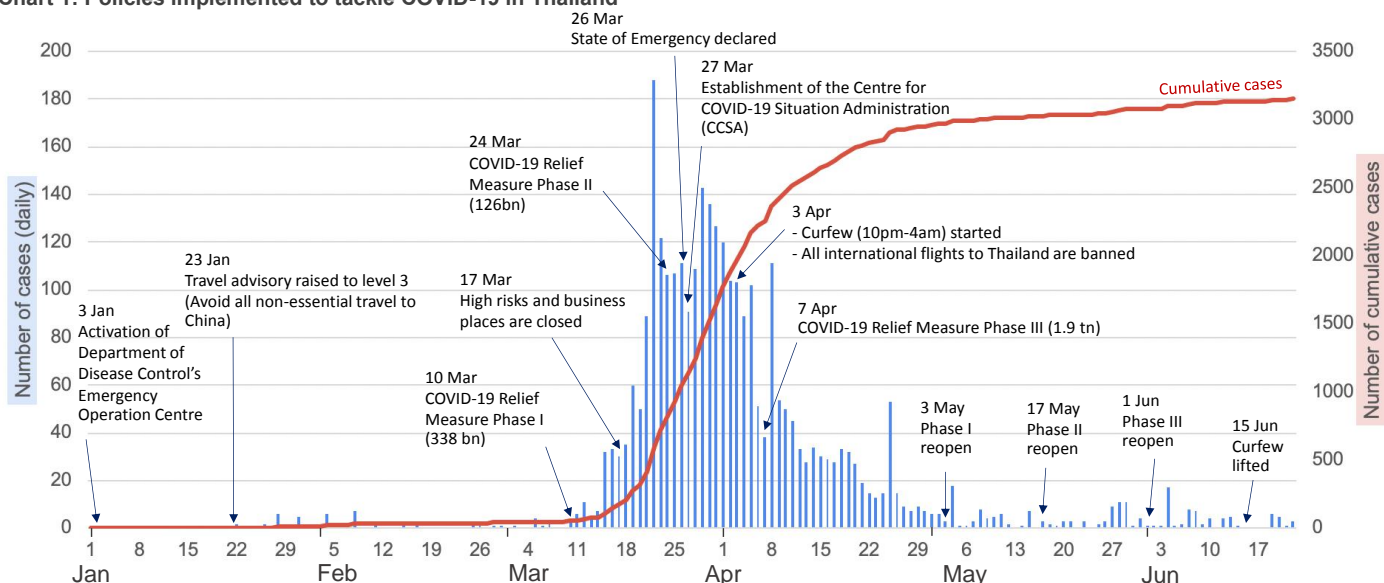


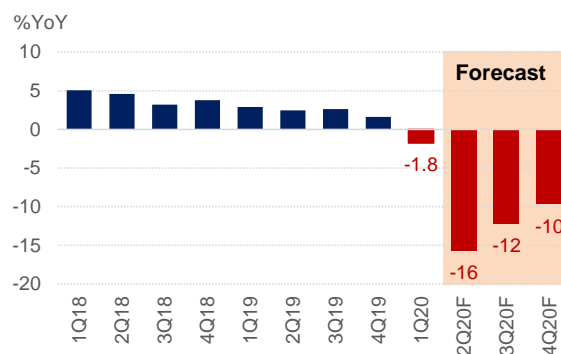
A brief overview of Thailand's economy

Chart 1: Policies implemented to tackle COVID-19 in Thailand


Source: Ministry of Public Health

Public Health Measures

- Swift actions by the Thai government helped containing the virus.** The government declared state of emergency on March 26th and curfew on April 3rd to limit inter-province travel and unnecessary social gatherings. This allowed the public health authority to focus on treating Covid-19 patients and prevent the health system from becoming overwhelmed.
- Thailand has done comparatively well in containing the infections** partly because of the norms and the behaviours of the Thai people and the government's social distancing measures. Most had already been wearing facemasks prior to the outbreak in response to the PM2.5 situation. Currently, nearly everybody wears facemasks when out in public or at large gatherings.
- In addition, Thai culture does not require much physical contact during greetings** (compared to European greetings: hugs, kisses, or handshakes), which limits the virus transmission. Further, Thai people shower on average twice a day and take off their shoes when entering their houses. These behaviours greatly decrease the risks of contamination.
- The officials also introduce appropriate measures to prevent the spread as lockdowns are gradually lifted in phases.** These include wearing masks in public (especially on public transport), providing free hand sanitizers at different spots in town, encouraging social distancing when sitting or queuing in public areas, requiring a plastic screen at restaurants and contact tracing by scanning QR code before entering public places such as shopping malls and restaurants.

Chart 2: GDP Forecast


Source: NESDC, Bangkok Bank Economics and Strategy

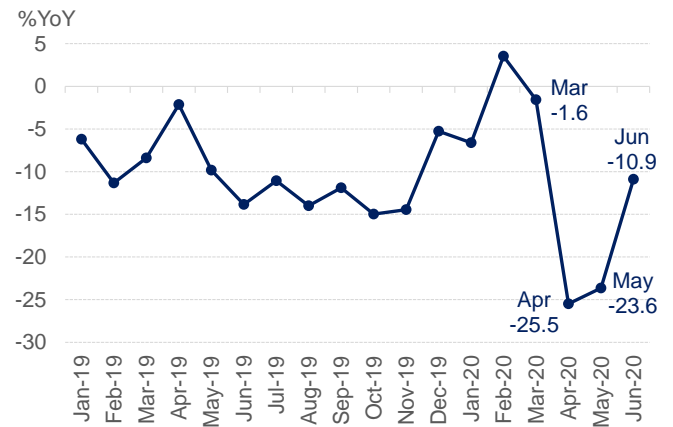
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Economic Outlook

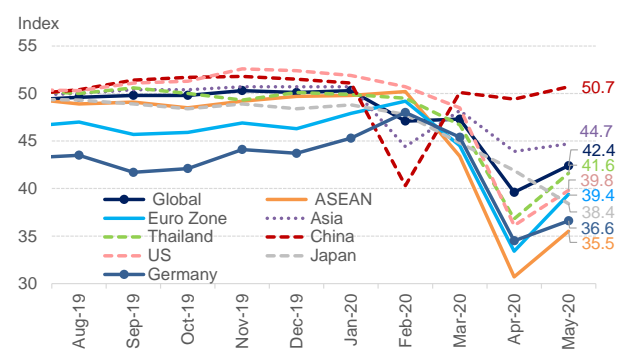
- We revised down our GDP forecast to -9.7% for 2020.** We expect private consumption turnout to be worse than BOT projection due to rising unemployment. At least 3 million workers could lose their jobs. Tourism is going through an unprecedented crisis. Even after borders reopening, we only see limited improvement in tourist arrivals. Travel bubbles could be established to provide a relief to the tourism sector, but probably with little impact to boost overall tourism in 2020. The auto industry is also facing a major downturn where in Thailand we could see the production down by 40-50% from a year ago. Combined together, these two sectors represent around 30% of our GDP (20% for travel and tourism, and 10% for auto industry). A prolonged downturn in both sectors could significantly push up unemployment rate to multi-year highs.
- With lockdown easing in May, some sectors of the economy will slowly recover in the coming months, but broad-based weakness remains.** Experiences from China suggest that a pre-lockdown normality may not be returned quite as quickly as many had hoped for. Cinemas still remain closed, and people still avoid public transport, and spend far less time at retail establishments.
- On the external front, we think global exports may have bottomed out, but several downside risks remain for the speed of recovery.** South Korea's trade data, a popular barometer for world trade, showed exports dipping by 10.9% YoY in June compared to a 23.6% YoY plunge in May (**Chart 3**). The improvement was mainly led by semiconductor shipments (+2.6% YoY), pointing to a gradual rebound in electronics exports. In addition, the Purchasing Managers Index (PMI) suggested that activities should continue to pick up as the PMIs for several countries improve in May from April (**Chart 4**). That said, only China's PMI was above 50—signifying an expansion in activity while the rest still remained well below 50.
- Nonetheless, the demand for Korean exports remained depressed in major nations such as the US (-10% YoY), Japan (-16.0% YoY), and the EU (-14.0% YoY), despite partial easing of restrictions. Also, the surge in number of infected patients in various places, such as the US and China, likely impeded the return to normality in many places. Therefore, even if trades have bottomed out, any recovery should be a very gradual one as we don't expect a v-shaped recovery in trade any time soon. **As such, merchandise export growth is likely to be dragged by the sluggish global recovery.**
- With weak global demand and uncertainties around the virus situation, tourism industry will likely remain muted for the rest of the year.** For Thailand, tourist arrivals fell to zero since April as restrictions to international flights was put in place from April 3rd, which was later extended until the end of June (**Chart 5**). The numbers are unlikely to improve over several months as our airspace remains closed. Although inbound travelling has been permitted for several groups of people for business, educational, and personal purposes, international travel ban for tourists is expected to remain in place until vaccines are successfully developed. Even in the event of the ban being lifted, the number of tourists would not reach 9 million for 2020 given the social-distancing measures for air travel and quarantines for inbound tourists. **Therefore, tourism is likely among the last sectors to recover.**

Chart 3: South Korea's Exports



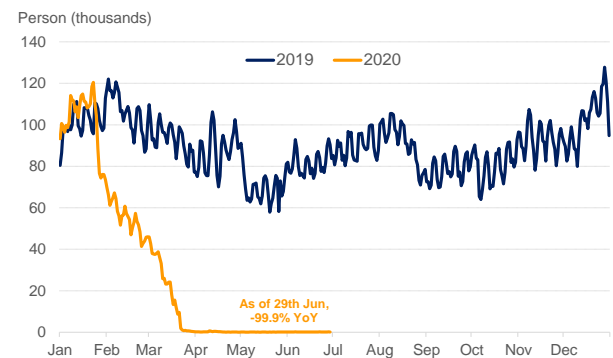
Source: Bloomberg

Chart 4: Purchasing Managers' Index



Source: CEIC

Chart 5: Daily International Arrivals



Source: Tourism Authority of Thailand

- On domestic front, several indicators are pointing to weakness ahead for both consumption and investment. In Q1, private consumption edged up by 3.0% YoY with rising purchases of non-durable goods (+2.8% YoY) as people stocked food and necessities prior to the lockdown. Service consumption also went up by 9.3% YoY with a jump in electricity usage by households. However, sales of durable products (-8.8% YoY), especially car sales (-17.3% YoY), and semi-durable goods (-4.4% YoY) all contracted.

- For the second quarter, consumption should deteriorate as lockdown of Bangkok along with various business closures have started since the end of March. Also, monthly car sales have contracted by more than 40% from March to May, implying that the demand for big ticket items is on a declining trend (Chart 6). On top of that, household spending is threatened by falling tourism and export income amid the weak global demand. It is estimated that around 10 million people are highly affected by the pandemic, with the largest group being retailers followed by cooks and waiters, hair dressers, tour guides, and transportation drivers (Chart 7). We project that there can be at least 3 million people losing their jobs going forward. Therefore, household consumption for the whole year will likely fall in tandem with feeble export and tourism sectors.

- Similarly, private investment should wane further from a 5.5 contraction in Q1 as demand, both domestic and external, continues to be weak and the virus situation remains uncertain. For instance, Thailand's automotive sector is likely to shrink by 40% YoY due to diminishing demand, with the number of cars produced falling to 1.2 million from around 2.0 million in 2019. Lower production in many sectors, including automotive, is already reflected in a declining Capacity Utilisation Rate (Chart 8). Furthermore, manufacturing PMI below 50 in May suggests that output will fall further in June. Lower production along with a relatively low business sentiment (Chart 9) will likely delay companies' decision to expand production and businesses in periods ahead, resulting in lower investment for the rest of the year.

- That said, the only upside for the Thai economy seems to be the government's policies. To fight the adverse impacts from the outbreak, the Thai government approved a fiscal stimulus in three phases totaling THB 2.36 tn (14% of GDP). The implemented policy tools include soft loans, cash transfers, bond purchase, local investment projects, and tax benefits (Chart 10). Also, with business disruption due to lockdown measures, the government approved THB 690 bn soft loans for businesses to provide liquidity and retain workers. (See Table 1 in Appendix)

- On financial stability front, the Bank of Thailand (BOT) announced relief measures for borrowers whose loans are not classified as non-performing loans (NPLs) as well as established Corporate Bond Stabilization Fund (BSF) of THB 400 bn for bond purchase (See Table 2 in Appendix). In addition, the central bank also issues Covid-19 emergency loans, including THB75 bn loans for affected individuals (agricultural workers, salaried employees, and freelance workers), THB500 bn loans for SMEs with credit lines not exceeding THB500 mn, and THB396 bn loans for affected SMEs in general.

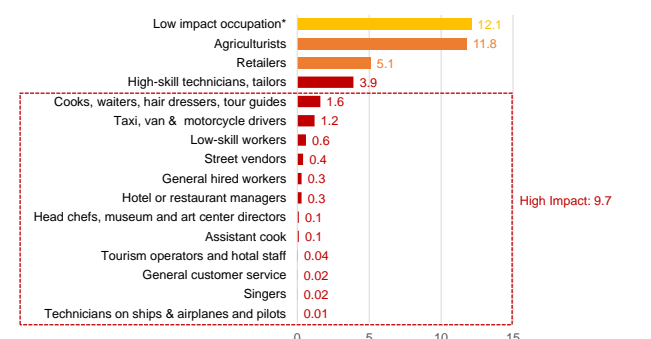
- The unprecedented scale of fiscal and monetary stimulus will likely help mitigate the adverse impacts, but the effectiveness depends on the speed of implementation where the necessary funds reach the right target groups.

Chart 6: Monthly Car Sales

%YoY	Total	Passenger car	Commercial car	SUV	Pickup
May-20	-54.1	-65.1	-47.4	-49.7	-47.5
Apr-20	-65.0	-74.7	-58.4	-64.8	-59.4
Mar-20	-41.7	-48.3	-37.6	-17.0	-41.8
Feb-20	-17.1	-15.4	-18.1	-19.1	-18.5
Jan-20	-8.2	0.4	-13.6	-0.6	-16.1

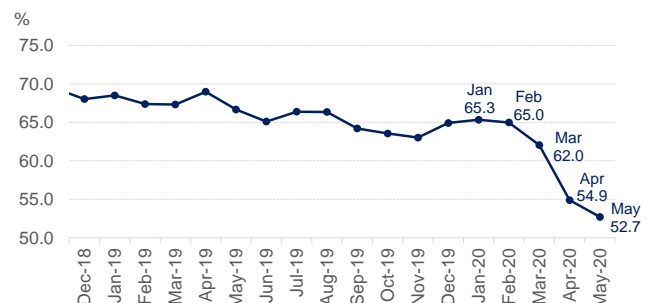
Source: CEIC

Chart 7: Employment Affected by Covid-19 Pandemic



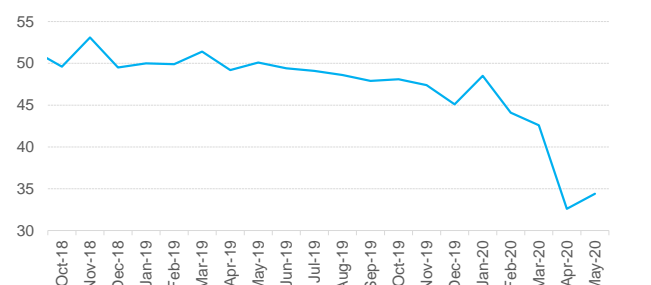
Source: BOT, Labor Force Survey Q32019, TDRI

Chart 8: Capacity Utilisation Rate



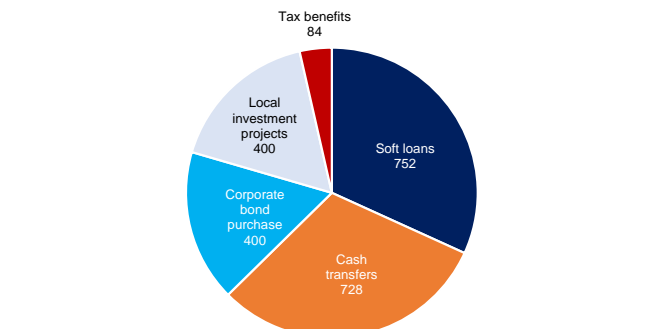
Source: Bank of Thailand

Chart 9: Thailand's Business Sentiment Index



Source: Bloomberg

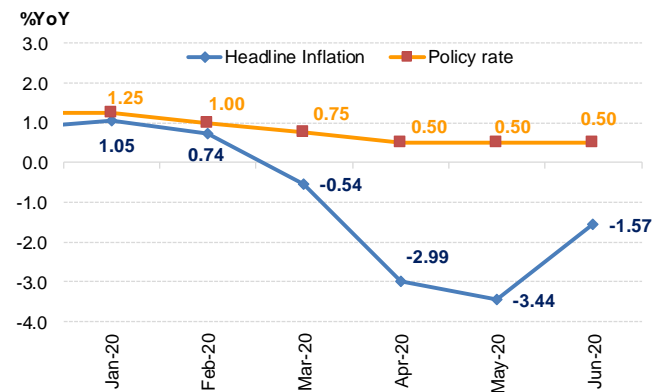
Chart 10: Thailand's Fiscal Policies (THB bn)



Source: Fiscal Policy Office

- Regarding the policy rate, we reckon there is a possibility for another rate cut following the previous 75 bps reduction delivered by the BOT. On June 24th, the Monetary Policy Committee (MPC) voted unanimously to maintain its policy rate at 0.50%. The central bank cited that the policy remains accommodative. Although, it downgraded its GDP forecast to a contraction of 8.1% from a previous projection of -5.3%. Overall, despite easing of lockdown measures leading to improvements in some economic segments, we still expect a depressed level of economic activity for a couple of years at least. **Therefore, with the strong baht an ongoing concern, the Bank of Thailand will have to deliver another rate cut in due course, coupled with a possibility of deploying unconventional policy tools.**

Chart 11: Headline Inflation and Policy Rate



Source: Bloomberg, BOT

In comparison with the 1997 crisis.

- In my view, the Asian financial crisis hit the banking system much harder as our system NPL rose to about 50% which prompted a central bank bailout and an IMF rescue fund.** But it was the sort of crisis which hit the wealthy harder than the ordinary people where it was a banking crisis and a solvency crisis for large corporates. The impacts on the economy then were severe by any measure. That said, Thailand recovered in what one might nowadays call a v-shaped recovery path. Back then, the external environment were much more benign where the rest of the world was growing briskly which, together with a sharp depreciation of the Thai baht, provided a backstop of sort for the Asian economies to recover themselves. Back in the late 1990s, Thailand was a different country, economically speaking, as we had a much younger population profile and the economy was capable of growing very rapidly as our potential remained largely untapped.
- This COVID-19 crisis is truly a global crisis where no countries are spared the severe economic impacts.** For the Thai banking system, we are much more prepared with ample capitals to deal with adverse shocks, and the private sector has become much more prudent following the 1997 crisis. The initial shock should not be an existential threat to the banking system and the corporate sector in Thailand. By contrast, this crisis hit perhaps the poor the hardest where they have to endure a sudden loss of livelihood, and incomes with lockdown measures and the absence of international tourists.
- No one quite knows where the vaccine or the treatment for the COVID-19 will become available.** Until then, life will not return to normal. The Thai economy, with a heavy reliance on tourism, will be slow to regain its foothold. Many economists expect Thailand to be one of the last group of countries to recover. This is taking place against a backdrop where the global economy remains weak, the Thai baht strong and globalization has probably peaked.
- Thailand will need a brand-new engine of growth, not relying entirely on the old model of tourism and exports.** Infrastructure should provide a welcome boost to the economy as construction can help revive the economy to some degree. Once completed, trade with our neighbours should provide a medium to long-term boost to the economy. The Eastern Economic Corridor could be another shot in the arm that Thailand needs where it can improve connectivity and raise competitiveness through competition and immigration to the new special economic zone. But we cannot neglect the need to improve education otherwise our workforce will not be able to adapt to the demands of the economic landscape of the new normal.

Appendix

Table 1: Thailand's Fiscal Stimulus

Phase	Total Value (THB bn)	Measures	Value (THB bn)
Phase 1	338	Soft loans for entrepreneurs	150
		Soft loans for companies to hire workers	30
		Electrical and water gurantee deposit refunds	36
		Tax breaks and delays	79
		Other expense reductions	43
Phase 2	126	Cash handouts*	45
		Soft loans for individuals	62
		Loans for SMEs	10
		Tax break and delays	5
		Other expense reductions	4
Phase 3	1,900	Increase in cash handouts **	225
		Other health-related plans and financial aids to affected individuals	375
		Economic and social rehabilitation projects	400
		Soft loans for SMEs provided by BOT	500
		Buying of corporate bonds by BOT	400

Note:

* Cash handout of THB 5000 per person for 3 months, covering 3 mn people

** Phase 2 cash handouts extended to 6 months from 3 months, covering the total of 9 mn people from previously 3 mn people

Source: Fiscal Policy Office

Table 2: Soft Loan Programmes

Target Group	Value (THB bn)	Duration	Interest rate	Additional details
For People	137			
Emergency loans (without collateral)	40	2 years, 6 months	0.1% per month	not exceeding THB10,000 per person
Special loans (with collateral)	20	3 years	0.35% per month	not exceeding THB50,000 per person
Loans for low income people	2	2 years	0.125% per month	
BOT emergency loans	75			
for agricultural workers	20	2 years	0.1% per month	not exceeding THB10,000 per person
for freelance workers	20	2 years	0.1% per month	not exceeding THB10,000 per person
for salaried employees	20	3 years	0.35% per month	not exceeding THB50,000 per person
for credit card refinancing	15	4 years	8.5% - 10% per year	not exceeding THB100,000 per person
For businesses	1,086			
Entrepreneurs	150	2 years	2% per year	not exceeding THB2 mn per person
Companies / entrepreneurs registered with the SSO (to retain workers)	30	3 years	3% per year	companies must retain at least 80% of their employees for 3 years once they received the loans
SMEs	906			
Loans for tourism-related SMEs	10	5 years	3% for the first two years	not exceeding THB3 mn per company
BOT additional loans for SMEs with credit line not exceeding THB500 mn	500		2% per year	not exceeding 20% of the existing debt of eligible company no principle and interest payments for the first 6 months
BOT additional loans for affected SMEs	396			in addition to the BOT's THB500 mn loans for SMEs
Total	1,223			

Source: Bank of Thailand

Table 3: Bank of Thailand's Measures

	Measures	Details	
Loan payment holiday	Personal loans	commercial banks and SFIs: 3-months principle and interest payment break other financial institutions: 3-months principle and interest payment break or at 30% reduction in monthly payment for 6 months	
	Hire purchase and leasing	3-months principle and interest payment break or 6-months break for principle payment only	
	Mortgage loans and SME loans	3-months principle payment break and a discount in interest payment (rates depend on financial institutions) 6-months loan payment break for SMEs with credit line not exceeding THB100 mn	
Soft loans	Emergency loans for affected individuals	Low interest rate loans of different rates for agricultural workers, freelance workers, and salaried workers affected by the outbreak as well as loans for credit card refinancing	
	Emergency loans for SMEs	affected SMEs: various types of loans with different interest rates available at state-owned banks affected SMEs with credit line not exceeding THB500 mn: concessional interest rate of 2% per annum and interest-free for 6 months	
Charge reduction	Credit card and revolving loans	Year 2020-2021 2022 2023	Minimum interest charge 5% 8% 10%
		FIDF fees	reduced to 0.23% of the deposit base per annum from 0.46% for two years
Rule relaxation		Affected debtors	will undergo pre-emptive debt restructuring once start having issues with debt repayment
	NPL borrowers	will be classified normal borrowers if they are able to comply with their new contracts for 3 consecutive months	
	Non-performing assets	financial institutions can hold NPAs acquired from restructuring programs for up to 10 years instead of 5 years previously	
Financial market stability	Purchase of corporate bonds	high-quality corporate bonds maturing during 2020-2021 will be purchased through the Corporate Bond Stabilization Fund (BSF)	

Source: Bank of Thailand

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