krungsri
Research

A member of MUFG
a global financial group

# REGIONAL ECONOMIC OUTLOOK

## 2020 Update

July 2020

Krungsri Research

# Mid-year Review and Outlook for 2020

## ASEAN

- Dimming growth outlook across ASEAN; some countries may be able to avoid a recession.
- Fight against COVID-19: Uneven success, infection rates are still high in Indonesia and the Philippines.
- The pandemic has affected the real sector, both supply and demand side; pinning hopes on consumption to cushion the effects.
- Surging debt to finance fiscal stimulus could threaten countries with weak fundamentals.

## Myanmar

- Growth would be slowest since record began in 1999; stronger headwinds suggest further downside risks.
- Disappointing production and export activities would drag growth.
- Ongoing reform could help to draw FDI.

## Lao PDR

- The pandemic has dampened structural vulnerabilities; growth will slump amid rising economic instability.
- External receipts will be capped further due to sharply weaker growth at its major partners.

## Vietnam

- 1H20 GDP grew 1.8% YoY; government might miss 2020 growth target of 5% but it will remain positive.
- Domestic demand would remain key economic driver.
- FDI should improve on the back of positive growth prospects.

## Cambodia

- The pandemic hurt growth in the broad economy; it is projected to contract for the first time.
- This will be driven by a downturn in the tourism, textile & garments, and construction industries.
- Limited support factors, but diversifying export markets could lift longer-term prospects.

## Philippines

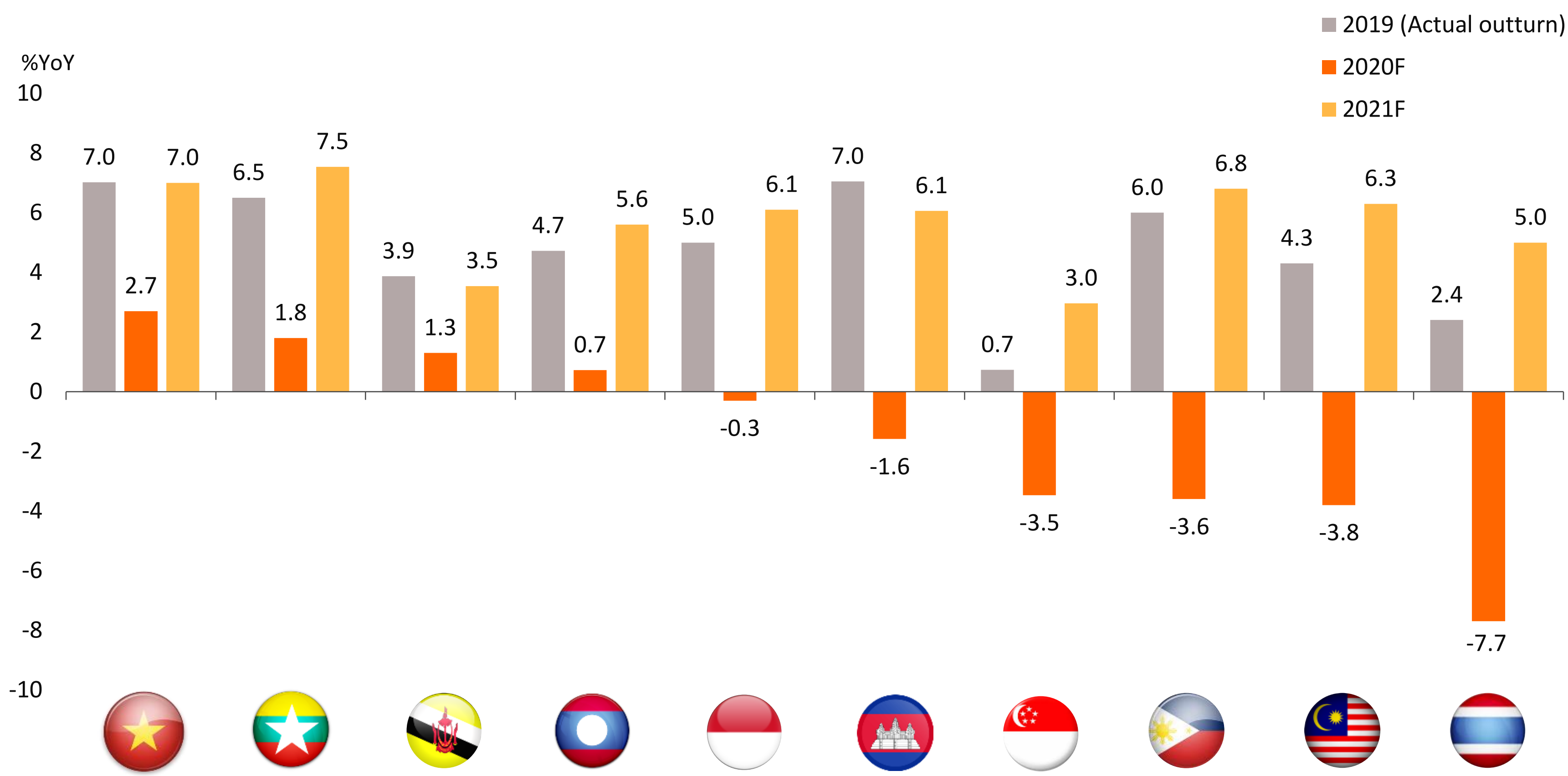
- The economy shrank by 0.2% in 1Q20, and will register a larger contraction for the full-year.
- Consumption spending will deteriorate, driven by record-high job losses and a sharp drop in remittance receipts.
- Large stimulus package to support growth, but that will be delivered over a period of time.

## Indonesia

- Economic growth slowed to 3.0% in 1Q20; full-year growth is likely to be in negative territory.
- COVID-19 outbreak will worsen already-weak domestic consumption.
- Sizeable fiscal and monetary stimulus would cushion the weak economic growth this year.
- Public debt will rise but remain manageable

# Weak growth outlook across ASEAN; some countries may be able to avoid a recession

Economic projection for ASEAN members (2019-2021)



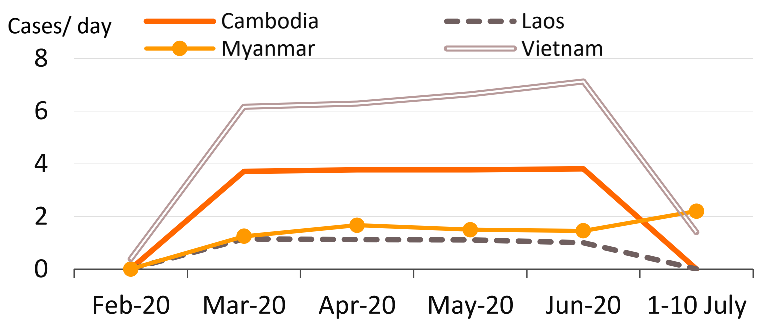

Note: Projection for ASEAN-5, including Indonesia, Malaysia, Philippines, Singapore, Thailand, are revised in June 2020.

Source: IMF WEO (April and June 2020), Krungsri Research

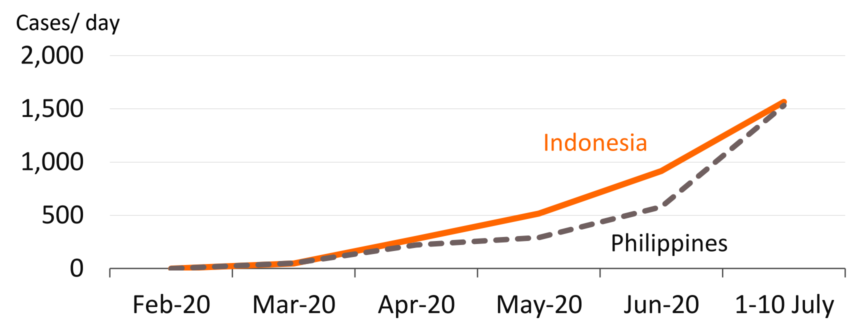
# Fight against COVID-19: Uneven success, infection rates are still high in Indonesia and the Philippines

- **SE Asian countries were among the first outside China to report COVID-19 cases since January, and the number of cases are still rising**. The number of confirmed cases in the region has been accelerating since mid-March to 1180,789 as of 10 July. Since implementing lockdown measures for at least two months, **new cases in CLMV is relatively stable with single-digit** new cases in June. However, daily new cases in the Indonesia and Philippines have surged from 50 in March to over 1,500 in both countries in the first two week of July. Despite this, Indonesia recently announced plans to fully reopen economy by August, and the Philippines has extended the general community quarantine (GCQ) for Metro Manila to 31 July and will ease restrictions in stages depending on data and available healthcare resources.
- **Looking ahead, Indonesia's and Philippines' economies would be further pressured by still-high infection rates and extended lockdown, especially given fragile domestic and external demand. CLMV economies are expected to improve gradually supported by stimulus programs to boost domestic consumption and public investment, given weak external demand. However, recovery will be uneven across the region depending on each country's economic fundamentals.**

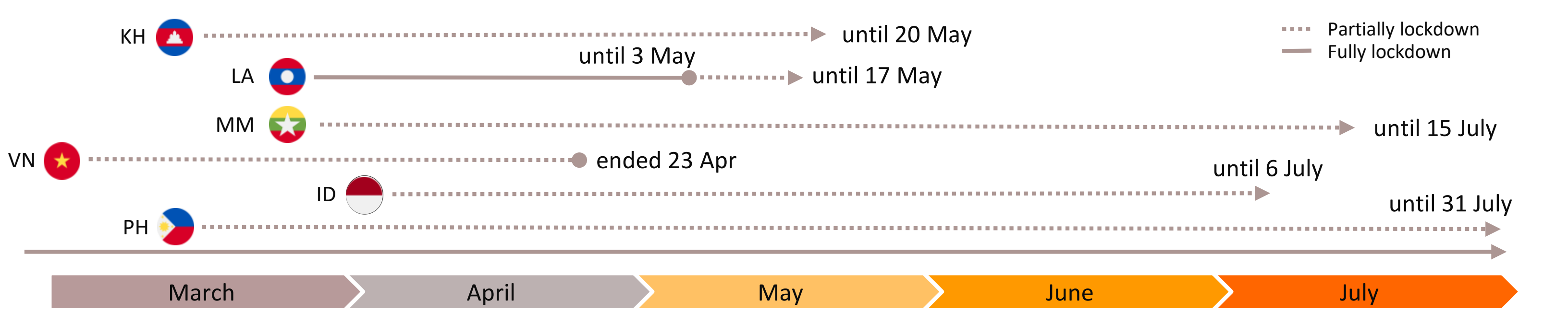
**Average new Covid-19 cases in CLMV**




**Average new Covid-19 cases in Indonesia and Philippines**




**Duration of lockdown and restricted measures by country**

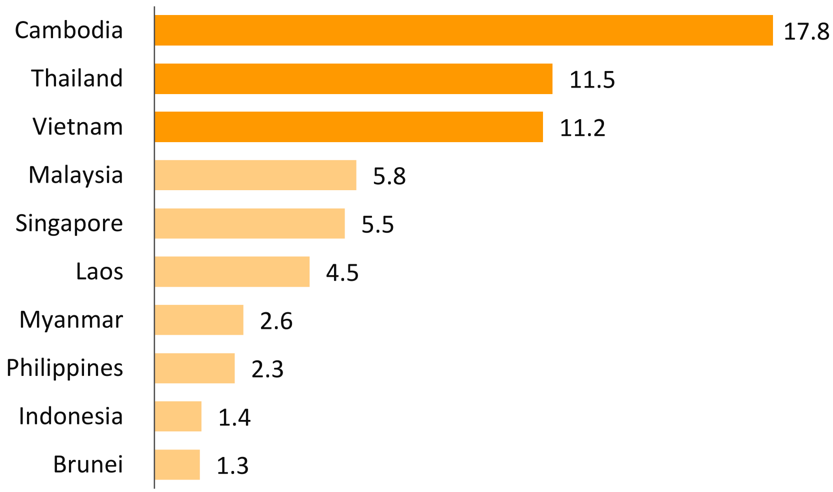



Source: WHO, Local news media, CEIC, Krungsri Research

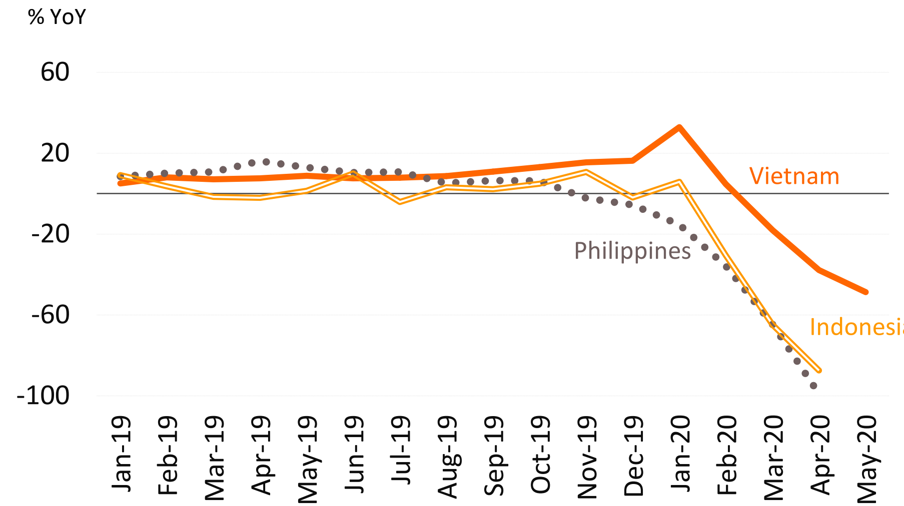
krungsri Research

# Bleak outlook for tourism-dependent nations in 2020

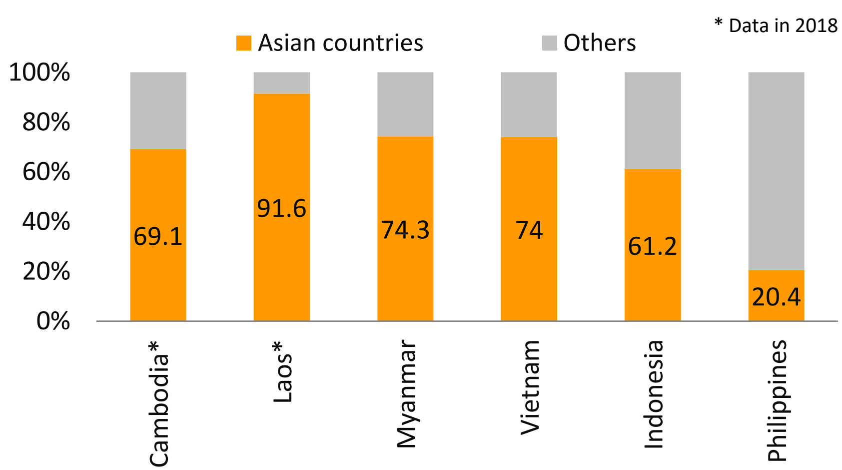
**Share of tourism revenue to GDP (%, 2018)**




**Tourist arrivals in selected ASEAN countries**




**Asian visitors in selected ASEAN countries**

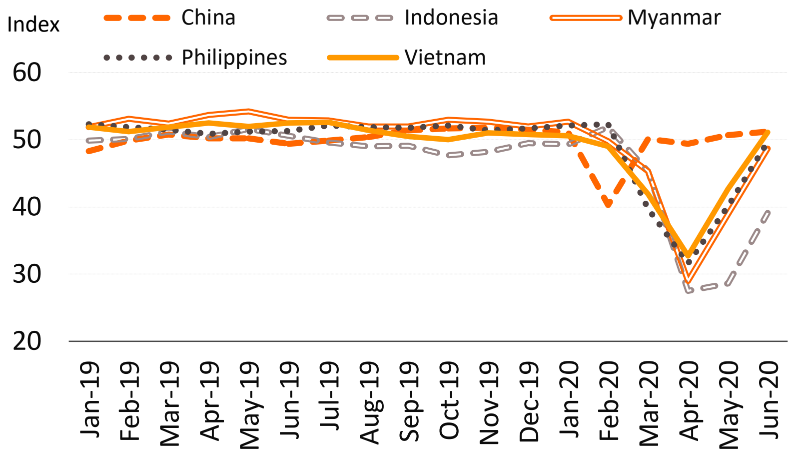



Source: World Bank, Governments' official tourism website, CEIC, Krungsri Research

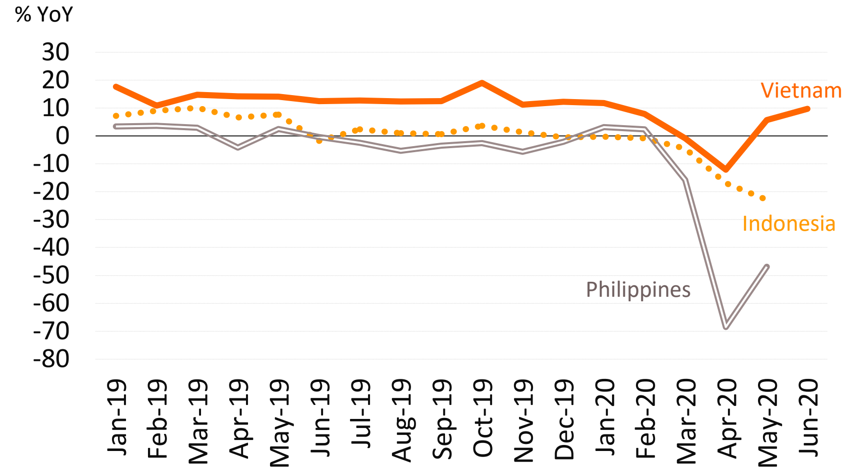
- **The region's tourism industry has been hit hard following the sharp drop in Chinese tourists since the outbreak, and subsequently, strict travel restrictions under lockdown.** Cambodia and Vietnam are among the hardest hit because tourism revenues account for 10-20% of annual GDP. **Struggling to reopen their economies, several countries are trying to encourage domestic tourism first.** Vietnam has launched the *Vietnamese people travel Vietnam* campaign. **Vietnam's economy would gain from this and see a larger impact from domestic tourism than peers** in the region, because domestic demand is relatively strong and domestic tourism accounts for c.40% of total tourism revenues (pre-Covid).
- **ASEAN countries are also considering bilateral travel bubble arrangements** to allow inbound tourists/travelers from selected countries – probably from within the region and nearby Asian countries initially – which have successfully contained the pandemic. However, **there are lingering uncertainties, including fears of a second outbreak as well as additional expenses** to comply with safety and health requirements in each country. Hence, **prospects for the ASEAN tourism industry will remain weak this year.**

# Pandemic has affected the real sector, from supply to demand side; hoping for consumption to cushion drop

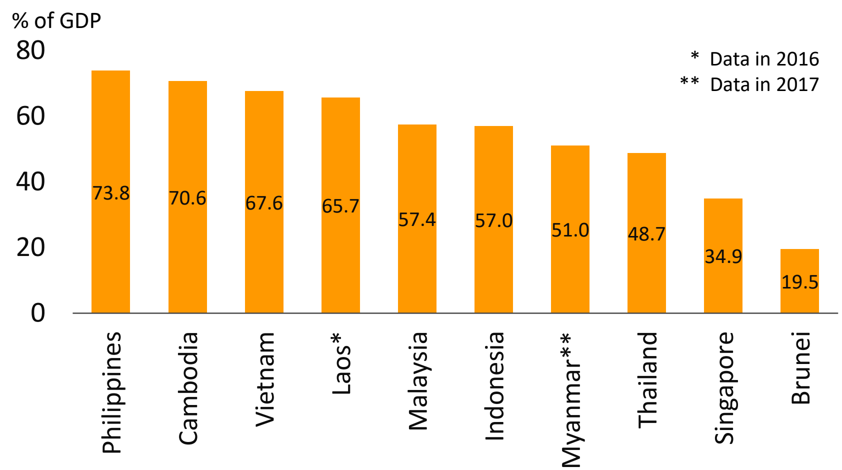
**China and selected ASEAN countries' PMI**




**Retail sales in selected ASEAN countries**




**Household consumption of ASEAN countries (2018)**



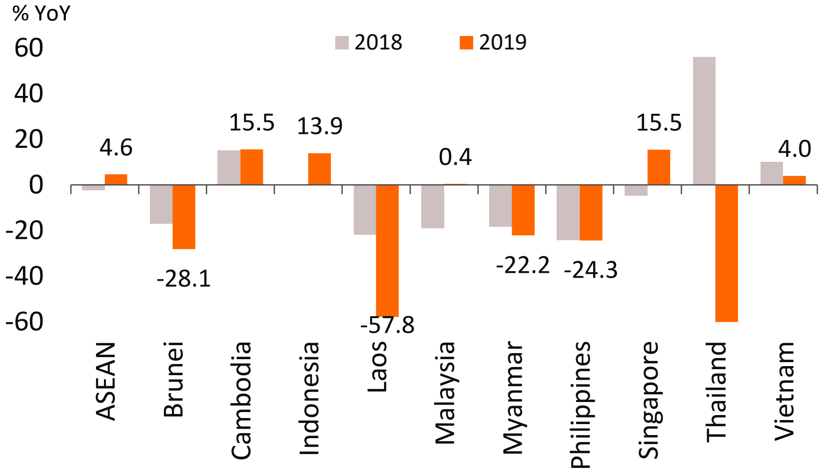

Source: World Bank, HIS Markit, CEIC, Krungsri Research

- When China locked down most of its major cities for over 2 months from late-January to March to contain the COVID-19 outbreak, most of the ASEAN economies were crippled by the sudden disruption to supply chains because c.24% of total imports is from China. And subsequently, most ASEAN countries were also locked down, causing both domestic spending and exports to tumble. This led to a deep contraction in manufacturing activities in 1H20. However, **we observe that countries with strong domestic demand and relative success in containing the outbreak, such as Vietnam, experienced a faster recovery in domestic consumption and manufacturing activities.**
- Given expectations of a deeper-than-projected global recession, external demand would continue to contract this year, and consequently, dampen trade-dependent ASEAN economies – especially Vietnam and Cambodia where trade accounts for 200% and 130% of GDP, respectively.
- **Looking ahead, given weak prospects for external demand, we anticipate the ASEAN economic growth would be supported by stimulated domestic consumption – accounting for an average of 55% of GDP. However, the stimulus impact would be limited this year and uneven across the region depending on each country's fundamentals.**

# FDI is expected to tumble; public infrastructure investments would play a bigger role to support growth

- **The lockdowns across the region to contain the COVID-19 outbreak had stalled most manufacturing activities. Tumbling businesses earnings, weak global and regional demand, and expectations of a global economic recession will prompt investors to postpone investment plans.** According to UNCTAD (United Nations Conference on Trade and Development), greenfield investment in Asia fell by 37% YoY in 1Q20 while the number of mergers and acquisitions (M&A) had dropped by 35% YoY, as of April. **UNCTAD estimates FDI inflows to Developing Asia would contract by 30-45% YoY in 2020, following a 5% drop in 2019.**
- **The dimmer prospects for FDI inflows would hurt growth in several ASEAN countries, especially Cambodia (FDI accounted for 12.7% of GDP in 2019), Laos (7.3% of GDP), and Vietnam (6.3% of GDP).**
- **To spur domestic investment to cushion the impact of weaker FDI inflows as well as to stimulate economic growth, governments of several ASEAN countries are accelerating public infrastructure investment projects. Vietnam** recently announced it would hasten approval and disbursement of funds for infrastructure projects worth VND700trn (USD30bn, 11.5% of GDP) in 2020. **The Philippines** passed a bill to support a 3-year investment plan under the *Build-Build-Build* program worth PHP1.5trn (USD30bn, 9.1% of GDP), at PHP500bn per year over 2020-2022. Some have decided to expand existing investment programs, such as **Indonesia** which has vowed to add 89 new infrastructure projects worth IDR1.422qdn (USD110bn, 10.4% of GDP).
- **Though the primary aim is to stimulate economic growth this year, we anticipate it would be difficult to realize all investments in the targeted period, which means 2020 economic growth would miss targets.** Given that most of the public infrastructure projects are huge and require a lengthy regulatory process, especially disbursement and land allocation, it would take some time before the funds would be injected into the economies.

**FDI inflows in ASEAN**



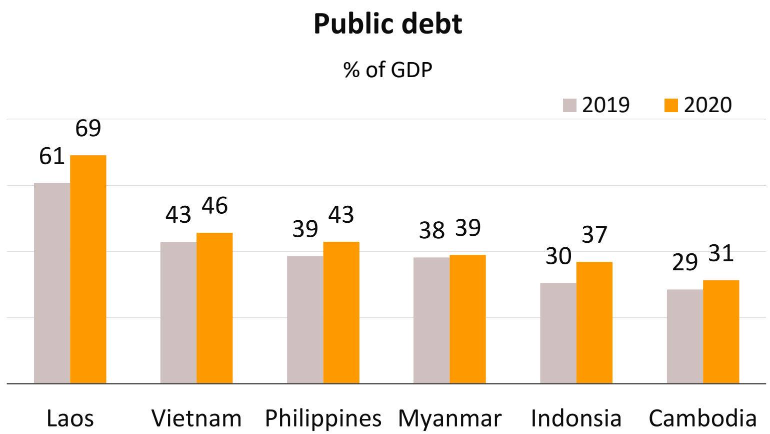

**Major infrastructure projects**

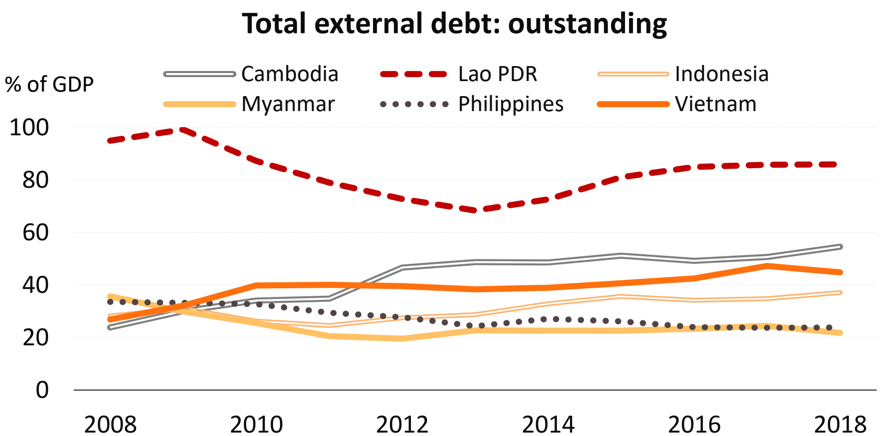
| Vietnam | Indonesia | Philippines |
|---|---|---|
| Total: USD30bn in 2020 | Total: USD110bn during 2020-2022 | Total: USD30bn during 2020-2022 |
| • The North-South Expressway (40% of total investment)<br>• The My Thuan – Can Tho Highway<br>• The Long Thanh International Airport<br>• The expanded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

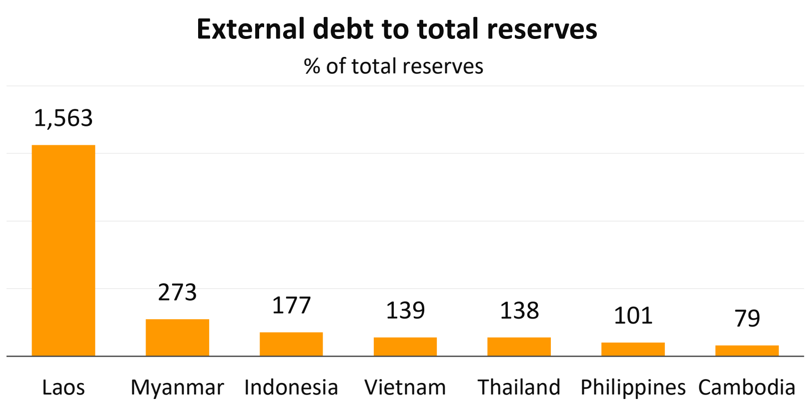
Source: UNCTAD, CEIC, Krungsri Research

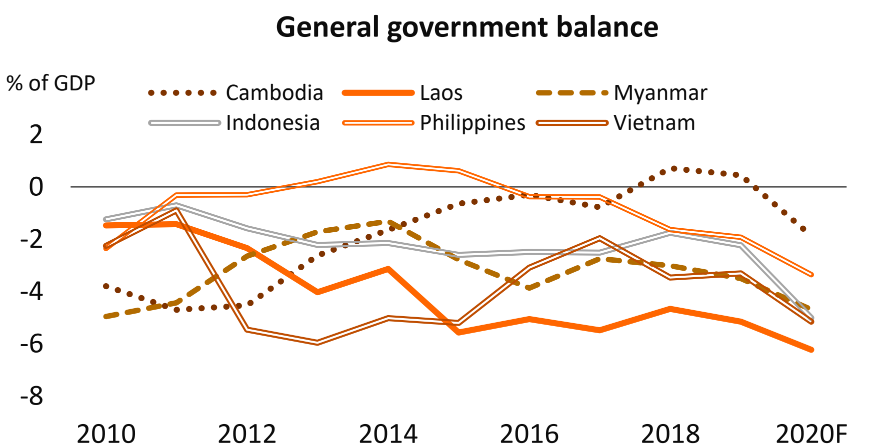
# Surging debt levels to finance fiscal stimulus programs could threaten countries with weak fundamentals

- ASEAN countries are among Emerging Markets that will see higher debts as governments seek additional financing to cushion the Covid-19 impact on their economies. **Countries with already-high public and external debt will face higher debt risk**, especially Laos, Vietnam, Cambodia, and Philippines. In the meantime, there are some nations that also have high external debt to total reserves, which implies limited liquidity to finance a further increase in external debt. Specifically, countries with high external and public debts as well as large fiscal deficits are considered to have weak fundamentals, and would have weaker ability to sustain debt levels and fiscal stability in the future. **These will pressure sovereign credit ratings if the pandemic is not contained soon. They include Laos, Vietnam, and Indonesia.**




Source: World Bank, IMF WEO (Apr 2020, CEIC, Krungsri Research

# Snapshot of COVID-19 impact on regional economy

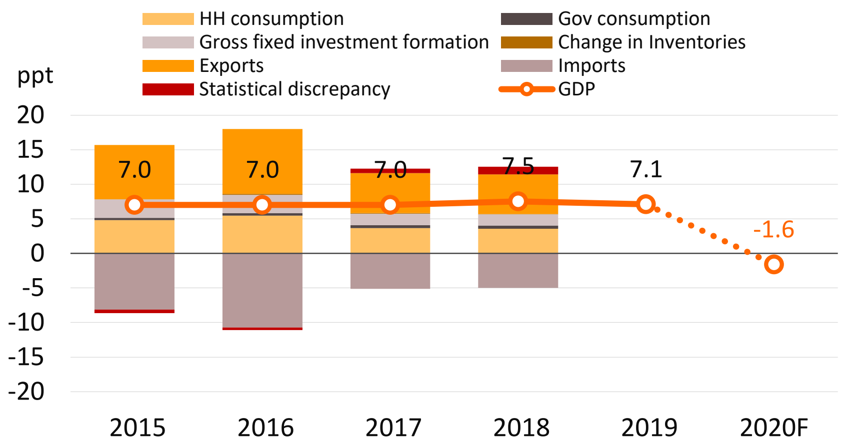
| Issue | Cambodia | Laos | Myanmar | Vietnam | Indonesia | Philippines |
|---|---|---|---|---|---|---|
| **COVID-19 situation** | | | | | | |
| **COVID-19 infected cases (cases, as of 10 July 2020)** | 141 | 19 | 321 | 369 | 70,736 | 51,754 |
| **1Q20 economic indicators** | | | | | | |
| **Real GDP growth (%)** | n.a. | n.a. | n.a. | 3.8 | 3.0 | -0.2 |
| **Inflation (%, avg)** | n.a. | 6.4 | 8.0 | 3.1 | 2.8 | 3.2 |
| **Retail sales growth (% YoY)** | n.a. | n.a. | n.a. | 6.4 | -1.9 | -4.2 |
| **Tourist arrivals growth (% YoY)** | -38.5 | n.a. | n.a. | -18.1 | -31.1 | n.a. |
| **Export growth (% YoY)** | 9.9 | -25.5 | -1.7 | 7.6 | 2.8 | -5.1 |
| **Import growth (% YoY)** | 14.5 | -29.4 | 31.0 | 3.4 | -3.7 | -13.6 |
| **FDI growth (% YoY)** | -52.7 | n.a. | 6.3 | -20.9 | -5.4 | -34.2 |
| **Projected economic indicators for 2020** | | | | | | |
| **Real GDP growth (%)** | -1.6 | 0.7 | 1.8 | 2.7 | 0.5 | 0.6 |
| **Inflation (%)** | 1.5 | 6.5 | 6.2 | 3.2 | 2.9 | 1.7 |
| **Current account balance (% of GDP)** | -22.2 | -10.9 | -4.7 | 0.7 | -3.2 | -2.3 |
| **Budget balance (% of GDP)** | -1.9 | -6.2 | -4.7 | -5.2 | -5.0 | -3.4 |
| **Public debt (% of GDP)** | 30.1 | 56.2 | 38.7 | 53.3 | 30.0 | 39.3 |

Source: IMF, World Bank, CEIC, Krungsri Research

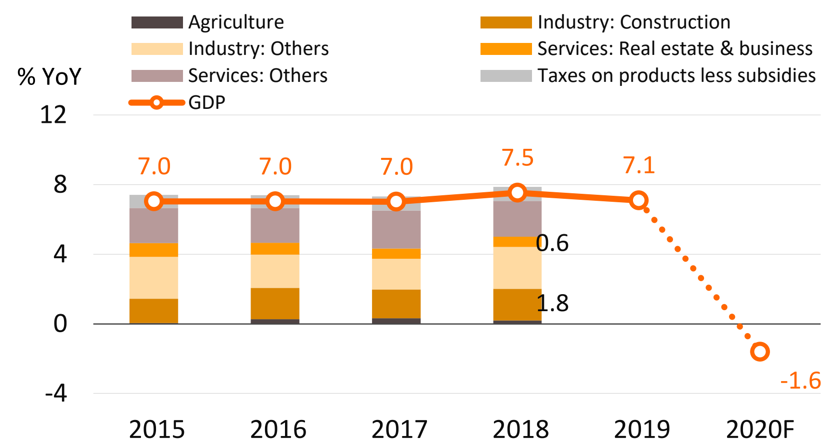
# CAMBODIA
## ECONOMIC OUTLOOK
### 2020 UPDATE

# *Cambodia:* Pandemic has hurt broad growth, and the economy is projected to contract for the first time

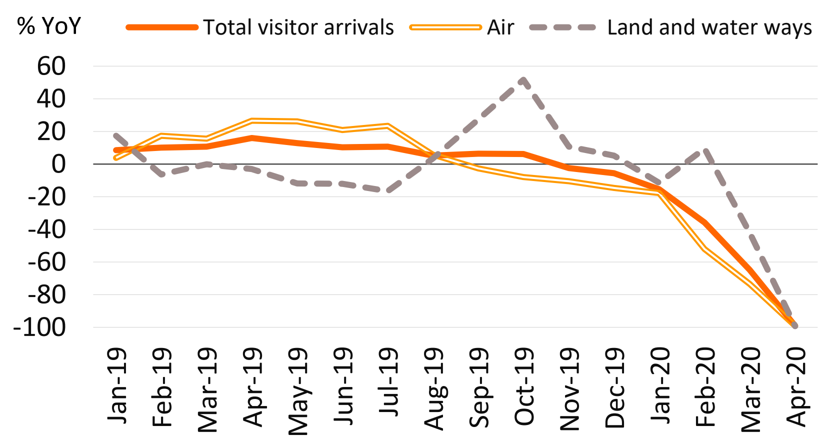
### Contribution to GDP: Expenditure side




### Cambodia: Contribution to GDP: Production side




### Cambodia's visitor arrivals



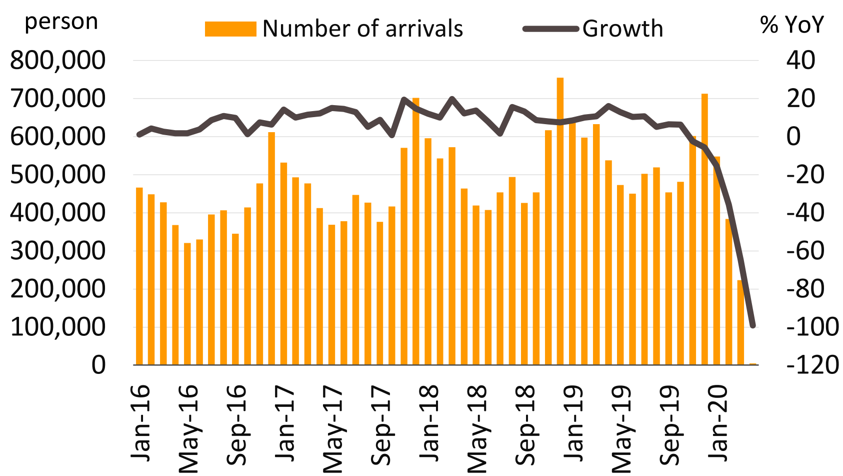

### Krungsri Research's view

- **2020 will be the worst year for Cambodia. In 1Q20, the COVID-19 pandemic had almost halted tourism, exports, and FDI.**
- Extended restrictive measures worldwide and in the country would further hamper Cambodia's travel and tourism sectors, which contributed 18% of GDP pre-Covid. Exports and FDI would also continue to drop premised on expectations of a weaker global economy due to Covid-19 impact. And, the country would be hurt by the partial withdrawal of its EBA preferential status by the EU effective 12 August, 2020.
- Hence, we are in line with the IMF's April 2020 projection for Cambodia's economy to contract by 1.6% this year.

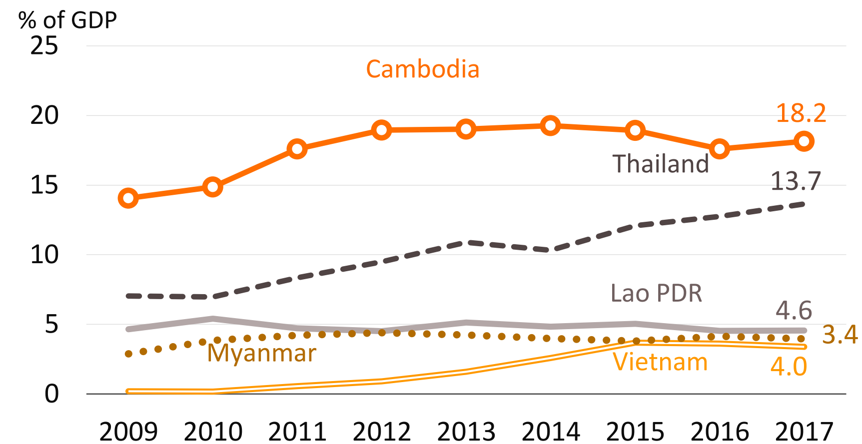
Source: National Institute of Statistics, Ministry of Tourism, IMF, CEIC, Krungsri Research

# Travel restrictions and the global downturn will reduce tourist arrivals and travel spending

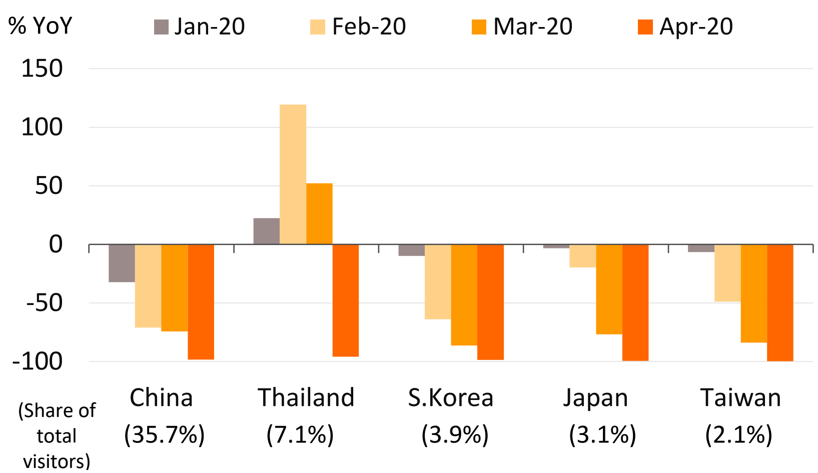
**Tourist arrivals**




**Tourism receipts**




**Major tourist arrivals in Cambodia**



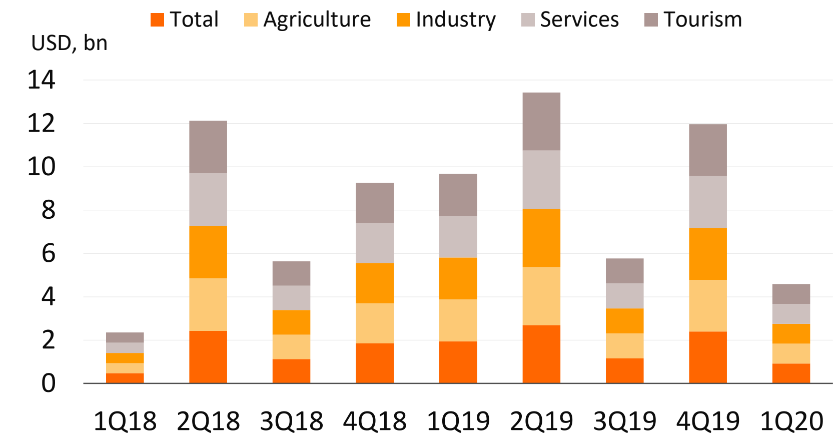

Source: ASEAN Investment Report 2019, Local media, CEIC, Krungsri Research

### Krungsri Research's view

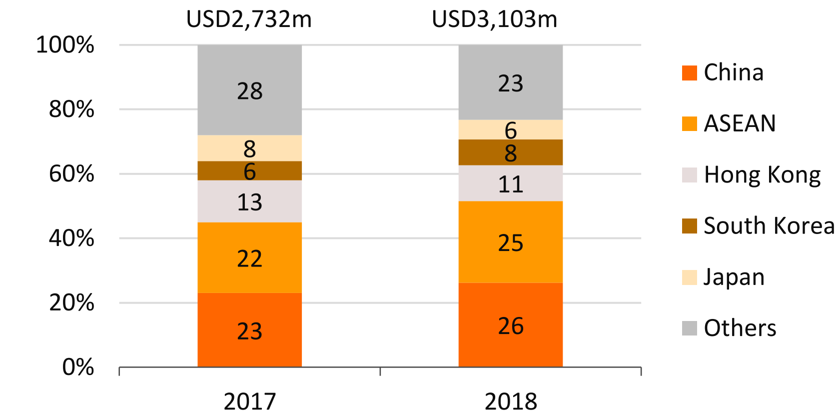
- Cambodia's tourism industry has been hit hard by the COVID-19 impact. It depends heavily on Chinese tourist arrivals, which had almost disappeared in March since China's lockdown in late-January, coupled with a nationwide travel ban in Cambodia since March.
- **Given that most countries will continue to implement some level of travel restrictions for the rest of the year, coupled with an unprecedented global economic recession, Cambodia's tourism sector will contract sharply this year. And, as the sector accounted for over 18% of GDP pre-Covid, that would dampen economic growth substantially. Coupled with fears of a second outbreak, there is risk of a slow recovery in tourism activities.**

# FDI inflows could slump due to weak prospects for tourism, construction, textiles & garment industries

**Cambodia's fixed asset investment approval**

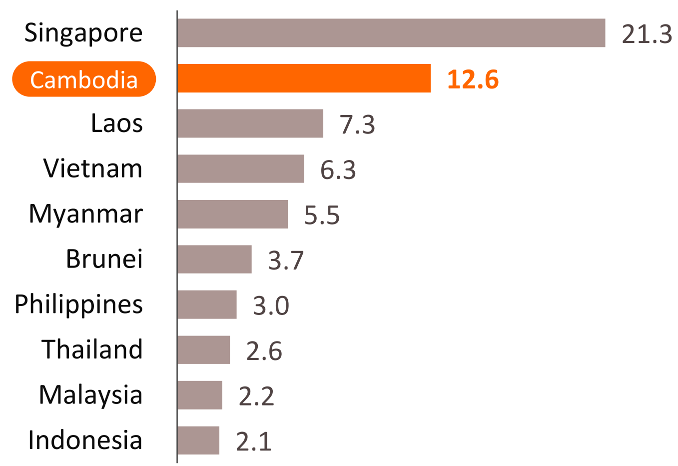



**Major source country of FDI for Cambodia[1/]**




Note: 1/ based on data from ASEAN Investment Report 2019

**FDI-to-GDP ratio (%, as of 2018)**



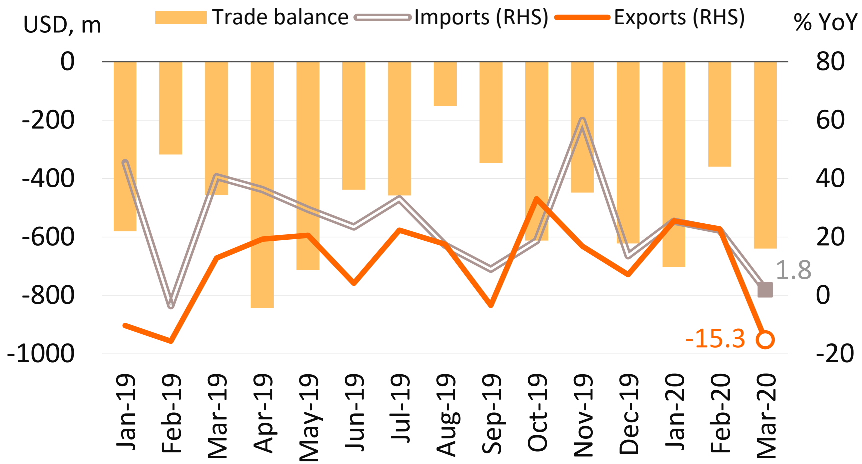

Source: ASEAN Investment Report 2019, Local media, CEIC, Krungsri Research

### Krungsri Research's view

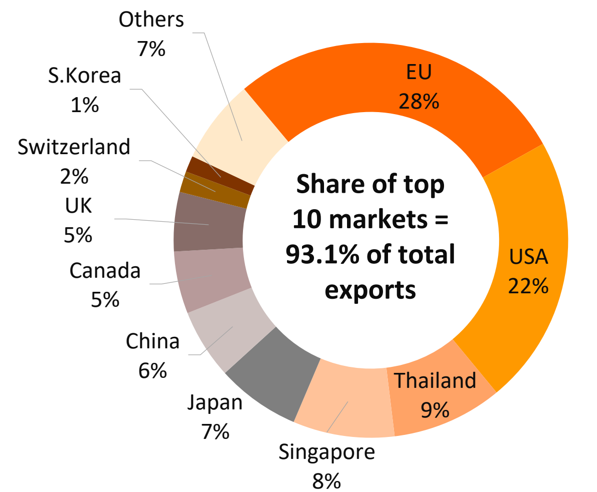
- **We expect FDI inflows to Cambodia to be subdued this year because of the anticipated global recession, especially with China's growth projected to reach a 10-year low. China is the largest investor in Cambodia, accounting for 25% of total FDI pre-Covid. The EU's decision to suspend come EBA privileges for Cambodia would also deter FDI inflows to Cambodia in the future. However, latest developments in several bilateral FTA negotiations could support FDI in the longer term.**
- The pandemic has also exposed Cambodia's structural weakness. It has been increasingly dependent on Chinese investment over the past few years, so the slowdown in China's economic growth would reduce FDI inflows especially into the China-led sectors. This includes tourism-related services sector (including online gambling and casino), real estate, construction, as well as textiles & garment.

# Pandemic dampens already-weak fundamentals; growth had been driven by benefits granted by advanced economies

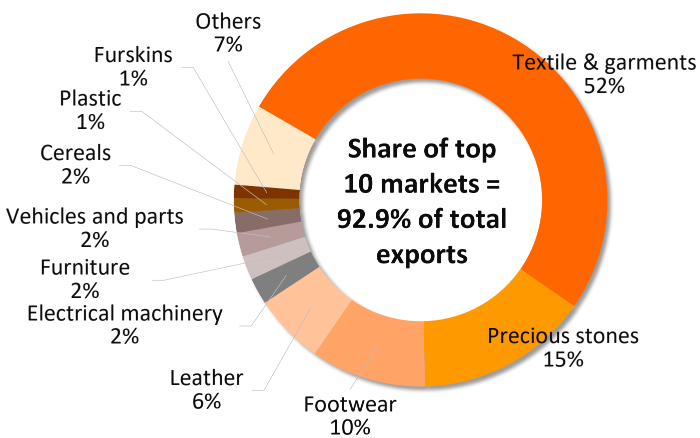
**Cambodia's trade statistics**




**Cambodia: Major export markets (2019)**




**Cambodia: Major export products (2019)**




**Krungsri Research's view**

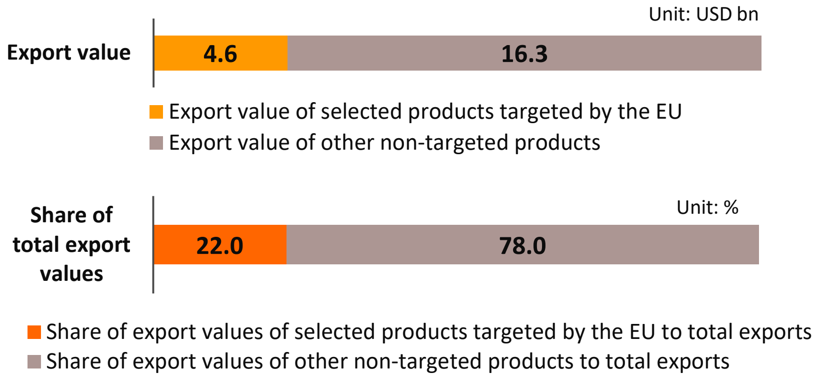
- **Cambodia' exports is projected to tumble this year due to weak global demand, which would dampen its already-weak export fundamentals.**
- Since transforming into a market-driven system, export growth has been driven by benefits granted by advanced economies, including the EU's Everything But Arm (EBA) scheme.
- But the EU will suspend part of Cambodia's EBA benefits effective August 2020. This would hurt exports, especially its major export product, textiles & garment. The pandemic has also limited opportunities to expand exports to other countries due to weak global demand, especially with its major export markets - the EU and the US – projected to fall into a recession.

Source: ASEAN Investment Report 2019, Local media, CEIC, Krungsri Research

# EU suspends some of Cambodia's EBA privileges

On 12 February, the European Commission voted to partially suspend tariff-free access under the EBA scheme for some of Cambodia[1/]products, especially garment and footwear, and all travel goods and sugar products, on grounds Cambodia has committed human and political rights violations. The EU says the withdrawal would affect about a fifth of Cambodia's annual exports to the bloc, or €1bn (USD1.08bn). The decision will be effective 12 August if there is no objection from the European Parliament and the European Council. In response, since last year, the Cambodian government has launched a series of measures to reduce logistic costs and facilitate exports to mitigate the impact of higher tariffs on enterprises.

### Total export value targeted by the EU (2018)[2/]




### Impact of EU's partial suspension of EBA on Cambodia's economy[3/] (% change from baseline in real terms)*


*2017 GDP share, **employment measured at fixed wages
excluded items are imports and exports of services and inventories

### Age and gender distribution of GTF workers in Cambodia aged 15 and above (% of total, as of December 2018)

| Age group | Male | Female | Total |
|---|---|---|---|
| **15-24** | **49.0** | **45.0** | **45.8** |
| **25-34** | **38.5** | **38.5** | **38.5** |
| **35-44** | 9.4 | 11.4 | 11.0 |
| **45-54** | 1.6 | 3.6 | 3.1 |
| **55-64** | 1.4 | 1.3 | 1.3 |
| **65 and above** | 0.2 | 0.3 | 0.3 |
| **Total (%)** | 100 | 100 | 100 |
| **Number of GTF workers** | 224,750 | 833,026 | 1,057,776 |

Note: 1/The EU refers to the European Union-28 which includes the United Kingdom
2/ Cambodia's total export value to the world market
3/The total impact is in the long term e.g. over the 5-year period

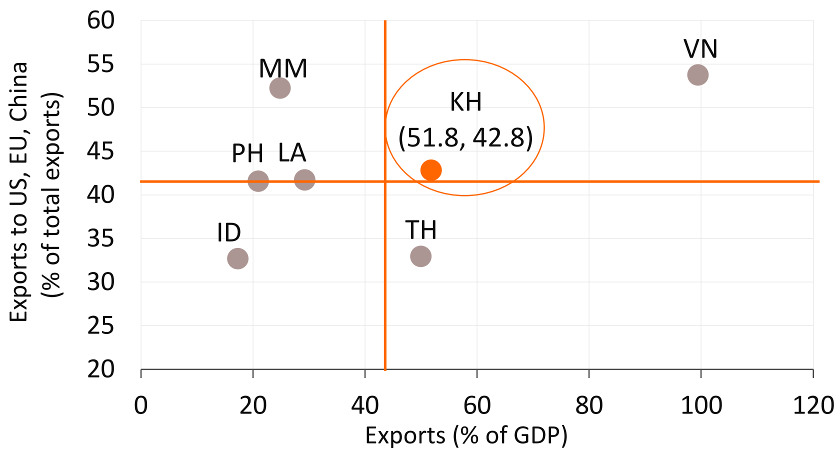
Source: GTAP, European Commission, CEIC, Krungsri Research

### Krungsri Research's view

- **Our simulation model suggests the partial withdrawal of tariff-free access by the EU would shave off about 0.5 ppt from Cambodia's annual GDP growth.** However, coupled with the Covid-19 impact, the IMF projects Cambodia's economy would contract by 1.6% this year. Our data indicate the export value of the target products accounts for 22% of Cambodia total exports, or USD4.6bn. Some exports to the EU might be slapped with the maximum 12% tariff. This would reduce profit margins for firms, and encourage manufacturers to relocate to countries such as Myanmar and Vietnam.
- **The partial withdrawal would also have meaningful social impact.** The relocation of garment factories would hurt jobs and domestic consumption in Cambodia. The industry currently generates about a million jobs for young workers, especially females who are supporting their families in rural areas.

# Diversifying export markets to reduce concentration risks; seeking bilateral FTAs with ASEAN countries

**Export dependency**




**Cambodia: List of FTAs**

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

**Economic indicators of Cambodia's key partners**

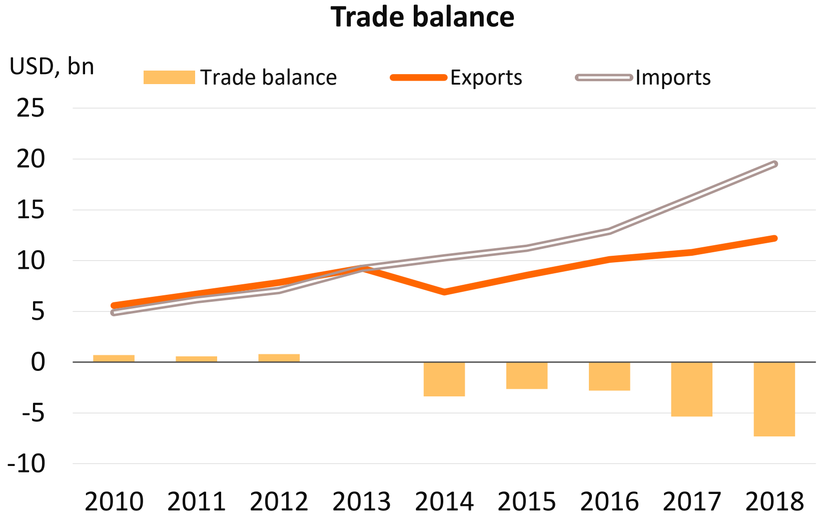
| | China | S.Korea | Russia |
|---|---|---|---|
| Size of GDP in 2019 (USD, bn) | 14,140 | 1,629 | 1,637 |
| GDP growth (%, avg 2015-2019) | 6.7 | 2.7 | 0.8 |
| Population in 2019 (persons, m) | 1,434 | 51 | 146 |
| Cambodia's export value (2019) (USD, m) | 1,012.1 | 212.6 | 51.8 |
| Growth of export value (%, avg 2015-2019) | 23.8 | 11.7 | 5.2 |
| FDI (Investment approval) in Cambodia from each partner (2019) (USD, m) | 1,321.4 | 25.1 | n.a. |
| Growth of FDI value (%, avg 2015-2019) | 55.4 | 150.2 | n.a. |

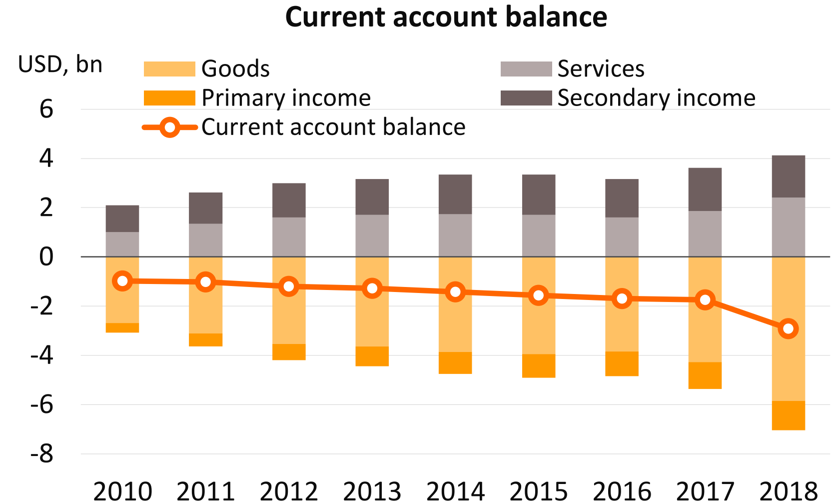
## Krungsri Research's view

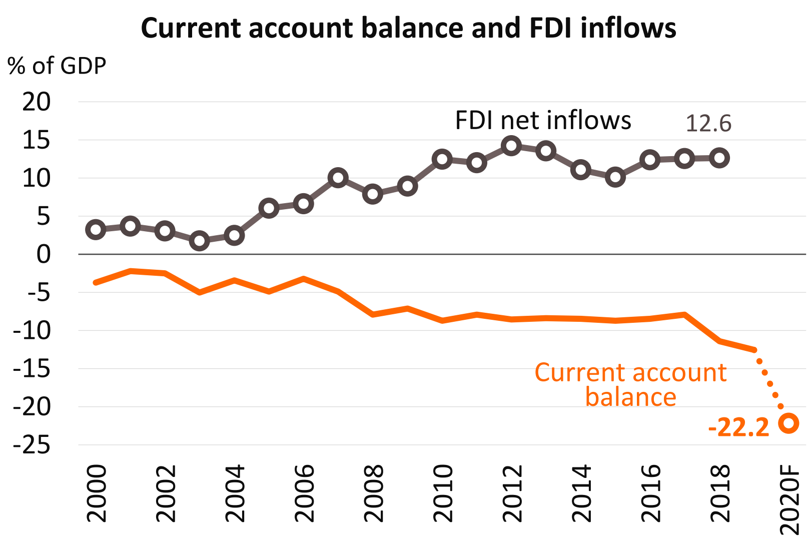
- **Trying to reduce market concentration risks.** The EU absorbs 28% of Cambodia's total exports and the US 22%. **Cambodia's government has recently pushed to expand export markets through bilateral agreements. They are currently negotiating free trade agreements (FTA) with China, South Korea, UK, and the Eurasian Economic Union** (EAEU, includes Russia, Armenia, Belarus, Kyrgyzstan and Kazakhstan).
- **Accelerating Cambodia-China FTA, the first bilateral FTA for Cambodia.** The two countries have help three round of negotiations since January this year. **They plan to reach a deal by end-2020.**

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

# External stability remains a concern given rising exposure to external shocks




### Krungsri Research's view

- **Cambodia's current account deficit would widen significantly this year in anticipation of a larger trade deficit and a slump in tourism receipts. The country faces higher risk of external stability due to its weak economic fundamentals.**
- **Though the economy is expected to post negative growth this year, imports are projected to drop less than exports**, supported by demand for necessity goods and consumer products. However, trade deficit would still be large in 2020.
- In addition, the large impact on Cambodia's tourism sector – which largely depends on Asian tourists - will worsen its current account deficit. According to the IMF's April projection, the deficit is expected to double to 22.2% of GDP in 2020. Coupled with a drop in FDI inflows this year, Cambodia will find it challenging to manage its weak external stability.

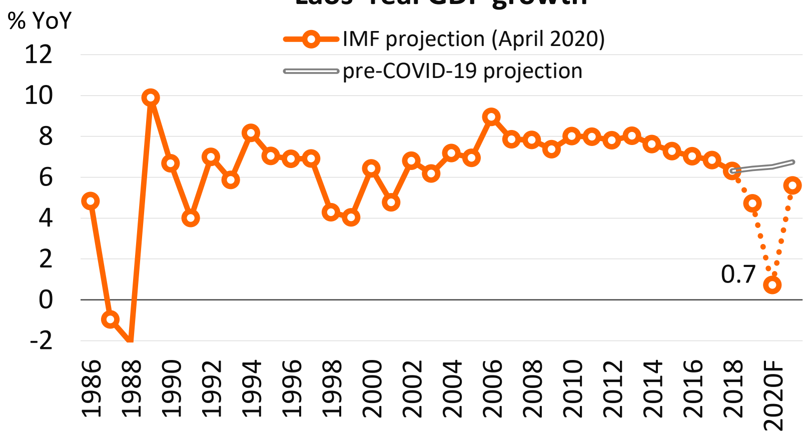
Source: IMF, Trademap, Asia Regional Integration Center, CEIC, Krungsri Research

# LAO PDR
## ECONOMIC OUTLOOK
## 2020 UPDATE

# *Lao PDR:* Pandemic dampens structural vulnerabilities; growth will slump amid rising economic instability

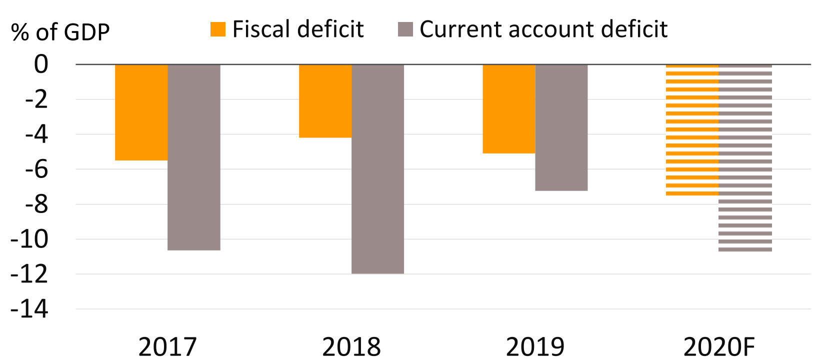
**In 2020, Laos' economic growth is projected to slow to 0.7%, significantly lower than previous projection of 6.5%.** The COVID-19 impact has aggravated the country's structural vulnerabilities – which had slowed growth more than expected to 4.7% in 2019. The worldwide travel restrictions and sharply weaker economic growth in its major export markets – including Thailand and China – would drastically reduce Laos' tourism and export revenues. **This is expected to worsen its already-high current account and fiscal deficits**. The government has limited fiscal space, so weak performance in the real sector will dampen already-weak revenue collection and consequently, public and external debt would surge. In addition, international reserves is also expected to deteriorate, which would further weigh on its debt financing and sustainability ability.

**Laos' real GDP growth**

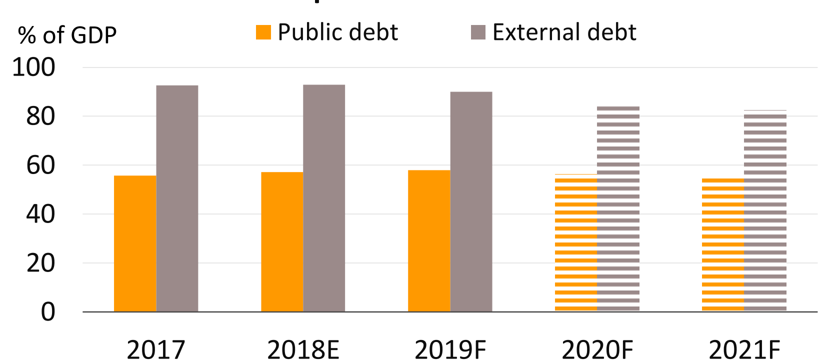



**Laos' export and tourism growth**


**Laos' twin deficits**



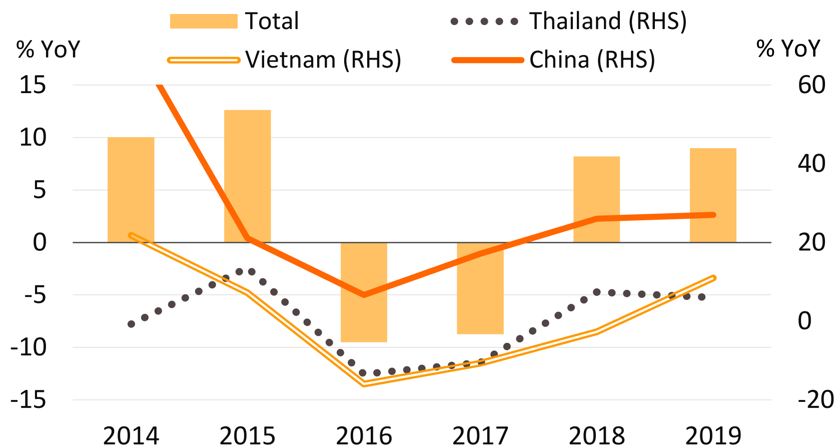

**Laos' public and external debts**



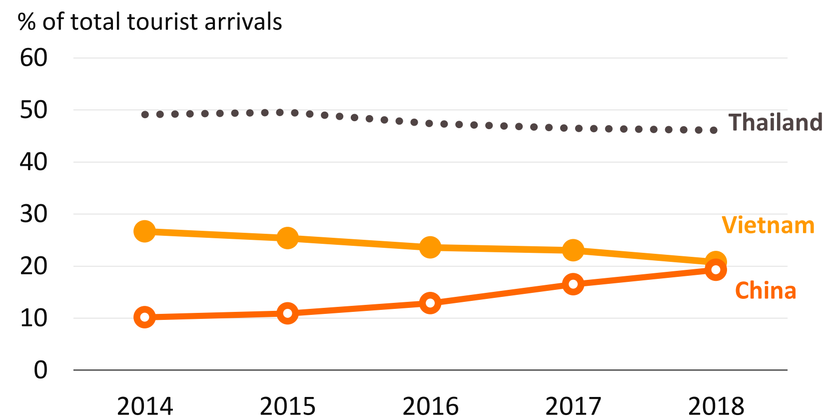

Source: IMF, World Bank, CEIC, Krungsri Research

# Tourism sector would be hit hard by travel restrictions, which would reduce foreign receipts

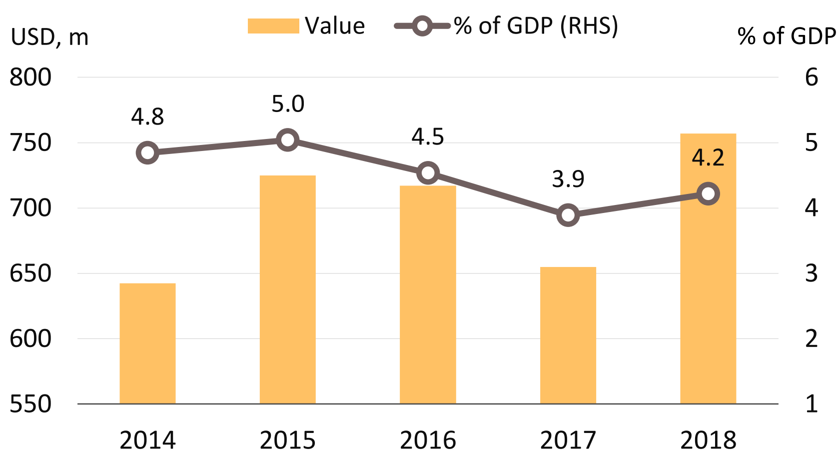
**Tourist arrivals in Laos**




**Laos' major sources of tourist arrivals**




**Laos' tourism revenues**



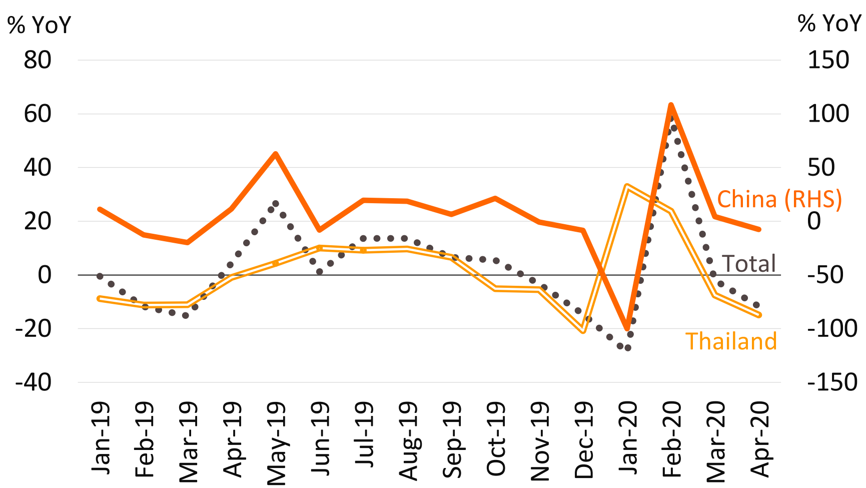

### Krungsri Research's view

- **We expect tourist arrivals to drop significantly in Laos in 2020.** Given arrivals from neighboring countries - including Thailand, Vietnam and China - account for 87% of total foreign tourist arrivals, it had been immediately affected by China's ban on outbound tourism since late-January and full lockdown in Laos in April-May. **For the rest of 2020, like other countries, Laos' tourism industry will remain weak mainly due to (i) continued travel restrictions in ASEAN and worldwide due to fears of a second outbreak, and (ii) little demand for tourism on the back of a weaker purchasing power.**
- **In addition, given that tourism is one of Laos' major sources of foreign currency receipts at 4.2% of GDP, the weak tourism industry will worsen its already-high current account deficit.**

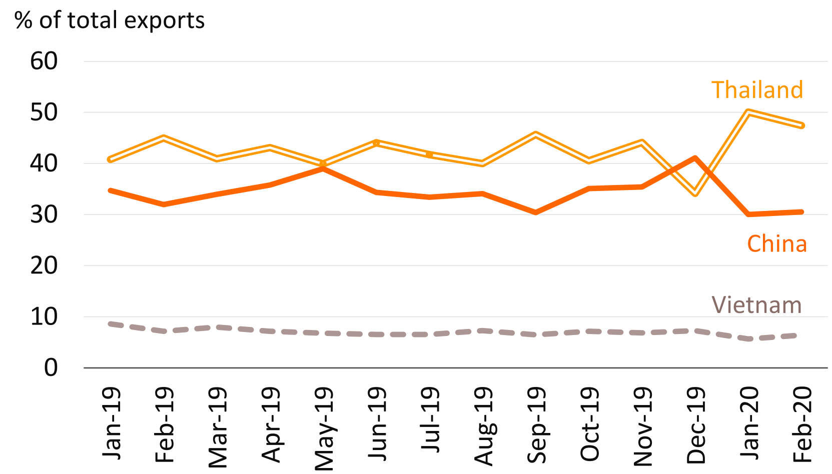
Source: IMF, World Bank, Laos' Ministry of Information, Culture and Tourism, CEIC, Krungsri Research

# Export will slump due to weak demand from Thailand and China; wider trade and current account deficit

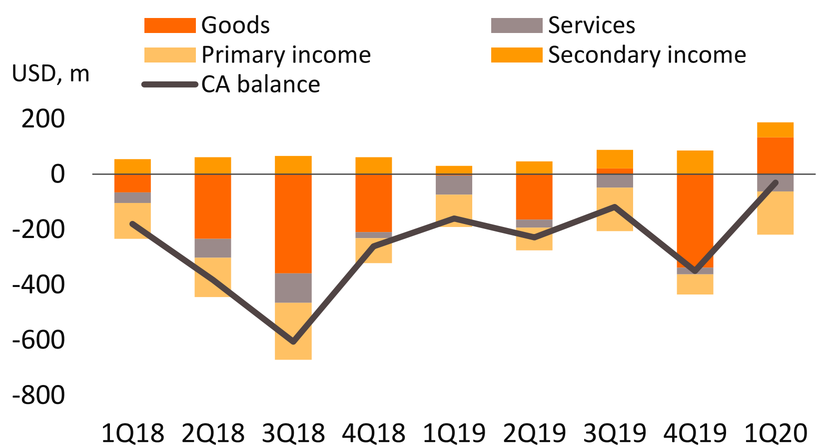
**Growth of Laos' exports to China and Thailand**




**Laos' major export markets**




**Laos' current account balance**



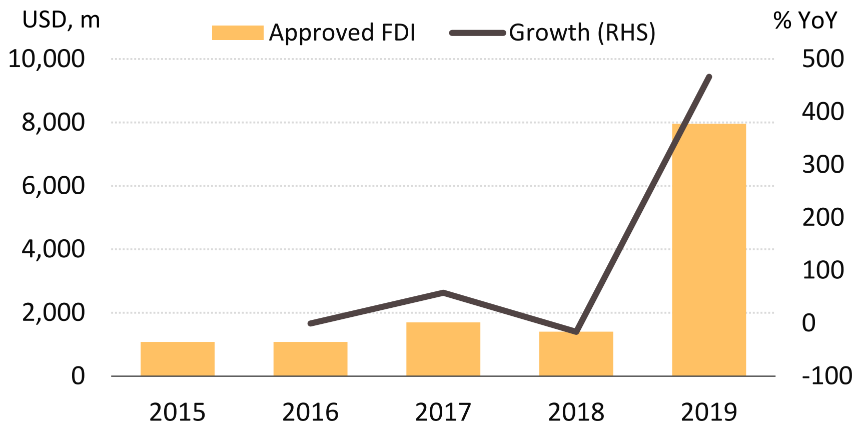

**Krungsri Research's view**

- **Latest data show Laos has not been spared by a sharp drop in exports. This is not only due to lockdown restrictions, but also weak economic growth prospects at its major export destinations,** especially Thailand (50% of Laos' total exports) and China (31%). **Looking ahead, we anticipate Laos' exports would contract in 2020** because of weak business activities in Thailand and China, which would require less inputs, mostly electricity and commodity goods.
- **In contrast, we expect Laos' imports to register positive growth because the country imports most of its consumer and capital goods. This will widen the country's trade deficit.**
- **The already-large trade deficit, coupled with a sharp drop in tourism revenue, would worsen its current account deficit (CAD).** According to the IMF, Laos' CAD would widen to 10.9% of GDP in 2020 from 7.2% in 2019.

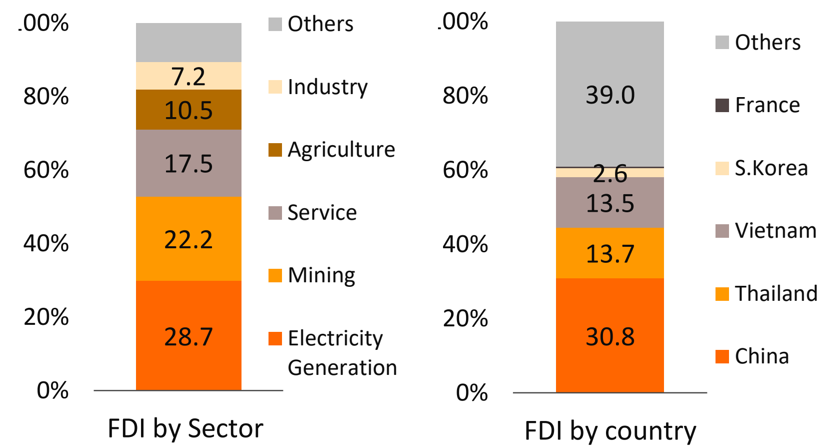
Source: IMF, Bank of Lao PDR, CEIC, Krungsri Research

# Investment would be driven by China-led infrastructure projects, but it would be much smaller than in 2019

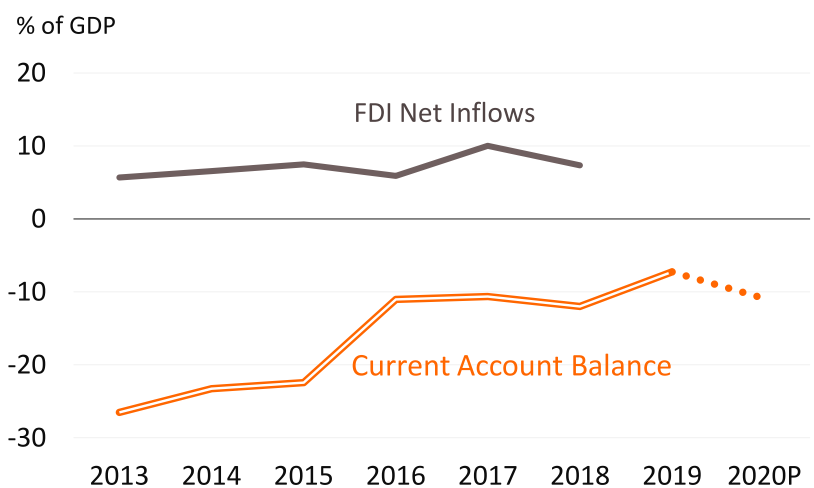
**Laos' approved FDI**




**Structure of FDI in Laos**




**Current account balance and FDI net inflows**

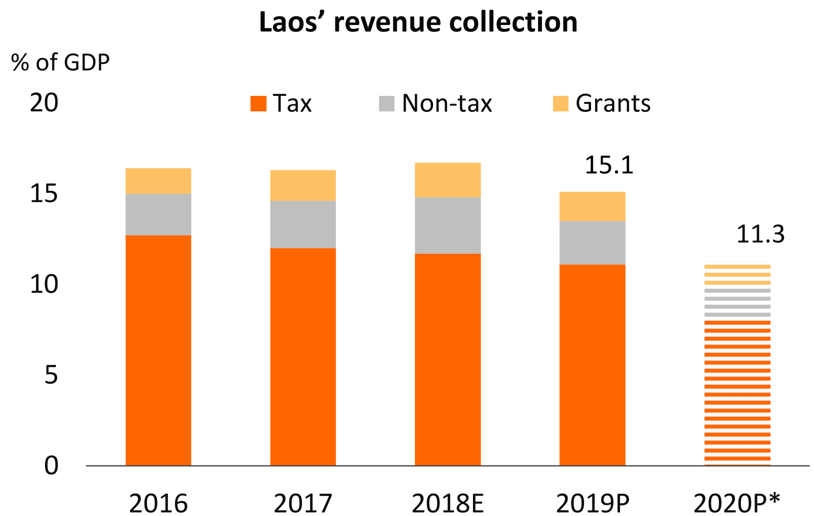


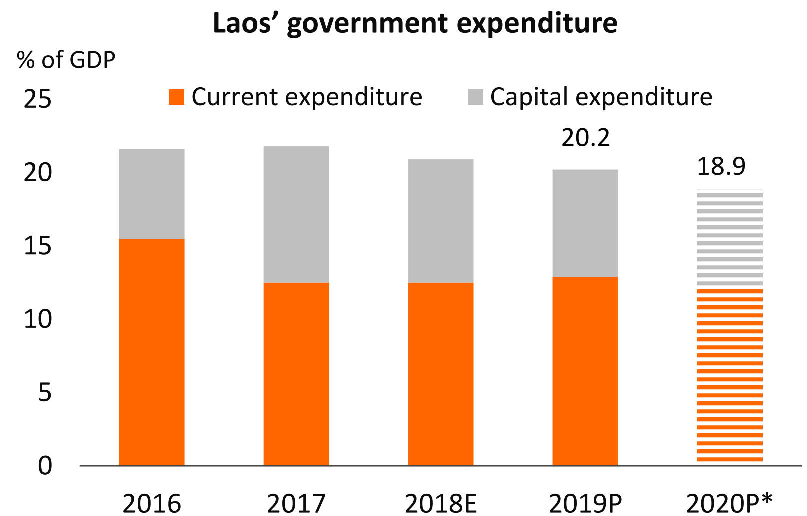

Source: Laos' Investment Promotion Department, IMF, World Bank, Reuters, Krungsri Research

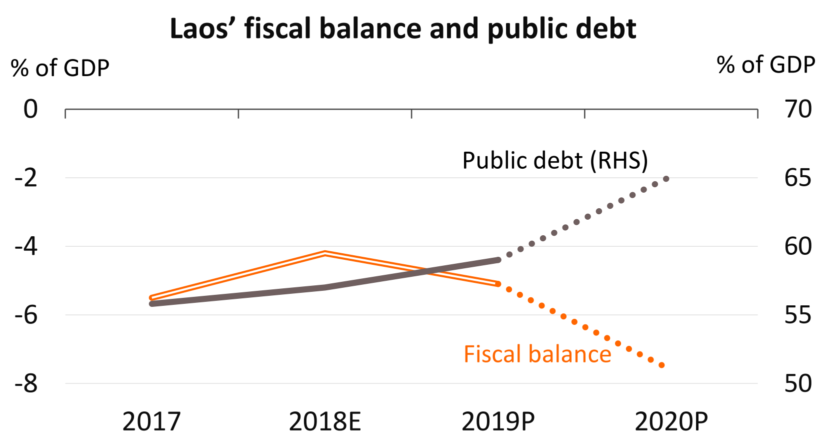
## Krungsri Research's view

- **Despite FDI approvals in Laos reaching a record high in 2019, we expect the total value to drop in 2020. Laos has been relying heavily on FDI from China but the COVID-19 pandemic has also hit China's economy. This could reduce China's investments overseas under the Belt and Road Initiative (BRI), including in Laos.**
- In recent years, investment in Laos has been driven by Chinese FDI in broad-base sectors, especially electricity generation, infrastructure, and financial services. There are several ongoing mega projects under the BRI such as the China-Laos railway project (scheduled for completion at end-2021) and the Vientiane – Vang Vieng expressway (completion at end-2020 instead of 2021). However, the pandemic has severely affected about 20% of projects under the BRI and they have been put on hold, and 30-40% of project have been somewhat affected, according to China's Ministry of Foreign Affairs. There is risk of some projects in Laos being suspended.
- **A sharp drop in FDI inflows would also pressure Laos' limited ability in finance its large CAD.**

# Fiscal deficit would be the widest in its history due to weak revenue collection; public debt would rise




Note: * projected by the World Bank under the upside case scenario (no new outbreak; domestic activities start to pick up in Q3; external demand gradually picks up in Q3; no long-term adverse effect of the lockdown on the corporates, banking sector, or balance of payments)

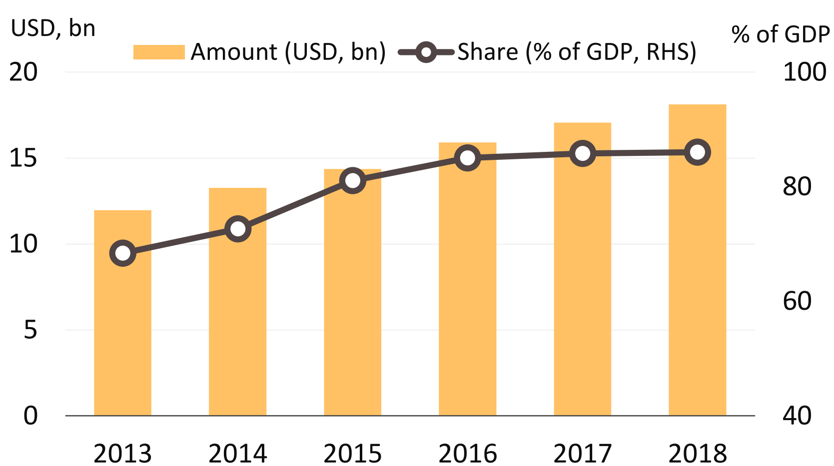
Source: World Bank, IMF, Trademap, Krungsri Research

### Krungsri Research's view

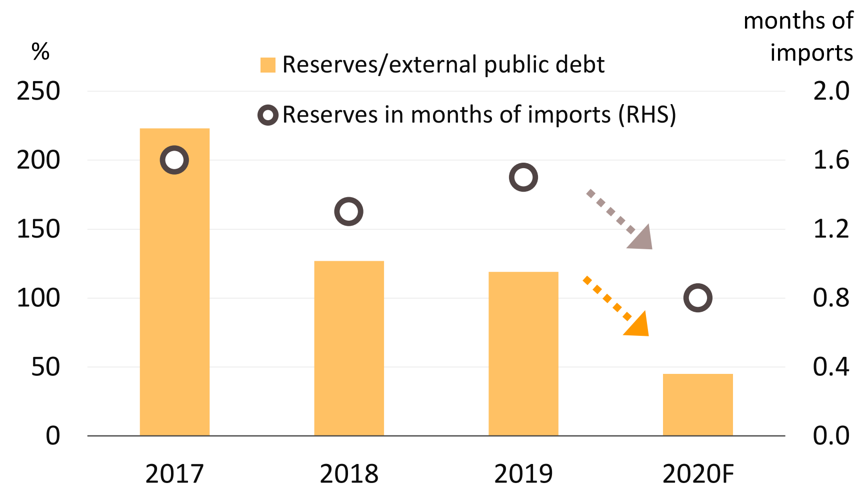
- **Laos has limited fiscal space to maneuver with fiscal deficit at 5.1% of GDP (2019).** In response to the COVID-19 impact, Laos' government has introduced relief measures, including cash transfer programs, valued at USD20.3m which is only 0.1% of GDP. In addition, the government borrowed USD310m (1.7% of GDP) from China to help affected SMEs. Including those loans, Laos' fiscal stimulus package would reach USD331m (or 1.9% of GDP). This will be implemented through its current social welfare system using welfare funds, and will be reimbursed later from the state budget.
- **Given these stimulus spending, we expect Laos' fiscal position to weaken.** Revenue collection would be very low at slightly over 10% of GDP due to weak economic activities and tax incentives to help local businesses. **Fiscal deficit would widen significantly. The IMF projects Laos' fiscal deficit would reach 6.2% of GDP in 2020, the largest deficit in the country's history. This will lead to higher public debt, which is expected to reach 65% of GDP in 2020 from 59% in 2019, according to the World Bank.**

# Larger fiscal deficit has raised concerns about Laos' ability to service external debts

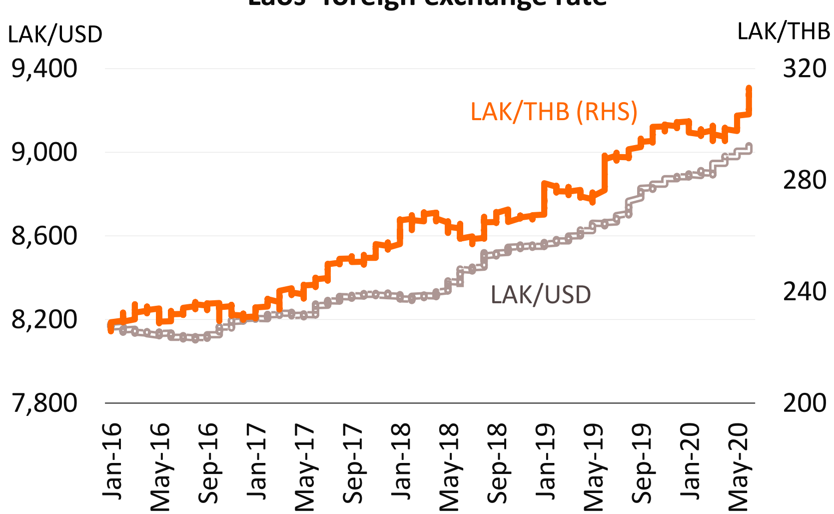
### Laos' external debt




### Laos' international reserves




### Laos' foreign exchange rate




Source: World Bank, Fitch Ratings, TRIS ratings, local news media, Krungsri Research

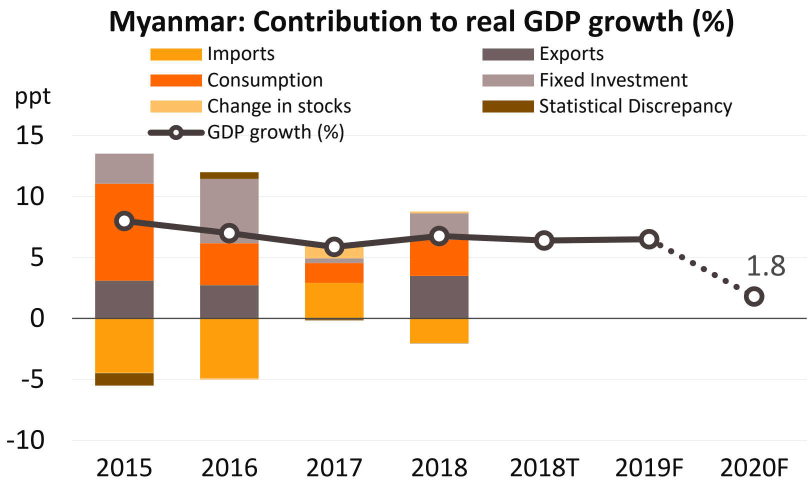
### Krungsri Research's view

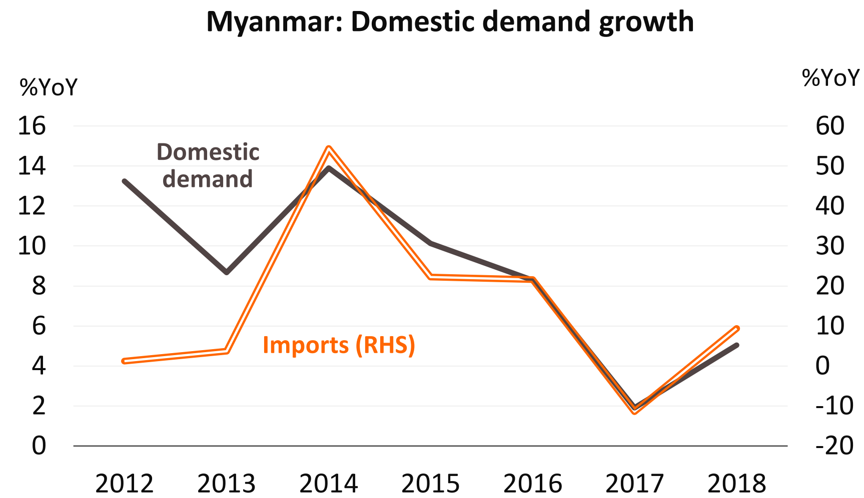
- **A wider fiscal deficit will led to higher public debt, and consequently, greater risk of debt distress**. Currently, most of its public debt is financed by external borrowing, which means a greater burden to service external debt. The World Bank projects Laos' external debt servicing burden increase to over USD1.2bn (5.5% of GDP) in 2020 from USD842m (4.6% of GDP) in 2019.
- Laos is also planning to issue international bonds to refinance maturing debt. However, **given increasing macroeconomic vulnerabilities and below-investment-grade bonds (Moody's 'B3', Fitch Ratings 'B-'), it would be costly for Laos to finance debt with bonds.**
- **A further depreciation of the Kip would also pressure Laos' debts. Most of its debts are in foreign currency, including USD, SDR, EUR, CNY, and THB, although there has been an increase in bonds issued in THB in recent years.** Since the beginning of this year, the kip has depreciated by 1.6% against the USD and 3.9% against the THB.

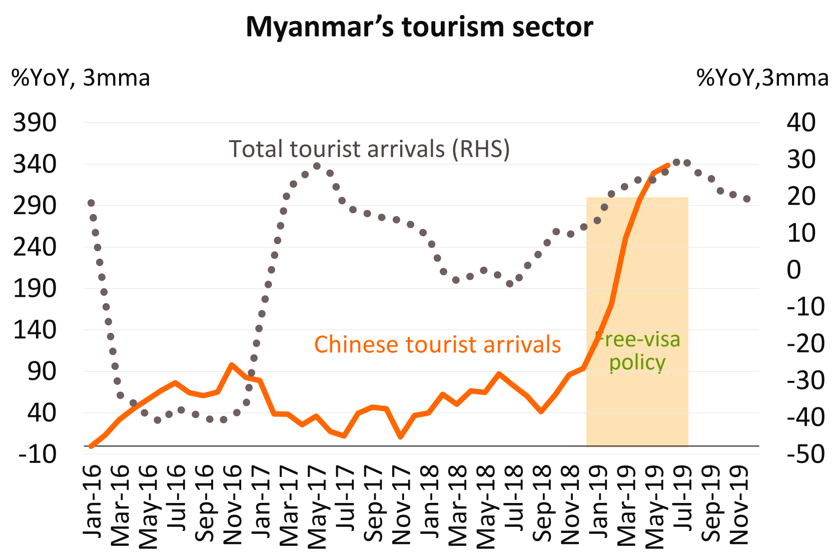
krungsri Research

# MYANMAR ECONOMIC OUTLOOK
## 2020 UPDATE

# *Myanmar:* Growth is projected to slow to 1.8% in 2020; stronger headwinds suggest further downside risks




Source: CEIC, Krungsri Research

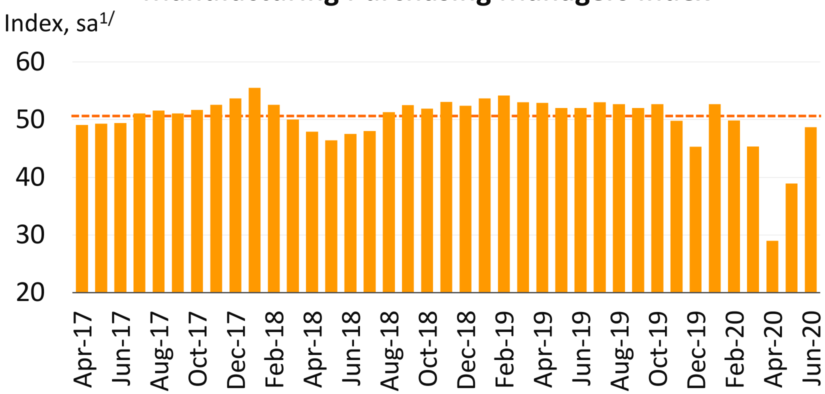
## Krungsri Research's View

- **Our view is in line with the IMF's growth projection for Myanmar. We now expect growth to decelerate to 1.8% in 2020 (instead of 6.8% at the beginning of the year) , and there is still downside risk. Myanmar would return to its normal growth trajectory in 2021 as it is expected to receive more FDI due to ongoing structural and economic reforms.**
- The sharply slower growth in 2020 is due primarily to economic shocks triggered by the Covid-19 pandemic and the uneven recovery of the global economy. Given greater trade and investment links with China and the global economy, Myanmar's economy would be severely hurt by the pandemic through international trade, foreign direct investment (FDI), supply-chain disruptions, and tourism channels. Recently, the government launched relief measures to weather the impact, including an emergency low-interest rate loan program and the Central Bank of Myanmar (CBM) had cut policy interest rates twice in March 2020 by a total of 150 bps.

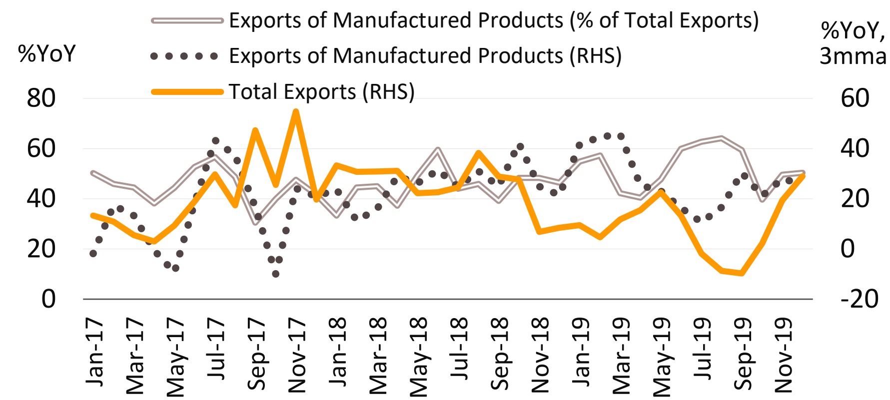
# Manufacturing activity has been disrupted by pandemic

**Manufacturing activity in Myanmar has been hit hard by both supply disruption and demand shock.** After falling into deep contraction territory in April, the country's manufacturing activity has gradually recovered in recent months since China – Myanmar's major source of imports - resumed economic activities. However, **Myanmar's manufacturing sector would remain weak the rest of this year due to a slump in global demand, especially in advanced economies. Myanmar's major export products are textiles and garments which account for about 30% of total exports, and its key export destinations are advanced economies** that are projected to record a recession this year, especially the EU. This would pressure exports and drag production activities. In addition, a downturn in its manufacturing sector would hurt its labor market and dampen domestic consumption. The textiles & garments industry employs over 700,000 workers.

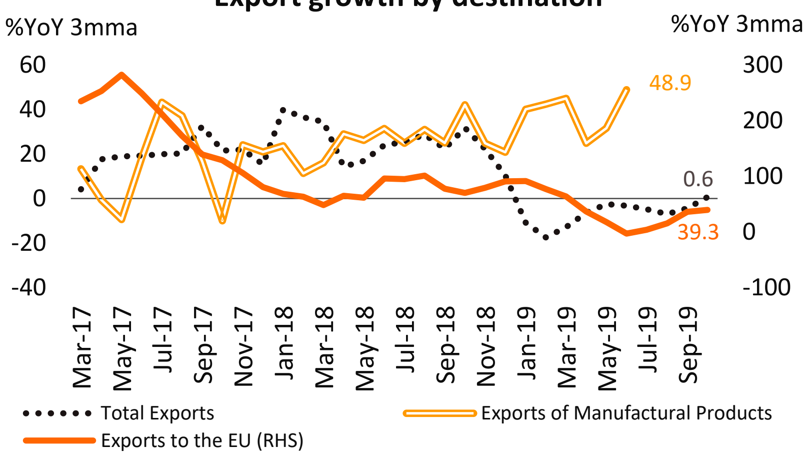
### Manufacturing Purchasing Managers Index



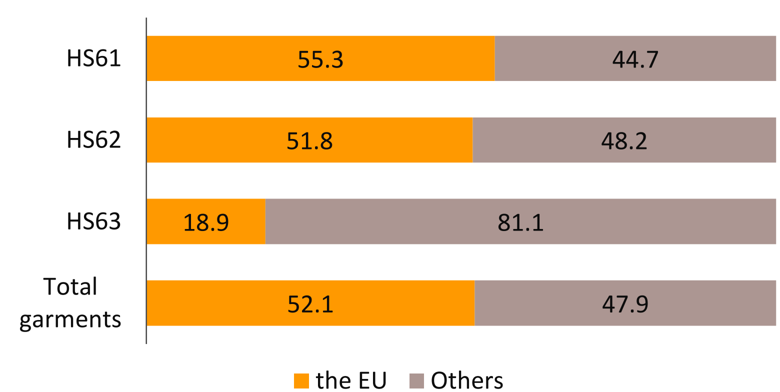

### Growth of Myanmar's export of manufactured products




### Export growth by destination




### Major export markets (% share, 2018)

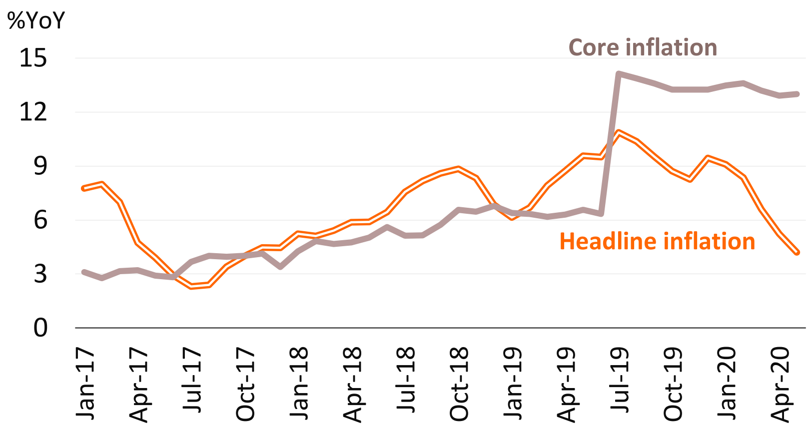



Note: 1/The index greater than 50 means improvement since previous month
Source: World Bank, CEIC, Krungsri Research

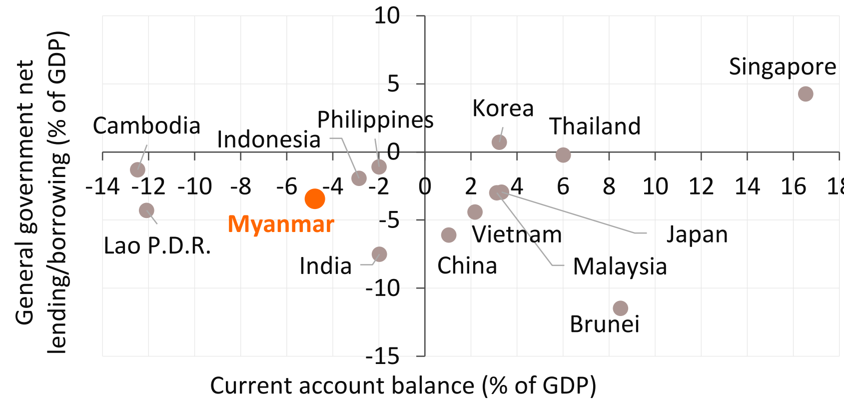
# Macroeconomic stability remains broadly weak

**Maintaining macroeconomic stability while implementing structural reforms is challenging.** The headline inflation has eased in recent months, though relatively high at average of 6.7% in the first five months. Core inflation has also remained high, reflecting a still-high underlying inflation trend. Twin deficits are threatening external stability. The current account deficit is sufficiently financed by FDI inflows, but looking ahead, the growing export-oriented manufacturing sector, more FDI-driven investments, and the implementation of several infrastructure projects, would widen the current account deficit. This would in turn, put downward pressure on the MMK, which is stable currently. The effect of a weaker MMK is normally passed through relatively quickly to domestic prices because Myanmar relies substantially on imports.

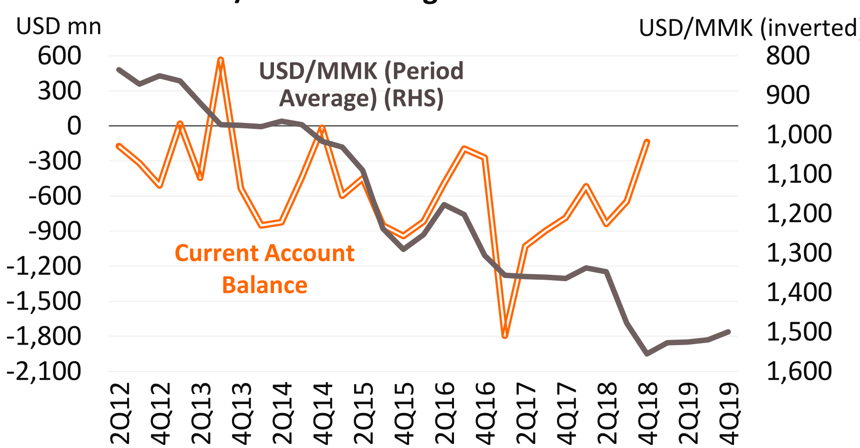
**Headline inflation and core inflation**



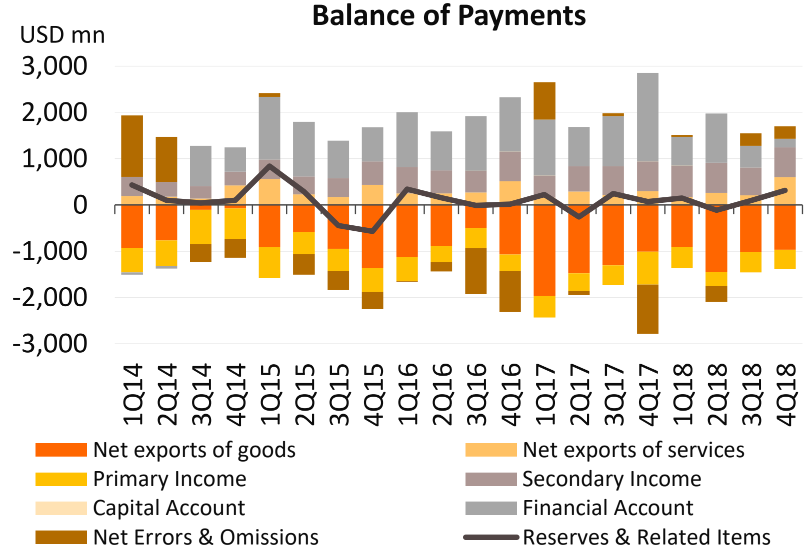

**Current account balance (CAB) and government budget balance**




**USD/MMK exchange rate and CAB**




**Balance of Payments**

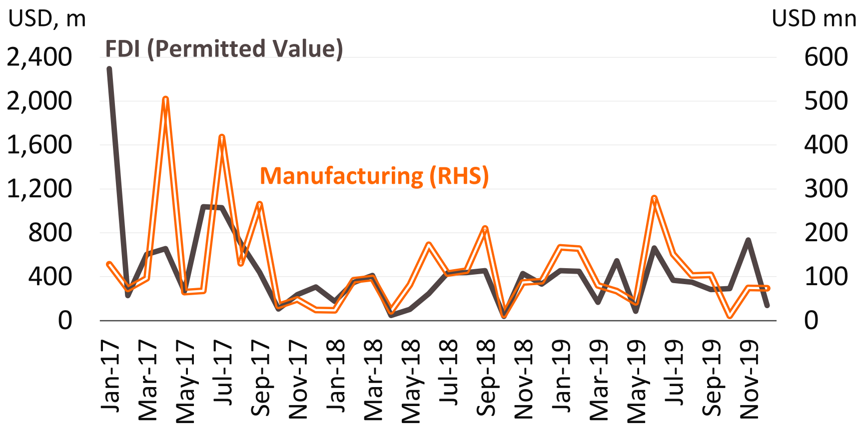



Source: CEIC, Krungsri Research

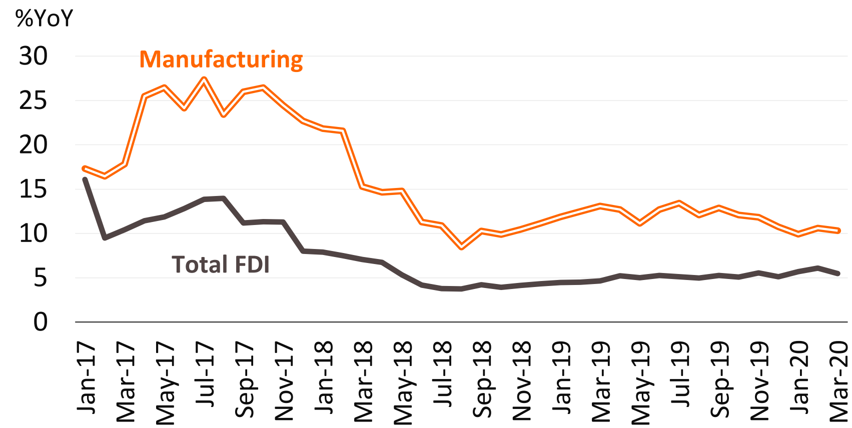
# Ongoing structural reforms would make Myanmar an attractive FDI destination over the long term

**Th pandemic would deter FDI inflows into Myanmar and make it more challenging for the government to meet its USD5.8bn FDI target for FY2019/20**. However, we remain optimistic that ongoing structural reforms and liberalization of key industries including banking, insurance, retail and wholesale trade, education, and other priority sectors, coupled with fewer restrictions on FDI and improved ease of doing business, would continue to attract FDI into the country. **FDI should continue to flow into the manufacturing sector, especially the garment and textile industry. Myanmar would also benefit from the relocation of labor-intensive production out of China, which has been accelerated by US-China trade tensions.**

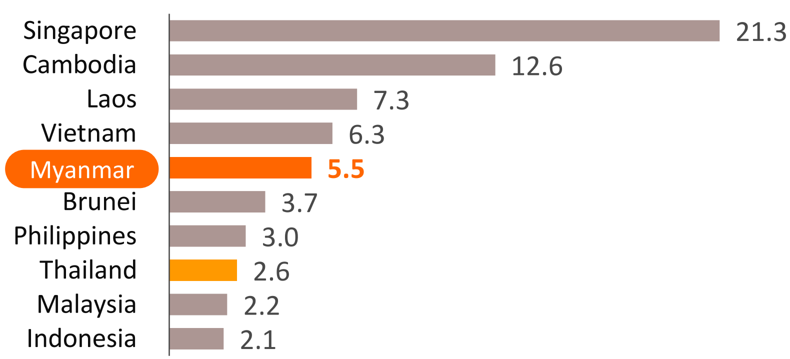
**Committed FDI inflows (permitted value)**



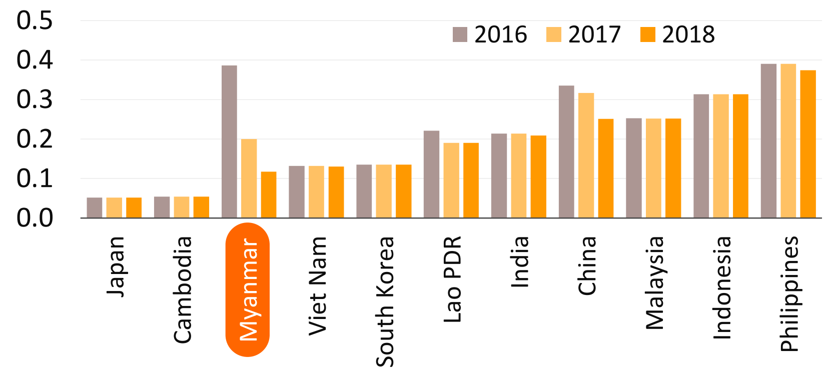

**Growth of Cumulative FDI (approved value)**




**FDI-to-GDP ratio (%, as of 2018)**




**OECD FDI Regulatory Restrictiveness Index (FDI Index)[1/]**




Note: [1/]The lower the index, the less restrictive for FDI

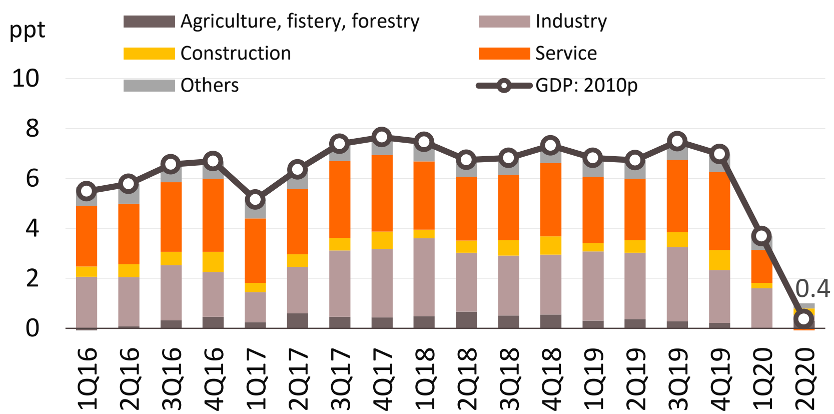
Source: CEIC, ASEAN Stat, OECD, Myanmar DICA, Krungsri Research

# VIETNAM ECONOMIC OUTLOOK 2020 UPDATE

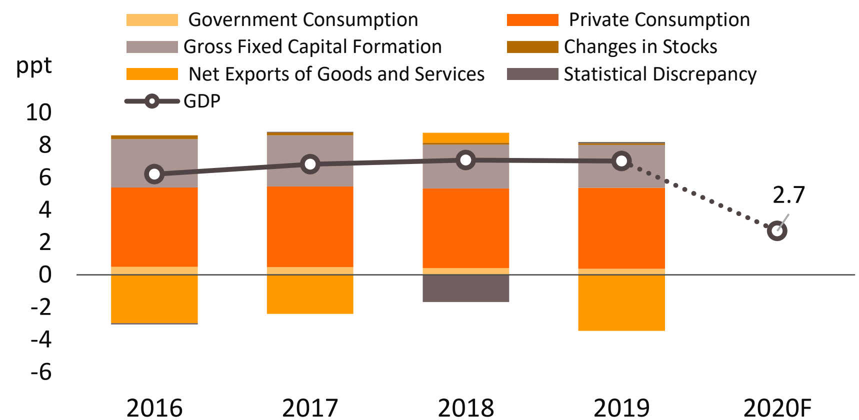
# *Vietnam:* 1H20 GDP grew 1.8% YoY; government might miss its 5% growth target for 2020 but it would remain positive

Vietnam's economy expanded by 3.8% YoY in 1Q20, a 10-year low, but growth slowed to a 30-year low of 0.4% in 2Q20. This led to in record-low 1.8% YoY GDP growth in 1H20. The COVID-19 pandemic has broadly affected the country's manufacturing, construction and services sectors because of lockdown and travel restrictions. **However, we expect the economy to recover gradually from 3Q20, supported by domestic consumption and investment as external demand remains muted. The positive growth prospects would be driven by an expected increase in FDI inflows because Vietnam is attractive following the signing of several FTAs, especially the EVFTA. However, the government's 5% growth target for 2020 is ambitious; we are in line with the IMF's projection of +2.7%. But despite the IMF's weak projection, Vietnam will remain the fastest-growing economy in ASEAN and emerging and developing Asia this year.**

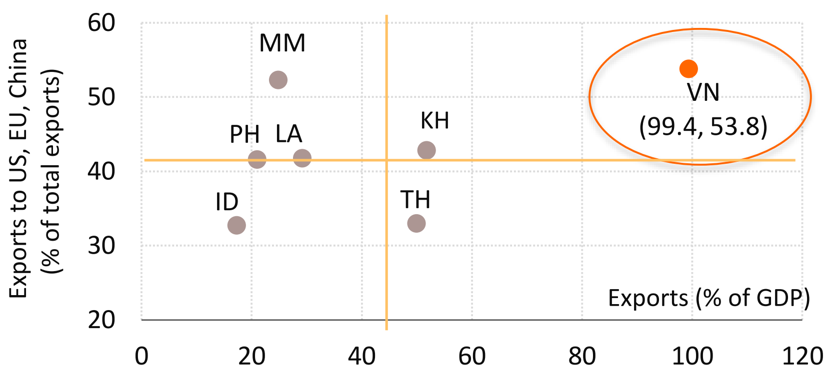
**Vietnam: Contribution to GDP: Production side**



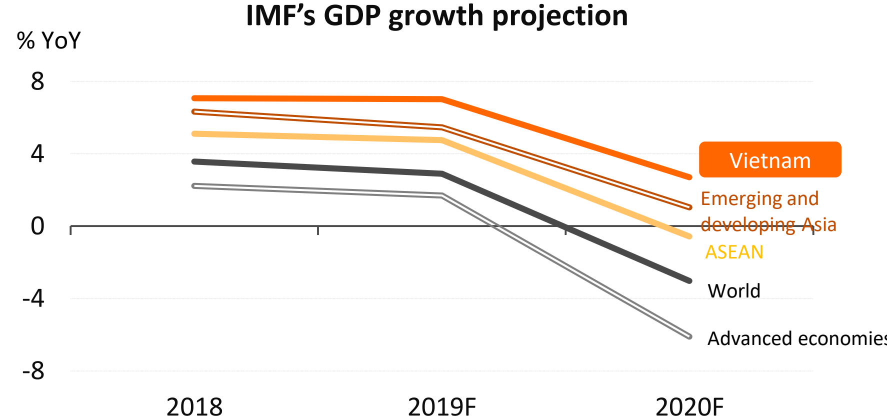

**Vietnam: Contribution to GDP: Expenditure Side**




**Export dependency by country**



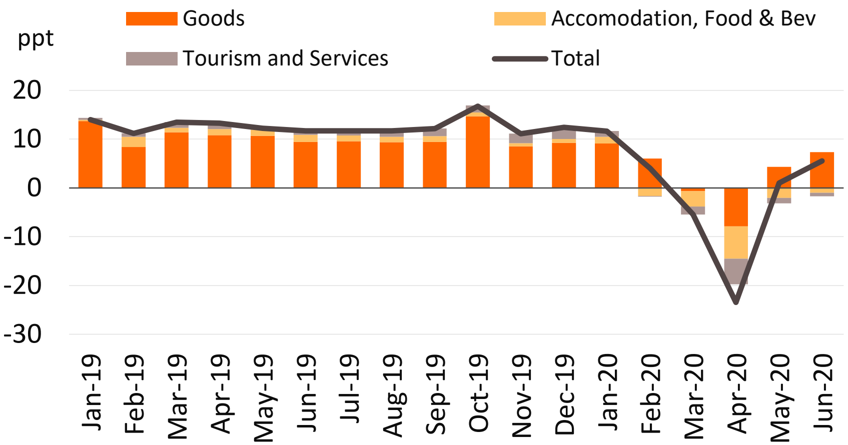

**IMF's GDP growth projection**



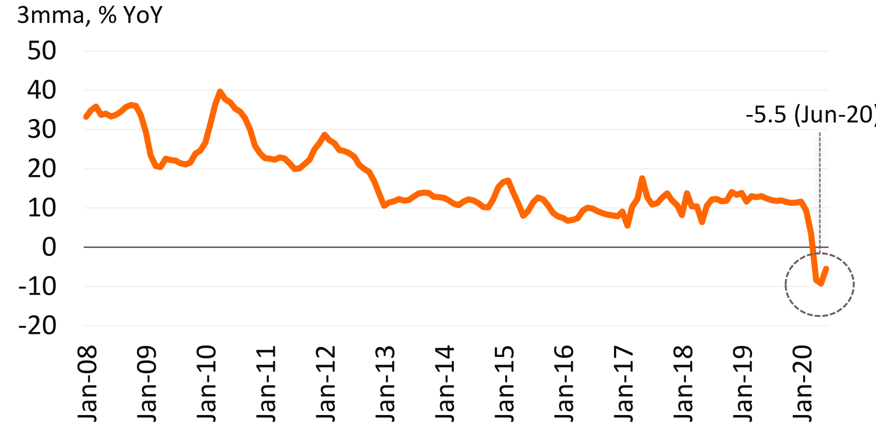

Source: General Statistics Office, IMF, CEIC, Krungsri Research

# Domestic consumption is still below pre-pandemic level in 1H20; expect mild improvement in 2H20

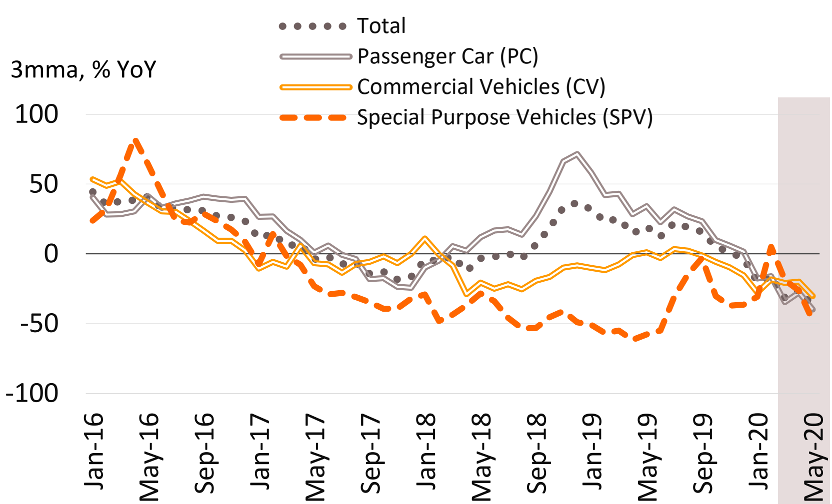
**Vietnam retail sales: component contribution**




**Trend of retail sales in Vietnam**




**Vietnam's motor vehicle sales**




## Krungsri Research's view

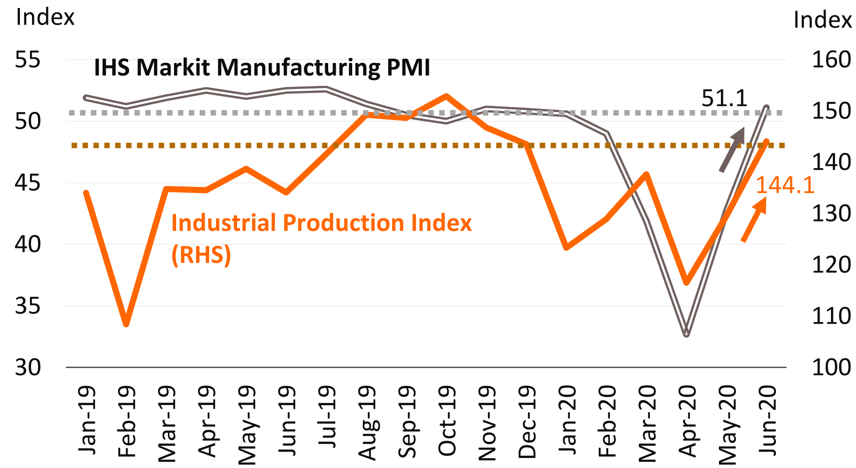
- **Latest data show Vietnam's domestic consumption has continued to recover in May and June**. It has regained growth momentum since the government lifted the nationwide lockdown in late-April. This was driven by recovering demand for goods. Demand for services, especially accommodation and food service, contracted.
- **Since Vietnam has lifted the ban on domestic travel and tourism we expect domestic consumption to improve in 2H20. However, the recovery in domestic consumption would be limited by weaker personal income as unemployment has surged. Following the COVID-19 pandemic, up to 1.4 million people have lost their jobs, an increase of 26.3% from the latest data at end-3Q19. They are mostly in the processing, retail, logistics, and hospitality industries,** according to the Ministry of Labor, Invalids and Social Affairs.

Source: General Statistics Office, Vietnam Automobile Manufacturer Association, CEIC, Krungsri Research

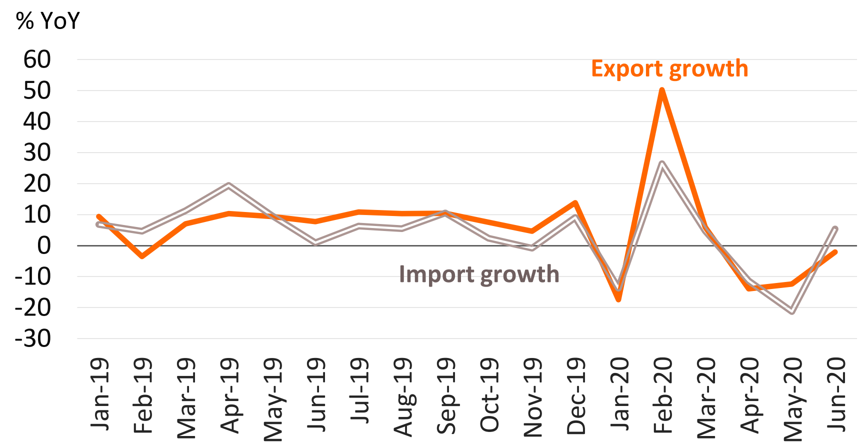
krungsri Research

# Production will remain subdued because there is still excess supply

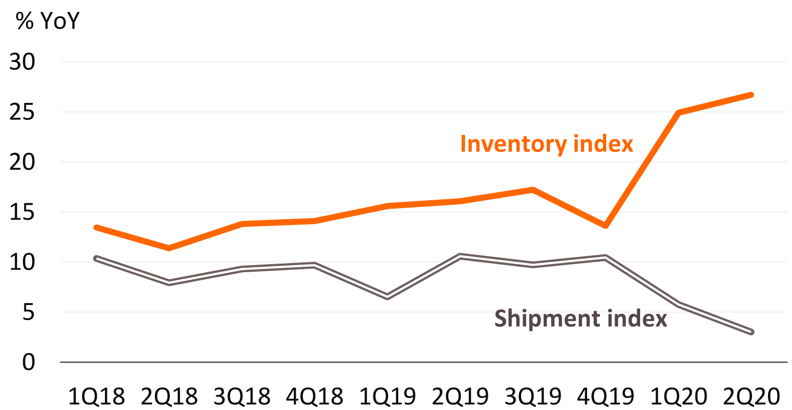
**Vietnam's Manufacturing PMI and Industrial Production Index**




**Vietnam's export and import growth**




**Vietnam's shipment and inventory index of manufacturing**



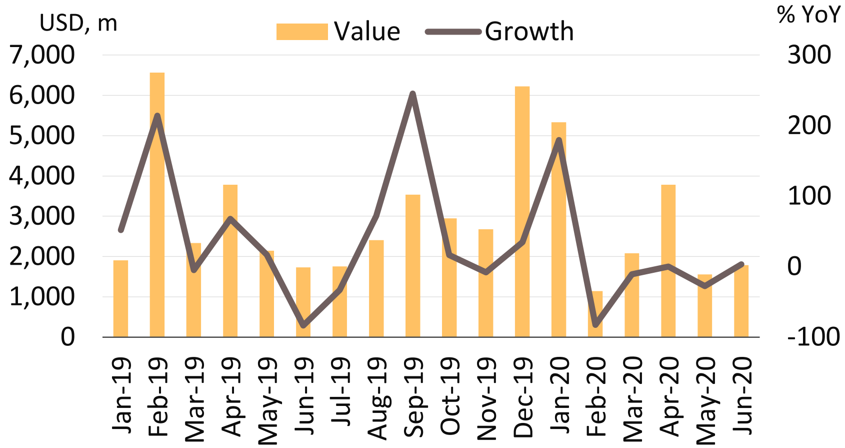

**Krungsri Research's view**

- **Vietnam's economic activity is expected to improve gradually in the coming months.** After falling sharply in April, Vietnam's Industrial Production Index and Purchasing Manager's Index had improved rapidly in May and June. This is in line with stronger exports in the same period. These indicators suggest **overall production activity has bottomed-out.**
- **Looking ahead, we expect Vietnam's manufacturing to continue to improve, albeit limited.** We observed that in 2Q20, the country's inventories had increased substantially from pre-pandemic levels, while shipments have slipped to near-zero growth. **Given deteriorating export demand on the back of a global recession, coupled with high inventories, Vietnam's manufacturing activity should remain weak in the coming months.**

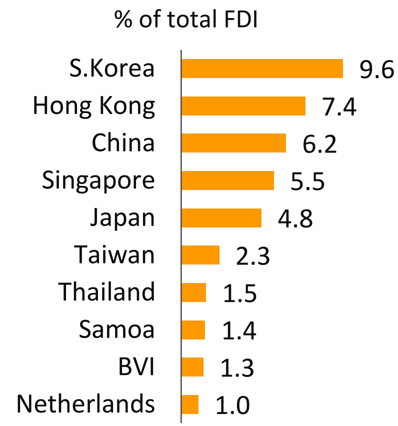
Source: General Statistics Office, CEIC, Krungsri Research

# Investment would remain weak but we expect to see more positive FDI sentiment in 2H20

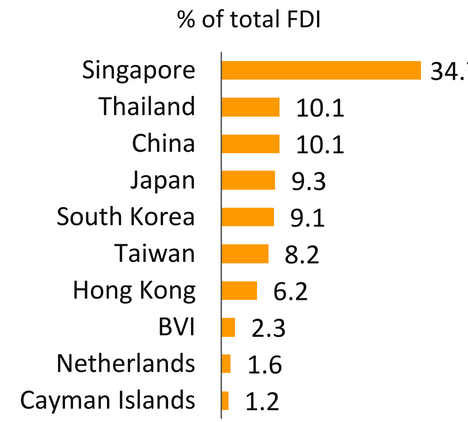
**Vietnam's FDI**




**Source of FDI by Country (2019)**



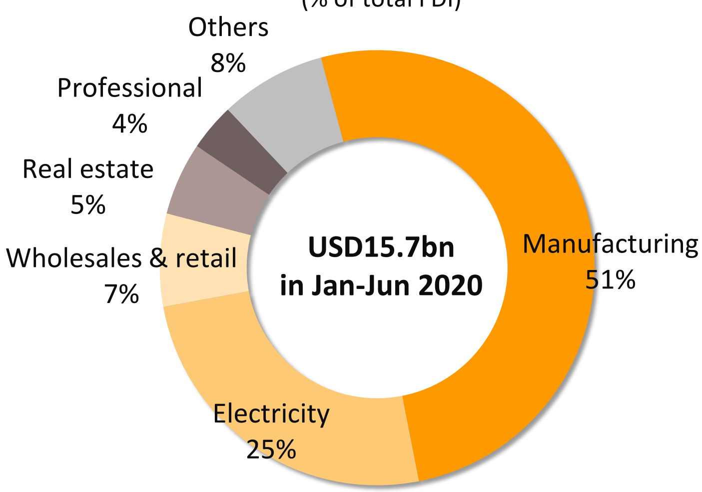

**Source of FDI by Country (1H20)**




Note: BVI refers to British Virgin Islands

**Vietnam's FDI by sector**

(% of total FDI)



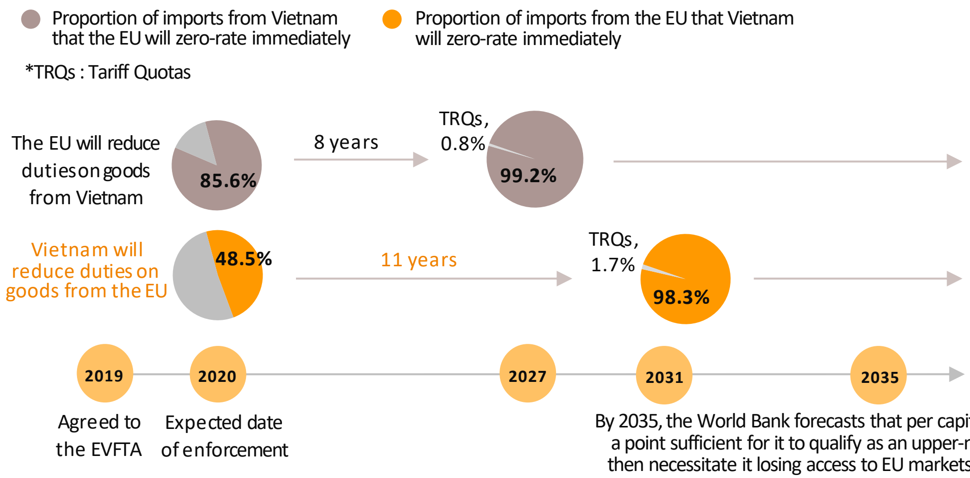

Source: General Statistics Office, CEIC, Krungsri Research

**Krungsri Research's view**

- After registering strong 7.2% growth in 2019, the Covid-19 impact had reduced FDI inflow by 15.1% YoY to USD15.7bn in 1H20. Specifically, in February and March when Vietnam and most countries in Asia were locked down, FDI had tumbled by 82.6% and 10.8% YoY, respectively. **However, FDI should improve in the coming months given that most lockdown restrictions have been lifted. There is investment demand in Vietnam but it might be capped by global economic uncertainties, including risk of a second outbreak.**
- **Looking ahead, we expect FDI inflows into Vietnam to rise gradually because the country is one of the most attractive investment destinations in the region. It offers the strongest economic growth prospects as Mainland China manufacturers continue to relocate operations there. Vietnam will also gain from new FTAs, including the EVFTA, the CPTPP, and the RCEP, the latter likely to be signed in November this year.**

# EVFTA is expected to take effect by August 2020; supporting export competitiveness

### Timeline to reduce import duties under EVFTA




### Impact of the EVFTA on Vietnam and Thailand

(% change in value)

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

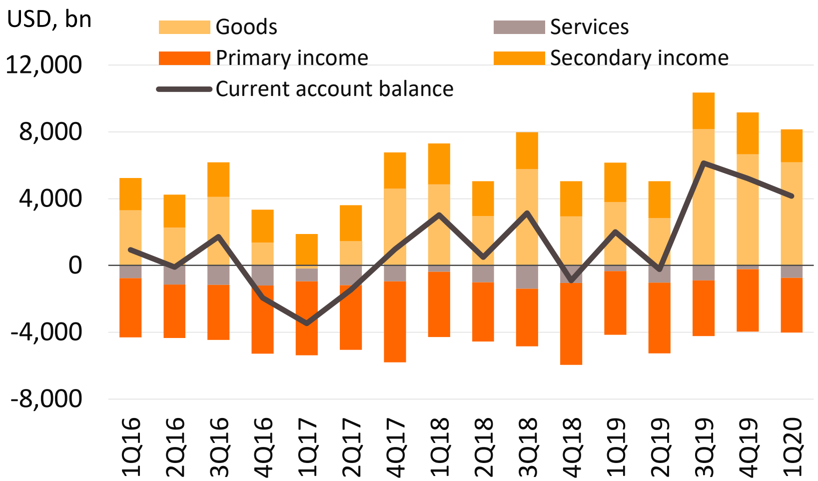
## Krungsri Research's view

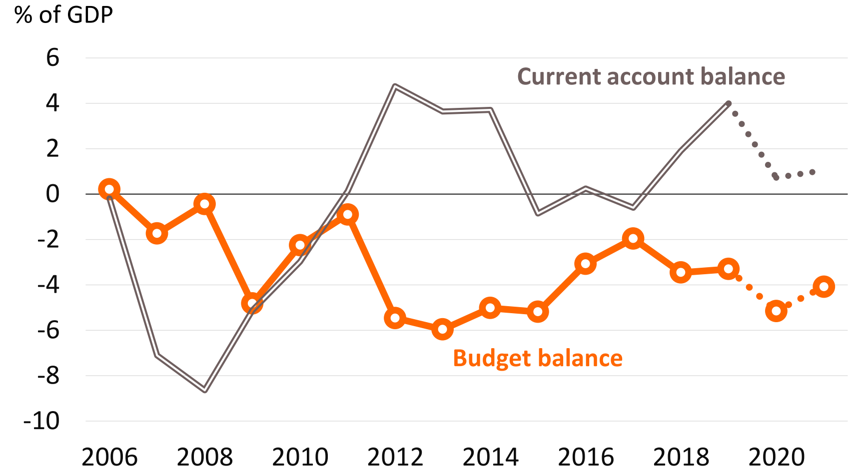
- On 8 June, Vietnam's National Assembly ratified the European Union - Vietnam Free Trade Agreement (EVFTA) and the EU-Vietnam Investment Protection Agreement (EVIPA), paving the way for it to take effect in July or August this year.
- The EVFTA marks another major step forward in the process of tying Vietnam to the world markets for trade and investment. Key elements of the pact include the following: (i) **The EVFTA liberalizes almost 100% of Vietnam-EU trade**, and is the most comprehensive trade agreement that Vietnam has agreed to date; (ii) Vietnam is the second country in the ASEAN region to sign a FTA with the EU (the other is Singapore); and (iii) **Vietnam is the first developing economy to agree to a standards-based FTA with the EU**.
- **This is crucial to support Vietnam's economy amid weakening prospects due to COVID-19 impact. Although the EU economy is projected to fall into recession this year, Vietnam could be competitive with the EU applying zero tariffs for up to 86% of total import items.**
- **Furthermore, the EVFTA will have a positive long-term impact on Vietnam's economy, especially on exports and investment, and would accelerate economic growth**. Our analysis shows that exempting all Vietnamese imports into the EU from customs duties will have positive impact across the Vietnamese economy. It would lead to a 28.0% rise in the value of Vietnamese exports, a 5.5% increase in investment, and lift economic growth by 0.3 ppt. At the same time, the EVFTA would threaten exports and investment in competing countries, including Thailand.

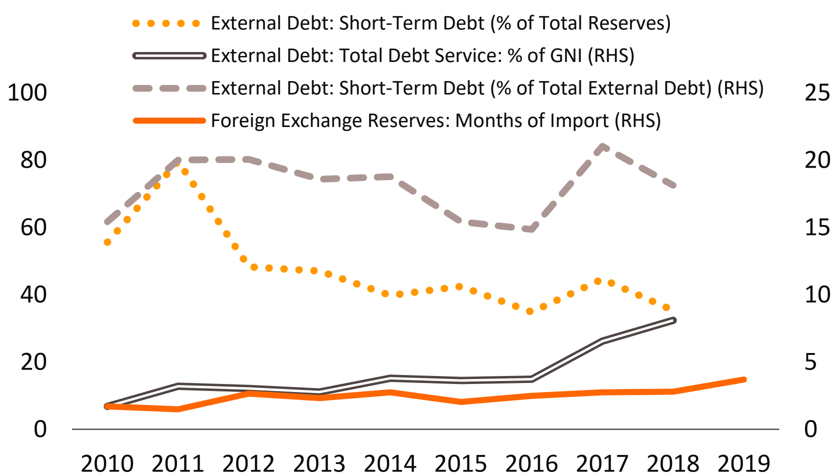
Note: 1/ https://www.krungsri.com/bank/getmedia/6f2b416b-4cc1-4855-b1fe-190f2030874d/RI_EVFTA_200116_EN.aspx

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

# Vietnam would remain resilient to external shocks given low debt risk and adequate reserves




Source: State Bank of Vietnam, World Bank, CEIC, Krungsri Research

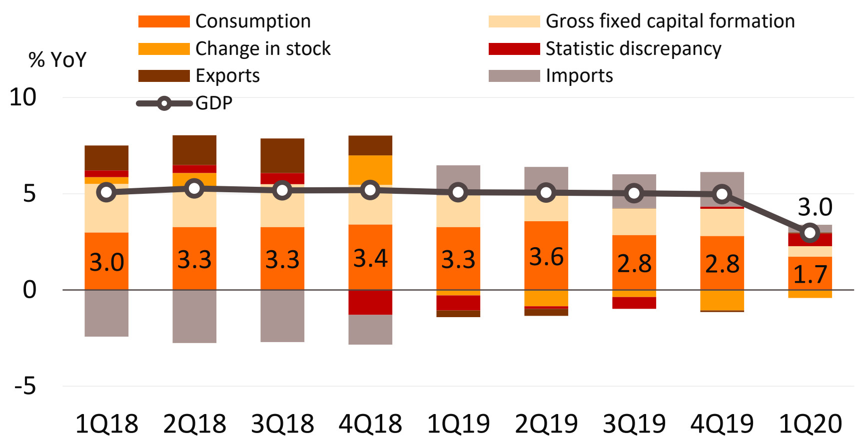
## Krungsri Research's view

- Vietnam is expected to remain resilient to external shocks given a current account surplus and a sizeable capital account surplus. **Current account balance is expected to remain surplus** for the whole year. Given an expected drop of exports and limited improvement of domestic consumption, this would result in a drop in imports of consumer and intermediate goods for manufacturing, and further help widen the country's trade deficit this year.
- In addition, an anticipated improvement of FDI inflows would further help maintain the country's capital account surplus and lead to the further accumulation of foreign exchange reserves, which is currently equivalent to 3.5 months of imports.
- Though a widening budget deficit would result in an increase in public and external debt, **we anticipate foreign reserves would remain adequate to cover the country's short-term external debt, which register just about 40% of total reserves**.

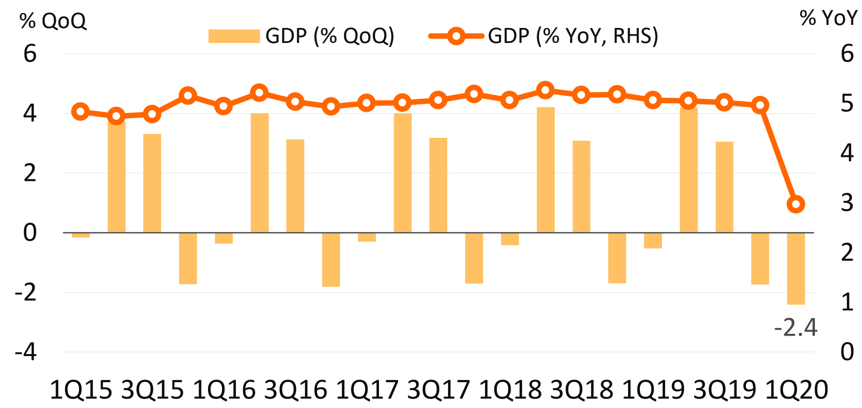
# INDONESIA ECONOMIC OUTLOOK 2020 UPDATE

# *Indonesia:* Growth slows to 3.0% in 1Q20; economy likely to contract for full-year 2020

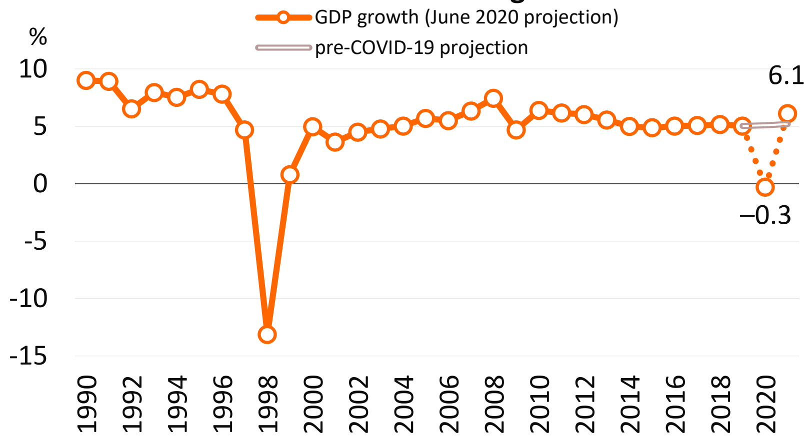
**Indonesia: Contribution to GDP: Expenditure side**




**Indonesia's GDP growth**




**Indonesia's real GDP growth**



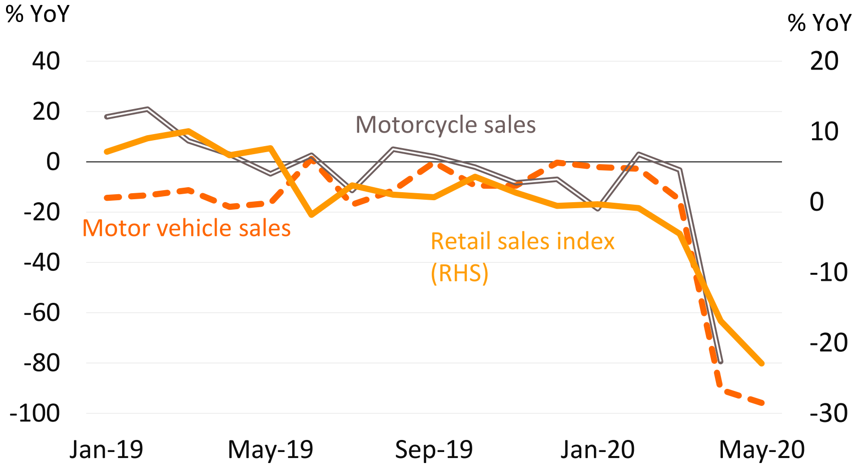

Source: Bank Indonesia, Central Bureau of Statistics, IMF WEO update (June 2020), CEIC, Krungsri Research

## Krungsri Research's view

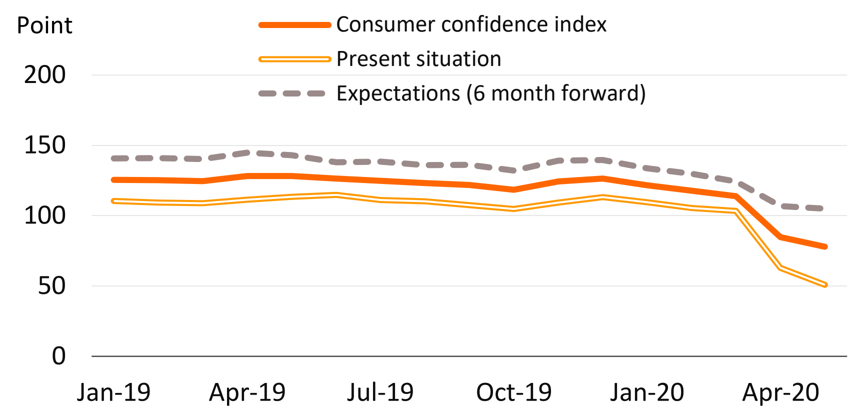
- Although Indonesia only started to report a rising number of COVID-19 cases in March, **the economy had been hit in 1Q20 with growth coming in at only 3% YoY vs 5.0% in 4Q19. This is the weakest growth in 18 years**, dragged by both the supply and demand side. A sharp drop in global demand for commodities – including oil, palm oil, and metal ores – had reduced production activities substantially as inventories piled up. On the demand side, it was also dampened by (i) weaker domestic consumption and external demand due to falling global prices for commodities - Indonesia's major export goods which account for 29% of national exports, and (ii) sluggish investment. **For the rest of the year, we expect a sharp drop in consumption – Indonesia's largest growth engine at 55% of GDP – because of the pandemic impact. Taking into account delays in introducing stimulus programs, Indonesia's economy could contract this year.** According to the IMF's revised projection in June 2020, Indonesia's economy is estimated to contract by 0.3% in 2020 vs previously projection of 1.1% growth. And, **we see downside risk to Indonesia's economy from still-high Covid-19 daily cases and weak recovery in the supply side, which could lead the economy into deeper negative territory.**
- In addition, Indonesia's government is pushing to reopen its economy to minimize the impact on the labor market, although continues to register about a thousand new Covid-19 cases daily. **We believe that, until there is an effective vaccine, economic activities will remain muted and recovery will take longer than expected.**

# COVID-19 outbreak exacerbates weak domestic consumption; expect to to deteriorate further

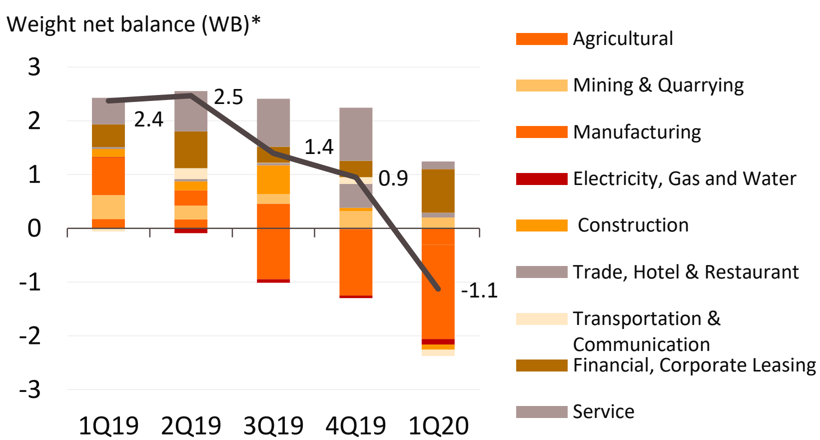
**Indonesia's motor vehicle and motorcycle sales**




**Indonesia's consumer confidence index**




**Indonesia: Realization of usage of labor**




Note: *A positive result indicates an expansion of usage of labor while a negative one reflects a contraction.

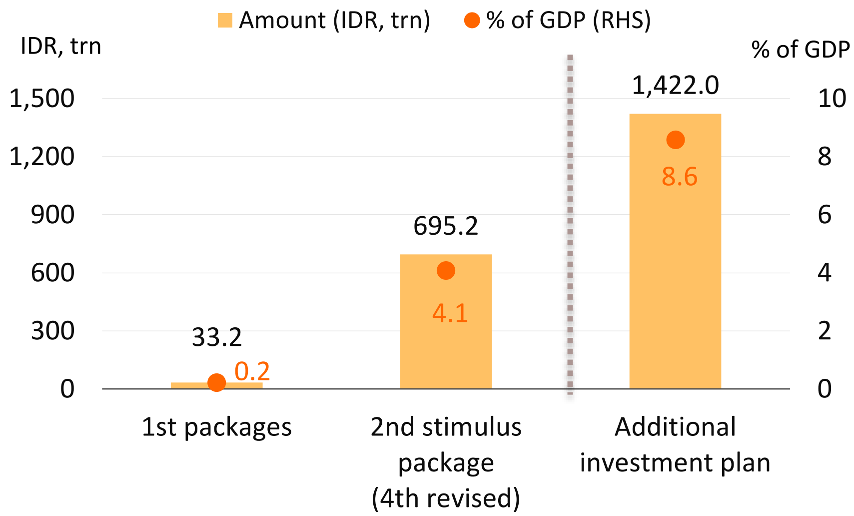
Source: Central Bureau of Statistics, CEIC, Krungsri Research

## Krungsri Research's view

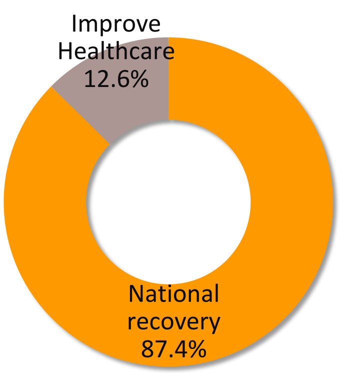
- **The COVID-19 outbreak has significantly dampened already-weak domestic consumption in Indonesia. Household expenditure has been adversely affected since the lockdown.**
- **Indicators show that household consumption activity and future expectations have broadly tumbled.** Specifically, motorcycle sales dropped by 79.3% YoY in April in line with the sharp decline in motor vehicle sales in May (-95.8% YoY). And, the latest consumer confidence survey reflects a sharp drop in confidence, both current and expectations for the next six months.
- **Looking ahead, premised on expectations of a global recession extended lockdown in the country and worldwide, as well as the disruption on the supply side, Indonesia's labor market would remain fragile. Coupled with still-weak consumer sentiment, we expect consumption to continue to weaken in Indonesia the rest of this year.**

# Expanding fiscal stimulus to IDR695.2trn to drive positive GDP growth this year; that is challenging

**Indonesia: Stimulus packages**




**Major expenditures under the 2nd stimulus package of IDR695.2trn***




| Sector | IDR, trn |
|---|---|
| • Healthcare | 87.61 |
| • Social safety net | 203.90 |
| • Incentives for MSMEs | 123.46 |
| • Tax incentives | 120.61 |
| • Ministries and regional admin. | 106.11 |
| • SOEs and labor-intensive businesses | 53.37 |
| **Total** | **695.2** |

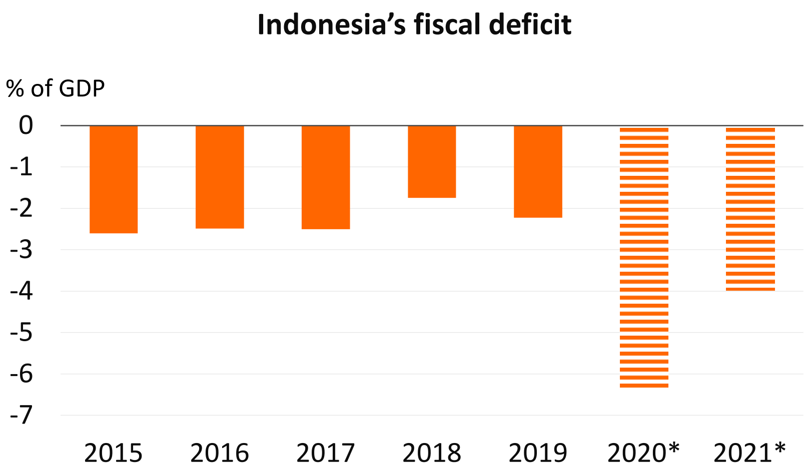
**Krungsri Research's view**

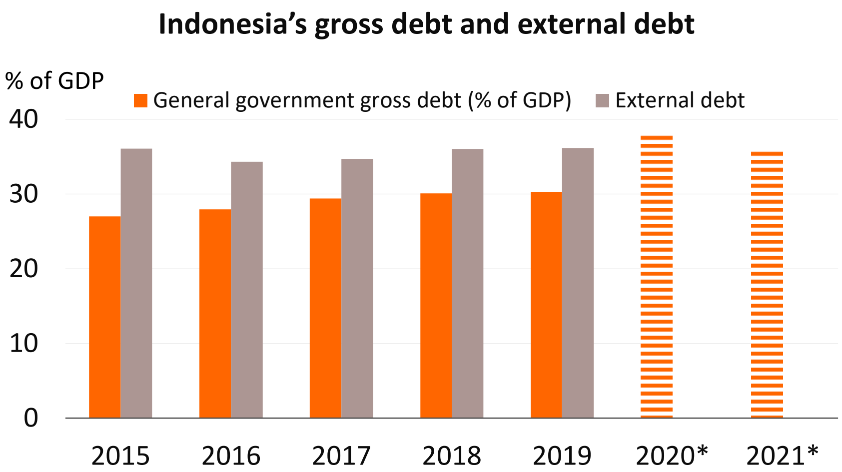
- In early June, Indonesia's government released a second stimulus package worth IDR695.2trn (USD49.6bn, 4.5% of GDP), larger than the first package worth IDR405.1trn (2.4% of GDP) introduced in March. **The government wants to lift 2020 GDP growth to above 0%. Indonesia's Finance Ministry recently revised down 2020 economic growth target to between -0.4% and +1.0%, from -0.4% and +2.3% previously.**
- **A large portion (57%) of the total stimulus package is for emergency spending, including healthcare, social safety net, as well as administration, which are cash payment.** There is also a large allocation for long-term projects worth IDR1,422trn (8.6% of GDP) covering 89 new strategic investment projects over the next 5 years (2020-2024). This is projected to create around 4 million jobs a year.
- **Overall, we anticipate Indonesia's economy will contract this year. Although the fiscal stimulus packages are massive, they will only manage to disburse part of that this year – especially the cash aid and current expenditure. But the rest – mostly for public investment projects – would be disbursed over a period of time depending on project progress.**

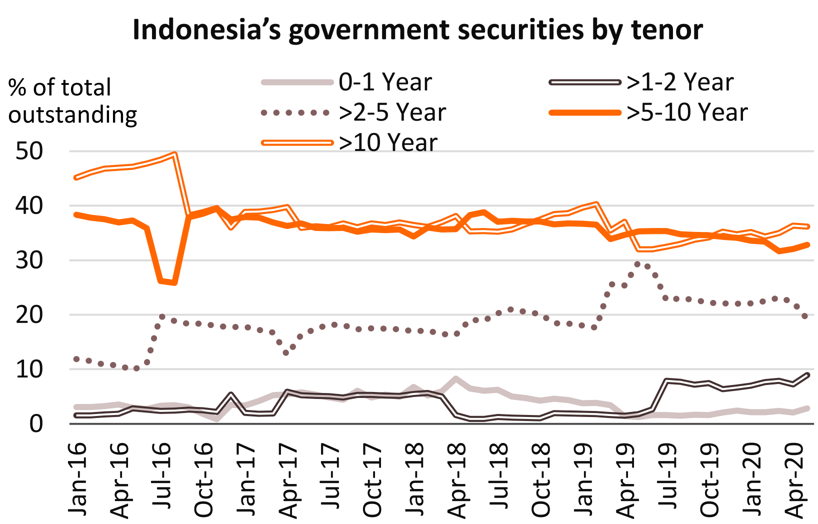
Note: *as of 17 June 2020

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

# Sizeable budget expenditure will widen fiscal deficit; expect debt to surge but remain manageable



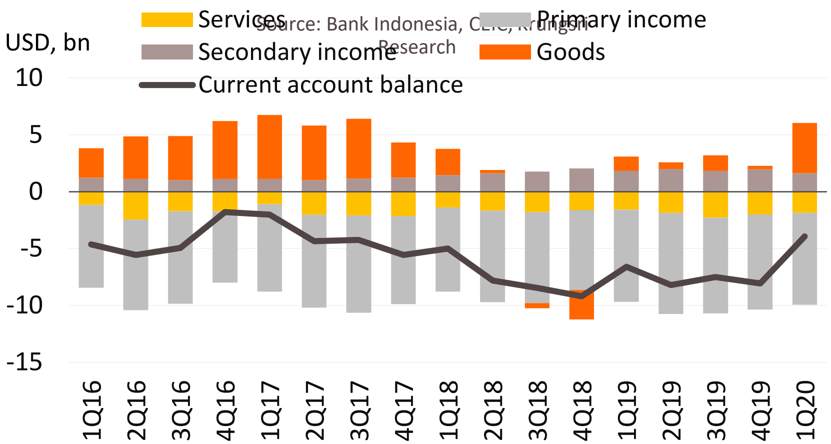

## Krungsri Research's view

- Given the massive stimulus packages, Indonesia will register a large fiscal deficit in 2020 and the next two years. **The Ministry of Finance estimates it will widen to 6.34% of GDP this year.**
- **To finance the expenditure, the government has issued more bonds. This will increase gross debt and external debt, but they will remain manageable because (i) public debt is at 40% of GDP, which is relatively lower than the 56% average for Asian countries**; (ii) **most of its government securities carry medium- to long-term tenor (more than 5 years)** as at May. This implies only a small proportion of debt is due in the near-term; and (iii) **most of the debt (57%) is in local currency, which helps to reduce foreign exchange risk**.

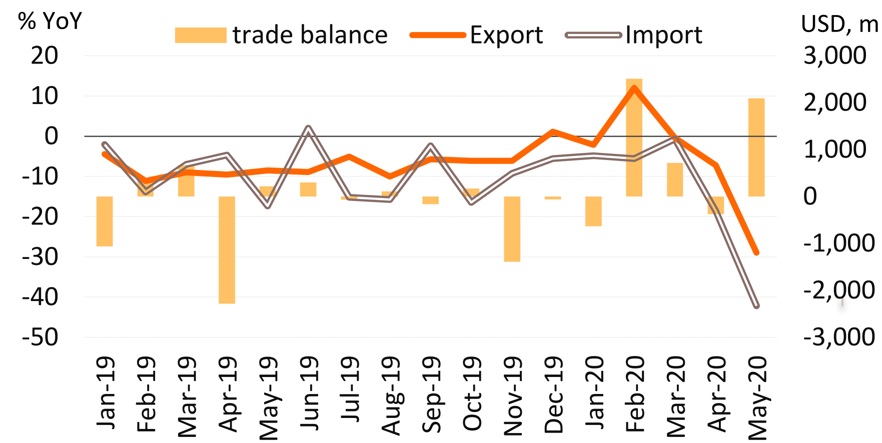
Note: *projected by IMF.
Source: IMF, Directorate General of Budget Financing and Risk Management, Krungsri Research

# External position could improve slightly given limited demand for imports and adequate reserves

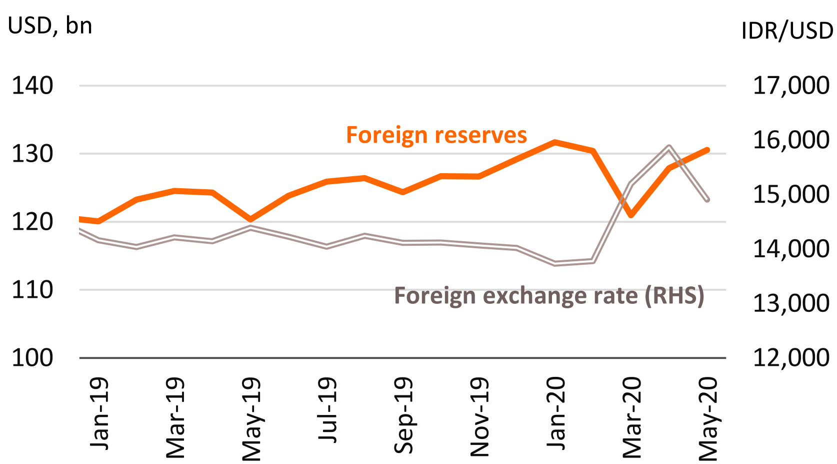
### Indonesia's current account balance




### Indonesia's trade statistics




### Indonesia's foreign reserves vs. foreign exchange rate

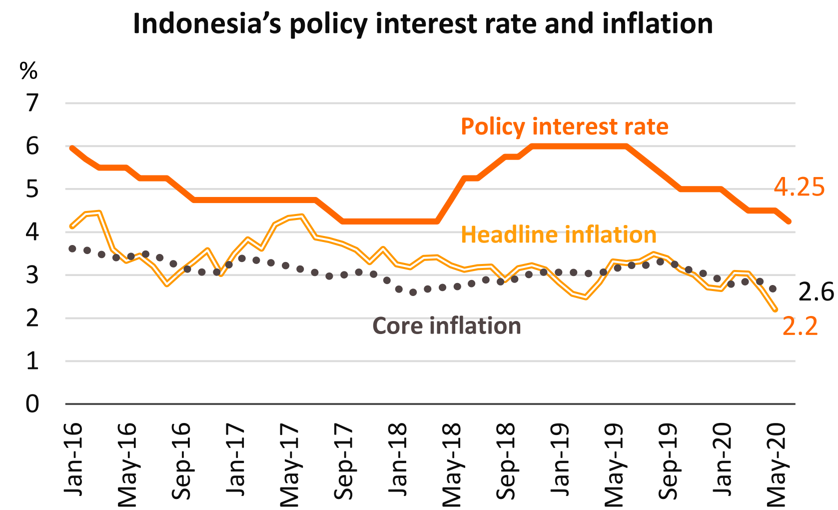


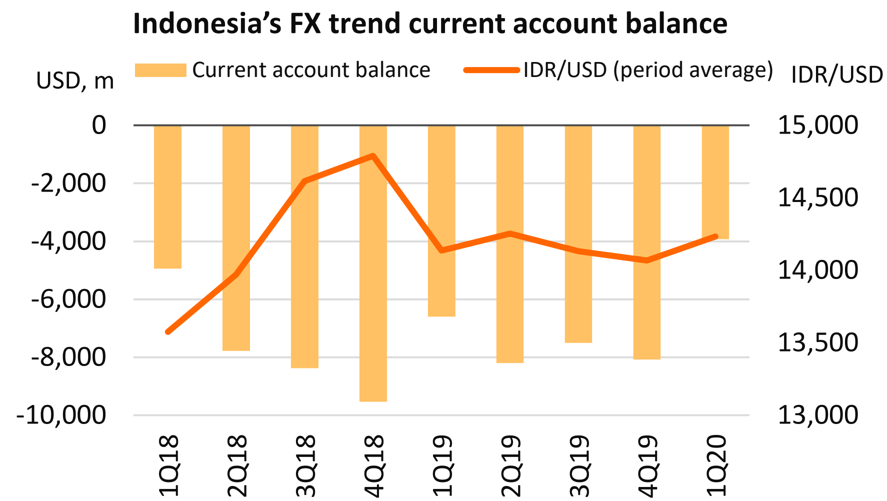

Source: Bank Indonesia, Central Bureau of Statistics, CEIC, Krungsri Research

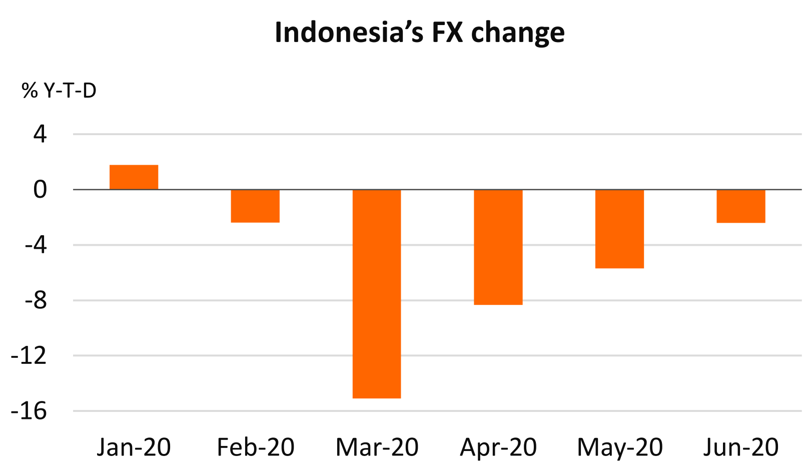
## Krungsri Research's view

- **External balance improved in 1Q20.** Current account deficit has narrowed to USD3.9bn in 1Q20, from USD8.1bn in 4Q19. Indonesia's trade balance turned to surplus of USD2.1bn in May, reversing from USD372.1m deficit in April, mainly attributed to lower imports of capital and consumer goods due to the economic slowdown. **Looking ahead, trade balance could remain mildly positive. Demand for imports should decline** further as domestic consumption and investment would remain muted in the coming months. This is largely because of late reopening. **Exports would also drop this year due to weak global demand**, dampening its already-fragile commodity-driven export sector.
- **In addition, rising foreign reserves – mainly driven by capital inflows to the bond market – will keep the rupiah stable.** Indonesia has USD130.4bn worth of foreign exchange, sufficient to cover about 8 months of imports. And it will continue to rise if the government's issued more bonds. The strong inflow of foreign capital is driven by relatively high yields for Indonesian bonds. At end-June, yield for 10-year Indonesian government bond was 7.209% vs 2.857% for Malaysian government bonds. This was why the IDR depreciated by only 2.4% YTD-June compared to a depreciation of 15.1% YTD-March.

# Low inflation and currency stability allow more accommodative monetary policy to support growth



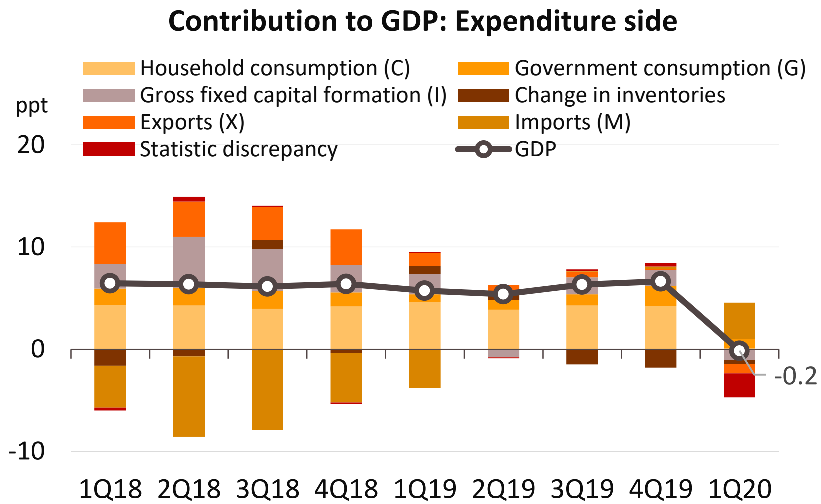

### Krungsri Research's view

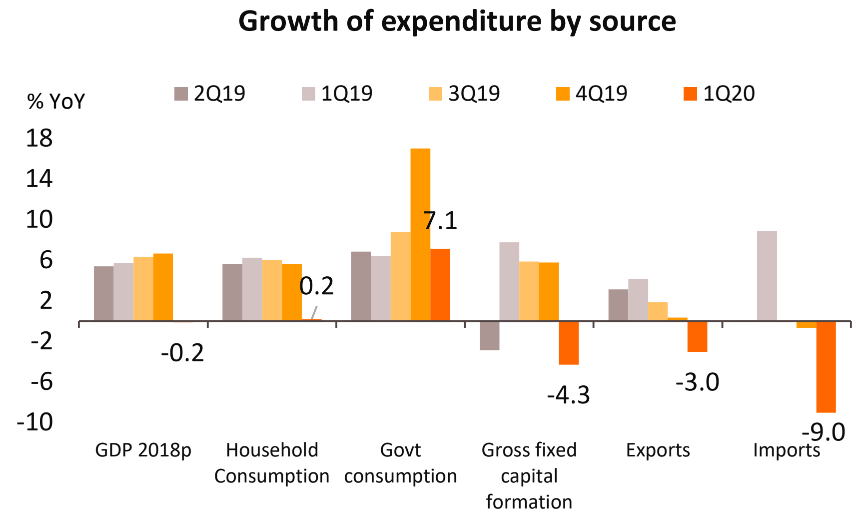
- **Bank Indonesia (BI) has cut its policy interest rate – 7-day reverse repurchase rate – by a total of 75 bps this year to 4.25% currently. Given low inflationary pressure, improving external stability, and the need to boost economic growth, there is room for further rate cuts.**
- **Indonesia's inflation rate was 2.2% in May, close to the lower bound of its inflation target range of 2.0%-4.0% for 2020.** And, BI forecasts it will ease further to 1.8% in June, the lowest since June 2000. This would be attributed to still-low oil prices as well as weak demand due to lockdown restrictions.
- In addition, latest data show a narrower **current account deficit and more stable rupiah (returned to pre-pandemic level)** thanks to the central bank's triple intervention policy to maintain rupiah stability. **Looking ahead, the rupiah would remain relatively stable,** supported by (i) further narrowing of the current account deficit due to weaker import demand; and (ii) an expected increase in foreign capital flows into Indonesia's bond market, which would boost its foreign reserves.

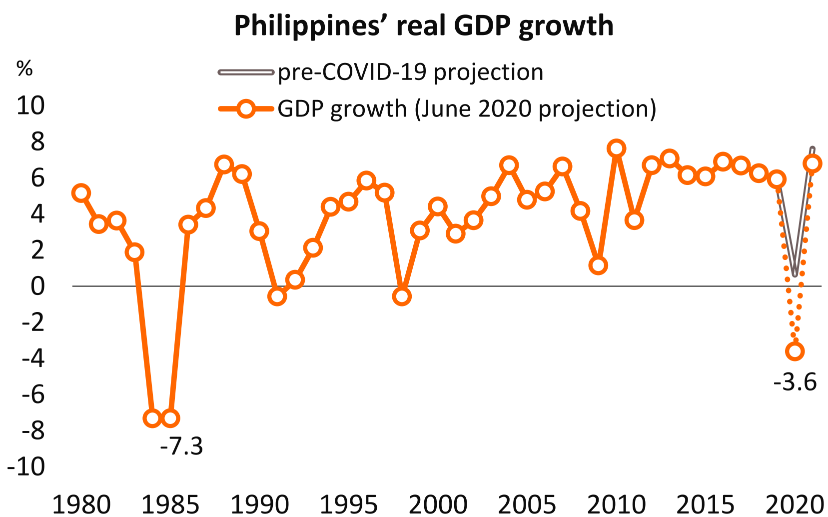
Source: Bank Indonesia, CEIC, Krungsri Research

# PHILIPPINES
## ECONOMIC OUTLOOK
## 2020 UPDATE

# *Philippines:* After falling by 0.2% in 1Q20, growth tends to worsen and would be negative for the whole year



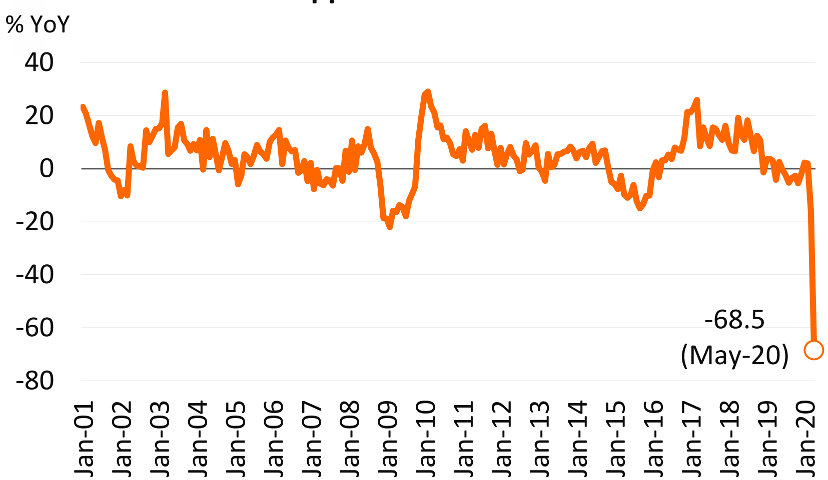

Source: IMF, Philippine Statistics Authority (PSA), CEIC, Krungsri Research

## Krungsri Research's view

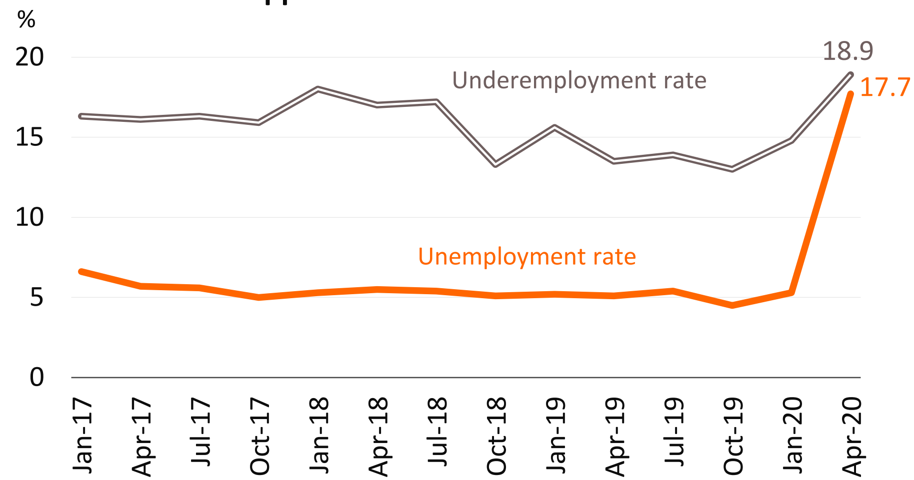
- **The Philippines' economy shrank by 0.2% YoY in 1Q20** – the weakest in 22 years – mainly due to a sharp drop in consumption and investment. **Economic growth is expected to deteriorate significantly in 2Q20** because of extended lockdown measures, which will lead to a deeper contraction in consumption. **In 2H20, GDP will continue to contract as demand will remain fragile due to a continued lockdown (but easing), weaker household income, a drop in remittance receipts, as well as high unemployment. The stimulus packages would only support growth partially due to delayed implementation and delivery.**
- **Overall, the Philippines' economy would contract this year. We are in line with the IMF's latest projection for Philippines' economy to contract by 3.6% this year,** the largest contraction since 1985 (-7.3%). The latest projection is a sharp reversal from the earlier projection of +0.6%.

# Private consumption would deteriorate due to worsening labor market conditions and falling remittances

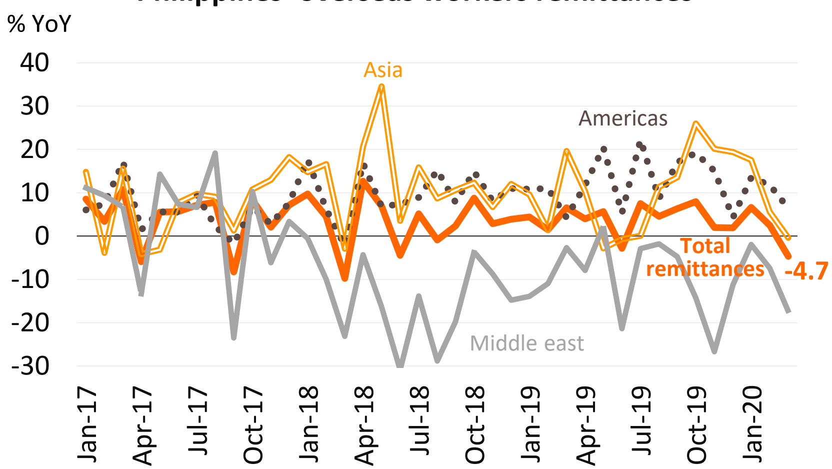
**Philippines' net sales index**




**Philippines' labor market conditions**




**Philippines' overseas workers remittances**

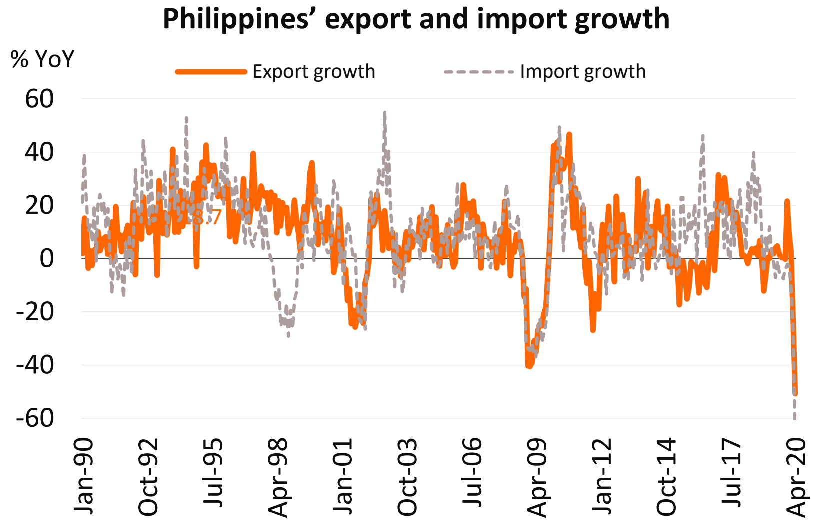


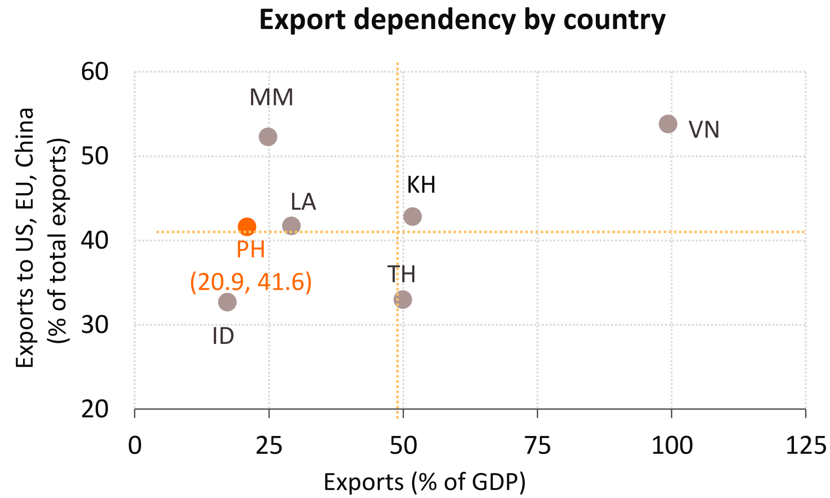

Source: Bangko Sentral ng Pilipinas, PSA, World Bank, CEIC, Krungsri Research

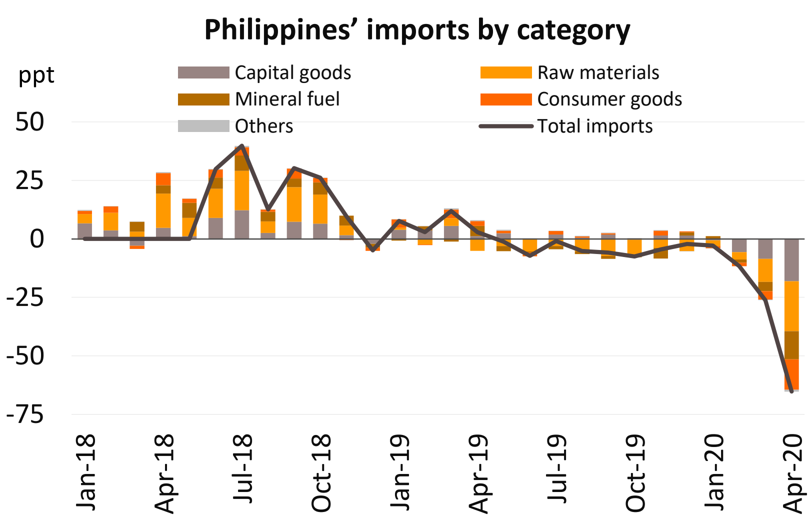
## Krungsri Research's view

- **Private consumption – the Philippines' major economic growth driver at 70% of GDP – has deteriorated sharply since the lockdown which started in mid-March.** Net sales – referring to total value of shipments for all products – had continued to tumble in May by 68.5% YoY. Unemployment and underemployment rates had surged to record highs of 17.7% and 18.9%, respectively, in April, because about 58% of total employment are in the service sector. In addition, remittances also fell by 4.7% YoY in March.
- **Looking ahead, the Philippines' labor market will worsen and remittances will continue to drop. These will reduce consumption spending the rest of the year.** Its major economic regions – especially Luzon which accounts for c.60% of national GDP – remain under lockdown restriction, which means economic activities will continue to be limited and there will be more job losses. The government has announced it would accelerate public investment, especially through projects under the *Build, Build, Build* program to create jobs. But it is unlikely to realize its target this year because of bureaucracy. In addition, remittances would drop more significantly in the coming months because of the a deeper-than-expected global recession. The World Bank recently projected the country's remittances would shrink by 13% this year.

# Export would continue to weaken; imports may recover driven by BBB projects in 2H20




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

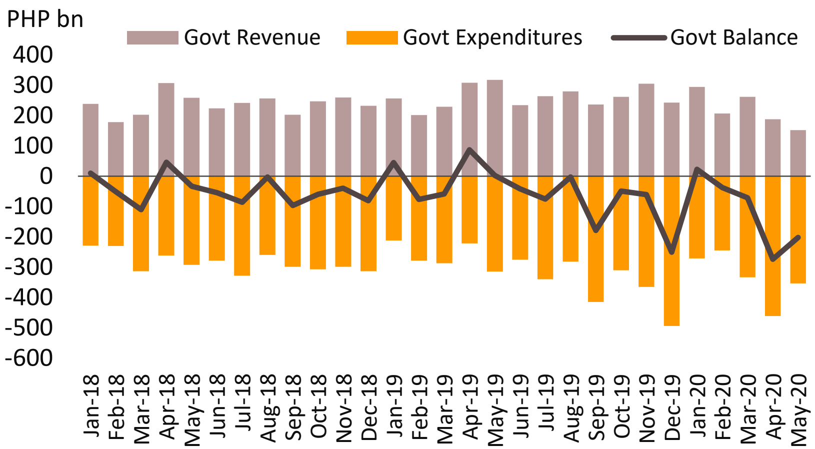
## Krungsri Research's view

- **The COVID-19 impact has dampened Philippines' already-weak exports at a deeper level since the beginning of 2020.** Despite Philippines has low degree of trade dependency, the country's export has been pressured by impact of China-US trade tensions since 2018, causing a subdued growth of exports for two consecutive years. The latest data shows Philippines' exports dropped sharply by 50.7% YoY in April, the worst decline since January 2000, due to a falling demand globally – especially its major export markets i.e. US (15.6% of total exports), the EU (13.0%) and China (12.9%). Imports also plunged by 65.3% YoY, the biggest slump in 11 years. And, the country's trade gap narrowed to its lowest level in over five years.
- **For the rest of this year, we anticipate export would remain contract as global economy is expected to face a deeper downturn. Import is likely to gradually resume – especially for construction materials imports – due to a push of *Build, Build, Build* program, while import of consumer goods should be muted further because of a fall in consumption demand.**

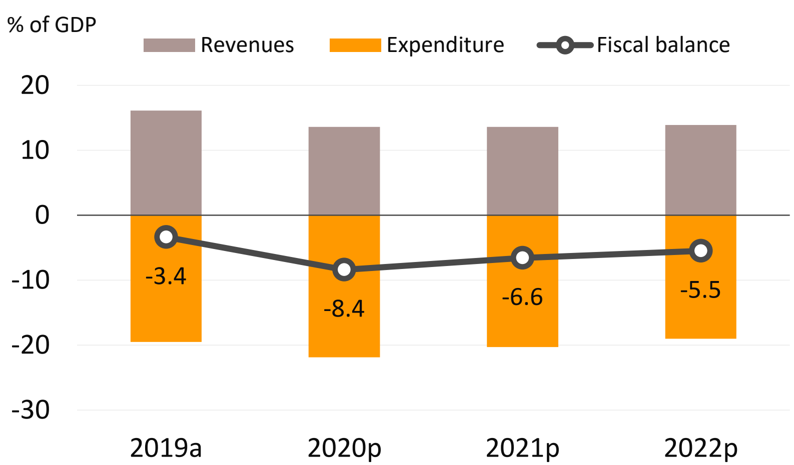
krungsri Research

# Massive stimulus would take 2020 fiscal deficit to a new high; disbursement is likely to be smaller than planned

### Philippines' monthly budget balance




### Philippines' fiscal balance




Note: a = actual, p = projection

Source: Bureau of the Treasury, Department of Budget and Management, CEIC, Krungsri Research

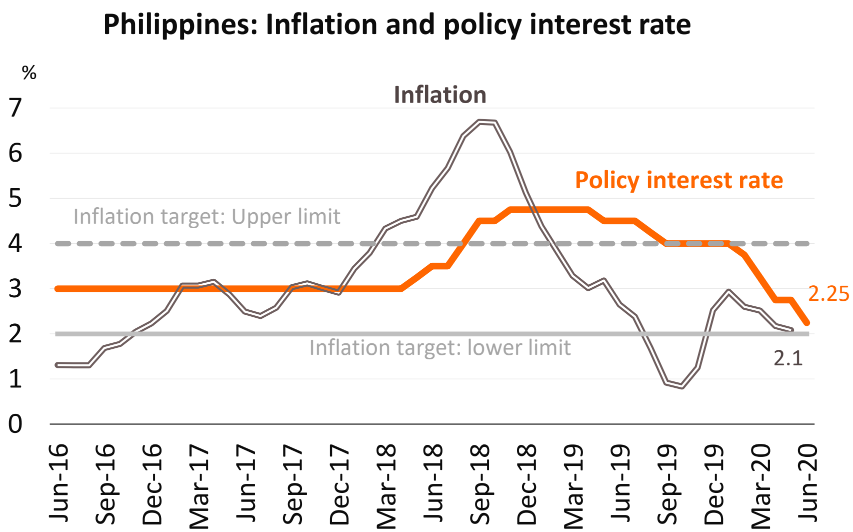
### Philippines: Key stimulus packages

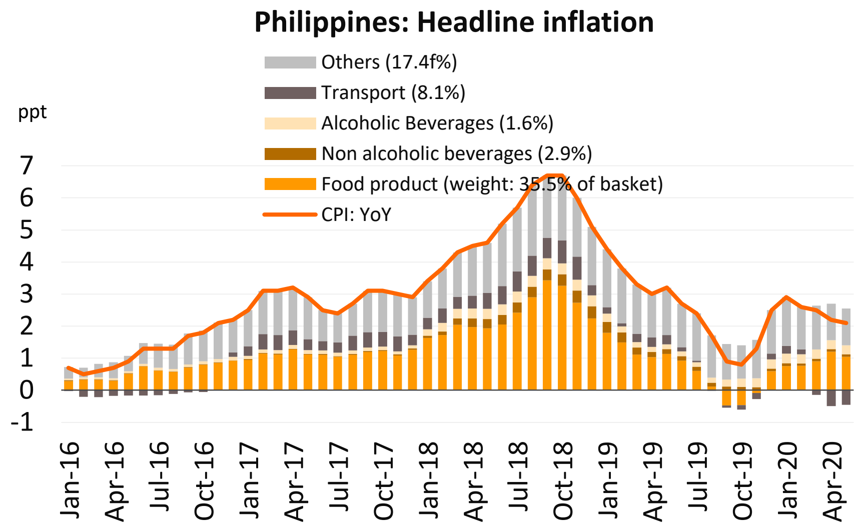
| | "ARISE" Bill | "CURES" Bill |
|---|---|---|
| **Amount (PHP trn)** | 1.3 | 1.5 |
| **(USD, bn)** | 25.7 | 29.6 |
| **(% of GDP)** | 7.2 | 8.3 |
| **Period** | 2 years (2020-2021) | 3 years (2020-2022) |
| **Disbursement** | • PHP688trn (53% of total) in 2020<br>• PHP612trn (47%) in 2021 | • PHP500bn (33% of total) each year |
| **Objectives** | • Assist affected workers<br>• Create new jobs | Infrastructure projects including *Build Build Build* program |

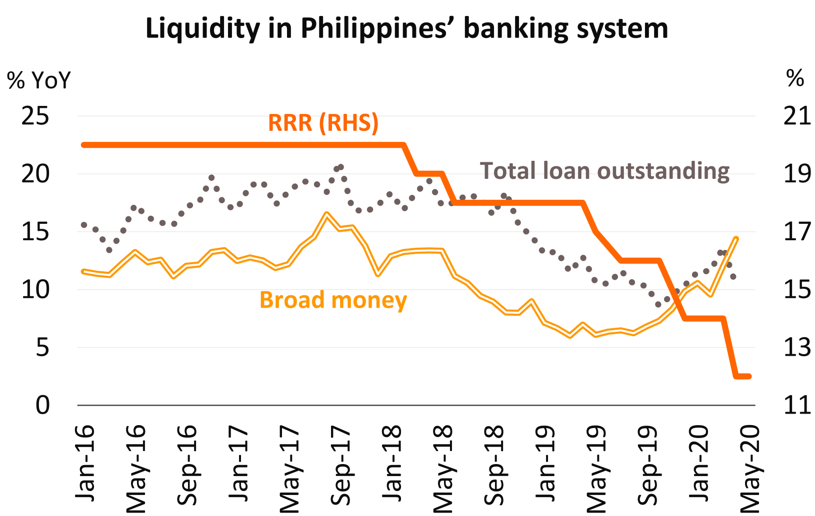
### Krungsri Research's view

- **Along with monetary easing, the government has launched a series of fiscal policy measures to support growth. Specifically, in early June, the House of Representatives passed two key economic stimulus bills worth up to PHP2.8trn (15.5% of GDP), taking the total fiscal package to 18.8% of GDP over 2020-2022.** Given this, **the government's budget deficit is projected to reach PHP1.56trn or 8.1% of GDP in 2020**, according to the Department of Budget and Management (DBM). It is higher than the first estimate of 5.3% announced in March and, specifically, a new high for the country. The large packages were launched recently, after the government projected the national economy would contract by 2.1%- 3.4% in 2020.
- **However, we anticipate disbursements would miss target, and the government might not achieve its growth target.** According to the DBM, PHP354.5bn (USD7.1bn, 2% of GDP) has been released into the economy as at 22 June. These are mostly cash disbursements through the social welfare system, cash aid, and wage subsidies. The rest of the stimulus packages focus on public investment, especially the *Build, Build, Build (BBB)* program, which disbursement process would be longer than for the cash allocations.

# After delivering deep interest rate cut by 175 bps, BSP would keep its key rates as it prefers positive real rate




Source: CEIC, Bloomberg, Krungsri Research

## Krungsri Research's view

- Given the dim outlook for the domestic economy, the Bangko Sentral ng Pilipinas (BSP) has slashed policy interest rate cut by a total of 175 bps to 2.25% (as of June) to reduce financial costs for local businesses. Looking ahead, **we expect the BSP to keep rate at 2.25% for the rest of 2020, supported by mild inflationary pressure** (BSP has revised baseline inflation forecast to 2.3% vs previous projection of 2.2%). Meanwhile, BSP governor Benjamin Diokno is likely to favor a positive real interest rate policy. **Another 25-bp rate cut would result in negative real interest rate.**
- In addition, the BSP targets to cut reserve requirement ratio (RRR) by up to 400 bps to release liquidity into the economy, but money supply had increased by 14.4% YoY in April vs +9.8% YoY in December 2019. Hence, **the central bank would not want to cut RRR again soon.**

# KRUNGSRI RESEARCH

| | |
|---|---|
| **Somprawin Manprasert, Ph.D.** | **Head of Research Division and Chief Economist** |
| Phornphan Phoksuphat | Head of Macroeconomic and Industry Research |

## Macroeconomic Team

| | |
|---|---|
| Sujit Chaivichayachat | Head of Macroeconomic Research |
| Chamadanai Marknual, Ph.D. | Senior Economist |
| Churailuk Pholsri | Senior Economist (Forecasting) |
| Soison Lohsuwannakul | Senior Economist (Regional Economy) |
| Sathit Talaengsatya | Senior Economist (Regional Economy) |

## Industry Team

| | |
|---|---|
| Sarun Sunansathaporn | Head of Industry Research |
| Taned Mahattanalai | Senior Analyst (Construction Contractors) |
| Poonsuk Ninkitsaranont | Senior Analyst (Healthcare, Mobile Operators) |
| Piyanuch Sathapongpakdee | Senior Analyst (Transport & Logistics) |
| Narin Tunpaiboon | Senior Analyst (Power Generation, Modern Trade, Chemicals, Medical Devices) |
| Puttachard Lunkam | Analyst (Hotels, Construction Materials, Industrial Estate) |
| Wanna Yongpisanphob | Analyst (Automobile, Electronics & Electrical Appliances, Food & Beverages) |
| Patchara Klinchuanchun | Analyst (Real Estate) |
| Chaiwat Sowcharoensuk | Analyst (Agriculture) |
| Aphinya Khanunthong | Analyst (Energy, Petrochemicals) |

## Intelligence Team

| | |
|---|---|
| Pimnara Hirankasi, Ph.D. | Senior Analyst |
| Talublugkhana Thanadhidhasuwanna | Senior Analyst (Financial Sectors) |
| Rachot Leingchan | Analyst |
| Arpakorn Nopparattayaporn | Analyst |
| Chutipha Klungjaturavet | Analyst |

## MIS and Reporting Team

| | |
|---|---|
| Suratchanee Somprasong | Administrator |
| Thamon Sernsuksakul | Administrator |
| Chirdsak Srichaiton | MIS Officer |
| Wongsagon Keawuttung | MIS Officer |

Subscribe Us

*For research subscription, contact*
***krungsri.research@krungsri.com***