

Thailand Economics

Save me if you can



PIMPAKA NICHGAROON, CFA
Head of Research
 662 – 617 4900
 pimpaka.nic@thanachartsec.co.th

The Thai government has so far this year announced a combined Bt1.4tr in bailout packages, or 8.3% of GDP. On top of that is Bt1.9tr of supporting funds from the Bank of Thailand. We believe this should be enough to prevent systemic risk to the country but that no one should hope that any kind of package will be able to avert a recession.

A variety of packages

Many bailout measures have been announced by both the government (Bt1.4tr, or 8.3% of GDP) and the Bank of Thailand (BoT) (Bt1.9tr). While the BoT's key focus has been to tackle liquidity and interest rate issues in the financial markets, the government's intent is to reduce the extent of the downward economic spiral. So far, the BoT has provided liquidity support for the government bond, money market fund, corporate bond and SME debt markets. It is also relaxing rules for banks to help corporate and individual customers. The government is providing both cash and lending support for poor people, workers, SMEs and corporates (see Exhibit 1). We believe this should be enough to prevent systemic risk or any malfunctioning of the country's financial markets. However, Thailand won't be able to escape a deep recession, in our view.

Financial markets still sound

Unlike the highly leveraged US and European economies that require unprecedentedly heavy financial injections, the Thai economy, with its low debt level, substantial excess liquidity and strong banking system, doesn't appear to be exposed to such high systemic risk. We believe the BoT's liquidity support lines should be enough to ensure the various financial markets continue functioning. Of course, credit spreads would still have to widen to reflect rising business risk but this wouldn't be abnormal, in our view. The BoT's liquidity support lines are unlikely to be able to support everyone and we expected continued debt defaults here and there, especially in the property sector, which is luckily not large enough to pose a systemic risk, in our view.

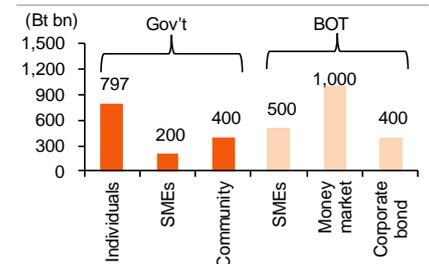
Government remains strong

We believe the Thai government remains strong both politically (because of the very weak opposition parties which lack unity) and financially. Of the entire Bt1.4tr in packages, Bt1tr will be financed by new government debt, around Bt262bn is off-budget spending from state banks, and the remainder is from a reshuffle of the existing budget. The new borrowing of Bt1tr is equivalent to 6% of GDP. Note that the current debt to GDP is 41%.

Still expecting a deep recession

Despite all the bailout packages, the country remains in lockdown and that means a sharp drop in economic activities. Given that we already take the view of no systemic risk and no malfunction in the financial markets, we don't see room to lift our GDP growth estimates as a result of the BoT's measures. We also do not boost our GDP growth forecasts on the back of the government's more sizeable bailout packages as the deterioration of the economy has been faster than we'd expected. Our GDP growth forecasts are -4.1% in 2020F and +3.8% in 2021F.

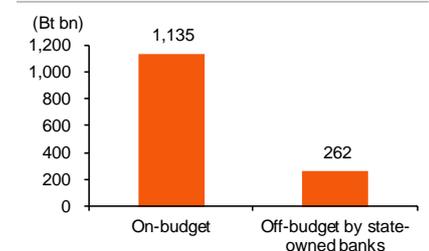
Bailout Packages



Sources: Thai government, Bank of Thailand

Note: There is another corporate bond bailout package of Bt70-100bn by the consortium of Thai Bankers' Association, Government Saving Bank, Government Pension Fund and Thai Insurance Providers.

Government's Bailout Financing



Sources: Thai government, Thanachart estimates

GDP Forecasts

(% growth)	2019	2020F	2021F	2022F
GDP growth	2.4	(4.1)	3.8	3.1
Consumption	4.5	0.3	3.4	3.5
Private inv.	2.8	0.3	2.7	5.6
Govt inv	0.2	5.3	8.0	10.0
Export - US\$	(3.2)	(3.0)	3.3	4.5
Import - US\$	(5.4)	(2.0)	3.6	6.0
Current acc./GDP	6.9	1.7	5.2	5.0
Bt/US\$ - avg	31.0	32.2	31.5	31.0

Sources: NESDC, Bank of Thailand, Thanachart estimates

Ex 1: Bailout Packages Announced So Far This Year

Bailout Package	Amount (Bt bn)	Details
Total Government's Packages	1,397	
Phase 1: Government	180	
Soft loans for SMEs	150	<ul style="list-style-type: none"> The Government Saving Bank (GSB) is providing loans to commercial banks at a 0.01% interest rate and the commercial banks are lending to SMEs at 2% for two years. The loan size is at a maximum of Bt20m per contract.
Soft loans for SMEs to maintain staff levels	30	<ul style="list-style-type: none"> The Social Security Office (SSO) is offering Bt30bn of soft loans at a 3% interest rate for three-year loans for SMEs registered with the SSO.
Debt moratoriums & restructuring	n.a.	<ul style="list-style-type: none"> State banks or Special Financial Institutions (SFIs) are forgiving some loans, giving grace periods for principal and interest-rate payments, and reducing interest rates, etc.
Debt restructuring	n.a.	<ul style="list-style-type: none"> The BoT is relaxing rules to allow banks to restructure loans to help customers with their liquidity situation.
Tax measures for SMEs	n.a.	<ul style="list-style-type: none"> Withholding tax reductions, tax filing delays, etc.
Help for individuals	n.a.	<ul style="list-style-type: none"> Reduction and delayed payments for electricity and water bills, reduction of social security contributions, etc.
Capital market support	n.a.	<ul style="list-style-type: none"> An extra tax-allowance Super Savings Fund (SSF) at Bt200,000 max per person. The purchase period has to be 1 April - 30 June 2020. This is on top of the normal SSF.
Phase 2: Government	217	
Cash for workers, temp workers and self-employed impacted by Covid-19	135	<ul style="list-style-type: none"> The government is giving Bt5,000 per month for three months from April-June 2020 to an estimated 9m people.
Emergency uncollateralized loans for people affected by Covid-19	40	<ul style="list-style-type: none"> The GSB and the Bank for Agriculture and Agricultural Cooperatives (BAAC) is giving emergency loans at a 1.2% interest rate for a maximum of 2.6 years.
Collateralized loans for people affected by Covid-19	20	<ul style="list-style-type: none"> The GSB is giving collateralized loans at a 4.2% interest rate for a maximum of three years.
Special lending for grassroots people	2	<ul style="list-style-type: none"> The GSB plans to give special loans to the Department of Social Development and Welfare at a 1.2% interest rate and this department would lend out the money to people at 1.5% for a maximum of two years.
Other small tax measures for individuals	n.a.	<ul style="list-style-type: none"> Tax filing delays, increasing health insurance allowances, tax exemption for special income earned by Covid-19 personnel, etc.
Soft loans for SMEs in affected business sectors	20	<ul style="list-style-type: none"> SME Bank is providing loans at a 3% interest rate for the first two years of five-year loans. The maximum amount is Bt3m per company.
Other small tax measures for corporates	n.a.	<ul style="list-style-type: none"> Tax filing delays, stamp duty reduction, etc.
Phase 3: Government	1,000	
Support to healthcare system and more support to affected people, including farmers	600	<ul style="list-style-type: none"> No details of the forms of support but there is indication of a timeframe of six months.
Measures to support economy in community level	400	<ul style="list-style-type: none"> No details of the forms of support but there is a mention of spending on small infrastructure projects in communities.

Sources: Thai government, Bank of Thailand, Thanachart compilation

Ex 1: Bailout Packages Announced So Far This Year (Con't)

Bailout Package	Amount (Bt bn)	Details
BOT's Measures:	2,000	
Bond mutual funds	1,000	<ul style="list-style-type: none"> The BoT is providing lending facilities for commercial banks to purchase investment units of high-quality money market funds or daily fixed-income funds. Commercial banks can use these unit trusts as collateral with the BoT.
Corporate bonds	70-100	<ul style="list-style-type: none"> The Thai Bankers' Association, GSB, Thai insurance providers, and Government Pension Fund plan to jointly set up a Bt70bn-100bn Corporate Bond Stabilization Fund (CBSF) to invest in high-quality, newly issued corporate bonds.
Soft loans to SMEs	500	<ul style="list-style-type: none"> BOT will provide soft loans to commercial banks and state-owned banks at 0.01% interest rate and these banks will in turn lend to SMEs at 2% interest rate. SMEs must not be existing NPL clients and must not have outstanding loans exceeding Bt500m. New lending must not exceed 20% of each SME's outstanding loan. There will also be six-month grace period for principal and interest payments.
Corporate bond	400	<ul style="list-style-type: none"> BOT to set up Corporate Bond Liquidity Stabilization Fund (BSF) to invest in high-quality maturing corporate bond.
Debt restructuring	n.a.	<ul style="list-style-type: none"> Commercial banks and state-owned banks can delay both principal and interest payments for six months for affected SMEs that have loans of not exceeding Bt100m. No details of how to subsidize this.
Bank deposits	n.a.	<ul style="list-style-type: none"> Extending the deposit insurance of up to Bt5m per account until August 2021.
Interest rate	n.a.	<ul style="list-style-type: none"> Cutting banks' contribution to the FIDF fund from 0.46% to 0.23% for two years in the hope of reducing costs for banks, thus lowering interest rates for customers.

Sources: Thai government, Bank of Thailand, Thanachart compilation

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Thanachart Securities Pcl.

Research Team

19 Floor, MBK Tower

444 Phayathai Road, Pathumwan Road, Bangkok 10330

Tel: 662 - 617 4900

Email: thanachart.res@thanachartsec.co.th

Pimpaka Nichgaroon, CFA

Head of Research

pimpaka.nic@thanachartsec.co.th

Kalvatee Thongsomaung

Food, Hotel, Media

kalvatee.tho@thanachartsec.co.th

Phannarai Tiypittayarut

Property, Retail

phannarai.von@thanachartsec.co.th

Siriporn Arunothai

Small Cap Research, Healthcare

siriporn.aru@thanachartsec.co.th

Pattadol Bunnak

Auto, Food & Beverage

pattadol.bun@thanachartsec.co.th

Sittichet Rungrassameephat

Analyst, Quantitative

sittichet.run@thanachartsec.co.th

Adisak Phupiphathirungul, CFA

Retail Market Strategy

adisak.phu@thanachartsec.co.th

Pattarawan Wangmingmat

Senior Technical Analyst

pattarawan.wan@thanachartsec.co.th

Saksid Phadthananarak

Construction, Transportation

saksid.pha@thanachartsec.co.th

Supanna Suwankird

Utilities

supanna.suw@thanachartsec.co.th

Witchanan Tambamroong

Technical Analyst

witchanan.tam@thanachartsec.co.th

Chak Reungsinpinya

Energy, Petrochemical

chak.reu@thanachartsec.co.th

Nuttapop Prasitsuksant

Electronics, Telecom

nuttapop.pra@thanachartsec.co.th

Sarachada Sornsong

Bank, Financial

sarachada.sor@thanachartsec.co.th

Rata LimsuthiwanpoomIndustrial Estate, Property Fund,
REITs

rata.lim@thanachartsec.co.th

Thaloengsak Kucharoenpaisan

Analyst, Retail Market

thaloengsak.kuc@thanachartsec.co.th