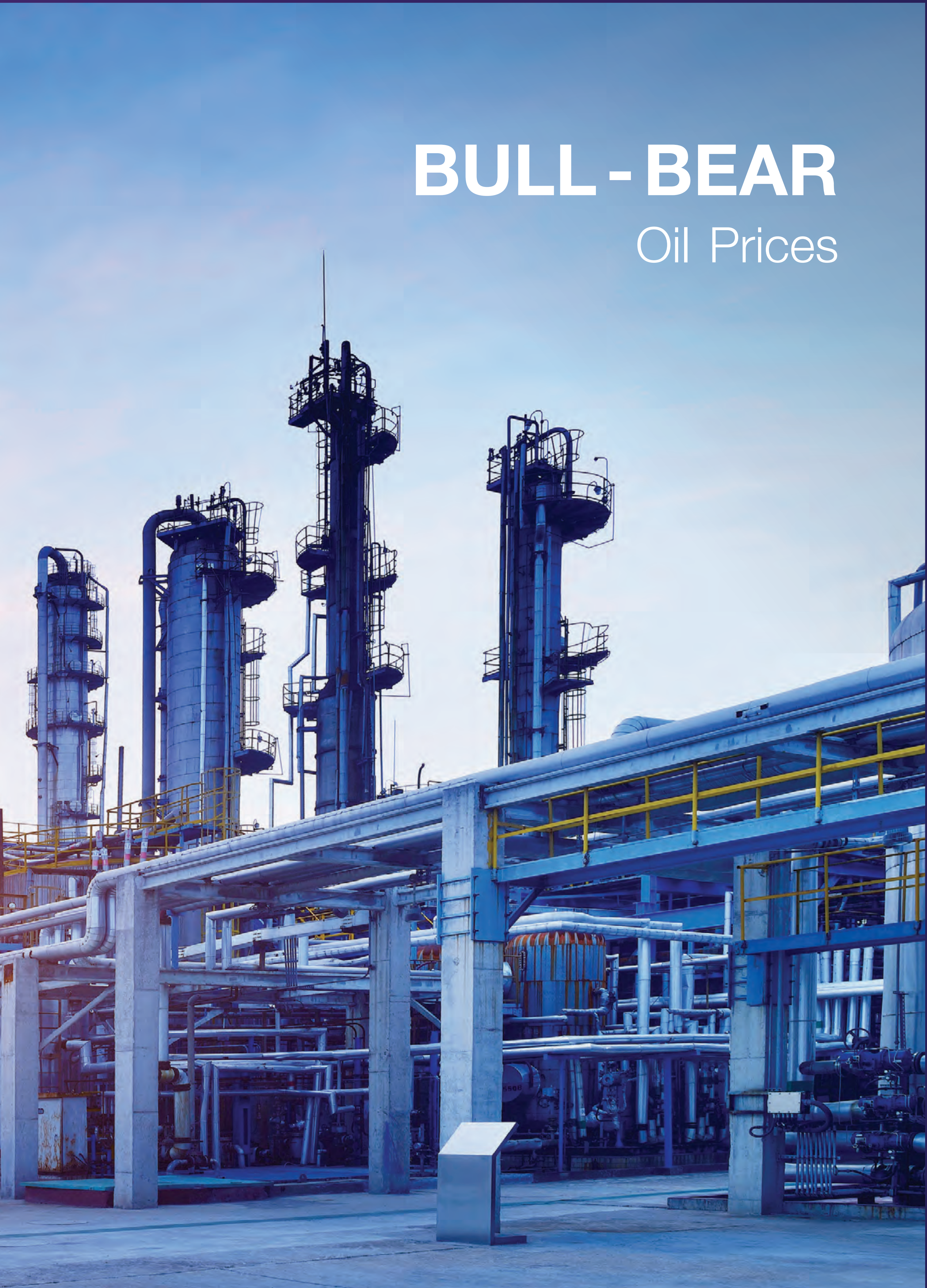
Consumer and business confidence

Unit: index Unit: index



Source: EIC analysis based on data from CEIC, Bank of Thailand and Office of Industrial Economics

BULL - BEAR
Oil Prices



Bull-Bear Oil Prices

Oil prices (USD/barrel) (Average)	2019					2020F						2021F
	Q1	Q2	Q3	Q4	Average	Q1	Q2	Q3F	Q4F	Average*	Price Range**	Average**
WTI	55	60	56	57	57	46	28	42	44	40	37-41	49
Brent	63	68	62	63	64	51	32	44	46	43	40-44	53

* Annual baseline average crude oil prices estimated by EIC

**Average crude oil price ranges for 2020 and 2021 estimated by 5 leading global houses (as of August 11, 2020)

BULLs

- **The global oil market in Q3 of 2020 is seeing an excess demand of approximately 4.6 million barrels per day over supply, and this will contribute to an increase in crude oil prices.** Whereas during the second quarter the lockdowns imposed by various countries caused a severe contraction in market demand, resulting in an excess supply of up to 7 million barrels of oil per day. This third quarter is seeing countries beginning to relax their lockdown measures and therefore push demand for oil upwards. The US Energy Information Administration: EIA expects oil demand to expand by 12%QOQ, to 95 million barrels per day. Oil demand in the US and China, the highest and second highest oil-consuming countries globally, is increasing by 17% and 7%QOQ, to 19 million and 14 million barrels per day, respectively. Meanwhile, oil supply during this third quarter will contract by -2%QOQ, down to 90.4 million barrels per day, as major oil producers such as OPEC have limited their production.

- **OPEC and its allies (OPEC+) have agreed to reduce oil production cuts to 7.7 million barrels per day** (or 8% of global oil supply), from August-December 2020. In addition, Iraq has agreed to reduce its oil production output by another four hundred thousand barrels per day during the August-December 2020 period, based on their previous production quota of 3.6 million barrels per day. This was following pressures from OPEC Group members to reduce production to levels that are appropriate for each country.

- **The global economy is showing signs of recovery during this third quarter, following the easing of lock-down restrictions, and this will contribute to rising oil demand.** The Global Purchasing Managers' Index (PMI) for July 2020 increased to 50.3, the highest in a six-month period, reflecting the expansion of the global manufacturing sector. The US PMI is 50.9, exceeding 50 for the first time since February 2020. In addition, numbers from the US labor market in July 2020 indicate improvements, as non-farm payroll employment increased by 1.8 million positions and the unemployment rate contract by -10.2%, down from 11.1% during the previous month. As for China, the country's PMI in July 2020 was 51.1 following five months of consecutive increases.

BEARs

- **The number of people infected with COVID-19 continues to rise; this will impact recovery in oil demand.** Based on data from August 2020, the number of individuals infected globally has risen to more than two to three hundred thousand per day. Particularly in the US, which has the highest number of COVID-19 infections and deaths in the world, the number of infected individuals rose to more than forty to fifty thousand per day in August. In total, there were approximately 5.6 million individuals infected with COVID-19 in the US, and 170,000 deaths (as of August 17, 2020). Should there be a second global outbreak of COVID-19 – to the extent that it prompts countries to re-enter lockdown – this will put pressure on oil demand.

- **The global aviation industry has severely contracted, putting pressure on the demand for jet fuel.** In the third quarter of 2020 the ICAO estimates that the number of airline passengers will decrease by around 800-843 million people globally, and that revenues from passenger transport will decrease by around 1.12-1.17 hundred billion dollars, compared to business-as-usual scenarios. Consultancy Wood Mackenzie estimates that during the third quarter of 2020 demand for jet fuel will contract by -34%YOY, down to 5.2 million barrels per day.

SCB EIC View Q3/2020 (QoQ) : **BULL**

In EIC's view crude oil prices already passed their lowest point during the second quarter of 2020; oil prices during the third quarter will therefore see an increasing trend. An important contributing factor to this is an expansion in oil demand. During this third quarter many countries around the world are relaxing their lockdown measures. In turn, this is prompting recoveries in economic activity as well as positively affecting the demand for oil. For example, in the US the PMI Index and labor market numbers have shown improvements. Likewise, in China the PMI Index has risen continuously since March 2020, and the Intra-city Traffic Congestion Index for August has increased to beyond 2019 levels. In terms of oil supply, OPEC+ (consisting of OPEC and Russian-led allies) will jointly reduce oil production cuts to 7.7 million barrels per day, from August to December 2020. Given these events EIC expects that the market in Q3 will see demand exceeding supply, therefore pushing up prices. In EIC's assessment, average Brent crude oil prices for Q3 of 2020 will increase from Q2 levels to around 44 USD/barrel (38%QOQ, -29%YOY).

Nevertheless, the spread of COVID-19 is still severely impacting the airline industry. Although many countries have now opened their borders, introduced 'Travel Bubbles', or partnered with other countries to promote tourism where there is confidence in COVID-19 safety measures, people remain concerned about international travel. Flight numbers will therefore not be able to recover within this year, and this will push down the demand for jet fuel.

In addition, the number of individuals infected with COVID-19 continues to increase, particularly in the US, India, and Brazil. This will be a negative risk factor on oil prices. A second outbreak that prompts another round of lockdowns will negatively impact recovery in oil demand during the latter half of 2020.

Data Analytics :

Condominium prices plummeted with plunging economy, ending firm growth streak

EIC Data Analytics: Condominium prices plummeted with plunging economy, ending firm growth streak

EIC applied web-scraping technique on condominium price data from Hipflat.co.th to analyze current trends in condominium prices. Providing an up-to-date and comprehensive coverage of condominium supplies listed by owners and investors across the country, this dataset is useful for monitoring Thailand's condominium market together with other macro data. The data on Hipflat.co.th include more than 120 thousand posts for condominium sales and rentals from over 3,050 properties (data as of August 17, 2020). Most of the posts were for second-hand units, and over 79% were located in Bangkok or its vicinities, while the rest were in the provinces, particularly tourist destinations such as Pattaya and Phuket.

Condominium prices continued to slow down in Q2/2020, shrinking for the first time in seven years.

Condominium pricing data posting on Hipflat.co.th reveals a persistent slowdown in overall prices per square meter (sq.m.), contracting for the first time in seven years. Posted sales price per sq.m. was on an uptrend over the past years but, for the last two years growth, has begun showing signs of slowing down. In 2019, the annual growth of condominium prices country-wide averaged 1.4%, down from an average of 3.7% over the past 6 years (2012-2018). The trend continued in 2020, with **overall condominium prices growth hitting 1.3%YOY in Q1 then contracting by -0.3%YOY in Q2,** the first contraction in seven years. Additionally, condominium's price growth varied across regions, with details as follows.

- **Condominium prices in inner Bangkok managed to expand, but at a slower pace.** In Q1/2020 the price of condominium units in inner Bangkok (Pathum Wan, Wattana, Ratchathewi, Phaya Thai, and Sathon district) expanded by 1.8%, down from 3.8% in 2019 and an overall average of 4.7% over 2012-2018. In Q2/2020, growth accelerated slightly to 2.1%, perhaps reflecting the still-resilient purchasing power of high-income households. This may also reflect limited condominium supply in inner Bangkok, which helps prevent sharper price drops and will support recovery once consumer confidence improves. The most recent data show that the average condominium price in inner Bangkok stood at THB 120 thousand per sq.m.

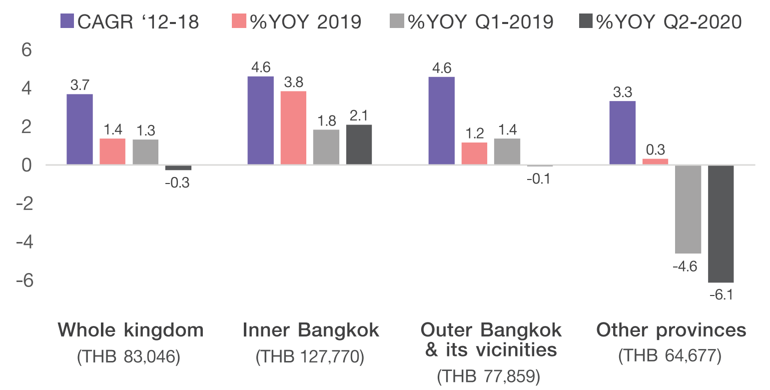
- **The price of condominiums in outer Bangkok and its vicinities posted the lowest growth rate in years** with 1.4%YOY growth in Q1/2020, down from an average of 4.6% during 2012-2018. Moreover, in Q2/2020, prices began to shrink slightly by -0.1%YOY (with an average price of THB 78 thousand per sq.m in Q2), the second contraction in 8 years (the previous contraction was -0.2%YOY in Q3/2019). This reflects a slowdown in condominium prices in outer Bangkok and its vicinities that began two years ago.

- **Condominium prices in other provinces contracted for the third consecutive quarter.** Condominiums posted on Hipflat.co.th outside of Bangkok and its vicinities are mostly concentrated in major tourist destinations such as Chonburi, Phuket, and Chiangmai, and these areas saw an even greater slowdown in price than Bangkok. In Q2/2020, the average price stood at THB 65 thousand per sq.m., which was a -6.1% drop from the same period last year and a sharper contraction compared to the previous two quarters (prices fell -4.6%YOY in Q1/2020 and -2.7%YOY in Q4/2019).

Figure 1: Condominium price growth posted on Hipflat.co.th continued to slow down in Q2/2020, contracting for the first time in 10 years.

Growth of condominium's price per squared meter

Unit: %change, () shows price per squared meter at 17 August 20



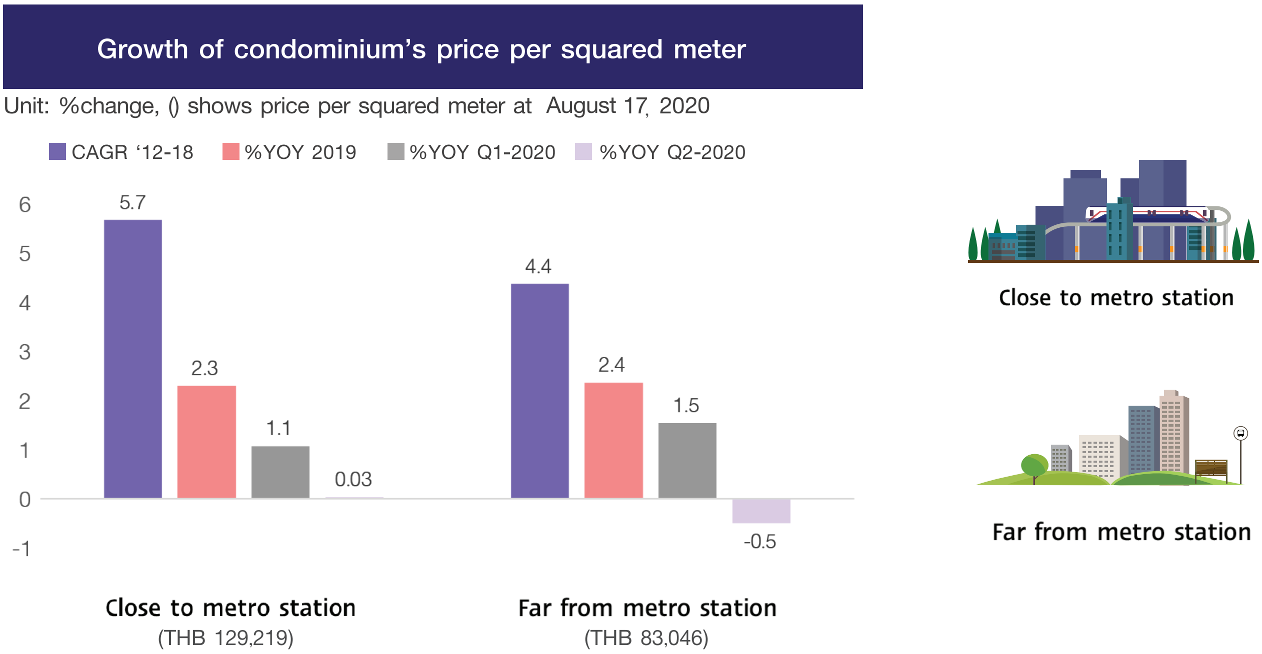
Condominium's price in the 1st half of 2020	
Whole kingdom	Contracted for the 1st time in 7 years during the 2nd quarter
Inner Bangkok	Lowest growth in 6 years during the 1st quarter
Outer Bangkok & its vicinities	Lowest growth in 8 years during the 2nd quarter
Other provinces	Contracted for 3 consecutive quarters

Remark: Inner Bangkok includes Pathum Wan, Phaya Thai, Wattana, Ratchathewi, and Sathon district

Source: EIC Analysis based on data from Hipflat.co.th.

- **The slowdown in condominium prices in Bangkok and its vicinities was felt by all properties, regardless of proximity to metro transport systems.** In Q2/2020, the average price of condominium units within 500 meters of the BTS, MRT, or airport link rail systems (operational stations only) was THB 130 thousand per sq.m. This amounted to merely 0.03%YOY growth, the lowest on record since 2009. Meanwhile, the average price of units more than 500 meters away from metro stations was THB 83 thousand per sq.m during the same period, falling -0.5%YOY, the first contraction in 10 years. Comparing across stations, however, we found that condominiums near metro stations in central Bangkok (Nana-Chidlom-Ratchathevi) still saw a robust price increase in Q2/2020, whereas those near other stations experienced either a slight increase or a fall in price.

Figure 2: The slowdown in condominium prices in Bangkok and vicinities was seen in all properties regardless of proximity to metro transport systems.



Remark: Condominiums close to the metro transport system include those within 500 meters of BTS, MRT, or airport rail link stations.

Source: EIC analysis based on data from Hipflat.co.th.

Figure 3: In Q2/2020, condominium units close to metro stations in central Bangkok (Nana-Chidlom-Ratchathewi) still saw robust price growth, while those near other metro stations experienced either a slight increase or a fall in price.

Source: EIC analysis based on data from Hipflat.co.th.

EIC believes that the slowdown in condominium prices in Thailand is a result of a combination of factors. Some of these had weighed on condominium prices for the past two years, such as the economic slump, the US-China trade war, an over-supply problem, and LTV rules. Moreover, the COVID-19 pandemic has now dealt an additional blow to the price outlook, with long-lasting impacts expected.

- **Condominium prices have been particularly severely impacted even before COVID-19** in areas directly hit by some of these factors. For instance, **the trade war between China and the United States has led to a drop in demand for Thai real estate by Chinese investors,** causing a marked slowdown in condominium prices near the Rama IX and Ratchadapisek MRT stations, popular spots with Chinese investors. As a result, price growth in these areas declined from a 6.5% average growth during 2012-2018 to only 3.3% in 2019, followed by an even slower increase in Q1/2020 (0.3%YOY), and finally a -3.7%YOY drop in Q2/2020, the first contraction in 4 years (prices averaged THB 110 thousand per sq.m. in Q2/2020). Similarly, **condominium prices along the MRT Purple Line have experienced slower growth over the past several years due to an oversupply problem.** The average annual price growth in that area has been trending down every year since 2016 and contracted throughout the first 2 quarters of 2020 (prices currently average THB 61 thousand per sq.m.). Indeed, the price per sq.m. of condominiums in this area experienced negative year-over-year growth in 6 out of the 7 most recent quarters.

- **The COVID-19 pandemic further impacted an already subdued condominium market,** greatly reducing consumer purchasing power. Moreover, lock-down restrictions and other pandemic containment measures, especially international travel restrictions, scored direct hits on the tourism sector. This adds further pressure to an already-weak condominium market both in Bangkok and in other provinces, most notably in tourist towns, as the tourism sector is among the hardest-hit and recovery is expected to be slow. One example of Covid-19's impact on the condominium market can be seen **in Pattaya, where the average price of condominiums contracted by as much as -7.6%YOY in Q2/2020, after a previous -6.2%YOY fall in Q1/2020.**

However, after the relaxation of lock-down restrictions in early July, economic activities have resumed and condominium prices have begun to show signs of recovery, although they remain significantly below historical averages. In the period between July 1 (Phase 5 of lock-down relaxations) and 17 August 2020, the overall growth of condominium prices was 1.3%YOY, a clear improvement from an earlier contraction in Q2 (-0.3%YOY), but still a lower rate compared to the historical average. There were improvements in condominium prices in outer Bangkok and its vicinities (1.9%YOY), as well as a milder contraction in prices in other provinces (-3.8%YOY). Likewise, the price per sq.m. of condominiums in Pattaya fell by only -2.7%YOY in the same period (compared to a larger -7.6%YOY contraction in Q2), which may suggest an early sign of a gradual recovery. At the same time, the improvement may also reflect a decrease in new supply from developers in Q2, as well as the emergence of new demand from changing consumer behaviors resulting from new ways of working and commuting, such as the work-from-home trend. Furthermore, condominium prices in tourist destinations, especially those close to Bangkok, may have also benefited from the resumption of domestic travel among Thai visitors. Meanwhile, the price of condominiums in central Bangkok continued to rise by 1.4%YOY during this period.

Looking ahead, EIC expects the condominium market to recover only gradually, in line with a slow rebounding economy. Also, changing consumer behaviors in the post-Covid-19 New Normal will be key to the market outlook. Moderating prices in the second-hand condominium market reflect consumers' declining purchasing power and speculative demand, making condominium sales more challenging, especially in areas with large excess supply. In addition, as developers cut prices of first-hand units in the hope of clearing excess stocks, sellers of second-hand units will have a harder time raising prices and may even be forced to slash prices. **Meanwhile, consumers' purchasing power in the condominium market is expected to improve only slightly, in line with a gradual recovery of the economy under a u-shaped recovery scenario.** Although the latest data already shows some sign of rebound in condominium prices, the rate of growth is still significantly below historical averages. Moreover, in the provinces that rely heavily on foreign tourists any recovery in condominium prices will be slower and more challenging given the pause in international travel. The price outlook will depend mainly on the success of vaccine development, which will determine if international travel can be resumed. In addition, the problem of excess supply will take time to address. As a result, developers should be prepared for a prolonged slump, and focus on maintaining sufficient liquidity and financial soundness. **Furthermore, developers should pay attention to changing consumer behaviors in the post-Covid-19, or New Normal behavior, as these can affect homebuyers' decisions going forward.** For example, the growing work-from-home trend will see consumers placing more emphasis on the functionality and spaciousness of their homes, and less on the ease of commuting or proximity to their workplace. Rising consumer awareness of hygiene will play a role in their home choices, especially when it comes to condominiums where space is shared with other residents.

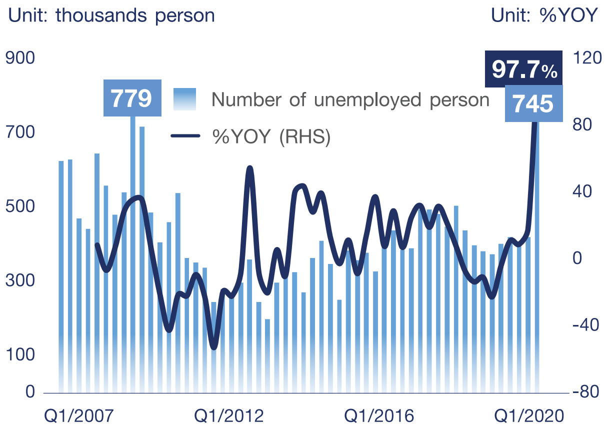
The Crisis in Thai Labor Market is Holding Back Economic Recovery

The economic crisis sparked by the COVID-19 pandemic has significantly affected the Thai labor market, resulting in the unemployment rate reaching a 10-year high. Meanwhile, those who are still employed have to face income reductions as the businesses cutting their working hour or even temporarily stop hiring due to the lockdown policy. Moreover, some workers were forced to return to the agricultural sector despite lower farm incomes due to the drought. EIC views that the current slump in the labor market will possibly be hampering a short-term economic recovery, passing on some risks to financial markets through loan channels, and leaving long-lasting effects on the growth potential of the Thai economy.

The Crisis in Thai Labor Market is Holding Back Economic Recovery

Severe economic effects from the COVID-19 pandemic have resulted in the highest unemployment rate in the Thai labor market since the Global Financial Crisis which was 1.95% in Q2 2020

Number of unemployed persons

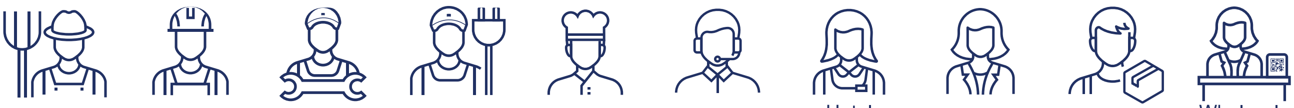


Unemployment rate

The number of unemployed persons rose in all industries, especially in hotel and restaurant industry, which experienced the greatest impact from the COVID-19 pandemic.

Unemployment rate by industry

Unit: % of the total labor force in each industry

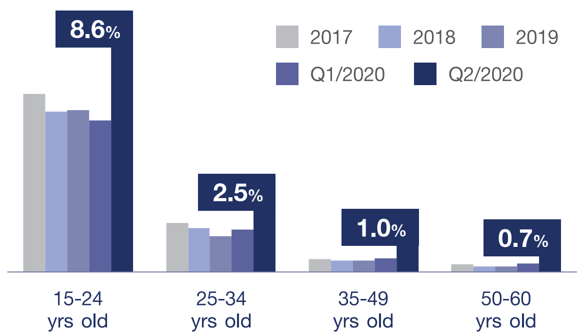


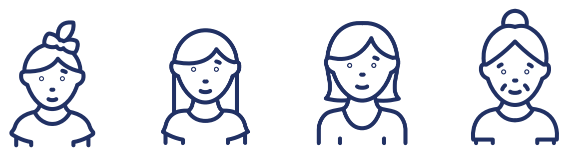
Industry	Unemployment rate	Number of unemployed at Q2-2020 (thousand persons)
Agri	0.3%	35
Construction	2.8%	63
Auto	0.9%	4
E&E	2.0%	12
F&B	1.8%	27
Other Manu	1.6%	59
Hotel Restaurant	2.9%	84
Other Services	1.3%	91
Transport	1.7%	22
Wholesale Retail	1.3%	80

The number of unemployed persons significantly increased in all age groups, especially youth workers (aged 15-24 years) which had the highest unemployment rate.

Unemployment rate by age group

Unit: % of the total labor force in each age group

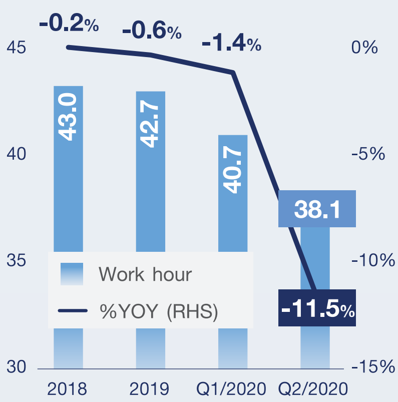




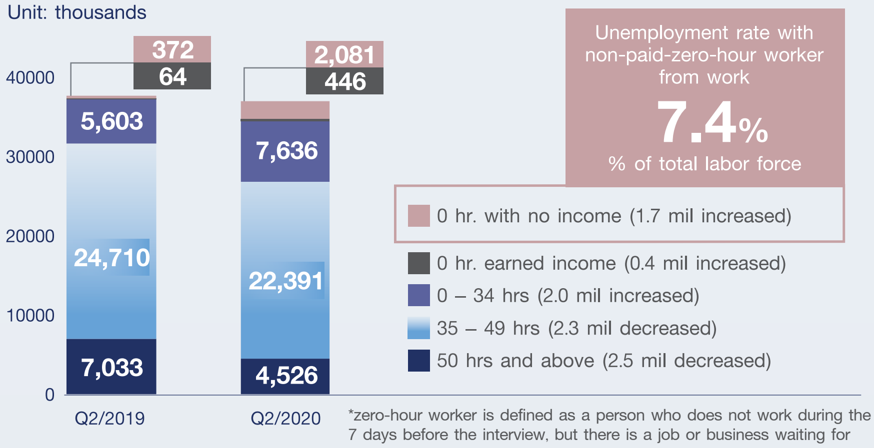
Age group	Number of unemployed at Q2-2020 (thousand persons)
15-24 yrs old	324
25-34 yrs old	208
35-49 yrs old	138
50-60 yrs old	65

Along with high unemployment, working hours have been reduced, number of workers with zero working hour increased. Moreover, if non-paid-zero-hour workers were added to the formal definition of unemployment, the unemployment rate in Q2-2020 would be at 7.4%

Number of working hours



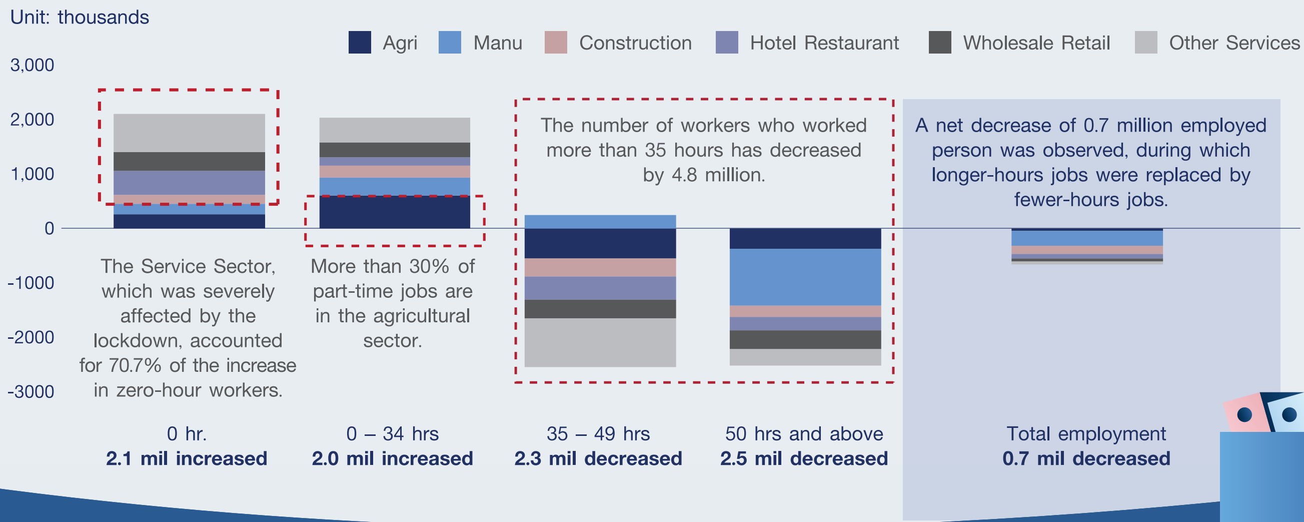
Number of employed by working hour



*zero-hour worker is defined as a person who does not work during the 7 days before the interview, but there is a job or business waiting for them to return to work on

Full-time and overtime jobs sharply declined in almost all industries, while part-time jobs have largely increased in the agricultural sector and zero-hour workers has increased in the service sector.

Changes in the number of employed workers by industry between Q2/2020 and Q2/2019



EIC views that the current crisis in the Thai labor market will have implications for an economic recovery in the short run, may pose some risks to the financial sector through credit channels, and could harm the potential growth of the Thai economy in the long run

Implications for an economic recovery in the short run

A slow recovery for household income
dues to higher unemployment, fewer working hours, and increasing temporary zero-hour workers.

Problems may pass risks on to the financial sector
from slow recovery of household income, which will affect household's ability to spend and repay debts.

Implications for an economic recovery in the long run

Scarring effects
such as long-term unemployment and/or lower labor productivity as workers moved to agricultural sector, which has low productivity

Risk of jobless recovery
as businesses adjust themselves to produce products and services with less labor per unit.

Source: EIC analysis based on data from NSO, NESDC, OECD, and World Bank

The Crisis in Thai Labor Market is Holding Back Economic Recovery

Crisis in the Thai Labor Market

Severe economic effects from the COVID-19 pandemic have resulted in the highest unemployment rate in the Thai labor market since the Global Financial Crisis. The Labor Force Survey by the National Statistical Office (NSO) shows that the total number of unemployed persons has reached 7.5 hundred thousand in the second quarter of 2020, which is 3.8 hundred thousand higher than the same period last year, or rose by 97.7%YOY. The unemployment rate has reached 1.95%, which is the highest rate since the Global Financial Crisis (Figure 1). Unemployment during the current economic crisis was a result of an income slowdown during the previous period and lock-down measures which greatly slowed down global business activities, especially in business sectors that are highly reliant on foreign markets.

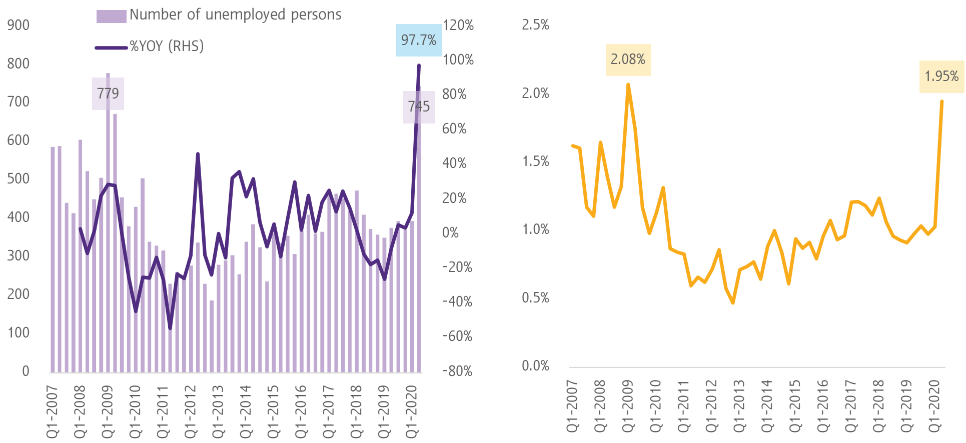
Figure 1: The number of unemployed persons in the second quarter of 2020 has reached 745 thousand, almost double the same period last year. As a result, the unemployment rate has reached 1.95% of the total labor force, which is the highest rate since the first quarter of 2009.

Number of unemployed persons

Unit: thousands   Unit : %YOY

Unemployment rate

Unit: % of labor force



	Unemployment rate (%)
Global financial Crisis, Q1/2009	2.08%
Average 2013-2018	0.94%
2019	0.98%
Q1 - 2020	1.03%
Q2 - 2020	1.95%

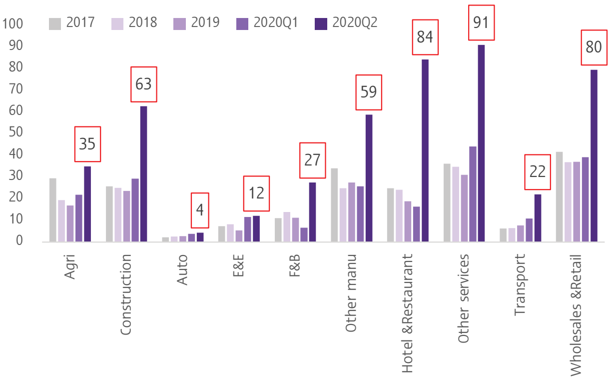
Source: EIC analysis based on data from the National Statistical Office

Unemployment rates were historically high in all important industries. When considered by industry, the number of unemployed persons has significantly increased from the second quarter of last year in all industries, which resulted in historically high unemployment rates (Figure 2). **The number of unemployed persons was particularly high in the hotel and restaurant industry, where the figure rose to 64 thousand. The unemployment rate was 2.93%, the highest among all industries.** Due to their high dependency on tourism, hotel and restaurants felt greater negative impacts from the economic downturn, lock-down, and travel restrictions than other industries. This assessment was consistent with EIC's previous risk assessment for each industry. In addition to the aforementioned negative impacts, the COVID-19 pandemic has caused several other impacts, such as supply chain disruption, a slowdown in investment, and business closures, which also led to unemployment problems in all industries.

Figure 2: The number of unemployed persons rose in all industries, especially in hotel and restaurant industry, which experienced the greatest impact from the COVID-19 pandemic.

Number of unemployed by industry

Unit: thousand person

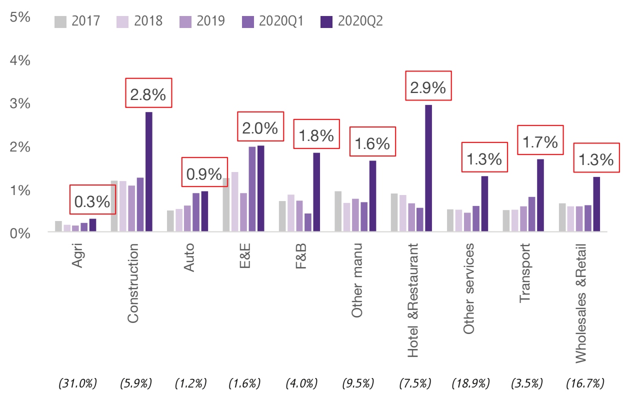


20.4	*47.4*	*2.8*	*5.0*	*16.7*	*32.5*	*64.4*	*57.2*	*17.0*	*45.3*

The increased number of unemployed in the 2nd quarter of 2020 when compared to the same period last year. (Unit: Thousand individuals)

Unemployment rate by industry

Unit: % of the total labor force in each industry



() % of total employment

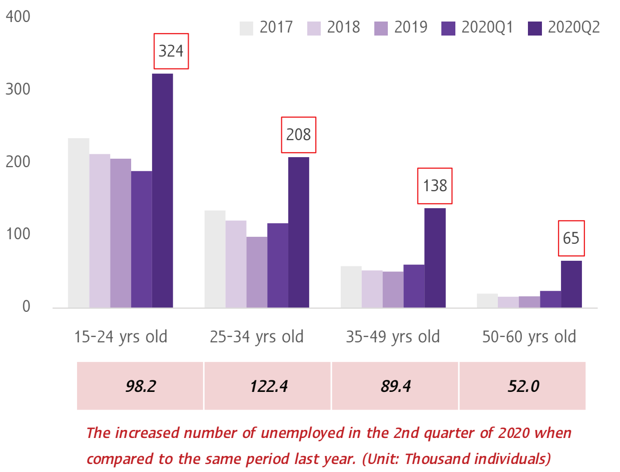
Source: EIC analysis based on data from the National Statistical Office

Unemployment increased in every age group. Nevertheless, youth unemployment was significantly higher than other age groups. When classified by age group, the number of unemployed persons increased in all age groups, which led to increases in unemployment rates for all groups (Figure 3). The youth group (aged 15-24 years), of which more than 64.6% lack work experience, has always been the group with the highest unemployment rate. The COVID-19 pandemic caused the unemployment rate in this group to increase to 8.58% in the second quarter of 2020. The same trend of high youth unemployment has been observed in other countries. For example, youth unemployment in the US increased from 7.7% in February to 25.2% in May, while the overall unemployment rate was 13.3%. In Canada, youth unemployment increased from 10.3% in February to 29.4% in May, while the overall unemployment rate was 13.7%

Figure 3 : The number of unemployed persons significantly increased in all age groups, which led to increases in unemployment rates in all groups. However, youth workers (aged 15-24 years) are the most vulnerable to unemployment as competition for jobs increases while demand for labor declines.

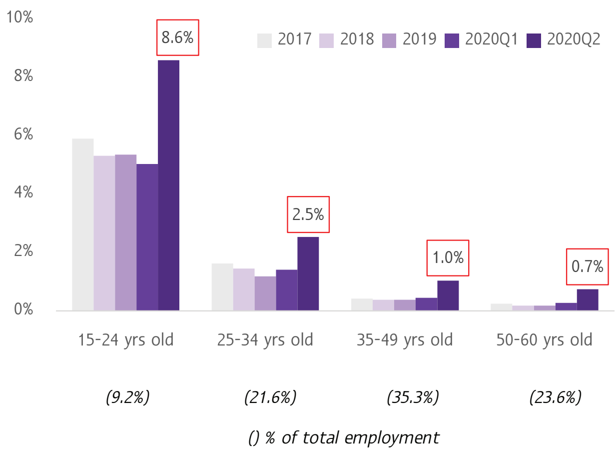
Number of unemployed by age group

Unit: thousand person



Unemployment rate by age group

Unit: % of the total labor force in each age group



Source: EIC analysis based on data from the National Statistical Office

EIC sees a risk that the youth unemployment problem may be exacerbated during the crisis. When jobs are limited, the youth group has to compete with older groups that have more work experience. This problem could persist in following years with more graduates entering the job market at the same time that demand for labor might be lower after the crisis. In addition, a study by the Organization for Economic Co-operation and Development (OECD)[1] found that the stagnant labor market may lead to longer-term impacts on member of the youth group, both in terms of employment and wages. Young workers entering the job market for the first time may decide to take jobs that require lower skill levels due to limited job opportunities, which could affect their career paths in the long run. The OECD found that workers under 25 years of age in the UK are 2.5 times more likely to work in vulnerable industries (such as hotels and restaurants) than any other age groups.

[1] OECD (2020), OECD Employment Outlook 2020: Worker Security and the COVID-19 Crisis, OECE Publishing, Paris.

Along with high unemployment, working hours have been reduced, number of workers with zero working hour (furlough) increased, and some workers forced to return to the agricultural sector despite lower farm incomes:

- **Average working hours sharply contracted, continuing a declining trend since 2013.** EIC sees average working hours as an important variable in labor market assessment as it reflects worker incomes. Working hours are crucial to hourly workers, especially those relying on income from overtime (OT) pay. In the second quarter of 2020, average working hours among Thai worker stood at 38.1 hours per week, which was 11.5% lower than the same period last year and the lowest level since 2013 (Figure 4).

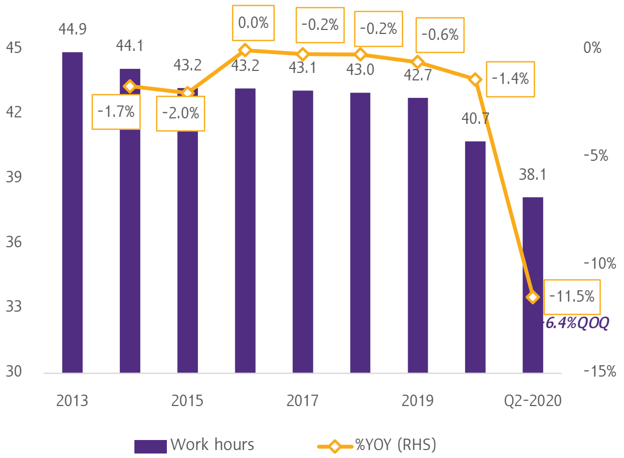
- **Reduced working hours were observed in both full-time and overtime employment.** The current crisis has led to a significant reduction in working hours for full-time jobs (jobs with 35 to 50 working hours per week) and overtime jobs (jobs recording 50 or more working hours per week). In the second quarter of 2020, the number of full-time workers dropped by 2.3 million, or 9.4% lower than the same period last year. At the same time, the number of overtime workers dropped by 2.5 million, which was 35.6% lower than the same period last year. Average working hours for both groups of workers may be reduced due to unemployment or shortened working hours (for example, overtime work was reduced, canceled, or temporary leaves were introduced).

- **Full-time and overtime jobs were partly replaced by part-time jobs.** The number of underemployment or part-time worker (jobs with less than 35 working hours per week) in the second quarter of 2020 stood at 10.2 million persons increased from 4.1 million persons from the same period last year or rose by 68.3%YOY. This significant increase was partly due to a decrease in working hours of full-time and overtime jobs to less than 35 working hours per week (became a part-time workers), as well as an increase in non-working employed workers (working zero hour per week) due to a lack of business activity during the lock-down period.

Figure 4: Average hour of work continued to decline in Q2-2020 due to a decrease in number of full-time and OT workers, which were replaced by an increase in number of zero-hour workers*

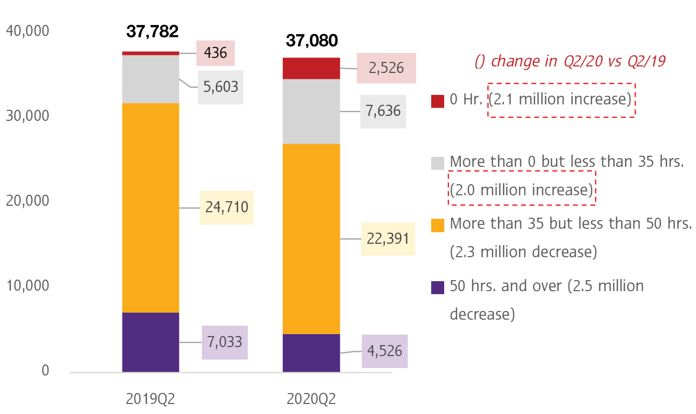
Number of Working Hours

Unit: hours per week — Unit: %YOY



Number of Employed by Work Level

Unit: thousand person



Remark : *zero-hour worker is defined as a person who does not work during the 7 days before the interview, but there is a job or business waiting for them to return to work on.

Source: EIC analysis based on data from the National Statistical Office

- **The majority of part-time workers reported that they work zero hours per week.** According to the definition of employment used by the National Statistical Office, employed persons are those who work more than or equal to zero hour per week. Also, labor with zero hour of work during 7 days before the survey but has job or business to return to are considered employed persons by the mentioned definition. According to the survey, the number of workers working zero hour per week in the second quarter of 2020 rose from 4.4 hundred thousand to 2.5 million, which is 5.8 times higher than the same period last year. Normally, this group of workers only accounted for 3-4 hundred thousand persons and there has not been much change in the trend, as zero working hours per week (zero-hour worker) is often a seasonal phenomenon. Thus, the sharp increase in the number of zero-hour worker in the second quarter of 2020 is conceivably due to a lack of business activity during the lockdown. A large number of workers were on temporary work suspensions without being unemployed or being freelancers and business entrepreneurs who cannot go to their work or running their businesses. EIC suspects that these workers may risk unemployment or may not have jobs to return to as an extended economic crisis may lead to permanent business closures.

- **More than 82.4% of zero-hour workers did not receive any wages or income.** More than 2.1 million zero-hour workers reported that they do not receive any wages. The majority of these workers, 1.2 million, were freelancers or self-employed, while 9.3 hundred thousand were employees. Only 4.5 hundred thousand zero-hour workers still received wages and income, in which 4.2 hundred thousand were employees receiving wages from their employers. **The increasing number of non-paid-zero-hour worker is another alarming situation in the Thai labor market. If this group of workers were added to the formal definition of unemployment, the unemployment rate in the second quarter of 2020 would be equivalent to 7.4%, which is significantly higher than the historical average of 1.9% during 2013-2019.** (Figure 5)

Figure 5: The number of zero-hour workers sharply increased, in which most of them do not earn income. When including this group of workers with unemployed person, the unemployment rate will rise to 7.4%, which is significantly higher than the current unemployment rate.

Number of zero-hour workers

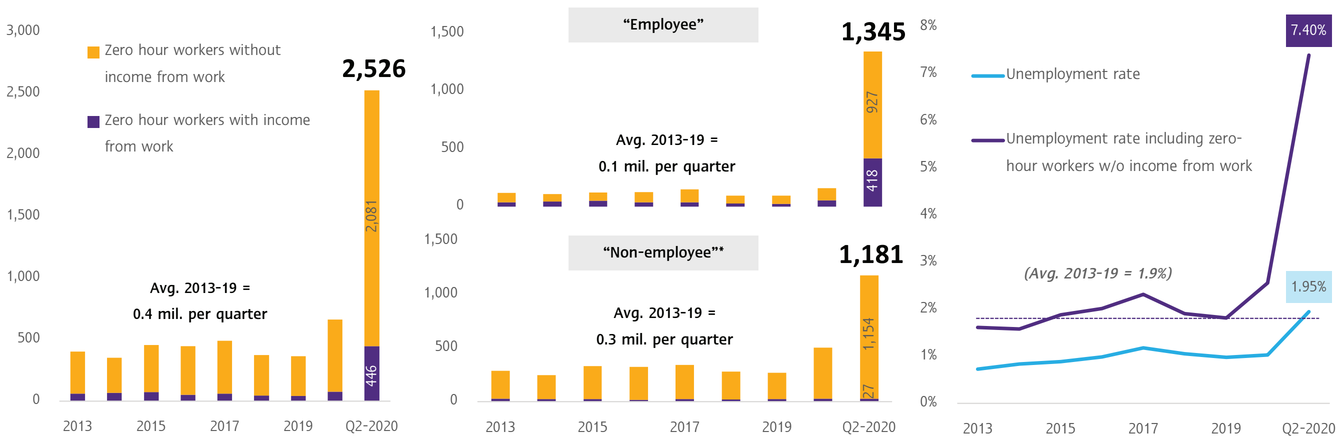
Unit: thousand

Number of zero-hour workers by type

Unit: thousand

Unemployment rate with zero-hour workers w/o income from work

Unit : % of total labor force



Remark: *Non-employee is such as freelancers, self-employed workers

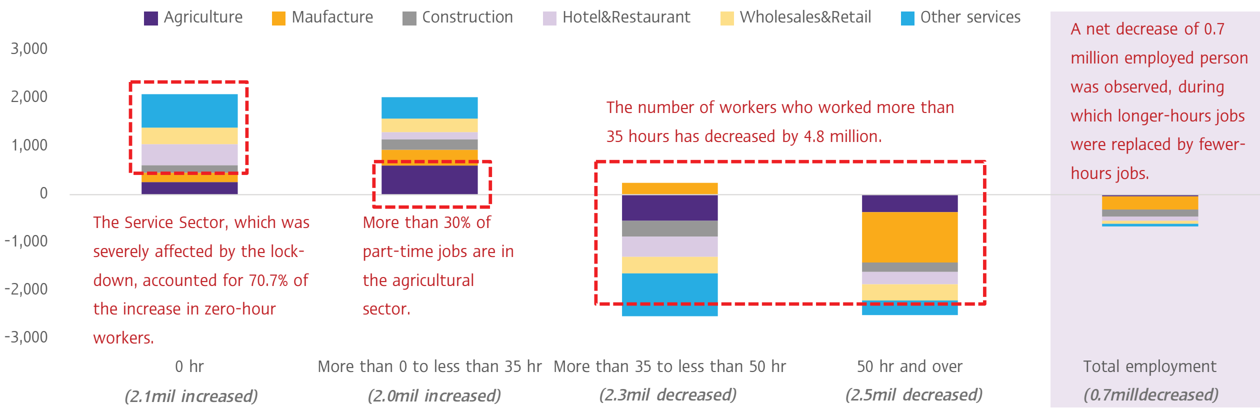
Source: EIC analysis based on data from the National Statistical Office

- **The number of full-time and overtime workers sharply declined in almost all industries, while part-time workers largely increased in the agricultural sector. Additionally, zero-hour workers has increased in the service sector.** The job market in the second quarter of 2020 drastically changed when compared to the same period last year. The number of zero-hour workers reached 2.1 million. This increase has been observed in all industries, especially in hotel and restaurants, retail, and other services industries, which contributed to 70.7% of the increase. (Figure 6) The number of part-time workers increased by roughly 2 million from the same period last year, 30% of which were in the agricultural sector. When compared to the first quarter of 2020, part-time workers in the agricultural sector increased by 5.7 hundred thousand while part-time workers in other sectors decreased. This is a noteworthy change since average income in the agricultural sector has always been lower than other industries (In 2019, the average income in the agricultural sector was THB 6,013 per month while the average income in non-agricultural sectors was THB 15,063 per month). Coupled with the drought problem, the average income in the agricultural sector contracted 6.2% in the first half of 2020. **Labor movement into part-time jobs in the agricultural sector is an indication of household income stagnation.** Meanwhile, the number of full-time and overtime workers who worked more than 35 hours per week decreased by 4.8 million. This produced a net decrease in employment of 7 hundred thousand.

Figure 6 : Full-time and overtime jobs sharply declined in almost all industries, while part-time jobs have largely increased in the agricultural sector and zero-hour workers has increased in the service sector.

Changes in the number of employed workers by industry between Q2/2020 and Q2/2019

Unit: thousand person



Source: EIC analysis based on data from the National Statistical Office

Implications of the Crisis for the Thai Labor Market

EIC believes that the current crisis in the Thai labor market will have implications for an economic recovery in the short run, may pose some risks to the financial sector through credit channels, and could harm the potential growth of the Thai economy in the long run.

Implications for an economic recovery in the short run

A slow recovery for household income. Higher unemployment, fewer working hours, and increasing temporary furloughs will leave the labor market with a large surplus of workers that need to be absorbed back into employment. Meanwhile, businesses faced with severe losses in revenue and insolvency in some cases will be slow to absorb workers again. An excess in the labor supply will lead to slow rebounds in employment, wages, and household income, which in turn will put pressure on consumer spending and consumption-related businesses.

Problems in the labor market may pass risks on to the financial sector. Large scale job and income losses may pose some risks to the financial sector through credit channels. Households with high debt-to-income ratios and low financial buffers are highly vulnerable. According to the Household Socio-Economic Survey in 2019, the average debt level of indebted households was 98.5% of annual household income. This ratio has been on an increasing trend since 2011. Moreover, 59.8% of households hold assets that are sufficient for less than 3 months of expenses. Income loss and preexisting vulnerabilities may lead to a deterioration in loan qualities. An EIC survey shows that **households whose main income is from employment in highly affected sectors such as tourism (hotel, restaurants, recreational services, and wholesale and retail trade) hold 21.9% of total household debt.** Loans for consumption of this household group held the highest share at 23.0%. Meanwhile, 56.6% of these households have financial buffers of fewer than 3 months and those with loans have a high risk of their loans turning into non-performing loans (NPLs). If loan quality deterioration occurs on a wide scale, such as persistent unemployment in the labor market causing severe effects on industries, financial markets may also see negative risk spillovers.

Figure 7: Expenses and debt of households with members working in the tourism-related industry accounted for more than one-fifth of the whole kingdom. Also, they are more financially vulnerable.

High risk to labor income ↕ Low risk to labor income	Data as of 2019	% of total employment	HH debt (% of total HH debt)	Mortgage (% of total mortgage)	Consumption loan (% of total consumption loan)	Business loan (% of total nosiness loan)	Other loan (% of total other loan)	% of HH with financial assets less than 3 months of expenditure
	Tourism-related*	*25.0%*	**21.9%**	**24.7%**	**23.0%**	**16.4%**	**20.9%**	**56.6%**
	Manufacturing, logistics, construction	*25.5%*	22.7%	32.0%	22.8%	10.7%	14.5%	68.1%
	Agriculture	*31.4%*	25.9%	7.0%	19.6%	61.7%	26.9%	59.0%
	Other services e.g. telecom, finance, education	*11.4%*	15.7%	20.9%	17.3%	5.5%	21.6%	55.8%
	Utility, healthcare, and public sector	*6.6%*	13.8%	15.3%	17.2%	5.6%	16.2%	49.7%
							Whole kingdom	**57.0%**

Remark: Household expenses and debt by the main-income-source industry was calculated by dividing the household's expenditure and debt by the household's employed persons, then summed up by their working industry. Note that only households with at least one employed person were used in the sample // *Tourism-related includes hotel, restaurants, recreation, and wholesale & retail

Source: EIC analysis based on data from the National Statistical Office

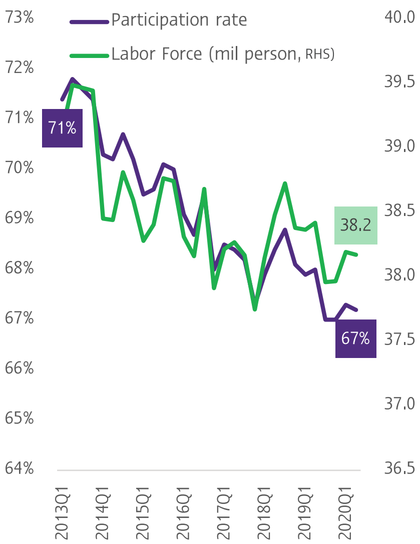
Long term implications for the Thai economy

If the economic impact from the COVID-19 pandemic is prolonged, structural weakness in the labor market could intensify and leave scarring effects on the economy. Structural weakness has long been present in the Thai labor market. The labor force has been declining due to an aging population (Figure 8) and labor productivity has been relatively low when compared to other countries. Thailand's Labor productivity, calculated by the World Bank, ranked 89th out of 169 countries. (figure 9) Low levels of labor productivity have a tendency of intensifying economic crises. Long-term unemployment, especially among young people recently entering the workforce, may cause workers to miss opportunities to build their skills on the job. In addition, a large number of workers were forced to return to the agricultural sector, which has even lower productivity and lower growth potential (Figure 9-right). This will result in an overall loss of labor productivity and will put additional pressure on the long-term growth potential of the country.

Figure 8: The labor force has been declining due to an aging population, which has long been a structural weakness in Thai labor market.

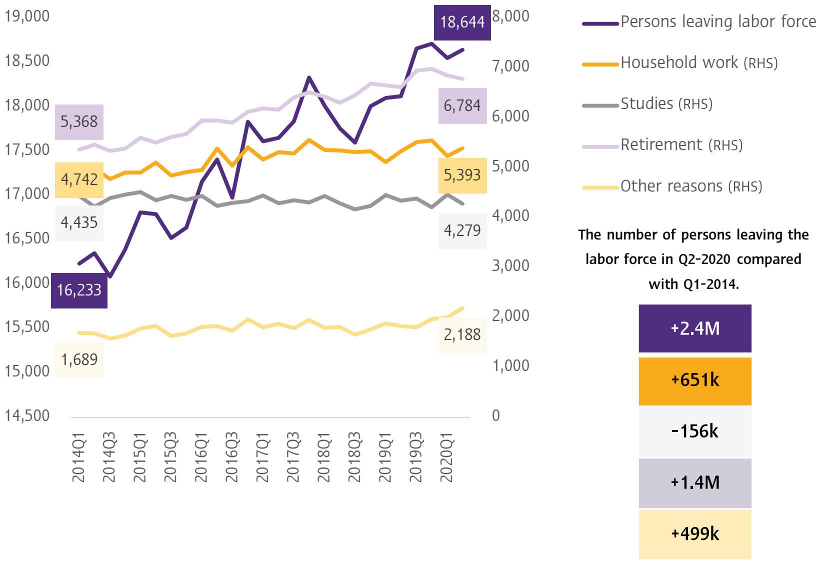
Labor participation rate and labor force

Unit: % of total population aged 15 and over



The number of person leaving labor force

Unit: thousand person

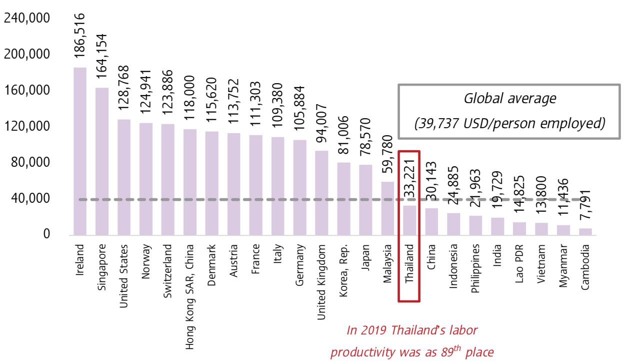


Source: EIC analysis based on data from the National Statistical Office

Figure 9: Thailand's labor productivity has been relatively low when compared to other countries and lower than the global average. This was partly due to the fact that 1 in 3 labors are in the agricultural sector, which has the lower productivity growth.

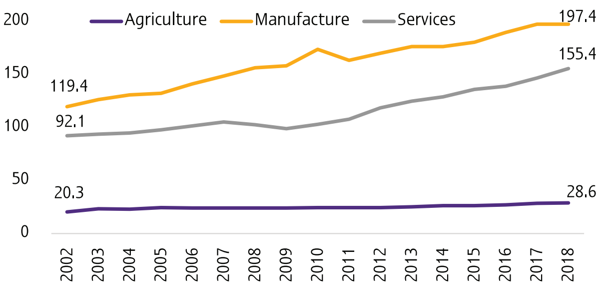
Labor productivity (GDP per person employed), by country

Unit: USD/ person employed



Labor productivity (GDP/hours worked), by industry

Unit: THB/hours worked



Average annual growth (%)	Real GDP	Agricultural Productivity	Manufacturing Productivity	Service Productivity
2003-10	4.6%	2.3%	4.8%	1.4%
2011-18	3.3%	2.1%	1.7%	5.3%

Source: EIC analysis based on data from the World Bank, National Economic and Social Development Board, and the National Statistical Office

The economy could enter into a jobless recovery phase. EIC sees the economy recovering, but employment may not follow suit. Some businesses have reduced their unit labor costs by adjusting their work processes or introducing technological replacements. Therefore, labor demand in some industries may not recover to previous levels. This is consistent with a study by the OECD, which has projected unemployment in OECD countries declining after the Covid-19 pandemic is controlled, but it will remain higher than pre-COVID-19 levels for another 1-2 years.

Policy implications

Large, effective, and continuous stimulus packages are vital to economic recovery. In EIC's view, fiscal and financial policies supporting consumer purchasing power, stimulating employment, and reducing default risk will offer crucial support to an economic recovery. Any stimulus package must be large enough to compensate for the spending loss during crisis as reflected in historic GDP contraction records. As an economic and labor market recovery may take more than 1 year before returning to 2019 levels while policy space is limited, effective, customized, and continuous policy responses are needed to avoid any scarring effects that may follow the crisis. Premature removal of policy support, or a policy cliff, may severely affect vulnerable sectors and cause them to fall back to crisis levels.

Labor market support may be implemented via several channels. There should be temporary support to help with short run adjustments as well as productivity enhancement programs to boost productivity in the long run. Policy support measures for the labor market, as suggested by the International Labour Organization (ILO) and the OECD, are as follows:

1) Maintain current employment level with wage support programs to help employers retain their employees and/or increase their employment numbers; tax incentives for regular employment or newly graduated employees; tax and financial incentives to further encourage employment in businesses, especially in SMEs; and on-line job matching platforms to bring employers and potential employees together and boost market mechanisms in the labor market.

2) Ensuring labor welfare through measures to prevent the spread of COVID-19 among employees; general or targeted income support for informal workers who tend to have lower incomes and are more sensitive to crises; and living cost support such as tax deferrals, loan extensions, or VAT refunds for vulnerable groups.

3) Boosting labor skills to help laborers prepare for necessary transitioning into new industries, such those in the digital, health care, elderly care sectors; as well as enhancing labor skills in existing industries which will require fewer but more versatile workers.

As Thailand is rapidly approaching becoming an aging society, greater labor productivity will be needed to make up for a declining labor supply. Therefore, labor up-skilling and re-skilling must be implemented alongside other support measures during the crisis in order to lift labor productivity in the long run.

Summary of EIC forecasts

Key indicators	2019	Unit	Actual				EIC forecast		Consensus(Aug 20)
	Share (%)		2017	2018	2019	H1/20	H2/20	2020	2020
Real GDP growth		%YOY	4.1%	4.2%	2.4%	-6.9%	-8.8%	-7.8%	-6.9%
Demand-side									
Private consumption	52%	%YOY	3.1%	4.6%	4.5%	-2.1%	-2.5%	-2.3%	-2.4%
Public consumption	15%	%YOY	0.1%	2.6%	1.4%	-0.7%	5.5%	2.5%	
Total Investment	24%	%YOY	1.8%	3.8%	2.1%	-7.2%	-7.5%	-7.3%	-8.5%
Private investment	18%	%YOY	2.9%	4.1%	2.8%	-10.2%	-15.0%	-12.6%	
Public investment	6%	%YOY	-1.4%	2.9%	0.2%	1.2%	15.4%	8.1%	
External sector									
Export of Goods (USD)		%YOY	9.5%	7.5%	-3.3%	-8.2%	-12.6%	-10.4%	-9.2%
Import of Goods (USD)		%YOY	13.2%	13.7%	-5.6%	-12.3%	-18.3%	-15.3%	-13.3%
Current account		USD bn	44.0	28.5	38.4	8.1	4.0	12.1	18.7
Current account/GDP		% of GDP	9.6%	5.6%	7.0%	2.9%	1.6%	2.3%	
Key rates									
Headline inflation		%YOY	0.7%	1.1%	0.7%	-1.1%	-0.9%	-1.0%	-1.2%
Core inflation		%YOY	0.6%	0.7%	0.5%	0.3%	0.1%	0.2%	
Policy rate (RP-1D) (end period)		% p.a.	1.50%	1.50%	1.25%	0.50%	0.50%	0.50%	
THB/USD (end period)		THB/USD	33.9	32.3	31.0	30.9	30.5-31.5	30.5-31.5	
Oil price, Brent (average)		USD/barrel	54	71	64	41	45	42	

Source: EIC forecast based on data from Bloomberg, BOT, CEIC, IMF, MOC, MOF, NESDB, OAE, OIE, TAT. Consensus forecast from APCF Consensus Economics

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