Economics View

26 October 2020

Thailand

Budget To Focus On Economic Recovery, Reform

- **The fiscal year 2021 (FY21) budget of THB3.3trn – which is 3.1% higher than the FY20 budget, requires domestic borrowings of THB623bn, the largest amount of borrowings in any single fiscal year – would play a vital role to counter Thailand's worst economic slump amidst the COVID-19 pandemic.**
- **Fiscal deficit-to-GDP ratio is expected to narrow to -2.7% in 2021 despite the increase in domestic borrowings as the economy is expected to see a rebound from 2020 amidst the low-base effect and global economic recovery. As fiscal discipline is maintained while balancing the need to boost the economy, we expect Thailand's sovereign rating to be remain resilient in the light of its strong public and external finance buffers.**
- **As the budget is within our expectations, we maintain our GDP growth forecast of 5.0% YoY in 2021F vs a contraction of -7.6% YoY in 2020F.**

Economist

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FY21 Budget of THB3.3trn – which is 3.1% higher than the FY20 budget, requires domestic borrowings of THB623bn – the largest amount of borrowings, would play a vital role to counter Thailand's worst economic slump amidst the COVID-19 pandemic.

Emphasis on the budget revolves around three themes – steer economic recovery, improve the quality of life for people affected by COVID-19 pandemic as well as promotion of income generation, creation of fairness in distribution of economy and reduction of social injustice.

Under the budget allocation strategy, the Government has allocated THB795.8bn or about 24.1% of the total budget, which is the largest allocation under the budget, to create fairness and reduce economic and social inequality.

FY21 Budget also allocates THB139.8bn as reserves for expenditures during emergencies as well as those under urgent necessities, which is 44.9% higher than the amount set aside in FY20 budget. This would be utilised to help in the recovery of those affected by the COVID-19 pandemic and to prepare for contractors on construction costs overruns.

Other measures to support the recovery of the economy include the increase of 7.0% to THB513.4bn in investments as compared to THB479.9bn in FY20. A key focus would be the Government's flagship infrastructure project under the Eastern Economic Corridor (EEC).

Even with the additional borrowings of THB623bn in FY21, public debt-to-GDP is likely to remain at 51.8%, which is below the ceiling of 60% set in Fiscal Responsibility Law. We think this provides room for the Government to provide more fiscal stimulus to support the economy, if needed.

Fiscal deficit-to-GDP ratio is expected to narrow to -2.7% in 2021 as the economy is expected to see a rebound from the 2020 amidst the low-base effect and global economic recovery. As fiscal discipline is maintained while balancing the need to boost the economy, we expect Thailand's sovereign rating to be remain resilient.

We are also positive of the central bank's government bond purchase programme as its mandate is to provide liquidity for the financial market. Our view is that the bond purchase programme is unlikely to trigger risk over the independence of the central bank as its mandate is to provide liquidity and not to share the burden of financing the Government. As at 31 Aug 2020, the Bank of Thailand's (BoT) ownership of total outstanding government bonds stood at only 2.2%, which is even lower than the level seen back in 2018.

As the budget is within our expectations, we maintain our GDP growth forecast of 5.0% YoY in 2021F as compared to a contraction of -7.6% YoY in 2020F. We also maintain our view that the central bank could gradually normalise the monetary policy – we expect to see a rate hike of 25bps in 2H21 when economic recovery is likely to be well underway.

Thailand's FY21 Budget to play a vital role in reviving the economy

	Group of Expenditures	Appropriations		Changes YoY	
		FY20	**FY21**	**Amount**	**%**
	Total	**3,200,000.00**	**3,300,000.00**	**100,000.00**	**3.1**
1	Central Fund	518,770.90	614,616.20	95,845.30	18.5
2	Budget receiving agencies	1,134,610.20	1,135,182.00	571.80	0.1
3	Integrated Budget Expenditures	230,058.50	257,877.90	27,819.40	12.1
4	Personnel	777,549.90	776,887.70	-662.20	-0.1
5	Revolving Funds	204,173.90	221,981.90	17,808.00	8.7
6	Public Sector's Debt Repayments	272,127.10	293,454.30	21,327.20	7.8
7	replenishment of Treasury Account	62,709.50	-	-62,709.50	-100.0
8	Replenishment of Reserve Fund	-	-	-	-

Source: Budget Bureau, RHB

Expansionary FY21 Budget To Revive Economy

FY21 Budget is expansionary and requires domestic borrowings of THB623bn, the largest amount of borrowings in any single fiscal year on record. Our view is that the expansionary budget FY21 of THB3.3trn, which is about 3.1% higher than the amount of THB3.2trn set aside for FY20, would play an important role to revive the pandemic-battered economy of Thailand.

Aside from that, the approval and endorsement of the FY21 Budget, which took effect from 1 Oct, has put an end to some of the initial concerns over a potential budget delay, similar to what we saw during the FY20 budget last year.

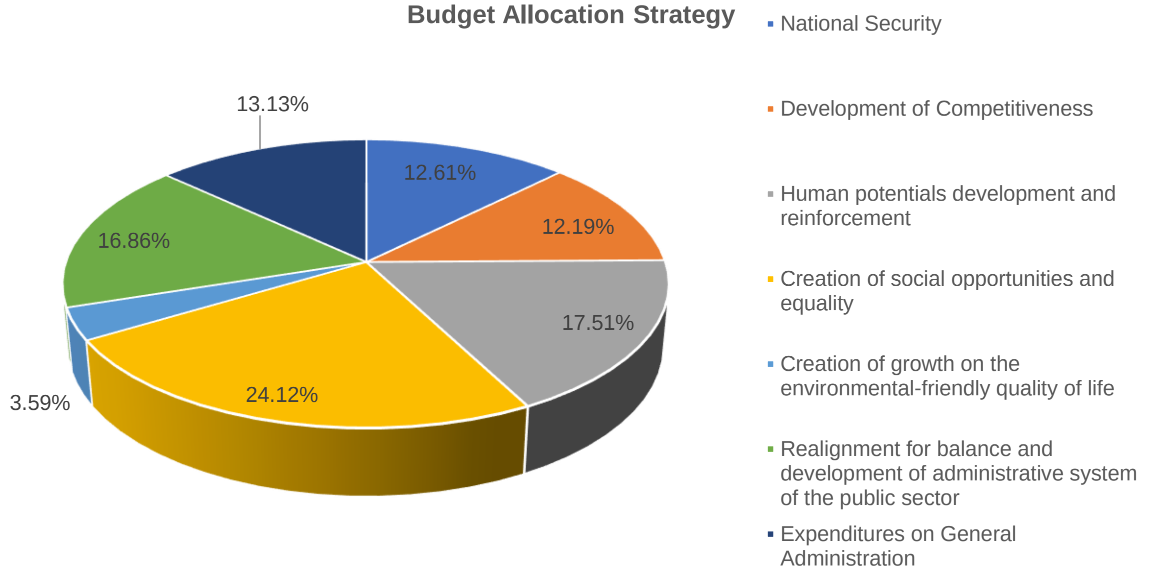
Major takeaways

Government spending to focus on recovery and reform

Emphasis on the budget revolves around three themes – steer economic recovery, improve quality of life for people affected by COVID-19 pandemic as well as promotion of income generation, creation of fairness in distribution of economy and reduction of social injustice.

- **Allocation of THB139.8bn as reserves for expenditures during emergencies as well as those under urgent necessities**. It is 44.9% higher than the allocation made during FY20 budget and it would also be used to help in the recovery for those affected by the pandemic as well as to prepare for contractors on construction costs overruns.
- **Under the budget allocation strategy, the Government has allocated THB795.8bn or about 24.1% of the total budget, to create fairness as well as reduce economic and social inequality.** This is the highest in comparison to other strategies allocation as shown in Figure 1. With this strategy, the emphasis will be made on creating fairness in accessing public health services as well as education. Other priorities involve enhancing of social empowerment, developing an infrastructure to support an ageing society, creating a social safety net for every citizen, developing and promoting the local economy – an integrated development of provinces and clusters of provinces, as well as promoting decentralisation to the local administrative organisations.
- **Largest increase is seen in the allocation to a realignment of balance and development for the public sector's administrative system.** This represents about 16.9% of total budget and is an increase of 9.9% to THB556.5bn in FY21. Under this strategy, we saw an allocation to prevent corruption and misconduct, transformation into a digital government, improvement of public service delivery and public sector's efficiency, development of law and judicial process that is efficient and responsive, administration of the public sector as well as the realignment for balance development of the public sector's administrative system. This will enable better implementation of realignment of the public sector so that it would be more efficient and cost effective.
- **Emphasis on the development of competitiveness in FY21 Budget is seen by the increase of 7.3% in allocation to THB402.3bn** as compared to THB375.0bn in FY20. This is about 12.2% of the total budget, with priority given to the development of transportation infrastructure, the EEC, logistics systems as well as the development of special economic zones. A total of THB137.5bn would be set aside for these expenditures in FY21.
- **THB7.0bn set aside to transform the tourism industry**, which has been severely affected by the COVID-19 pandemic. The Government would take this opportunity to restructure the tourism industry by increasing tourism income in the secondary cities. Priorities would be given to the sub-tourism sectors with potential such as creative and cultural tourism, business-related tourism, beauty and Thai traditional medical tourism. This would transform the industry into a sustainable tourism business in the long run.
- **Decline in expenditure allocation for national security.** The Government has allocated budget expenditure for national security of THB416.0bn in FY21, which is 2.2% lower than the allocation in FY20, an indication that the Government is willing to reprioritise and shift its focus to tackle the COVID-19 pandemic and boost economic recovery. This expenditure, however, remained relatively high as there is still a need to purchase new weapons as well as to ensure its military operations to protect the Southern border involving more than 10,000 personnel are maintained.

Figure 1: FY21 Budget allocation strategy saw the largest allocation to create social opportunities and equality



Source: Budget Bureau, RHB

Figure 2: FY21 Budget allocation strategy saw the largest allocation to create social opportunities and equality

Budget Allocation Strategy	FY21 (THB mn)	FY20 (THB mn)	YoY Change (%)
National Security	416,003.90	425,514.00	-2.2
Development of Competitiveness	402,310.90	375,034.40	7.3
Human potentials development and reinforcement	577,755.20	567,944.00	1.7
Creation of social opportunities and equality	795,806.10	776,110.60	2.5
Creation of growth on the environmental-friendly quality of life	118,315.30	117,467.00	0.7
Realignment for balance and development of administrative system of the public sector	556,528.70	506,593.40	9.9
Expenditures on General Administration	433,279.90	431,336.60	0.5
Total	**3,300,000.00**	**3,200,000.00**	**3.1**

Source: Budget Bureau, RHB

Investments expenditure expected to grow by 7% In FY21

Budget allocation for FY21 will also focus on investments, which is an increase of 7.0% to THB513.4bn as compared to THB479.9bn in FY20.

- **Allocation for the Government's flagship project under the EEC was higher by 41.6% YoY to THB22.7bn in FY21,** as compared to THB16.0bn in FY20. The allocation is used to promote investment in the EEC, consisting of Chon Buri, Rayong, Chachoengsao, and adjacent areas, to have both public and private investment. This will be achieved by developing transportation infrastructure and logistics systems to have all modes of transport network connected seamlessly. The development includes developing no less than 190km of road transport network as well as the preparation for the High-Speed Rail linking three airports – a project with a distance of not less than 200km. Deep sea harbours will also be improved by developing commercial areas and connecting ferry terminals and multi-purpose jetties. U-Tapao Airport will be enhanced to become an aviation metropolis by preparing the airport to accommodate the construction of an aircraft maintenance centre and runways along with developing U-Tapao International Airport's Aviation Meteorological Service. In addition, there will be an upgrade and an expansion of waterworks while digital infrastructure will be developed by establishing the Internet of Things (IoT) Institute to support future digital industries. Tourism in the area will be promoted, and personnel of not less than 28,000 persons will be trained through the co-operation and support from entrepreneurs to accommodate the industry. Strong government investment would help to encourage the return of foreign investors into the country in 2H21 when the pandemic is expected to fade with the mass deployment of vaccine. Aside from that, FY21 Budget allocation to develop the EEC would give attention to the development of cities by adopting the smart city model. This would help to improve the public health system for the city, which has become even more critical following the COVID-19 pandemic. It would also provide an efficient management of community environment, which would lead to an improvement in quality of life and income for the communities.

Increase of allocation for subsidies

- **There is an increase of 5.9% in allocation for subsidies to THB1.11trn** from THB1.05trn in FY20, in line with the need for the Government to maintain its cash handout and support for households as well as small and medium-enterprises (SMEs) that are affected by the pandemic.
- While our base case scenario is for the pandemic to fade in 2H21 as massive deployment of vaccine becomes available, support for households and SMEs that were affected by the pandemic would still be required during the 1H21. Aside from that, unemployment in the country is likely to remain elevated even after the availability of vaccine. This is as certain industries such as those in the tourism industry would take longer to recover as compared to other sectors such as those in manufacturing and construction.

Operating expenditure to see a slight decline

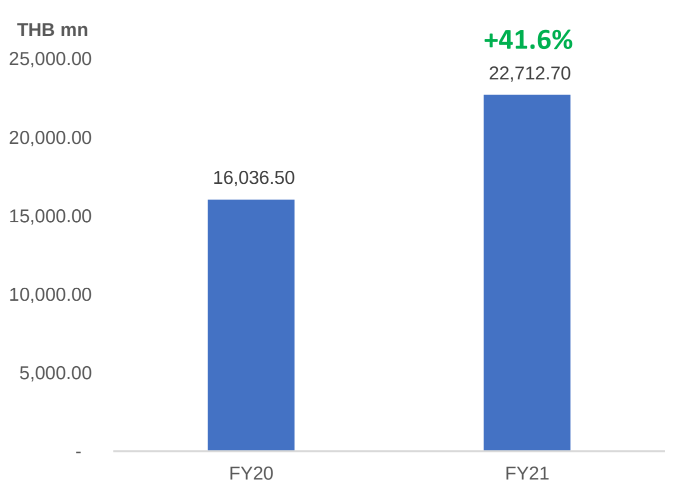
- **Operating expenditure would see a slight decline while personnel expenses are expected to remain flattish in FY21** at THB235.6bn and THB635.9bn as compared to THB235.9bn and THB635.5bn in FY20 (Figure 3). Personnel expenses take into consideration expenses on personnel administration in the public sector such as salaries, permanent wages, temporary wages and wages for government employees while operating expenditure includes expenses on administration and operations such as remuneration, services other than personnel and supplies as well as public utilities. Overall, the allocation for operating expenditure and personnel expenses is slightly lower at 26.4% of the total FY21 Budget as compared to 27.2% set aside in the FY20 budget.

Figure 3: Allocation for investments in FY21 is expected to increase by 7.0% YoY

	Objects of expenditures	Appropriations		+/- YoY	
		FY20	FY21	Amount	%
1	Personnel expenses	635,522.0	635,928.4	406.4	0.1
	(% of the total budget)	19.9	19.3		
2	Operating expenses	235,912.3	235,581.2	-331.1	-0.1
	(% of the total budget)	7.4	7.1		
3	Investments	479,895.5	513,379.0	33,483.5	7.0
	(% of the total budget)	15.0	15.6		
4	Subsidies	1,051,586.2	1,113,841.7	62,255.5	5.9
	(% of the total budget)	32.9	33.8		
5	Other expenses	797,084.0	801,269.7	4,185.7	0.5
	(% of the total budget)	24.9	24.3		
	Total	**3,200,000.0**	**3,300,000.0**	**100,000.0**	**3.1**

Source: Budget Bureau, RHB

Figure 4: Investment allocated for the EEC increased by 41.6% YoY to THB22.7bn in FY21

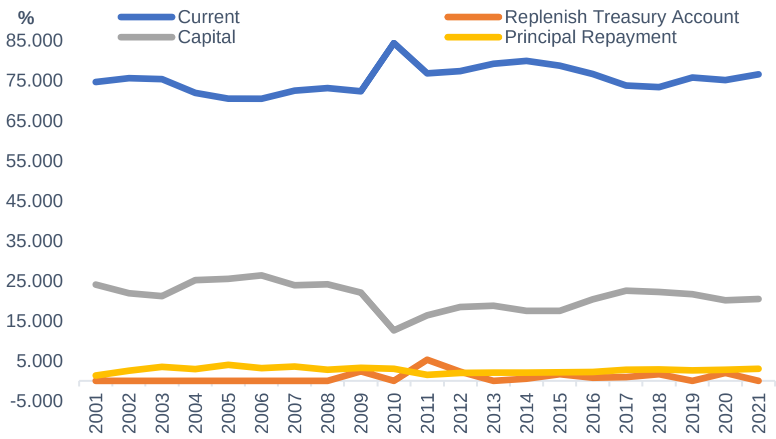


Source: Budget Bureau, RHB

Public sector's debt repayment increased

- **With the increase in borrowings to support the economy amidst the COVID-19 pandemic, this has led to an increase in the government's debt repayment by 7.8% to THB293.5bn** in FY21 as compared to THB272.1bn. The repayment amount consists of THB99m for principal repayment and another THB194.5bn for interest payments and fees.
- Despite the increase, it principal repayment only consist of 3.0% of total budget, which remains manageable and below the 3.3% recorded in 2009 during the global financial crisis (GFC).

Figure 5: Public sector's debt commitments to increase



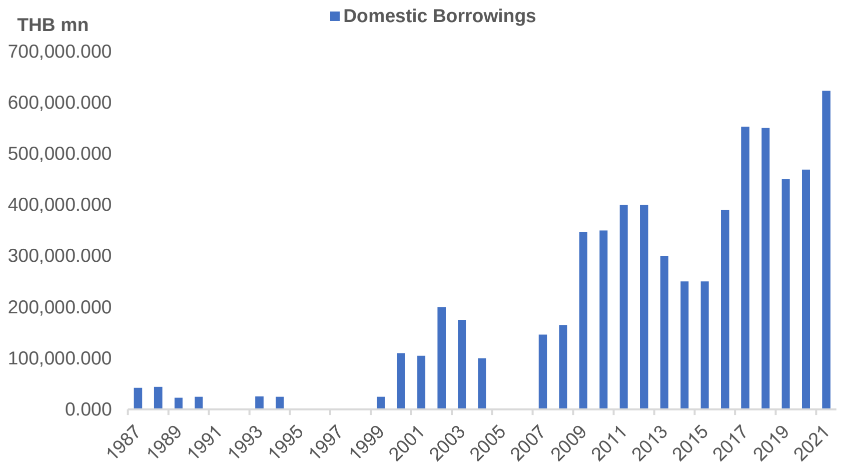
Source: Budget Bureau, RHB, CEIC

Figure 6: Public sector's debt commitments to increase

Group of Expenditures	Appropriations		Changes YoY	
	FY20	FY21	Amount	%
Total	3,200,000.00	3,300,000.00	100,000.00	0.03125
Budget Expenditures: Central Fund	518,770.90	614,616.20	95,845.30	18.5
Budget Expenditures: Budget receiving agencies	1,134,610.20	1,135,182.00	571.80	0.1
Integrated Budget Expenditures	230,058.50	257,877.90	27,819.40	12.1
Budget Expenditures: Personnel	777,549.90	776,887.70	- 662.20	-0.1
Budget Expenditures: Revolving Funds	204,173.90	221,981.90	17,808.00	8.7
Budget Expenditures: Public Sector's Debt Repayments	272,127.10	293,454.30	21,327.20	7.8
Budget Expenditures: Replenishment of Treasury Account	62,709.50	-	- 62,709.50	-100.0
Budget Expenditures: Replenishment of Reserve Fund	-	-	-	-

Source: Budget Bureau, RHB

Figure 7: FY21 will see the highest domestic borrowings in any single fiscal year



Source: Budget Bureau, RHB, CEIC

Revenue estimated to see a decline in FY21

- **Revenue generated during FY21 is expected to be lower under the budget as compared to in FY20** amidst the COVID-19 pandemic and the slowdown in global economy.
- According to the FY21 Budget, various types of revenue are estimated at THB3.16trn, which is about 2.5% lower than the THB3.24trn expected for FY20. Net revenue after tax deduction and allocation of value added tax to local administrative organisations is expected at THB2.68trn, which is a decline of 2.0% from the THB2.73trn expected in FY20. This represents 81.1% of the total expenditure allocated for FY21. In comparison, FY20 saw net revenue consists of 85.3% of the total expenditures planned.

Figure 8: Revenue is expected to see a decline of 2.0% in FY21

Receipts	FY20 Amount (THB mn)	FY20 %	FY21 Amount (THB mn)	FY21 %
Revenue				
Taxes (Gross)	2,969,418.50	92.8	2,917,637.90	88.4
Sales of Assets & Services	40,515.60	1.3	33,119.10	1.0
State Enterprises	188,800.00	5.9	159,800.00	4.8
Others	38,765.90	1.2	46,343.00	1.4
Total (Gross)	**3,237,500.00**	101.2	**3,156,900.00**	95.7
Deductions				
Tax Rebates of The Revenue Department	331,600.00	10.4	317,600.00	9.6
Duty Rebates of the Customs Department	10,000.00	0.3	9,000.00	0.3
Export Duties Compensation	14,300.00	0.4	14,100.00	0.4
Allocation of Value Added Tax To Provincial Administrative Organizations	19,600.00	0.6	18,200.00	0.6
Total (Net)	**2,862,000.00**	89.4	**2,798,000.00**	84.8
Allocation of Value Added Tax To Local Administrative Organizations	131,000.00	4.1	121,000.00	3.7
Total Revenue (Net)	**2,731,000.00**	85.3	**2,677,000.00**	81.1
Domestic Borrowings	469,000.00	14.7	623,000.00	18.9
Total Receipts	**3,200,000.00**	100.0	**3,300,000.00**	100.0

Source: Budget Bureau, RHB

Figure 9: FY21 Budget allocation strategy by ministries and departments

Expenditures classified by ministries and departments (THB m)

	Ministry	2020		2021		+/- YoY	
		Amount	%	**Amount**	%	**Amount**	%
1	Central Fund	518,770.9	16.2%	614,616.2	18.6%	95,845.3	18.5%
2	Office of the Prime Minister	38,852.1	1.2%	40,510.6	1.2%	1,658.5	4.3%
3	Ministry of Defence	231,745.3	7.2%	223,463.7	6.8%	-8,281.6	-3.6%
4	Ministry of Finance	249,201.3	7.8%	268,718.6	8.1%	19,517.3	7.8%
5	Ministry of Foreign Affairs	8,733.6	0.3%	8,475.3	0.3%	-258.3	-3.0%
6	Ministry of Tourism and Sports	5,888.9	0.2%	6,268.9	0.2%	380.0	6.5%
7	Ministry of Social Development and Human Security	21,173.4	0.7%	22,555.6	0.7%	1,382.2	6.5%
8	Ministry of Higher Education Research and Innovation	126,392.1	3.9%	129,415.0	3.9%	3,022.9	2.4%
9	Ministry of Agriculture and Cooperatives	108,074.2	3.4%	112,879.0	3.4%	4,804.8	4.4%
10	Ministry of Transport	176,095.2	5.5%	193,554.3	5.9%	17,459.1	9.9%
11	Ministry of Digital Economy and Society	6,786.3	0.2%	8,604.7	0.3%	1,818.4	26.8%
12	Ministry of Natural Resources and Environment	30,190.1	0.9%	29,935.1	0.9%	-255.0	-0.8%
13	Ministry of Energy	2,141.0	0.1%	2,390.7	0.1%	249.7	11.7%
14	Ministry of Commerce	7,406.4	0.2%	7,247.2	0.2%	-159.2	-2.1%
15	Ministry of Interior	314,660.8	9.8%	328,013.0	9.9%	13,352.2	4.2%
16	Ministry of Justice	26,757.6	0.8%	27,223.2	0.8%	465.6	1.7%
17	Ministry of Labour	72,069.9	2.3%	69,838.2	2.1%	-2,231.7	-3.1%
28	Ministry of Culture	8,506.4	0.3%	8,760.2	0.3%	253.8	3.0%
19	Ministry of Education	367,744.7	11.5%	358,361.0	10.9%	-9,383.7	-2.6%
20	Ministry of Public Health	137,389.4	4.3%	140,974.7	4.3%	3,585.3	2.6%
21	Ministry of Industry	5,183.8	0.2%	4,788.2	0.1%	-395.6	-7.6%
22	Independent Public Agencies and Agencies under the Prime Minister's Supervision	132,124.5	4.1%	131,106.5	4.0%	-1,018.0	-0.8%
23	Provinces and Clusters of Provinces	23,597.1	0.7%	23,413.6	0.7%	-183.5	-0.8%
24	State Enterprises	155,202.8	4.9%	154,729.9	4.7%	-472.9	-0.3%
25	Parliamentary Agencies	9,317.8	0.3%	9,944.5	0.3%	626.7	6.7%
26	Judicial Agencies	21,184.4	0.7%	22,815.2	0.7%	1,630.8	7.7%
27	Independent Organs and State Attorney Organ	17,215.6	0.5%	17,840.4	0.5%	624.8	3.6%
28	Ministry of the Royal Households	7,685.3	0.2%	8,980.9	0.3%	1,295.6	16.9%
29	The Thai Red Cross Society	10,651.1	0.3%	8,871.5	0.3%	-1,779.6	-16.7%
30	Other Government Agencies	585.3	0.0%	569.2	0.0%	-16.1	-2.8%
31	Funds and Revolving Funds	204,173.9	6.4%	221,981.9	6.7%	17,808.0	8.7%
32	Replenishment of Treasury Account Balance	62,709.5	2.0%	0.0	0.0%	-62,709.5	-100.0%
33	Department of Local Administration	91,789.3	2.9%	93,153.0	2.8%	1,363.7	1.5%
Total		**3,200,000.0**	100%	**3,300,000.0**	100%	**100,000.0**	**3.1%**

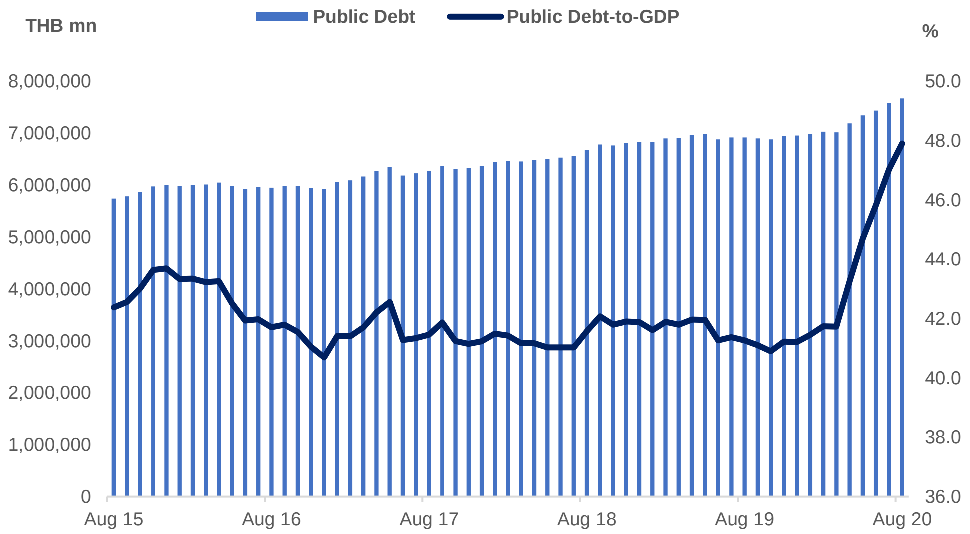
Source: Budget Bureau

Source: Budget Bureau, RHB

Our views on FY21 Budget

- **We are positive that the FY21 Budget was approved and endorsed,** a reflection that the relatively young and new Government has the capability to handle the differences within its fragmented coalition.
- **Priority given to investments is in line with our expectations as most businesses are still reeling from the impact of the pandemic and that the prospects for private investment remain weak.** It will also be crucial for Thailand to remain competitive and attractive as a destination for foreign investors that are taking cue from the government's policy and direction amidst the uncertainties on the economic recovery and the lingering pandemic effect.
- **We think that the high allocation to a realignment of balance and development for the public sector's administrative system would continue to help lower the operating expenditure and personnel expenses** in the long run. This is as the Government is able to improve the implementation of the realignment of the public sector in order for it to be more efficient and cost effective. The consolidation of expenditure on entitlements and benefits of public sector personnel as stipulated in the Central Fund would help to ensure that growth in civil servants' salaries remain manageable and government operations costs would not be over bloated.
- **While domestic borrowings for FY21 are expected to be the highest on record,** we are comfortable given the fiscal space available. In fact, we think this reflects the Government's commitment to provide fiscal support to jumpstart Thailand's economy, which has been one of the worst-hit economy in the ASEAN region. The increase in debt repayments signals the willingness of the Government to spend to provide support for the economy while maintaining its fiscal discipline in the long run. The outstanding public debt has increased by 10.9% to THB7.7trn in Aug 2020 from a year ago, equivalent to 47.9% of the GDP. The public debt includes financial obligations of the Government arising from direct borrowings and debt guarantee amounting to THB7.3trn. Even with the additional borrowings of THB623bn in FY21, the public debt-to-GDP is likely to remain below 55%. **We think this provides room for the Government to provide more fiscal stimulus to support the economy, if the impact of the pandemic is worse than expected since the ceiling set under the Fiscal Responsibility Law is at 60%.**

Figure 10: Public debt increased by 10.9% YoY To THB7.7trn in Aug 2020 but remains comfortable



Source: RHB, CEIC

- As FY21 Budget is in line with our expectations, **we maintain our GDP growth forecast of 5.0% YoY in 2021 as compared to a contraction of -7.6% YoY in 2020F.** We also maintain our view that the central bank could gradually normalise the monetary policy – we expect to see a rate hike of 25bps in 2H21 when economic recovery is likely to be well underway.

Fiscal deficit-to-GDP expected to narrow in 2021 as the economy recovers

Fiscal deficit-to-GDP ratio is expected to narrow in 2021 to -2.7% of GDP despite the increase in domestic borrowings for FY21. This is as the economy is expected to see a rebound from 2020 amidst the low-base effect as well as global economic recovery. In comparison, we expect the fiscal deficit-to-GDP to be at around -5.0% to -6.0% range in 2020.

As fiscal discipline is maintained while balancing the need to boost the economy, we expect Thailand's sovereign rating to be remain resilient in light of its strong public and external finance buffers.

Both S&P Global Ratings and Fitch Ratings have pointed to the resilience of the country's public and external finance fundamentals but warned that economic and political risks are uncertainties to watch out for going into 2021.

On this note, we think that it is more important for the Government to push and escalate its spending in order to boost the economy given the fiscal space availability. We have seen some lacklustre in its expenditure in FY20 as the Government struggled to escalate the disbursement of its expenditure. Our view is that the Government needs to identify projects that could quickly spur the economy amidst the impact of COVID-19 on the economy, especially in the tourism segment as well as the exports sector. As we are look to a global economic recovery in 2H21 amidst the low base effect as well as potential discovery of a vaccine, the Government would need to accelerate its expenditure in areas that would drive the return of foreign tourists as well as foreign investors.

We have seen more efforts as the Government widens its fiscal stimulus with tax breaks to spur growth. The Government decided, at the beginning of this month, to extend its tax incentives to millions of its middle and upper-income groups to fire up consumption and counter Thailand's worst economic slump amidst the COVID-19 pandemic. In a news report, Deputy Prime Minister Supattanapong Punmeechaow said that concessions would allow 3.7m taxpayers to deduct THB30,000 each from their respective total taxable income. This would cost the Government a total of THB11bn.

The latest tax break and other co-payment programmes to subsidise hotel and airfare costs for local tourists by three months to 31 Jan is expected to boost the economy by THB200bn during 4Q20. On top of tax deductions, Thailand's Ministry of Finance has also agreed to roll out the "*shim-shop-chai*" (taste-shop-spend) scheme, revamped in a co-payment form and the "*shop-chuai-chart*" (shop to help the nation) scheme, with cash refunds or tax deductions for shoppers.

Aside from that, the plan to reopen the country's international borders to a selected group of foreign tourists, is expected to revive the tourism and services industry, especially during 4Q20 in order to help cushion the pandemic's impact on the economy.

Easy monetary policy to support economic recovery

BoT has implemented an easy monetary policy due to the sharp contraction in 2020 amidst the COVID-19 pandemic. Policy rate was cut to a historic-low of 0.5% in order to lessen interest payment burden of debtors and support adjustments of debt structure. Other financial measures were also implemented such as a temporary reduction for the rate of financial contributions to the Financial Institutions Development Fund from 0.46% to 0.23%, allowing financial institutions to immediately lower additional loan interest rates. On top of that, financial measures will also be provided to assist people and businesses by postponing debt repayments and granting low interest loans (soft loans) to lessen debt burden and increase liquidity for those affected by the pandemic. These measures would ensure the stability of the financial market during this period of uncertain times. The central bank has also helped to stabilise the financial market with its government bond purchase programme amounting more than THB100bn in March as well as the reduction and cancellation of BoT's bond issuance. The central bank will continue to provide liquidity to the government bond market through bond purchasing to ensure the government bond market continues to function normally.

BoT's government bond purchase programme is to provide liquidity for the financial market. Our view is that the bond purchase programme is likely to be done via the secondary market and that its mandate is mainly for liquidity and not to share the burden of financing the Government. As at 31 Aug 2020, the central bank's ownership of total outstanding government bonds stood at only 2.2%, which is even lower than the level seen back in 2018.

Figure 11: Regional economic indicators

ASEAN & CHINA ECONOMIC INDICATORS

Country	GDP growth (%)				Inflation (%)				Policy rate (end period,%)				Exchange rate (end period, vs. USD)			
	2018	2019	2020F	2021F	2018	2019	2020F	2021F	2018	2019	2020E	2021F	2018	2019	2020E	2021F
Indonesia	5.2	5.0	-1.0	6.3	3.2	2.8	2.0	3.0	6.00	5.00	4.00	4.75	14417	13866	14200	13400
Malaysia	4.7	4.3	-4.0	7.0	1.0	0.7	-1.0	2.0	3.25	3.00	1.75	2.00	4.14	4.09	4.15	3.95
Philippines	6.2	6.0	-8.3	7.9	5.2	2.5	2.5	3.0	4.75	4.00	2.00	2.25	52.38	50.66	48.90	49.50
Singapore	3.5	0.7	-5.3	5.9	0.4	0.5	-0.5	1.2	-	-	-	-	1.36	1.39	1.36	1.32
Thailand	4.2	2.4	-7.6	5.0	1.2	0.7	-1.0	0.9	1.75	1.25	0.50	0.75	33.4	29.7	30.75	29.75
Vietnam*	7.1	7.0	2.7	6.8	3.5	2.8	3.5	3.5	6.25	6.00	4.00	5.00	23210	23173	23000	22000
China**	6.7	6.1	2.0	8.0	2.1	2.9	2.8	2.2	4.35	4.35	4.30	4.30	6.88	6.96	6.96	6.76

**prime rate; **1-yr loan prime rate*

Country	Real exports growth (%)				Real imports growth (%)				Industrial Production growth (%)				Unemployment rate (% labour force)			
	2018	2019	2020F	2021F	2018	2019	2020F	2021F	2018	2019	2020F	2021F	2018	2019	2020F	2021F
Indonesia	6.6	-0.9	-4.9	2.2	12.1	-7.7	-6.9	3.3	4.4	4.1	-8.0	5.0	5.3	5.3	8.0	6.0
Malaysia	1.9	-1.2	-7.4	9.6	1.5	-2.5	-6.2	11.3	3.0	2.4	-6.0	5.4	3.3	3.3	4.5	4.0
Philippines	11.8	2.4	-17.0	12.5	14.6	1.8	-20.9	12.8	8.7	-7.0	-10.0	8.5	5.3	5.1	8.5	5.5
Singapore	8.2	-1.5	-5.0	8.2	7.4	-1.7	-5.1	8.6	7.2	1.4	- 10.0	-3.0	2.0	2.1	3.0	2.3
Thailand	3.4	-2.6	-18.3	8.3	8.3	-4.4	-12.9	7.8	3.7	-3.6	-9.5	6.5	0.9	0.9	3.5	2.0
Vietnam	13.3	8.4	-3.7	16.7	11.1	8.3	-2.5	17.1	11.0	9.1	4.8	8.6	2.0	2.2	3.2	2.4
China	4.3	0.0	-3.0	7.3	6.5	-4.0	-2.7	5.1	6.1	5.5	2.0	7.8	3.8	3.6	4.3	4.0

Country	Fiscal Balance (% GDP)				Current Acc. (% GDP)				FX Reserves (USD bn)				External Debt (USD bn)			
	2018	2019E	2020F	2021F	2018	2019E	2020F	2021F	2018	2019	2020F	2021F	2018	2019E	2020F	2021F
Indonesia	-1.8	-2.0	-7.0	-5.5	-2.9	-2.7	-1.5	-2.5	121	129	140	146	360	380	404	420
Malaysia	-3.7	-3.4	-6.5	-5.0	2.1	3.3	2.2	2.3	101	104	108	112	220	227	234	228
Philippines	-3.2	-3.1	-8.0	-7.3	-2.6	-0.7	2.0	-0.2	79	87	95	100	79	83	93	90
Singapore	0.4	-0.3	-15.4	0.4	17.9	17.0	15.5	16.5	288	278	305	320	-	-	-	-
Thailand	-2.9	-2.8	-6.0	-2.7	5.6	6.9	3.5	5.2	206	224	230	245	162	164	180	175
Vietnam	-3.5	-3.4	-5.7	-4.1	2.5	5.0	1.9	2.7	56	78	90	95	108	114	121	130
China	-4.1	-4.9	-6.7	-5.9	0.2	1.2	0.8	0.8	3073	3108	3145	3180	1965	2065	2115	2165

Country	Deposit Growth (%)				Loan Growth (%)				L/D Ratio (%)				Money Supply (%)			
	2018	2019	2020F	2021F	2018	2019	2020F	2021F	2018	2019	2020F	2021F	2018	2019	2020F	2021F
Indonesia	6.9	6.7	8.0	5.0	11.7	5.6	4.0	6.5	97.5	97.0	95.0	97.0	6.3	6.5	8.0	7.0
Malaysia	7.5	2.9	4.1	3.5	7.7	3.9	3.0	3.5	89.0	88.0	88.0	89.0	9.1	3.5	5.0	4.0
Philippines	8.8	9.0	7.0	10.5	14.8	10.5	8.0	14.0	65.1	66.0	67.0	70.0	9.5	11.4	12.0	10.0
Singapore	3.5	8.9	1.0	0.0	5.3	4.2	-2.0	-1.0	107.0	101.3	101.0	100.0	5.1	4.5	11.0	7.0
Thailand	3.9	4.2	1.0	3.5	6.0	2.0	0.5	4.0	98.2	96.2	95.0	95.3	4.7	3.6	3.0	5.5
Vietnam	9.2	12.5	3.2	5.2	14.0	13.5	7.0	14.0	87.4	87.3	89.0	87.0	12.7	13.6	5.5	9.2
China	8.2	8.7	6.4	9.0	13.5	12.3	8.9	12.2	76.8	79.4	81.9	84.3	8.1	8.7	7.3	8.8

Note: As at 15 Oct 2020
Note 2: For money supply, M2 is used for all countries except for Thailand (M1), the Philippines (M3), and Singapore (M3)
Source: International Monetary Fund, Oxford Economics, various central banks, FocusEconomics consensus, RHB

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