NOTE

SCB Economic Intelligence Center

EIC cuts Thai economic forecast for 2021 to 2.2% as the COVID-19 outbreak resurfaced in various countries, including Thailand.

27 January 2021

The recurring waves of the COVID-19 pandemic in various countries, including Thailand, will directly slow the pace of Thai economic recovery in 2021. As such, EIC revises the Thai GDP forecast down to 2.2% due to the following reasons:

- **The recovery of foreign tourist arrivals should be slower than previously anticipated. Although citizens in various countries are receiving COVID-19 vaccinations and Thailand could allow inoculated persons to travel into the country with more relaxed quarantine limitations, the recovery in international travel should pick up once herd immunity is widely established in many origin countries. EIC estimates that advanced economies should gradually form herd immunity during Q2/2021 to Q3/2021. Meanwhile, developing countries in Asia, Thailand's main source of tourists, should develop herd immunity, starting from Q4/2021 (such as China) to Q4/2022 (such as CLMV), a period slower than anticipated. With such regards, EIC revises the number of international tourist arrivals in 2021 down to 3.7 million persons, with recovery anticipated in H2/2021, particularly in Q4/2021.**
- **Export conditions should be weaker-than-anticipated during H1/2021 from the COVID-19-induced global economic soft patch, the container shortages headwinds, and the strengthening baht. However, factors that should speedup global economic recovery and export growth during H2/2021 include sizable stimulus packages issued in various countries, more targeted city lockdowns, and hastened inoculations that will lead to herd immunity establishments, especially in advanced economies. EIC expects that exports will improve by 4.0%YOY in 2021.**
- **Regarding domestic demand, high-frequency data indicated that the new wave outbreak moderated economic activities, especially those requiring face-to-face interactions. EIC views that the recurring outbreak could be largely contained within 2 months. Even though the second wave consequences might not be as damaging as the first wave due to more targeted lockdowns with support from government stimulus packages, the economic scars will still be further worsened and particularly impact the already vulnerable SME sector and service sector employees.**
- **The overall pace of Thai economic recovery should slowly progress as the tourism sector, Thailand's key driver in terms of economic growth and employment, has yet to recover. Thus, the economic recovery will be uneven between different business sectors. Furthermore, various uncertainties and downside risks linger.**
- **Risk factors that warrant monitoring in 2021 include 1) the duration required to successfully contain the second wave outbreak, 2) potential delays in widespread vaccine distribution in Thailand, 3) economic scars that could deteriorate financial stability via increasing bad debt 4) political instability in Thailand that could weaken investor confidence, 5) drought as the water stored in major dams approached a level lower than the historical average, and 6) the stronger baht appreciation relative to trading partners and competitors, which could slow export recovery and international travel demands.**

The new wave of global COVID-19 pandemic and more details released regarding vaccinations in various countries prompted **EIC to revise its Thai economic forecast for 2021 down to 2.2% from the previous forecast of 3.8%,** according to the following justifications :

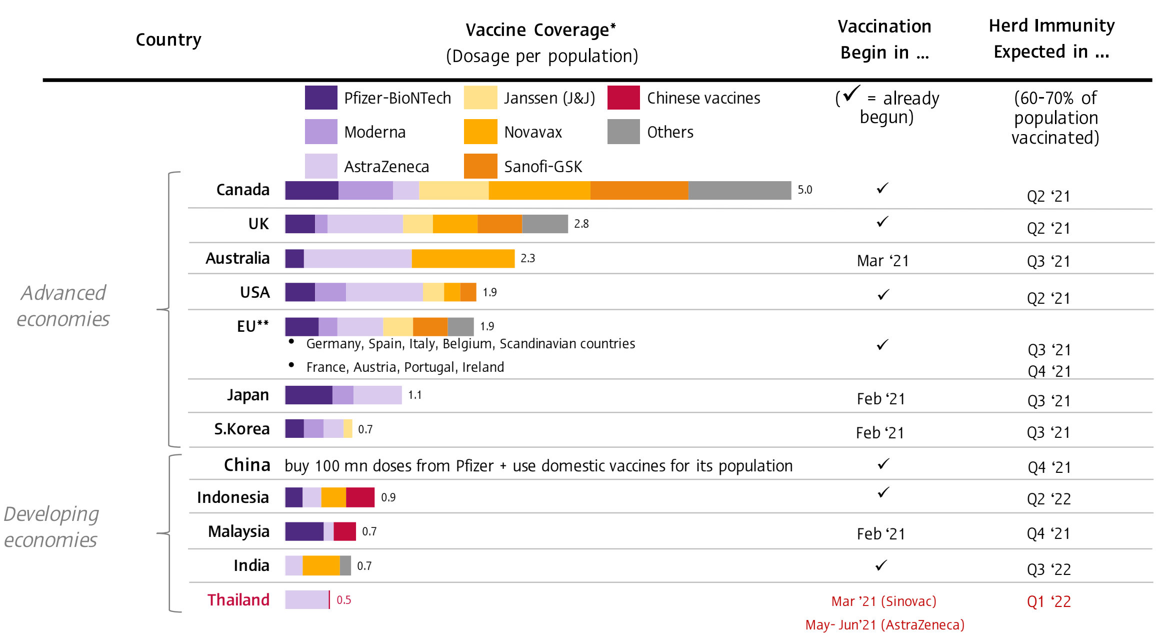
1. The recovery of international tourist arrivals in 2021 should be bleaker-than-expected. EIC significantly cuts the foreign tourist arrivals forecast to 3.7 million persons from the previous estimation of 8.5 million persons.

The recovery of the tourism sector will mainly rely on widespread vaccinations and herd immunity establishments in each country. **EIC evaluates that the advanced economies should largely form herd immunity (60-70% of the population immune to the virus) during Q2/2021 to Q3/2021** due to the advanced purchase agreements with vaccine manufacturers. Furthermore, such countries are equipped with more ready cold chain logistics infrastructure that is required for the transportation and storage of Pfizer-BioNTech and Moderna vaccines. However, the proportion of foreign tourists traveling from developed countries to Thailand is relatively small. Also, many of such countries are grappling with vaccine-related issues, such as the European Union that are experiencing delays in regulatory approval from the central unit and encountering vaccine delivery postponements from the manufacturer. Similarly, the inoculations will start later in Japan in comparison to other developed countries due to the longer wait for approval from the domestic regulators.

Meanwhile, developing countries should gradually establish herd immunity starting from Q4/2021 onwards. Most developing countries have a more limited budget and do not have as much monetary power to prepurchase vaccines as developed countries. Besides, some countries will need to rely on COVAX[1] or vaccines from China and Russia. EIC estimates that China and Malaysia, Thailand's main source of foreign tourists, will form herd immunity and allow citizens to travel aboard from Q4/2021 onwards. Meanwhile, CLMV countries and the Philippines should successfully develop herd immunity during the second half of 2022 (Figure 1).

[1] COVAX (COVID-19 Vaccines Access Facility) is a global initiative established by the World Health Organization and several international public health organizations. The initiative aims to provide middle to low-income countries with access to the COVID-19 vaccine.

Figure 1: The anticipated period for herd immunity establishments in different countries.

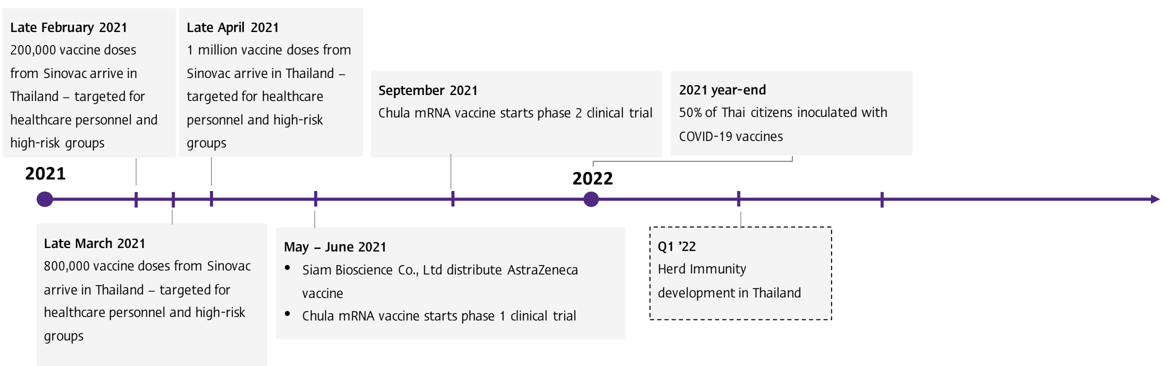


Remarks: * The orders of vaccine doses/ person, not including vaccines from COVAX ** The orders of vaccine doses/ person in EU, excluding individual country vaccine orders

Source: EIC analysis based on data from Duke University Global Health Innovation Center, University of Oxford's Martin Program for Global Development, and news agencies

In the case of Thailand, EIC views that citizens should be inoculated with COVID-19 vaccines starting from March 2021 onwards. Vaccines from Sinovac should arrive in Thailand during late February 2021, though in limited amounts. Meanwhile, the widespread vaccinations should begin from May – June onwards, after the Food and Drug Administration (FDA) approved the production of the AstraZeneca vaccine to Siam Bioscience Co., Ltd. From such plans, Thailand should form herd immunity during Q1/2022 (Figure 2). However, the challenges arising from the efficiency and timeliness of widespread vaccine distribution and inoculation in Thailand could delay relaxations of inbound international travels and affect the confidence of Thai and international tourists in the periods ahead.

Figure 2: The timeline of the progress of the COVID-19 vaccine in Thailand.



Source : EIC analysis based on data from The Government Public Relations Department, Department of Medical Sciences Ministry of Public Health, Siam Bioscience Co., Ltd, and the National Vaccine Institute

EIC cuts the foreign tourist arrivals forecast in 2021 to 3.7 million persons from the previous forecast of 8.5 million persons, following:

- **Thailand's policy to open its borders for international travels should be carefully orchestrated until herd immunity is developed. Such conditions will stall international travel recovery in early 2021.** EIC expects that Thailand will gradually re-open its borders to foreign tourists and only allow vaccinated tourists with negative PCR tests to enter Thailand without quarantine in Q3/2021 to prevent importation of the virus from aboard as currently there is insufficient information to specify whether vaccinated persons can still be the carrier of the virus or not. Furthermore, after visitors return home, they could be asked to quarantine in their home country as Thailand has not yet developed herd immunity. Such complicated international travel restrictions and constraints during the early stages of relaxations could defer international travel plans and causing the tourism sector to recover at a slower-than-expected pace.

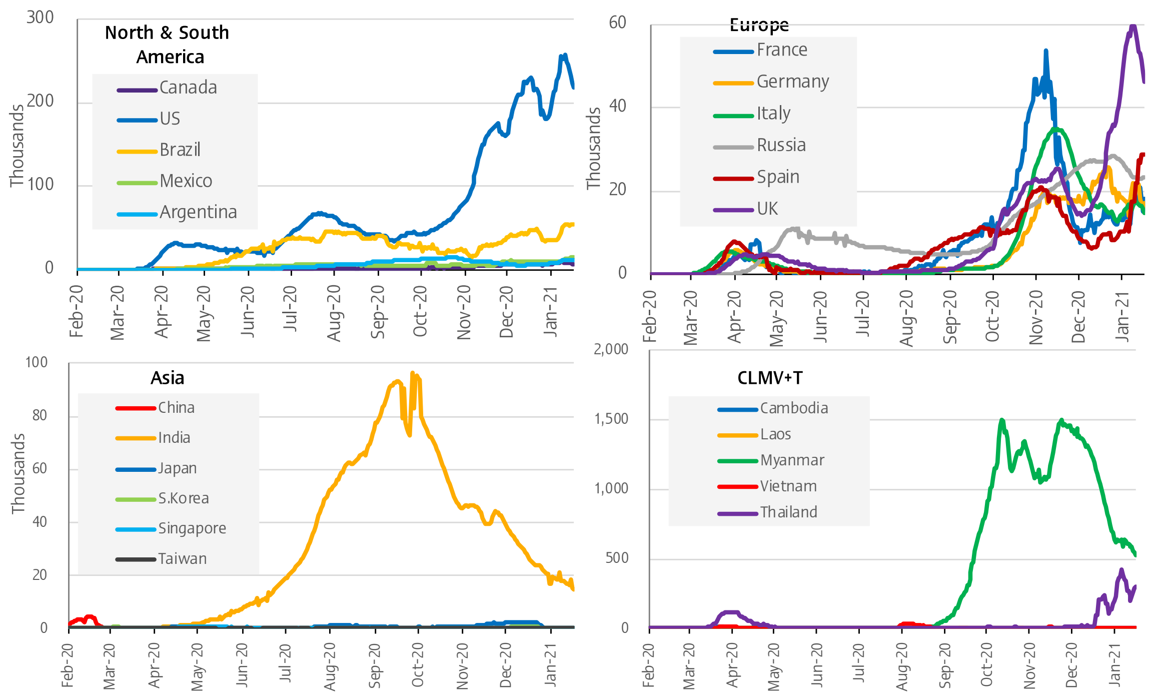
- **Furthermore, countries that Thailand heavily relied on for foreign tourists may delay border re-opening.** By Q3/2021, countries with widespread inoculations should still be concentrated among developed countries in Europe and North America. However, such nations contributed to only a fraction of Thailand's foreign tourist arrivals (20% of total foreign travelers to Thailand). Furthermore, during 2021, tourists from such destinations could prefer to travel to countries within their proximity. Meanwhile, countries in Asia (contributing to three-fourth of total foreign travelers to Thailand) should develop herd immunity later on. EIC expects that China, a nation that accounted for approximately 30% of total international visits to Thailand, should allow outbound travels by Q4/2021 the soonest, a period later than previously anticipated. According to China's plan, herd immunity should be developed within late 2021 as the Chinese government wants to contain the spread and promote domestic travel prior to the period. As such, foreign travelers should start to visit Thailand from Q3/2021 with significant growth expected in Q4/2021 onwards.

2. Exports should be bleaker-than-anticipated due to stalling global economic conditions induced by the returning waves of COVID-19 outbreak in addition to pressuring factors from container shortages and baht appreciation.

During the second wave outbreak, the daily average of new COVID-19 cases continued to surge and surpassed the peak record during the first wave. With growing risks, various countries decided to reintroduce strict lockdown measures to contain the spread. The second wave outbreak in Europe started in October 2020, and since then the daily average of new coronavirus cases rose constantly with current levels already exceeding the record high rate in April 2020 (Figure 3). Apart from Europe, countries experiencing the second wave outbreak included countries that previously contained the virus, such as South Korea and Japan. Meanwhile, the new confirmed cases in the US continued to elevate as well since the new strain of COVID-19 is more transmissible. With such regard, various countries decided to reimpose strict containment measures.

Figure 3: The increasing number of new confirmed cases prompted various countries to reinstate strict lockdown measures.

Daily COVID-19 infection cases by region (7-day average)



Remarks: The reported figures were based on a rolling 7 days average. Data as of 17 January 2021.

Source: EIC analysis based on data from WHO

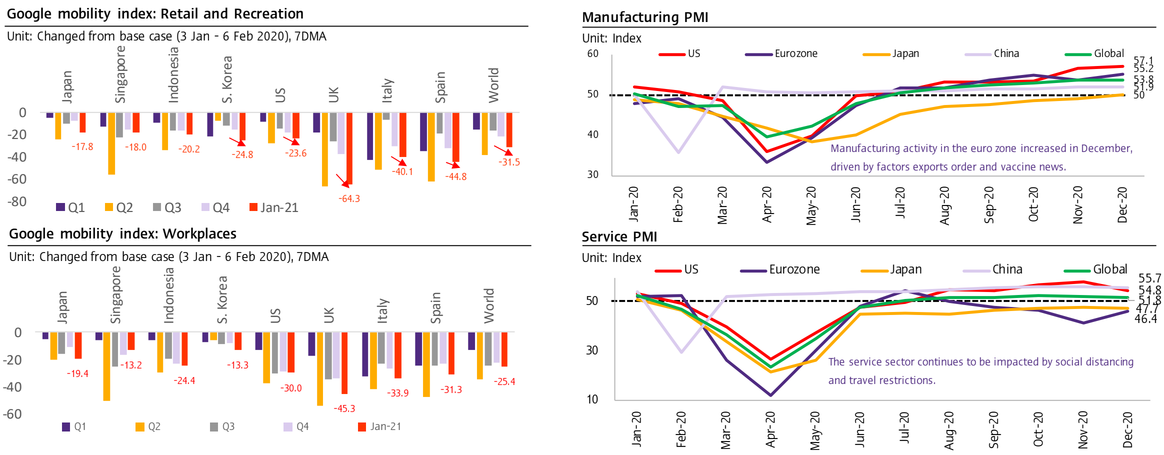
Nevertheless, the containment measures adopted recently are more location and sector-specific. The lockdown measures imposed during Q2/2020 severely impaired the global economy. Therefore, in the second round spread, several countries try to avoid using strict containment measures with large-scale impact and opt for more targeted containment measures in terms of location and sector, with the following examples :

1. **Governments tend to avoid nationwide lockdowns and used such measures only as a last resort.** Japan, for example, recently declared a state of emergency that was limited to Tokyo and 10 other prefectures, unlike the nationwide lockdown imposed during the first wave outbreak.
2. **Some sectors are allowed to continue operations.** Various countries in Europe allowed construction and manufacturing activities to continue, unlike the total lockdown during the first wave.

3. **Lessons learned from the prior lockdown allowed the business sector to better adapt and cope with the outbreak.** Examples included the development of e-commerce distribution channels, investments in equipment to facilitate work from home, and work schedule adjustments.

EIC views that the second wave lockdown should stall global economic recovery during the first half of 2021, though with lower impact compared to the first wave lockdown. Furthermore, the impact should be uneven among the different sectors. According to the Google Mobility Index (workplaces), the average readings of the movement trends in workplaces in various countries during Q1/2021 dropped slightly from the previous quarter. On the contrary, the Google Mobility Index (retail and recreation) that reflected the movement trends in retail and recreation dropped considerably from the previous quarter (Figure 4). Such trends suggested that different sectors saw differing impacts. Similarly, economic indicators signaled that the service sector suffered more serious consequences from the city lockdown compared to the manufacturing sector. In December 2020, the Manufacturing PMI index readings from various countries were over 50 (indicating expansion) and higher than the Service PMI index readings. Besides, key economies, such as Europe and Japan, reported Service PMI index readings below 50.

Figure 4: The business sector should see less serious consequences from the second wave outbreak as the manufacturing and construction sector could continue operations. However, the service sector will continue to be hampered by stricter containment limitations.



Source: EIC analysis based on data from IHS Markit and the National Bureau of Statistics of China

The governments of several key economies introduced additional economic stimulus measures. The US, for example, announced economic stimulus packages worth USD 900 billion in late December 2020, with additional measures anticipated in Q1/2021. The new packages included provisions to extend expiring programs to 13 March 2021 as many of such programs were due to terminate in December 2020. Furthermore, the packages expanded jobless benefits eligibility and allowed citizens to receive assistive payments for a longer period. Going forward, the US may introduce additional measures to boost economic growth, especially after Democrats won the Senate runoff election in Georgia. EIC views that the US could approve stimulus packages worth approximately USD 1 – 1.5 trillion (lower than Biden's proposal at USD 1.9 trillion) as Democrats will have to negotiate the parameters of the bill with Republicans to garner 60 votes to pass the bill. The parameters that could be negotiated include direct payments of USD 1,400 per person, funding to state and local governments, the extension of jobless benefits to September 2021, and healthcare-related funding, such as for vaccine inoculations and testing.

Apart from the US, other countries also announced fiscal measures to support economic recovery. Most stimulus packages included provisions to extend furlough schemes and low-interest loans. Meanwhile, other packages offered liquidity enhancement, debt moratorium for vulnerable businesses, and credit guarantee (Table 1).

Table 1: Economic stimulus measures introduced by governments of various countries.

Country	Fiscal measures introduced to support economic recovery in key economies
UK	The UK government extended the expiration of the furlough scheme and the business support scheme to April 2021. The government further introduced stimulus packages worth GBP 55 billion to support COVID-19 testing and vaccinations and enable long-term labor market enhancement (3 years plan).
Germany	Germany introduced the Bridging Aid III scheme to help small to medium-sized businesses and self-employed persons that suffered from a turnover decline of at least 30%. The scheme will provide monthly financial support to such parties until June 2021. Also, the scheme will offer state guarantee for business loans.
France	France extended its financial stimulus scheme under the European Union Solidarity Fund to help small and micro enterprises affected by the COVID-19 pandemic, as well as introduced debt moratorium and tax deduction measures to help affected households.
China	China extended loan relief measures for SMEs and micro-SMEs to Q1/2021. Furthermore, the government will join hands with commercial banks to provide loans to severely affected businesses (40% of the credit limit sponsored by the government).
Japan	Japan extended its loan support program for affected businesses to September 2021. Furthermore, the country established a fund to support digital transformation and operations in green energy projects, as well as issued measures to improve productivity to support mid to long-term development.

Source: Compiled and analyzed by EIC

The major central banks will continue to maintain accommodative monetary policies to support economic recovery and bolster investor confidence. From the most recent central bank meeting, the Fed and the BOJ will continue to maintain the current guidelines for asset purchases. Moreover, the BOJ extended liquidity support schemes for the business sector to September 2021. Meanwhile, the ECB announced to increase the size of its financial asset purchase scheme by EUR 500 million and extended the Targeted Longer-term Refinancing Operations (TLTRO III) to mid-2022. **Going forward, EIC expects that the Fed shall continue with financial asset purchases until 2022 and should leave the policy interest rate unchanged until 2024. The ECB and the BOJ may heighten interest rates following the Fed.**

With such regards, EIC anticipates a global economic soft patch during the first half of 2021 following the resurgence of the outbreak. However, recovery should be back on track in the second half from the rapid progress of vaccinations and the supporting stimulus packages

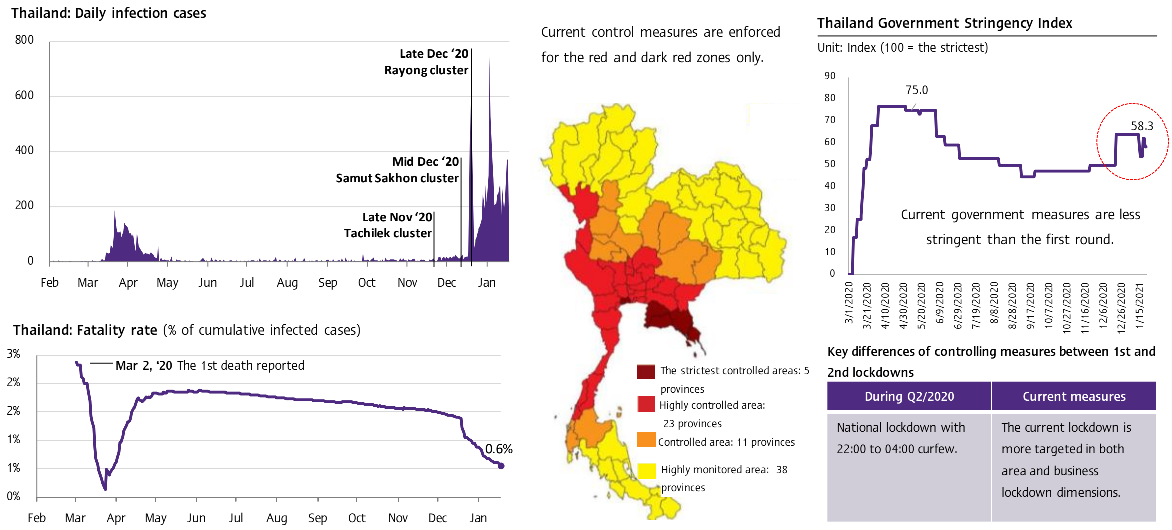
introduced in each country. Therefore, the global economic recovery may be weaker-than-previously anticipated just slightly.

The lower-than-anticipated global economic growth prompt EIC to cut the export forecast in 2021 to 4.0% from the previous estimation of 4.7%. The resurgence of COVID-19 cases should stall global economic growth in the short term. As such, Thai export growth could be weaker than previously anticipated, especially during the first half of 2021. Challenges from container shortages should also stall export recovery as exporters were unable to locate empty containers to export products and faced surging freight costs that undermined their profit margins. **Other pressuring risks include the stronger baht appreciation relative to regional peers.** EIC maintains the view that the baht will continue to appreciate and fluctuate in the range of 29.5-30.5 THB/USD by the end of 2021. External factors contributing to the firmer baht include the improving global economic conditions that should weaken the demand for safe haven assets, including the US dollar, increasing capital inflows to emerging market (EM) countries, including Thailand. As for domestic factors, EIC views that Thailand's current account surplus at 1.9% of GDP in 2021 will reconfirm Thailand's strong external position, thus maintaining the demand for the baht. Furthermore, after the US Treasury announced that it placed Thailand on its monitoring list, the placement could limit the Bank of Thailand's capability to monitor the baht. More importantly, Thailand could be labeled as a currency manipulator in the next US Treasury report as increasing purchases of the US dollar in tandem with the shrinking 2020 GDP prompted purchases of foreign exchange from January to December 2020 to account for 6.2% of Thai GDP.

3. The recurring outbreak will aggravate private consumption growth. Although the impact might not be as severe as during the first wave, the reduction in economic activities during the period could further exacerbate the damages incurred from existing economic scars.

Although the number of confirmed cases during the second wave outbreak was higher, the containment measures introduced were less strict. According to Figure 5, the daily and the cumulative number of reported COVID-19 cases during the second wave outbreak was higher than during the first wave (late March-May 2020), though the number of reported deaths continued to be small. Meanwhile, the containment measures issued were different during the 2 phases. In the first wave, the government introduced national lockdowns, while in the second wave, the government imposed location and business-specific targeted lockdowns. In the present, during the second wave, only designated red zone provinces (28 provinces) were subjected to public health containment measures. Furthermore, the business sectors saw more relaxed regulatory measures. Restaurants, for example, could still open for service, though dine-ins were allowed only until 21.00 hrs.

Figure 5: The confirmed cases reported during the new wave outbreak surpassed that of the first wave. However, the number of reported deaths was still small. Meanwhile, more targeted lockdown measures were declared compared to the first wave.



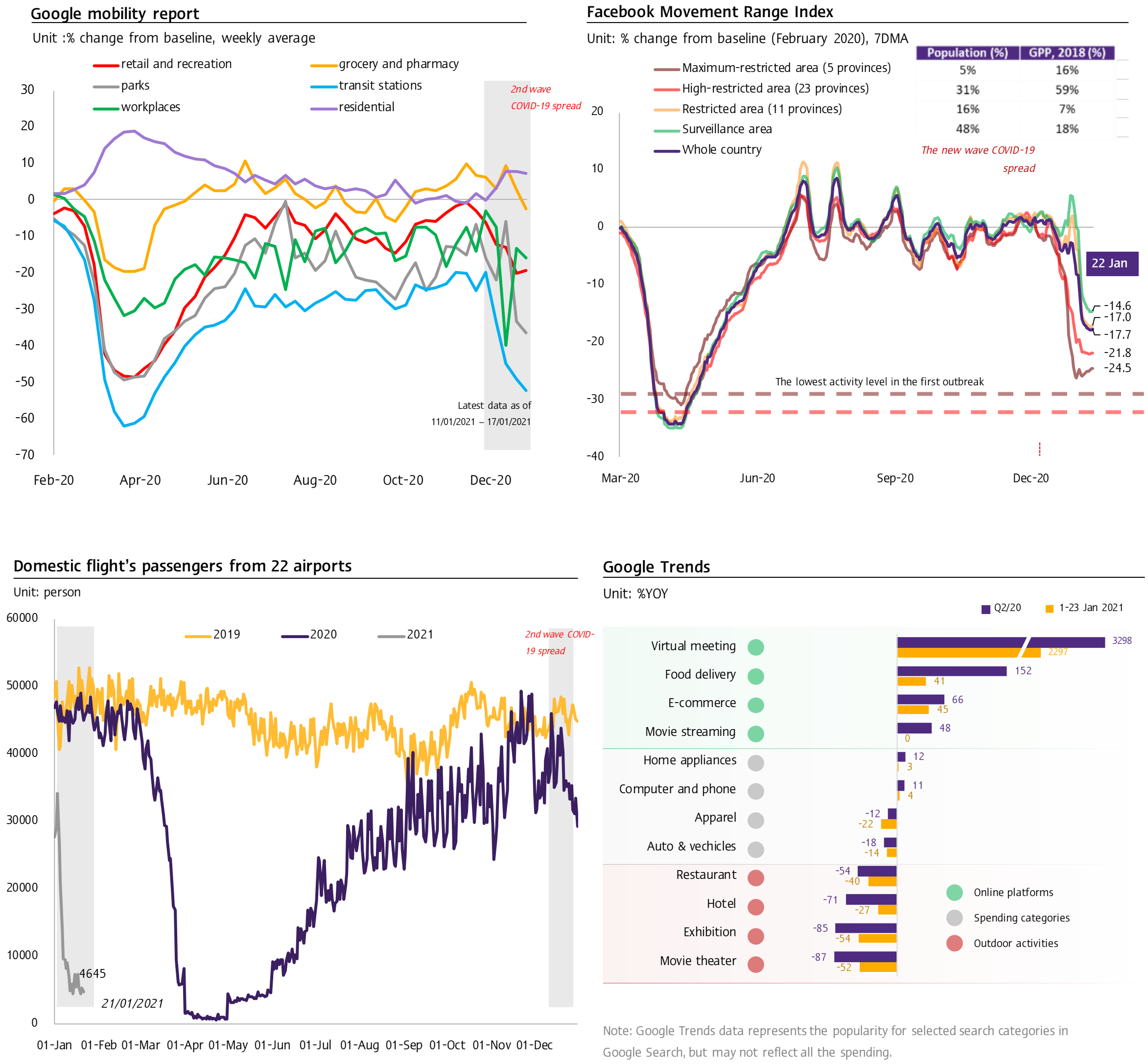
Key differences of controlling measures between 1st and 2nd lockdowns

During Q2/2020	Current measures
National lockdown with 22:00 to 04:00 curfew.	The current lockdown is more targeted in both area and business lockdown dimensions.

Source: EIC analysis based on data from WTO, MOI COVID, Oxford, the National Statistical Office, and the Ministry of Public Health

High-frequency data indicated that the new round of coronavirus outbreak directly impaired economic activities, especially activities that required face-to-face interactions. The mobility data reported by Google and Facebook (Figure 6, upper) suggested lower levels of economic activities as the mobility rate declined since the new outbreak was declared. Mobility significantly reduced in terms of transportation (transit stations). Meanwhile, in terms of locations, the areas subjected to intense containment measures or the red zone provinces saw weaker mobility readings. Furthermore, Figure 6 (lower) also suggested that economic activities that required face-to-face interactions stalled immensely. Such activities included traveling by plane and Google searches for restaurants, hotels, exhibitions, and movie theaters. On the contrary, the searches for online platforms surged as citizens were still worried about traveling to public areas. Such growing searches included food delivery, online sales, online meetings, and online movie services.

Figure 6: The new wave outbreak curbed economic activities, especially those requiring face-to-face interactions. However, the consequences from the second wave will be less acute.

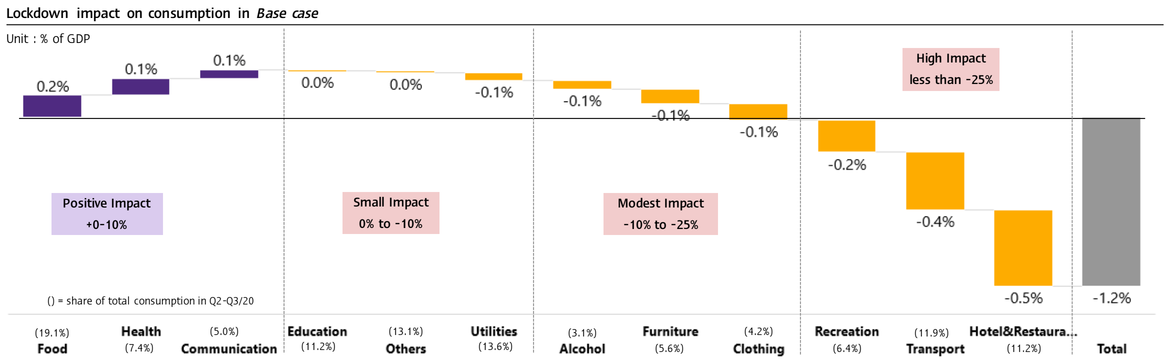


Source: EIC analysis based on data from Facebook, Google, and the Department of Airports

EIC expects milder economic implications from the second COVID-19 outbreak compared to the first. Figure 6 suggested that the impact from the second wave outbreak will be softer than during the previous round last year. Such data was as anticipated by EIC as **1) the more targeted lockdowns** restricted the scope of the impact, **2) the business and manufacturing sectors already worked out plans to cope with the outbreak** so that work will not be interrupted, including work from home or social distancing measures at the workplace, **3) the growing importance of e-commerce and delivery** significantly alleviated the impacts from social distancing, and **4) no reports on global supply chain disruption**, different from the condition during the past year as various countries adopted partial lockdowns that were more beneficial to the manufacturing sector. Furthermore, countries at the center of the global supply chain, such as China and Taiwan, had largely contained the virus spread domestically.

In the base-case scenario, EIC anticipates that the new outbreak should be contained within 2 months. The outbreak and declared containment measures should further cut private consumption by -1.2% of GDP. The new outbreak and announced measures may alter consumption behaviors. For example, consumption of food products, healthy lifestyle products, and communications (internet) should be higher than previously anticipated. Meanwhile, consumption of other products and services should decline, such as in the category of recreation, transport, and hotel & restaurant. With such regards, the overall impact on private consumption could be valued at THB 180 billion or 1.2% of GDP.

Figure 7: EIC views that in the base-case scenario, it will take 2 months to control the new outbreak. The impact from the outbreak and the introduced control measures should reduce private consumption by approximately -1.2% of GDP.



	Lockdown in Q2/20	2021 Base	2021 Better	2021 Worse
Containment duration and degree of measures	2 months Late Mar- Mid May 20	First 2 months of 2021	First 1 months of 2021 + softer stringency measures	First 3 months of 2021 + stricter stringency measures
Lockdown impact without stimulus Mn Bht (%of GDP)	-378,642 (-2.5%)	-180,868 (-1.2%)	-53,196 (-0.4%)	-368,810 (-2.5%)

Source: EIC analysis

Although the impact might not be as brutal, the new outbreak could still exacerbate the damages incurred from economic scars, thus limiting Thai economic recovery in the periods ahead. The second wave outbreak and new containment measures declared could worsen the damages from scarring effects. Such damages include **escalating business closures**. EIC recently analyzed data from the Department of Business Development reported during late 2019 and found that the face-to-face business sectors possessed vulnerable liquidity positions, especially the hotel and restaurant businesses. The calculated ratio of cash balance to operating expenses (cash buffer) for such sectors averaged at only 1 – 2 months (Figure 8). Of the analyzed hotel and restaurant businesses, over 50% had insufficient liquidity to continue operations for over 2 months. In such mentioned figures, the impacts from the lockdown during Q2/2021 were not yet reflected, suggesting that the weakened economic activities during the first and second month of 2021 will further suffocate the already vulnerable businesses. Without financial assistance, such companies could adjust by suspending operations or some could decide to terminate operations altogether. Such responses from the business sector will inevitably lead to **escalating unemployment figures, which will leave a deeper and longer-lasting economic**

scar on the Thai economy. Data from JobsDB.com also confirmed such findings. During the first half of January 2021, the number of online hirings via its website dropped by -2.7% (compared to the same period in the prior month). For face-to-face businesses, the drop was more severe at over -4.6% during the same period due to stricter lockdown limitations. Although the impact might not be as severe as during the first wave lockdown in Q2/2020, the reduction in economic activities during this period will put a heavy drag on the slowly improving economic conditions once again. Besides, such aggravating conditions could expose the business and household sectors to a higher debt burden from dwindling income, another critical economic scar that will stall Thailand's economic recovery in the periods ahead.

Figure 8: The liquidity positions of various businesses, especially of those with face-to-face services, further worsened from the new wave outbreak. Such conditions might force many companies to terminate operations, leading to higher unemployment.

		Firm liquidity					Firm labor demand	
	% of total firms	Cash Buffer (days)	%CB < 1 month *Potential closure*	%CB 1-2 months *High risk*	%CB 2-3 months *Rather high risk*	%CB 3-6 months *Moderate risk*	Change in online job in 1st lockdown *(% week 3-4 of Mar 20 vs week 3-4 of Apr 20)*	Change in online job in New Wave *(%chg. last 2 weeks vs H1 of Dec 2020)*
Face-to-face	**41.9%**	**98**	**25.2%**	**13.9%**	**9.1%**	**15.5%**	**-37.0%**	**-4.6%**
Hotel	2.1%	42	41.6%	17.5%	10.4%	12.3%	-66.8%	-10.3%
Restaurant	1.5%	53	36.6%	16.7%	10.4%	14.3%	-22.6%	-11.9%
Recreational	0.6%	95	26.2%	13.8%	8.4%	14.4%	-44.5%	0.4%
Transport	2.5%	97	25.5%	14.1%	8.5%	16.3%	-36.0%	-24.0%
WR (excl. auto)	35.1%	106	23.7%	13.6%	9.0%	15.8%	-39.7%	-0.5%
Others	**58.1%**	**112**	23.4%	13.0%	8.5%	15.4%	**-30.0%**	**-2.3%**
Total firms		**106**	**24.2%**	**13.4%**	**8.8%**	**15.4%**	**-31.2%**	**-2.7%**
Household		222	**34.8%**	**14.2%**	**10.9%**	**17.8%**		

More than half of hotels & restaurants face high risk

Online job posts in face-to-face sectors dropped more than those in other sectors

% of total firms in each sector

% of total number of households

Remarks: For business, Cash Buffer (CB) is calculated from cash divided by the sum of operating expenses, income tax and interest expense. Data as of end 2019. There are 273k firms with sufficient financial data available. // For household, CB is calculated from financial asset divided by total expenditure. Data as of 2019.

Source: EIC analysis based on data from the Department of Business Development, Enlite, JobsDB, and the National Statistical Office

Nevertheless, the government will play a vital role in supporting economic growth this year, with room for stimulus packages valued at approximately THB 640 billion. Apart from capital injections via normal budget disbursements, the government holds additional reserves for economic stimulus worth nearly THB 640 billion. Such additional budget consists of the remaining budget from the THB 1 trillion Emergency Loan worth THB 500 billion and the central budget worth THB 140 billion (central budget to alleviate affected persons from COVID-19 worth THB 40 billion and central budget for emergencies worth THB 99 billion). The government's latest stimulus was the introduction of the Rao Chana (We Win) relief package aimed to alleviate over 31.1 million affected persons with cash handouts of THB 3,500 per month for 2 months, or amassing to over THB 210 billion. Such a package should somewhat alleviate the damages caused by the new wave outbreak. When compared to the previous forecast, which did not incorporate impacts from the new wave outbreak, EIC expects that the government will issue a more sizable stimulus package than previously anticipated. Furthermore, the government could reallocate the budget so that more is assigned for relief packages rather than for investment.

Regarding financial measures, the BOT will continue to maintain accommodative monetary policies. Some of the BOT's latest measures include extending relief measures for debtors from December 31st last year, the terminating date for the second phase scheme, to June 2021. Going forward, the government could further ease soft loan approval criteria to incentivize new loans, including increasing the credit limit that financial institutions can lend, increasing the loan interest rate of financial institutions, and offering more compensations for bad debt. **For the policy interest rate, EIC expects that the MPC will maintain the rate at 0.5% throughout 2021** due to the gradual, uneven, and highly uncertain economic recovery, in addition to the growing debt burden in the business and household sectors after the crisis. As such, a low interest rate is a necessary tool that will help lower interest expense burden and somewhat support recovering economic conditions. However, the MPC could decide to cut the interest rate by 0.25%, if the outbreak cannot be controlled within the expected timeline and causing sluggish or contracting economic growth.

According to the aforementioned reasons, EIC decides to cut the Thai economic growth forecast in 2021 to 2.2% from the previous estimation of 3.8%. The tourism sector should recover at a slower-than-expected rate. Meanwhile, the second wave outbreak experienced in various countries could stall export growth in the short-run. The domestic outbreak should also hamper private consumption, especially during Q1/2021. However, the size of the government stimulus packages offered should be more sizable and should somewhat help sustain economic growth. Factors that warrant monitoring in 2021 include 1) the duration required to successfully contain the second wave outbreak, 2) potential delays in widespread vaccine distribution in Thailand, 3) economic scars that could deteriorate financial stability via increasing bad debt 4) political instability in Thailand that could weaken investor confidence, 5) drought as the water stored in major dams approached a level lower than the historical average, and 6) the stronger baht appreciation relative to trading partners and competitors could delay external demand recovery.

Figure 9: EIC cuts Thai GDP forecast in 2021 to 2.2% from the previous forecast of 3.8% following the resurgence of COVID-19 outbreak and the lower than anticipated number of international tourists.

Key 2021 forecasts	Units	Previous forecasts	Current
GDP	%YOY	**3.8**	**2.2**
Private Consumption	%YOY	2.5	2.7
Government Consumption	%YOY	3.3	3.3
Private Investment	%YOY	4.6	2.7
Government Investment	%YOY	9.8	8.8
Exports of goods and services	%YOY	6.2	-1.5
Imports of goods and services	%YOY	7.0	1.2
Export value (USD BOP basis)	%YOY	4.7	4.0
Import value (USD BOP basis)	%YOY	7.3	3.7
Headline Inflation	%YOY	0.9	1.1
Brent oil price	USD/Brl.	49.8	54.8
Policy rate (end-period)	%	0.50	0.50
Key assumptions			
Duration to Contain Outbreak	Month	-	2
Global Economy			
Tourist Arrivals	Million	8.5	3.7
	%YOY	26.6	-45.4

Rationale for forecast revisions

Pressuring factors:

- **Short-term global economic slowdowns** from the new waves of COVID-19 outbreak in various countries hampered exports
- **The recurring waves of COVID outbreak in Thailand** triggered partial lockdowns, thus hurting consumption in Q1/21
- **Downward revision of tourist arrival numbers** to 3.7 million persons

Supporting factors:

- **Additional government spending** to support affected households

Risk factors:

- Longer-than-anticipated duration to contain the outbreak
- Delays in domestic inoculations
- Damages from economic scars hurting financial stability
- Political uncertainty in Thailand
- The strengthening baht
- Drought from low levels of water stored in reservoirs

Source: EIC analysis

By: Economic Intelligence Center (EIC)
Siam Commercial Bank PLC.
EIC Online: www.scbeic.com