

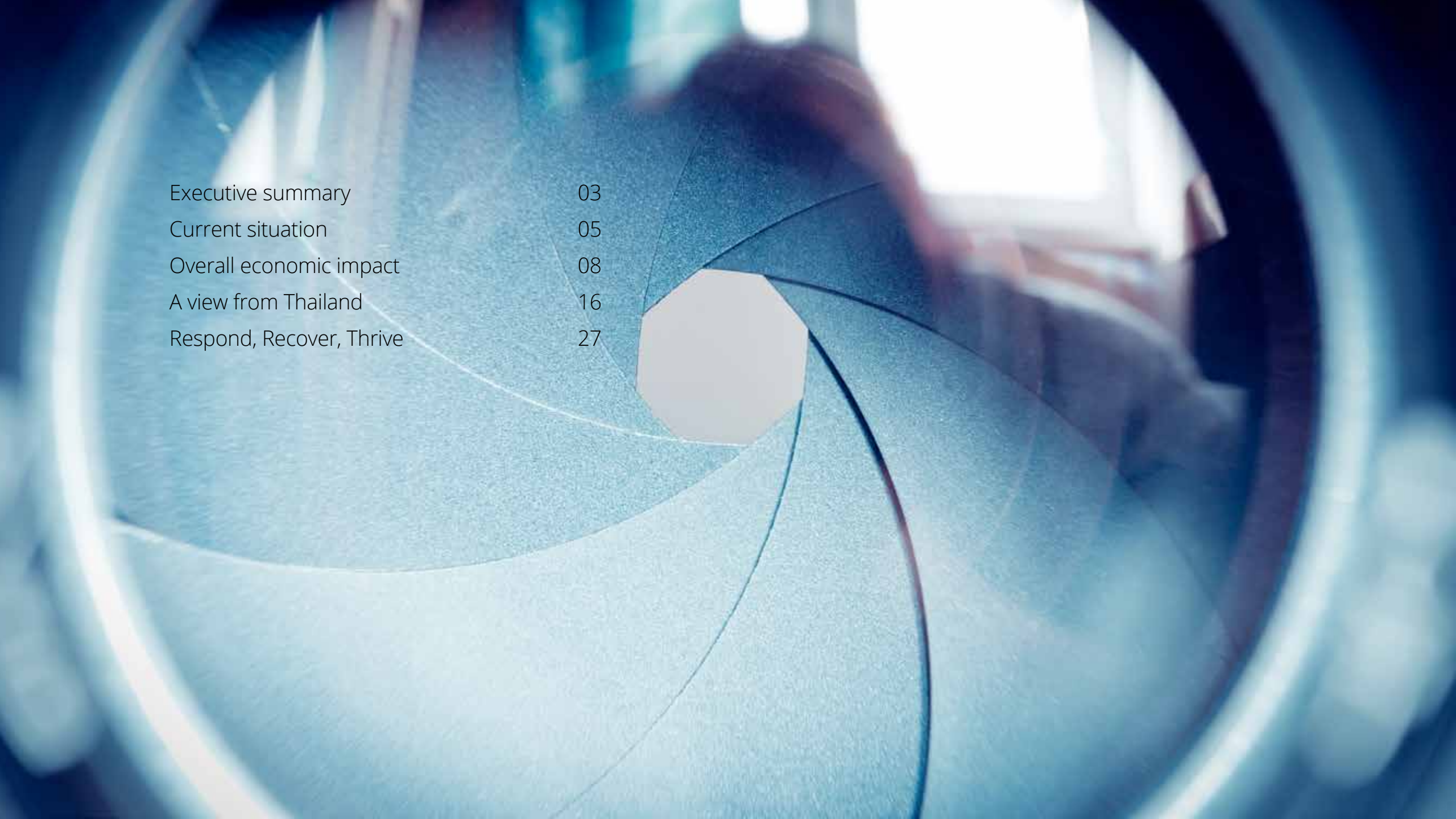
Respond, Recover, Thrive

An evolving perspective on the economic impacts of COVID-19

A view from Thailand – August 2020



**MAKING AN
IMPACT THAT
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Executive summary	03
Current situation	05
Overall economic impact	08
A view from Thailand	16
Respond, Recover, Thrive	27

Executive summary



Current situation

- The number of new cases continue to skyrocket across the globe, with nearly 0.3 million new cases recorded per day in late July.
- Researchers around the world are racing to accelerate vaccine development, but it will still be at least a year before one or more of the candidates prove to be viable.



Overall economic impact

- The world economy has been projected to shrink by 4.9% in 2020, the worst-hit to global Gross Domestic Product (GDP) since the Great Depression, with recovery expected to be somewhat sluggish in 2021.
- US and EU face some of the steepest downgrades, and only China is expected to record positive growth for the year.
- Tourism and recreation, media, and transportation sectors are the hardest hit sectors, followed by commercial and professional services, and automobiles and parts.



A view from Thailand

- Thailand's GDP growth projections have been further revised downwards to -7.3%, on the back of a global economic downturn, sharp decline in international tourist arrivals, and plunge in private investment levels.
- As tourism is a significant driver of Thailand's economic growth, the impacts of drastically lower tourism receipts are expected to spill over – both directly or indirectly – to many other key sectors.
- To support Thailand's economy, the government has stepped in with sizable stimulus packages for businesses, as well as the tourism sector, which contributes to a significant proportion of Thailand's economy, and stands ready to implement additional tools if necessary.
- Some sectors may be able to begin their recovery in the later part of the year, while others may only be able to do so in 2022 and beyond.

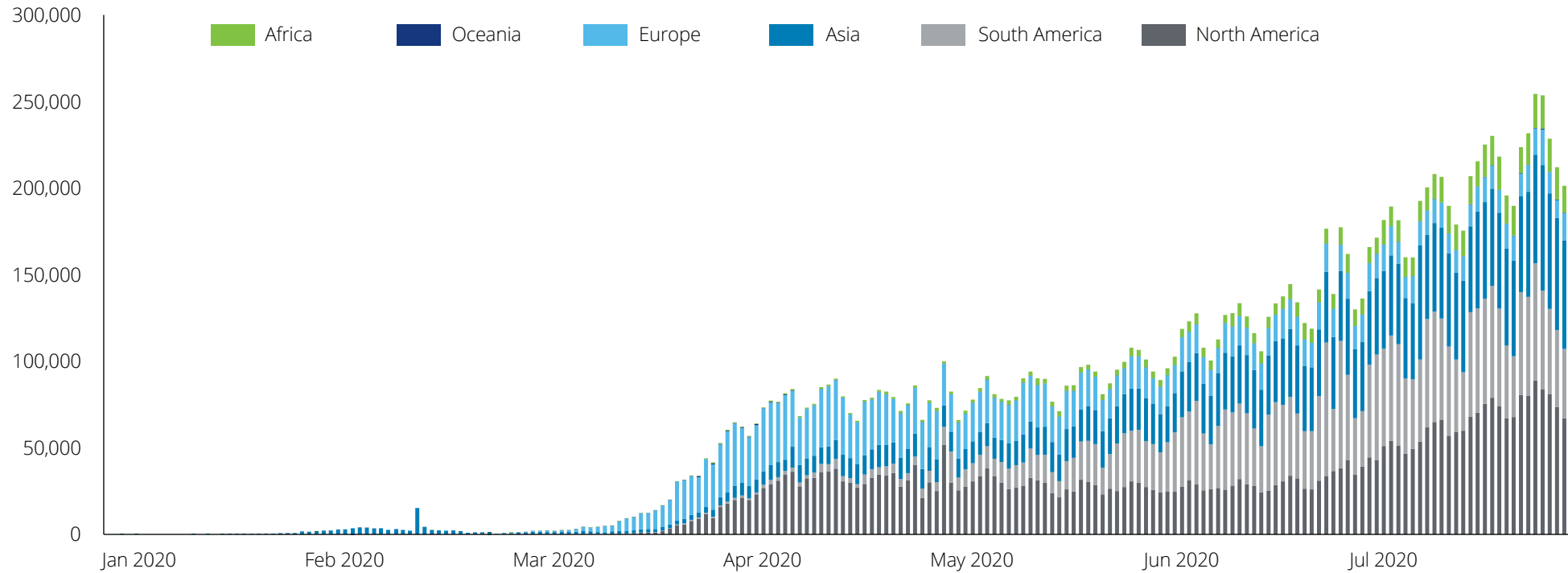
Current situation



No signs of slowing down

The number of new cases continue to skyrocket across the globe, with nearly 0.3 million new cases recorded per day in late July

Number of new cases per day (as of 23 July 2020)

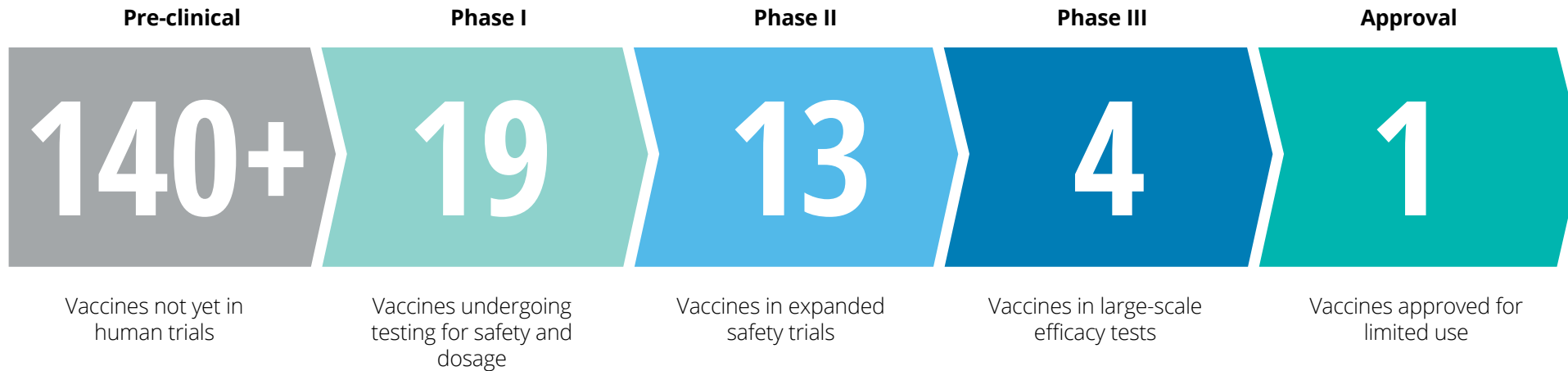


Source: World Health Organisation

The race for a COVID-19 vaccine

Researchers around the world are racing to accelerate vaccine development, but it will still be at least a year before one or more of the candidates prove to be viable

Progress as of 24 July 2020



Source: The New York Times

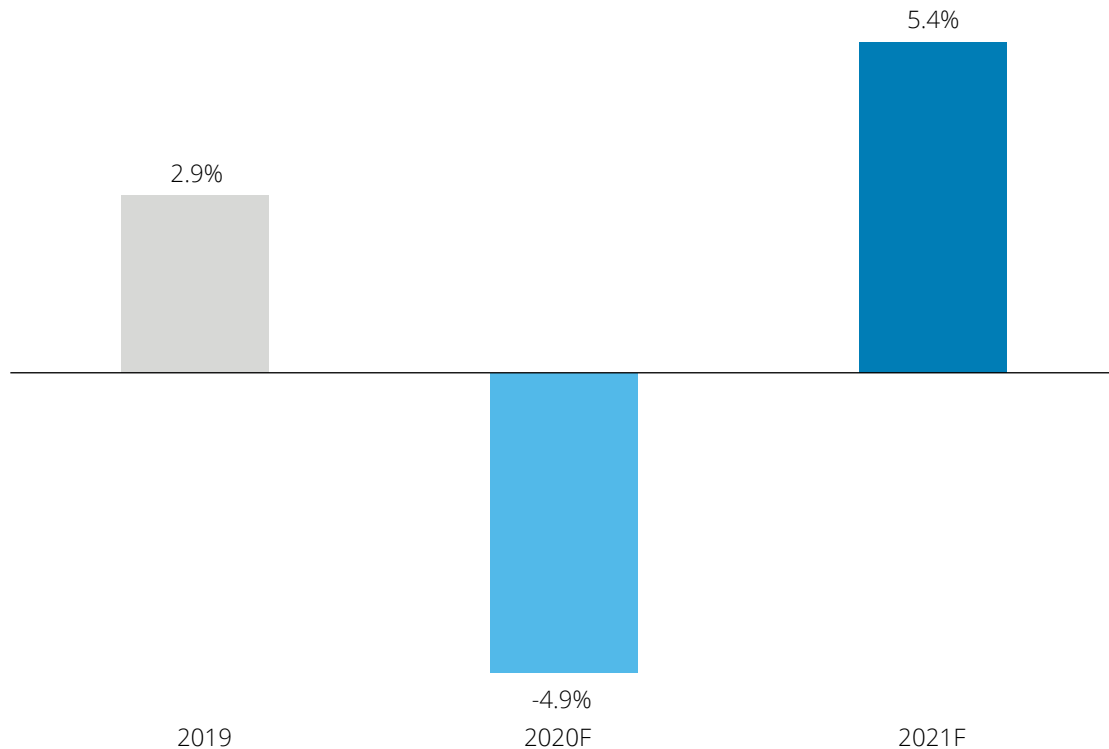
Overall economic impact



A lasting economic impact

The world economy has been projected to shrink by 4.9% in 2020, the worst-hit to global Gross Domestic Product (GDP) since the Great Depression, with recovery expected to be somewhat sluggish in 2021

Projected global GDP growth rates in 2020 and 2021



- Consumption growth has been downgraded for most economies, reflecting the larger-than anticipated disruption to domestic economic activity across the globe.
- Weaker private consumption reflects not only a large adverse aggregate demand shock from social distancing and lockdowns, but also a rise in precautionary savings, although this has been partially offset by policy support.
- Investment remains subdued as firms defer capital expenditures amid high uncertainty.
- Looking ahead to 2021, consumption and investment are expected to gradually strengthen and rebound, but remain subdued.

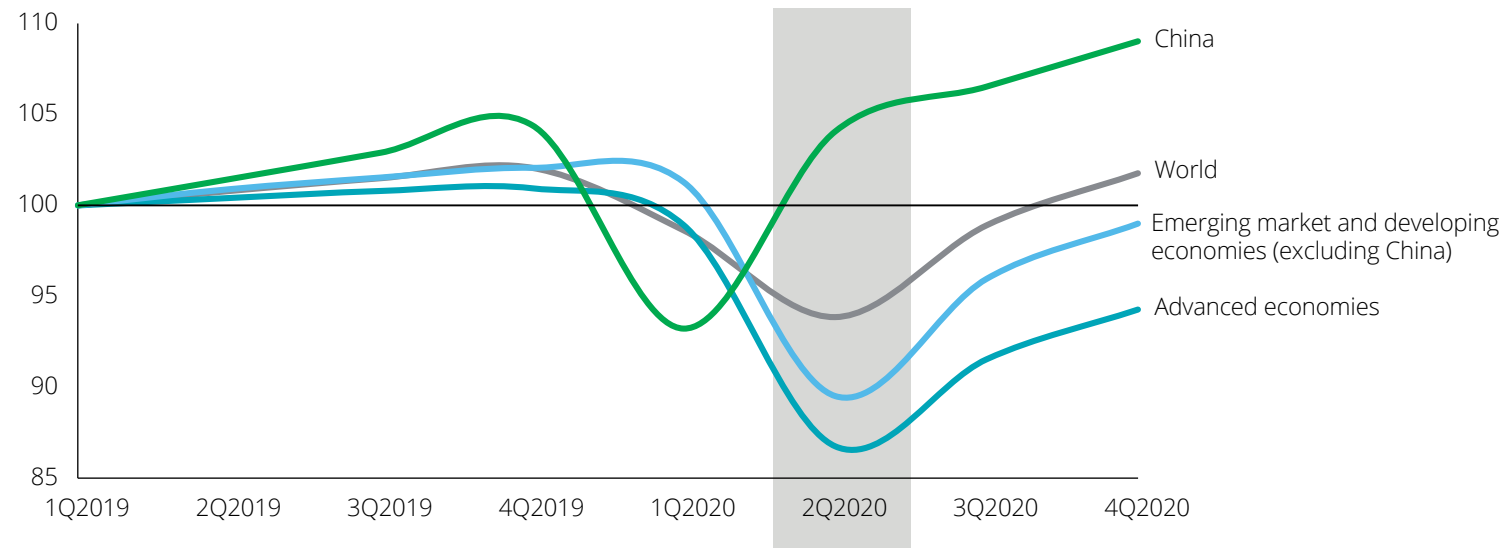
Source: International Monetary Fund

Recovery expected after second quarter of 2020

Estimates suggest that the second quarter of 2020 was the trough – or the worst contraction – of global GDP growth, with recovery expected to pick up thereafter

Global GDP index

(1Q2019 = 100)

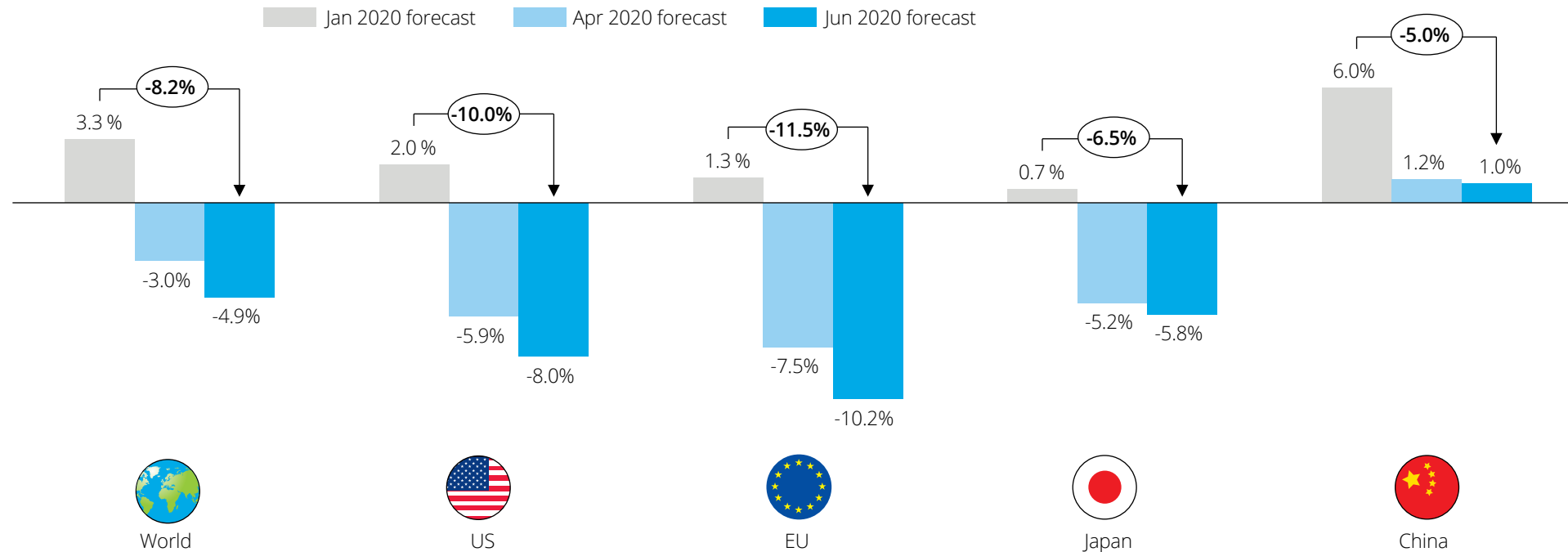


- The worst contraction is expected to be seen in Q2, before narrowing in Q3 and Q4.
- China is the only economy expected to rebound in Q2, beating estimates for a recovery.

Source: International Monetary Fund

US and EU face steepest GDP downgrades

With global GDP growth forecasts repeatedly revised downwards since January 2020, US and EU face some of the steepest downgrades, and only China is expected to record positive growth for the year according to the latest June 2020 forecast



Source: International Monetary Fund

Policy response

Across the globe, governments continue to respond with a slew of monetary and fiscal policies to mitigate some of the economic impacts caused by COVID-19

	Overall economic impact	Monetary and fiscal response
 US	<ul style="list-style-type: none"> • During the first quarter of 2020, the US economy recorded a decline of 4.8% based on the quarter-on-quarter seasonally adjusted annual rate • Declining private consumption amid rising pandemic concerns, with an unprecedented high level of unemployment 	<ul style="list-style-type: none"> • The government has unveiled a fiscal stimulus package worth over 15% of GDP • The Federal Reserve will keep its policy rate on hold at 0-0.25% in 2020, and could continue its use of unconventional measures to maintain liquidity in financial markets
 EU	<ul style="list-style-type: none"> • During the first quarter of 2020, the Eurozone economy plunged by a year-on-year rate of 3.2% • High level of fiscal deficit and public debt, especially for Italy, France, and Spain 	<ul style="list-style-type: none"> • Many Eurozone countries have unveiled massive economic stimulus measures to cushion the impact of the outbreak • The European Central Bank has unveiled additional longer-term refinancing operations (PELTROs) to provide liquidity support to the financial system
 Japan	<ul style="list-style-type: none"> • During the first quarter of 2020, Japan's economy contracted by a year-on-year rate of 2.0% • Sharp economic decline led by sluggish domestic consumption and the Olympics delay, with lockdowns curbing exports and tourism sectors 	<ul style="list-style-type: none"> • The government has launched an emergency stimulus package worth about 4% of GDP • The Bank of Japan has scaled up its monetary stimulus measures to ease economic impacts, and removed its annual target of bond purchasing
 China	<ul style="list-style-type: none"> • During the first quarter of 2020, China's economy shrank by a year-on-year rate of 6.8% • Recovery is not broad-based, with a strong reliance on domestic demand 	<ul style="list-style-type: none"> • The government has kicked off massive public investment in new infrastructure, with the aim of driving sustainable growth • The People's Bank of China has been beefing up monetary easing in response to the pandemic

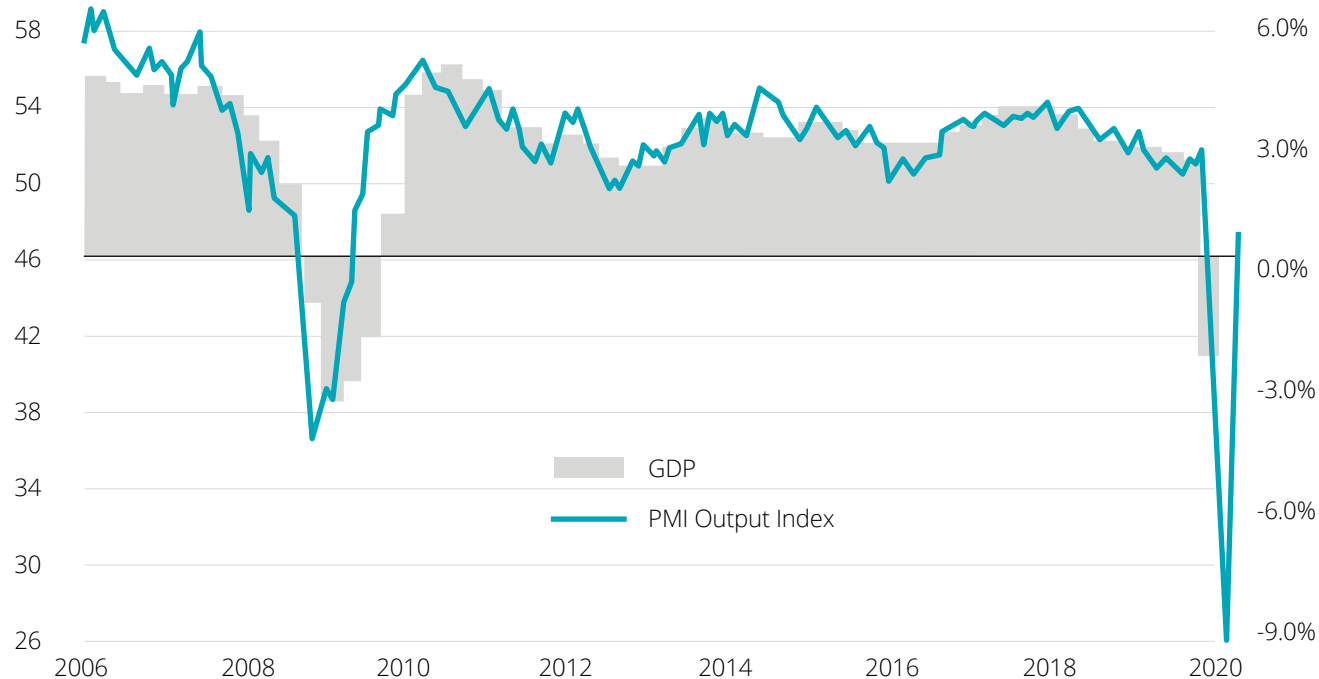
Source: Siam Commercial Bank Economic Intelligence Centre

A glimmer of hope

The global Purchasing Managers' Index (PMI) hinted at a return of global economic growth in June 2020 as economies opened up after lockdowns, but fears of a next wave of infections may dampen optimism

Global GDP and PMI output index

Note: A PMI index over 50 represents expansion, an index of 50 represents zero growth, and an index below 50 represents contraction



- Global PMI jumped by a record 11.4 index points in June 2020, building on a prior record increase of just over 10 index points in May to push the index to a five-month high.
- Improved output gauges were seen across all countries and sectors, led by China and banking services respectively.
- Despite the rise, at 47.7 the PMI remained below the no-change 50.0 level, which indicates the fifth successive monthly deterioration of output across the combined manufacturing and service sectors.

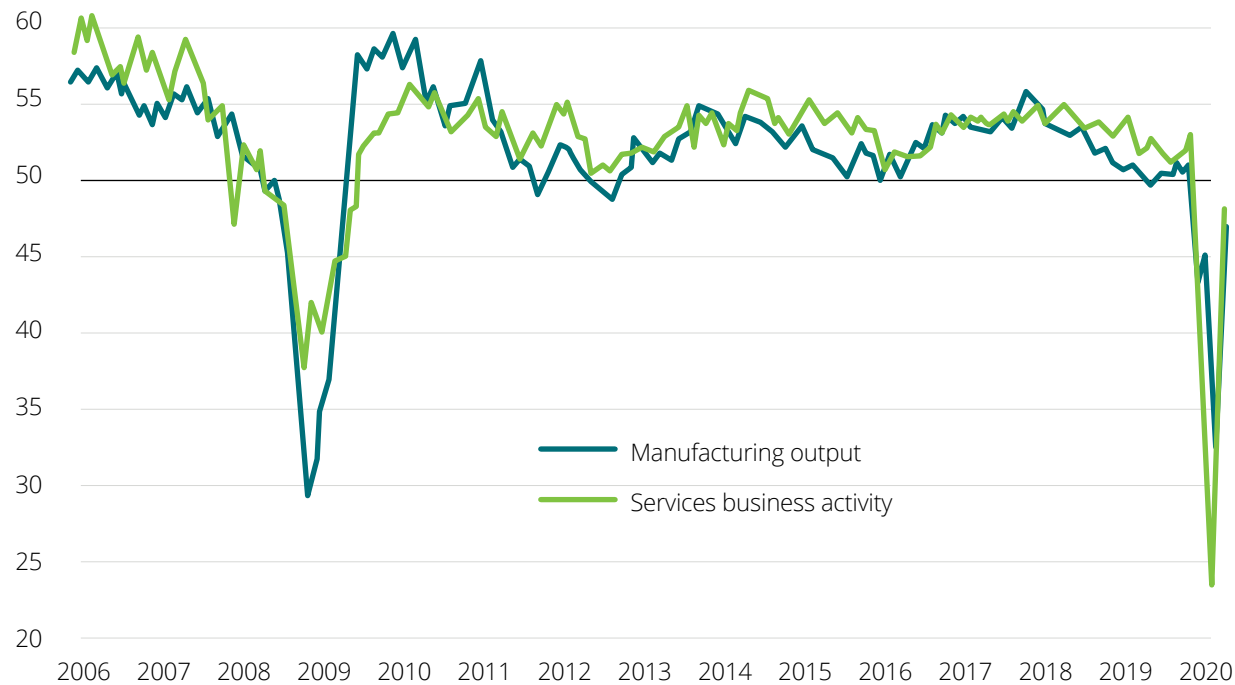
Source: IHS Markit, JPMorgan

Services harder hit than manufacturing

Although both manufacturing and services sectors saw output indices rise to the highest since the downturn began in February, the services sector saw output fall faster than manufacturing during the height of the lockdowns

Global Manufacturing and Services PMI

Note: A PMI index over 50 represents expansion, an index of 50 represents zero growth, and an index below 50 represents contraction

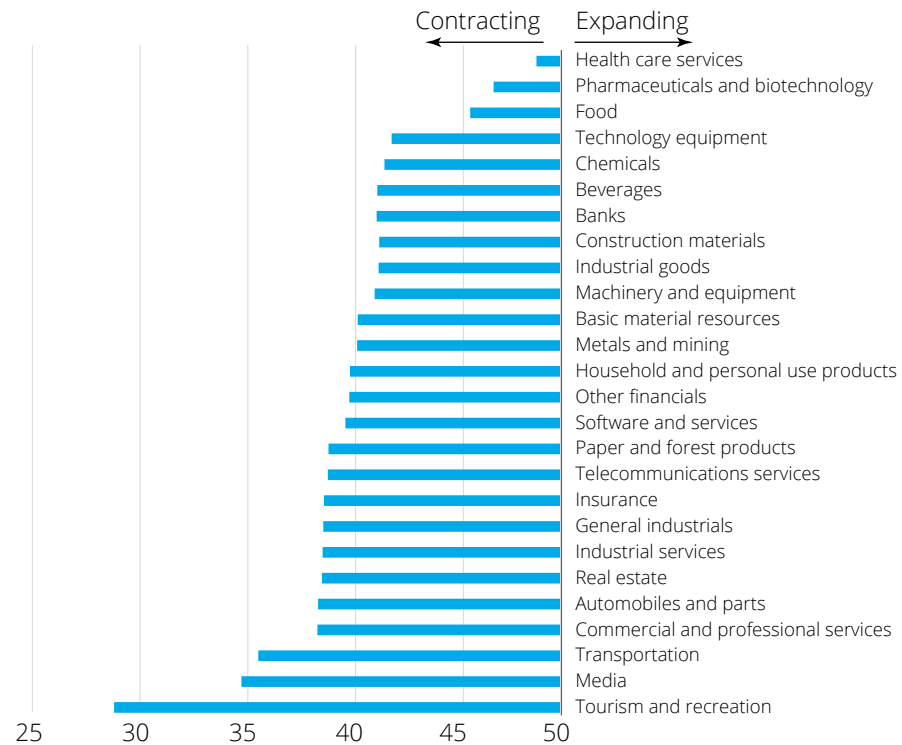


- The services sector saw output fall faster than manufacturing during the height of the lockdowns, largely reflecting the impact of social distancing policies.
- In June 2020, however, both manufacturing and services sectors saw output indices rise to the highest since the downturns began in February, with both showing record gains.

Hardest hit sectors

Over the past four months, the tourism and recreation, media, and transportation sectors have been the hardest hit, followed by commercial and professional services, and automobiles and parts

Average PMI output index (Feb-Jun 2020)

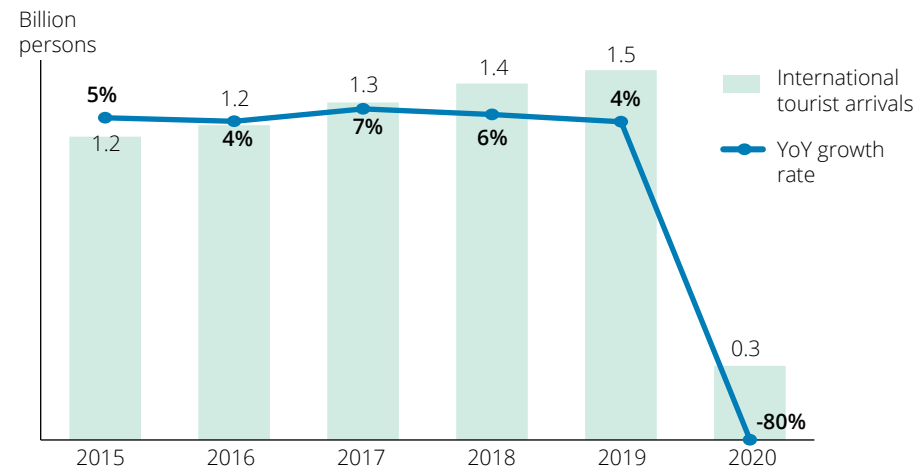


Source: IHS Markit

A closer look at the hardest hit sector: Tourism

Current scenarios point to possible declines in international tourist arrivals of up to 80% for the year, but these will ultimately depend on the speed of containment and duration of travel and border restrictions

Revised 2020 forecast for international tourist arrivals



Source: World Tourism Organisation (UNWTO)

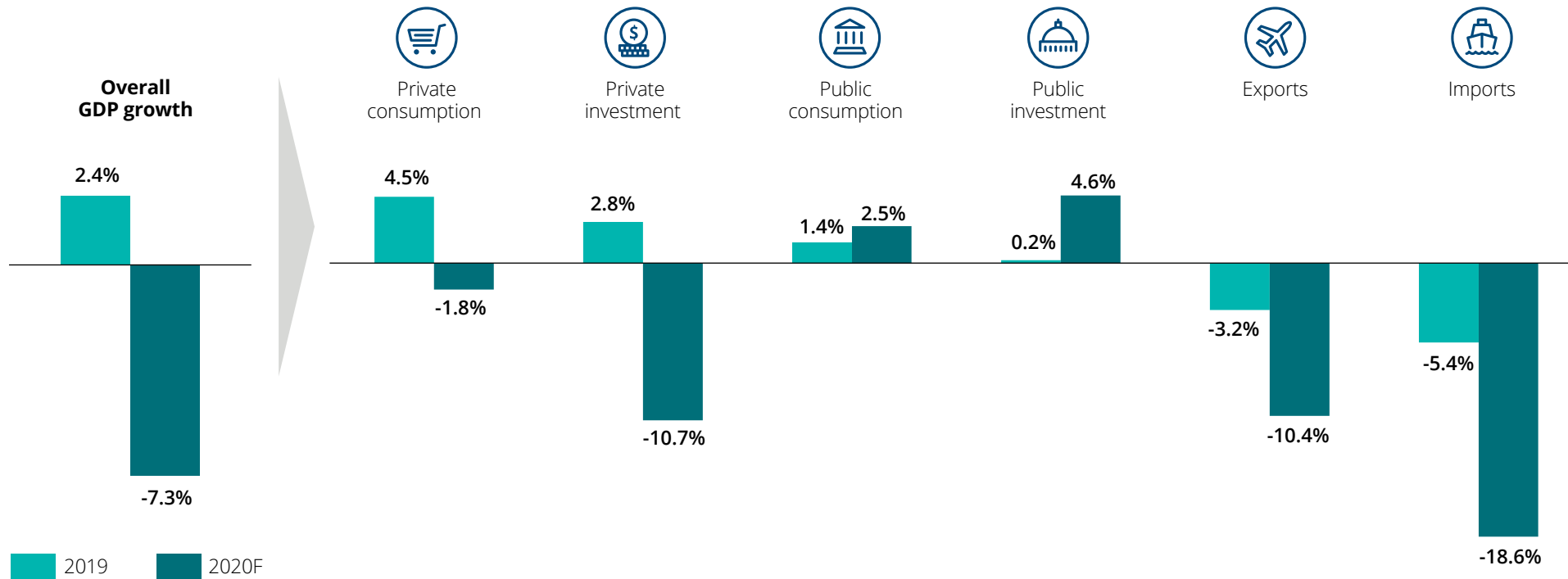
A view from Thailand



Thailand's GDP growth projections further revised downwards to -7.3%

Key driving forces include a global economic downturn, sharp decline in international tourist arrivals, and plunge in private investment levels

Projected GDP growth rate in 2020



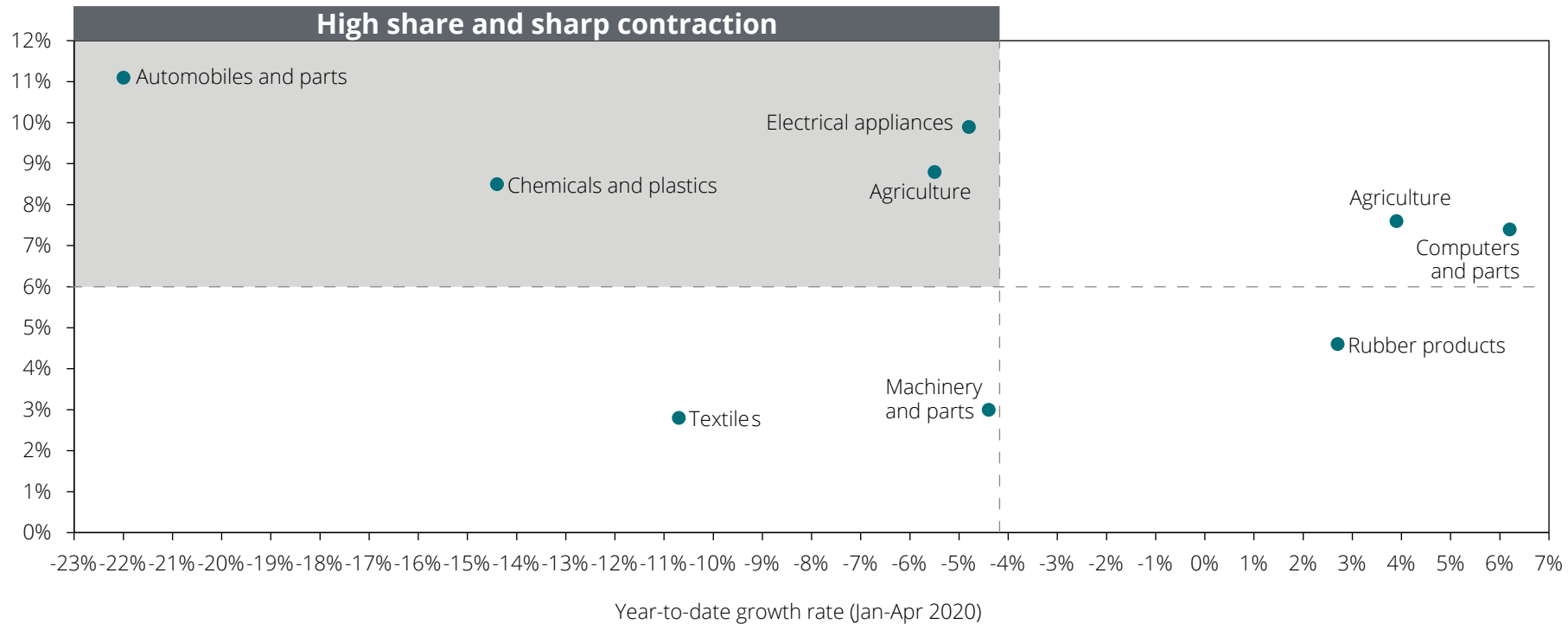
Source: Siam Commercial Bank Economic Intelligence Centre

Declining exports

Thailand's export growth, especially in sectors such as automobiles and parts, is expected to continue to decline on the back of a global economic downturn and challenges arising from supply chain disruptions

Share of total export market and year-to-date growth rate of major sectors

Share of total export market

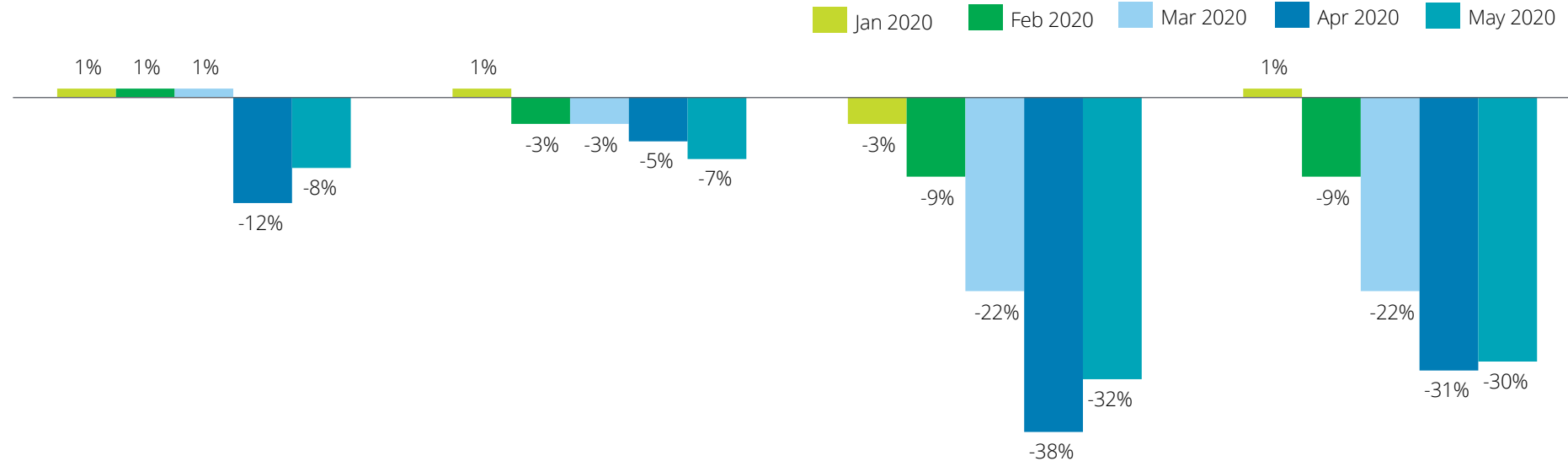


Source: Ministry of Commerce

Shrinking private consumption growth

Durable goods have bore the brunt of falling household incomes and strict lockdown measures

Components of private consumption



Non-durables

- Fast moving consumer goods
- Household electricity consumption
- Sales of fuel consumption
- Sales of alcohol and tobacco

Semi-durables

- Retail sales of textile and apparel
- Import of textile and clothing

Durables

- Sales of passenger cars
- Motorcycles and commercial cars

Services

- Value-added tax from hotels and restaurants
- Sales of passenger transportation

Source: Bank of Thailand

Drastic reduction in tourism receipts

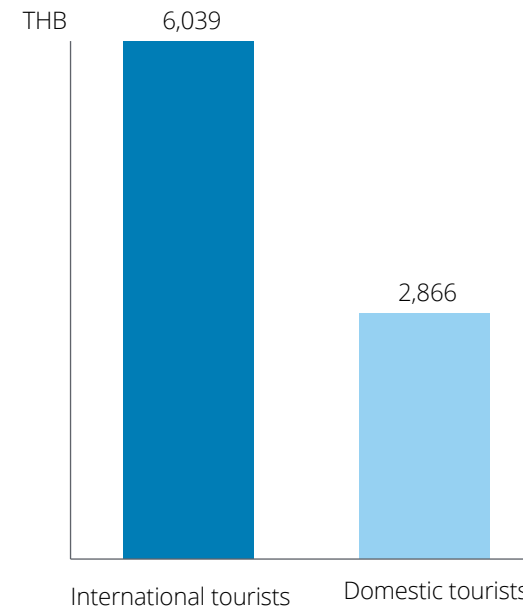
International tourist arrivals are expected to plunge by a year-on-year rate of 75% to 9.8 million in 2020, and any increase in domestic tourism is unlikely to be able to make up for the shortfall

International tourist arrivals



In 2019, revenue from international tourist arrivals amounted to about THB 1.9 trillion, or approximately 12% of Thailand's GDP

Average expenditure per person per day in 2019 for international and domestic tourists

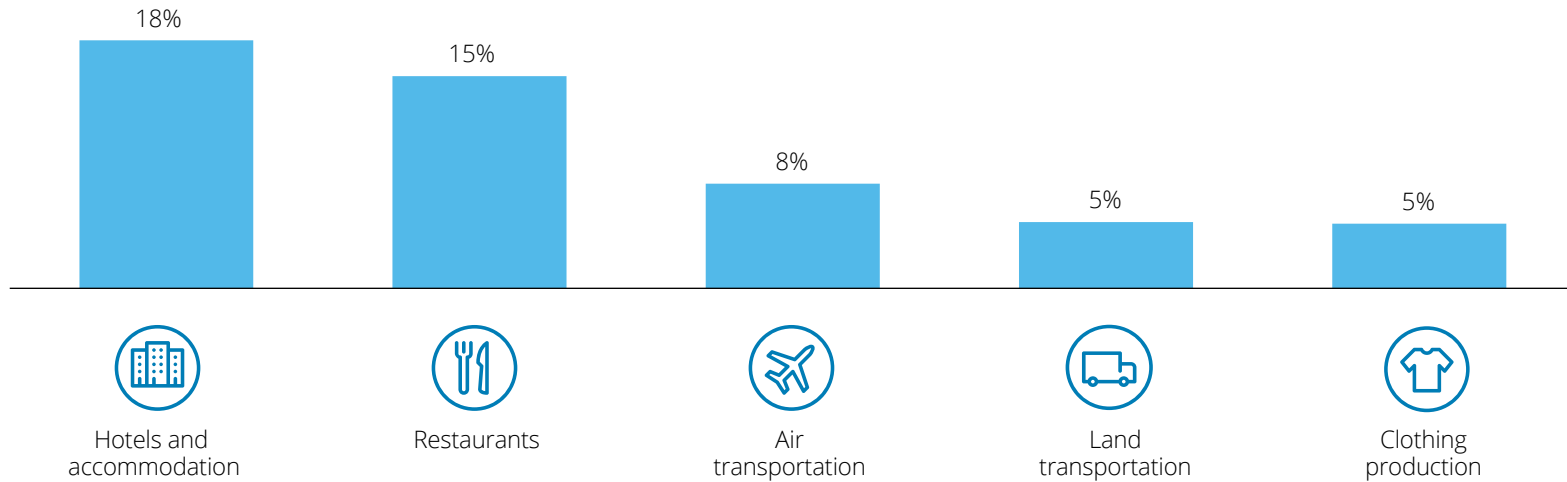


Source: Bank of Thailand, Siam Commercial Bank Economic Intelligence Centre

Spill-over effects from dwindling tourism receipts

As tourism is a significant driver of Thailand's economic growth, the impacts of drastically lower tourism receipts are expected to spill over – both directly or indirectly – to many other key sectors

Sectors with the highest contribution from tourism receipts



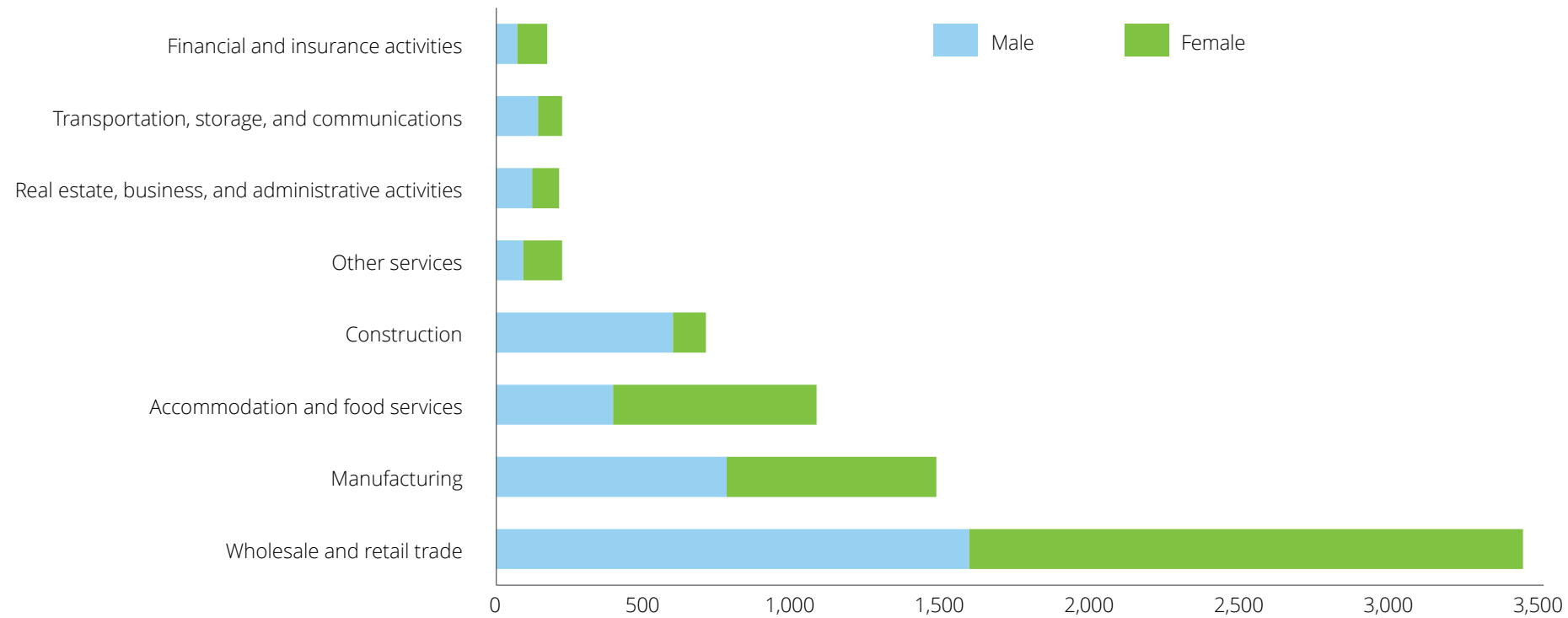
Upstream businesses	Electricity	Slaughterhouses	Petroleum refineries	Petroleum refineries	Weaving
Downstream businesses	Business services	Business services	Air freight	Retail sales	Hotels and accommodation

Source: Siam Commercial Bank Economic Intelligence Centre

Disruption of livelihoods

An estimated 6.6 to 7.5 million jobs in Thailand will be disrupted by COVID-19

Potential COVID-19 job disruption by sector and gender

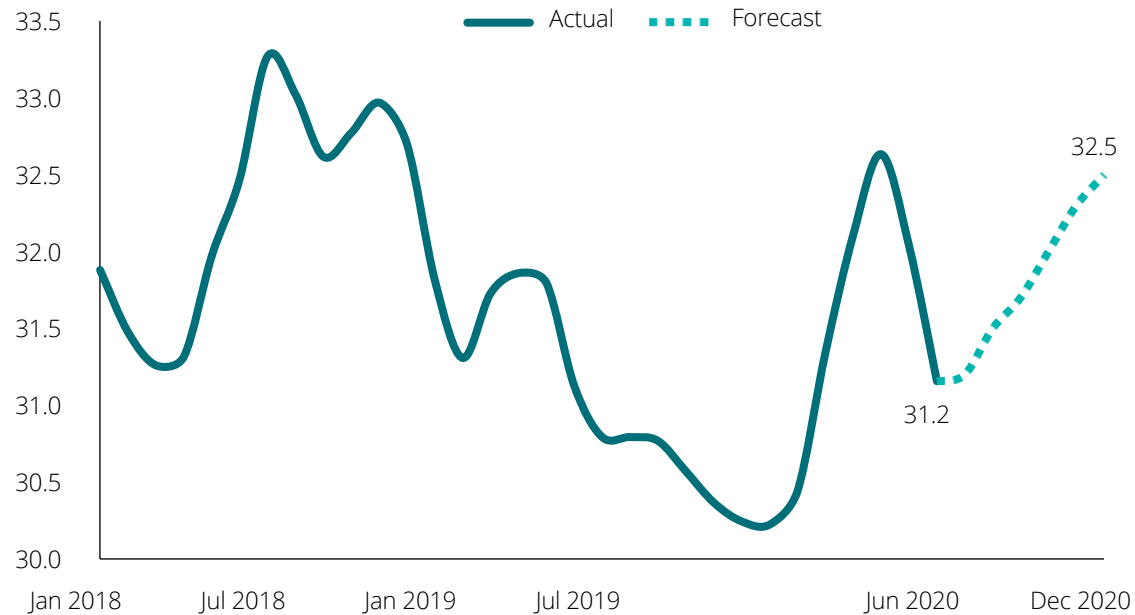


Source: International Labour Organisation

Currency depreciation

The Thai Baht is expected to depreciate to a THB/USD exchange rate of around 32.5 at the end of 2020

Exchange rate



- Depreciation of the Thai Baht should occur as Thailand's current account surplus is likely to shrink considerably following the drop in international tourist arrivals.
- Nevertheless, capital outflows from Thailand's financial market should decelerate in the coming periods after significant drawdowns, thereby limiting the depreciation of the Thai Baht.
- Furthermore, massive monetary and fiscal easing measures implemented in various countries, along with the gradual lifting of lockdowns, will likely slow the appreciation of the US Dollar. The US Dollar is therefore unlikely to strengthen as much as it did in late Q1/2020 when there was a dash for cash in global financial markets.

Source: Bank of Thailand, Siam Commercial Bank Economic Intelligence Centre

Policy response

To support Thailand's economy, the government has stepped in with sizable stimulus packages for businesses, as well as the tourism sector, which contributes to a significant proportion of Thailand's economy



Monetary policy

- Policy rate slashed to a historic low of 0.5%



Tax reliefs

- Filing deadline extension for corporate and personal income tax
- Reduction of withholding tax rate from 3% to 1.5%
- Increased maximum income tax deduction for health insurance premiums paid by individuals from THB 15,000 to THB 25,000



Support for SMEs

- Soft loans of THB 500 billion to SMEs through commercial banks
- A loan payment holiday of 6 months



Liquidity measures

- Mutual Fund Liquidity Facility (MFLF) to ensure liquidity in bond market
- Corporate Bond Liquidity Stabilisation Fund (BSF) to provide THB 400 billion for the purchase of bonds from distressed corporates



Tourism stimulus campaign (Rao Tiew Duay Kan/"We Travel Together")

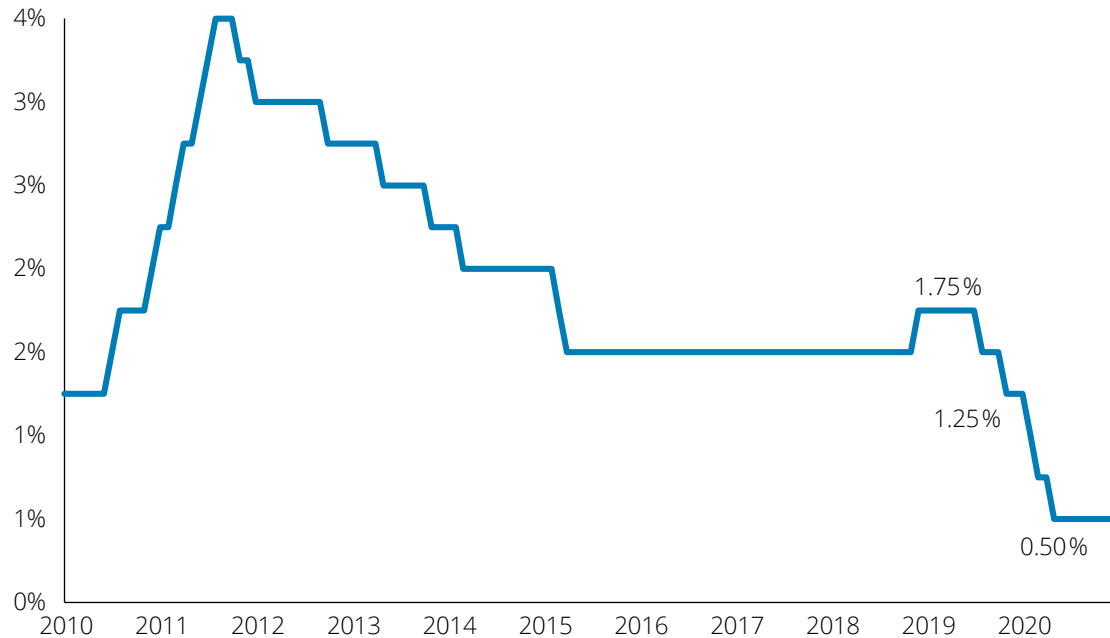
- Subsidies for 5,000,000 nights of hotel accommodation at 40% of normal room rates, limited to THB 3,000 per night for up to 5 nights
- Subsidies for other services, including food, are capped at THB 600 baht per room per night
- Subsidies for 40% of air ticket costs

Source: Siam Commercial Bank Economic Intelligence Centre, Bank of Thailand, Ministry of Finance

Additional policy tools could be wielded if necessary

The Bank of Thailand's Monetary Policy Committee (MPC) is expected to maintain its policy rate at 0.5% throughout the remainder of 2020, and stands ready to implement additional tools, including unconventional policies, if the situation calls for it

Policy rate



- The Committee has assessed that Thailand's economy is likely to contract more than previously expected, due to the higher than expected contraction of the global economy, along with widespread containment measures worldwide.
- Thailand's tourism and merchandise exports had been hit hard by the contraction of its trading partners, and domestic demand – both in terms of private consumption and private investment – has also contracted more than expected due to higher unemployment levels and the implementation of COVID-19 containment measures.

Source: Bank of Thailand, Siam Commercial Bank Economic Intelligence Centre

Recovery timeframes

Some sectors may be able to begin their recovery in the later part of the year, while others may only be able to do so in 2022 and beyond

Degree of impact Revenue reduction in 2020	More than 20%				<ul style="list-style-type: none"> Hotels Restaurants Automotive Commercial estate 	Airlines	–	
	10-20%			<ul style="list-style-type: none"> Shipping Wholesale and retail (non-grocery) Electronics Building materials 	<ul style="list-style-type: none"> Residential estate Petrochemicals Refineries Metals 			
	Less than 10%	Telecommunications	<ul style="list-style-type: none"> Health care Wholesale and retail (grocery) Land transport 	+	Private construction			
	2H 2020	1H 2021	2H 2021	2022	2023 onwards			
	Speed of recovery							
	Timeframe in which revenues are expected to reach 2019 levels							

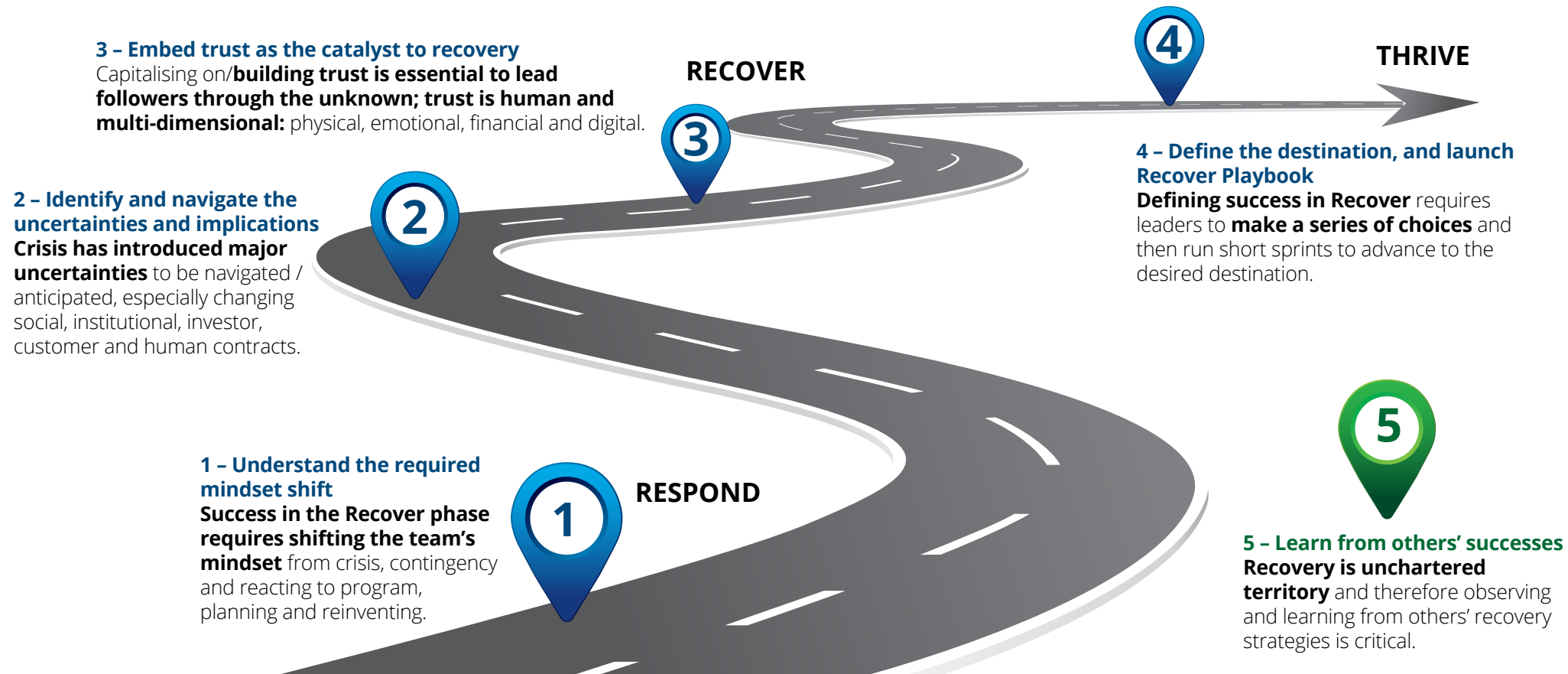
Source: Siam Commercial Bank Economic Intelligence Centre

Respond, Recover, Thrive



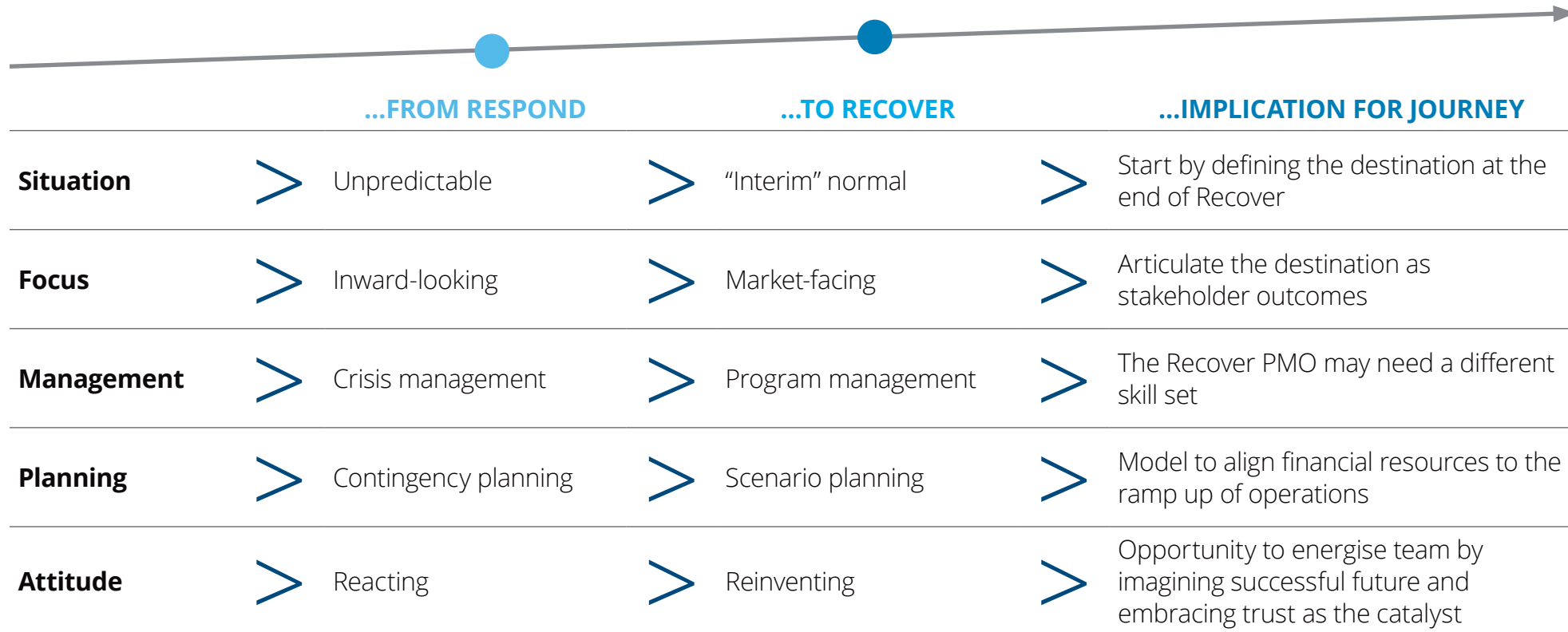
Five imperatives

There are five imperatives within the “Recover” phase that businesses should focus on as they focus on moving from “Respond” to “Thrive”



1. Understand required mindset shift

As they embark on Recover, resilient leaders shift the organisation’s mindset from today to tomorrow



2. Identify and navigate the uncertainties and implications

Resilient leaders understand that the only certainty is uncertainty and use this as an opportunity for reinvention

	UNCERTAINTIES	IMPLICATIONS
Changing social contract	Changing societal expectations of corporations to ensure the viability of all stakeholders	<ul style="list-style-type: none"> • How is the implicit contract with employees being re-written relative to safety, remote work arrangements, etc.? • How have the expectations for the scale, scope, speed and scorecard for achieving the Business Roundtable's commitments to balance the needs of all stakeholders changed?
Changing roles – and rules – of institutions	Businesses are doing government, government is doing business, and NGOs are doing both	<ul style="list-style-type: none"> • What previously-governmental/ business roles will businesses be expected to assume? What rules will change? • How will new alliances and partnerships within the ecosystem change business and operating models? • Will Public-Private Partnerships (3P) be the new path forward on how businesses and governments co-operate?
Unpredictability in financing sources, uses and capital markets	Needs are difficult to forecast amidst wide economic scenarios; sources shift amongst investor groups, institutions, and governments; capital moving across markets	<ul style="list-style-type: none"> • Sources: What are the intermediate and long-term sources of financing (public and private) – and how will government investment be accounted for given the new economic realities? How businesses can raise additional funds by disposing non-core assets? • Uses: What is the range of cash resources an organisation requires amidst uncertainty of the magnitude, intensity, and duration of economic recovery and aftershocks? • Capital markets: How will availability of funds for investment and returns shift among public markets, private equity, vulture investors, and governments
Permanency of customer behaviour changes	How has the pandemic permanently altered behaviours, experiences, expectations, and the role of digital engagement	<ul style="list-style-type: none"> • Which elements of the customer experience have changed as a result of COVID-19 and which will remain? • How have customer behaviours toward digital engagement changed and what are the business implications? • How will supply chains, ecosystems, and alliances change to adjust to this new reality? How can you use M&A to respond to permanent changes in supply and demand?
Expectations for physical, emotional, financial, digital safety	The crisis has heightened stakeholders' sensitivities to safety along four dimensions	<ul style="list-style-type: none"> • Physical: How safe are physical locations, such as plants, offices, restaurants, and stores, and the broader environment for delivery workers, for example? • Emotional: How will emotional and societal needs be safeguarded? • Financial: How will financial well-being be preserved? • Digital: How safe is consumer information, particularly considering cyber threats as the world disperses to remote work arrangements?

3. Embed trust as the catalyst to recovery

Resilient leaders understand that trust is foundational to their organisations' recovery

TRUST IS A **TANGIBLE EXCHANGE OF VALUE...**

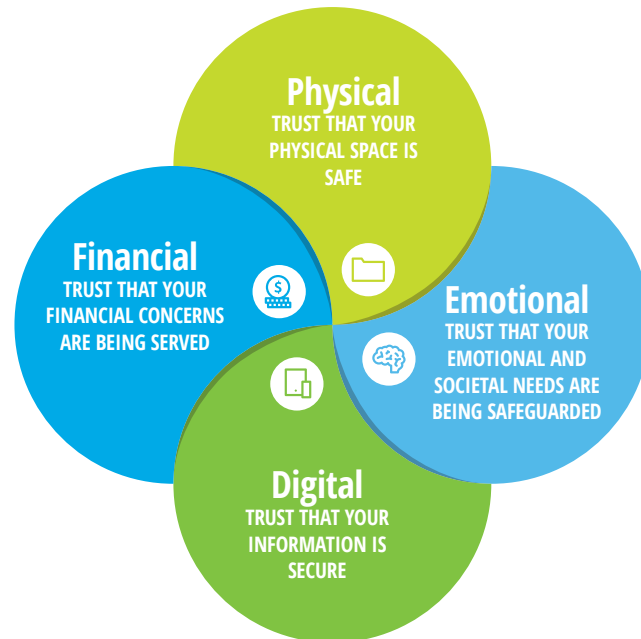
It has **no value in isolation**, and represents value only in an interaction/relationships with others.

It is **accretive**: invested wisely and prudently, it grows in repeated affirming experiences; invested poorly, it rapidly depreciates.

It **yields results** such as economic growth and shareholder value, increased innovation, greater community stability, and better health outcomes.

...TRUST IS **HUMAN AND MULTI-DIMENSIONAL**

Resilient leaders understand that Recovery is a human experience and in order to shift the mindset to Recovery, they need to understand the Four Human Dimensions of Trust:

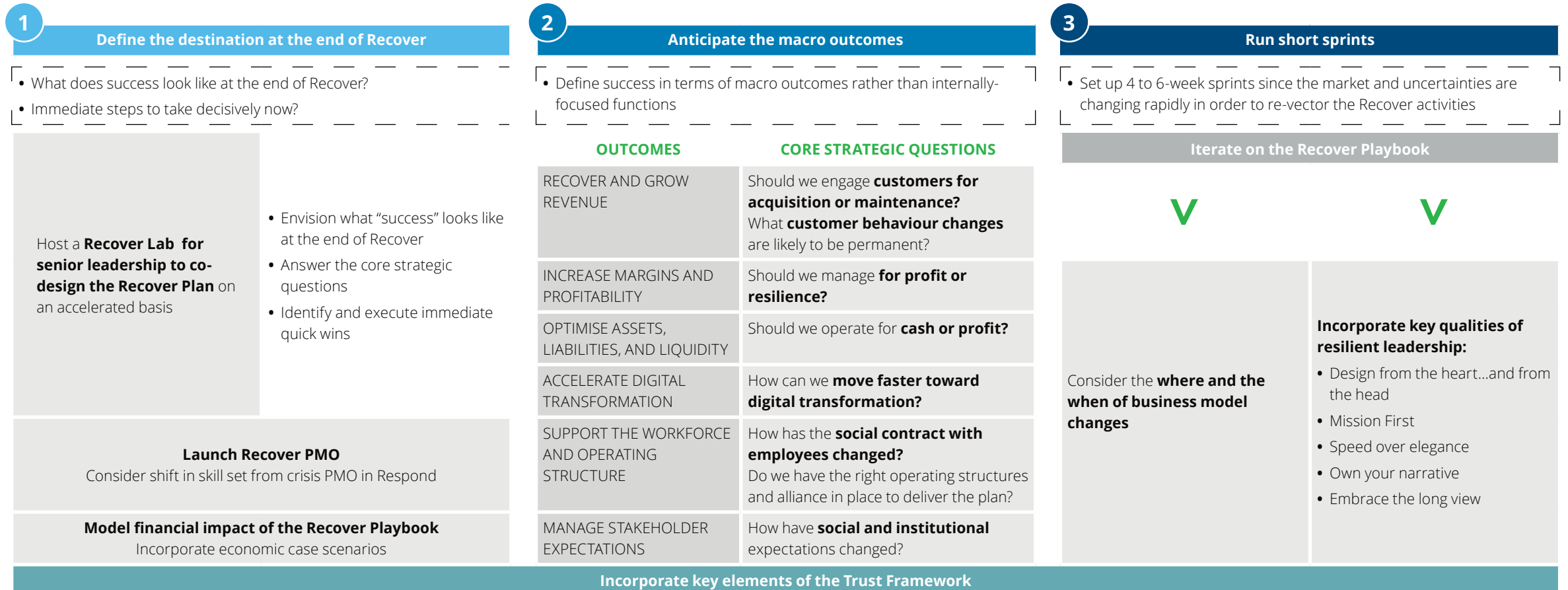


Resilient leaders consider the following questions:

- Which dimensions matter most in Recover to each of our stakeholders, and what will matter to them as we shift into Thrive?
- Are we communicating our intentions clearly and transparently to our stakeholders – even when we don't have all the answers?
- Can we competently deliver on what we are promising to our stakeholders?
- How are we monitoring and measuring our progress in addressing stakeholders' needs across the four dimensions of trust?

4. Define the destination and launch Recover Playbook

Resilient leaders guide their teams to make and deliver clear choices on the destination and outcomes



Incorporate key elements of the Trust Framework

4. Define the destination and launch Recover Playbook

Resilient leaders focus on pressing issues while establishing the Recover Playbook

Workforce-related questions:

- When and how to bring back the workforce balancing health with financial need?
- What is the new composition and size of our workforce?
- How to instill trust in the new employer-employee social contract?

Deloitte recommendations:

- Reinforce company's purpose, potential, and perspective.
- Implement workforce strategies: reflect (lessons learned), recommit to physical and emotional safety, re-engage (offer flexibility), rethink (challenge workplace assumptions), reboot (reinvent the HR function for resilience).
 - Focus HR's expertise on critical compensation, performance management, and promotion realities specific to the recovery period.

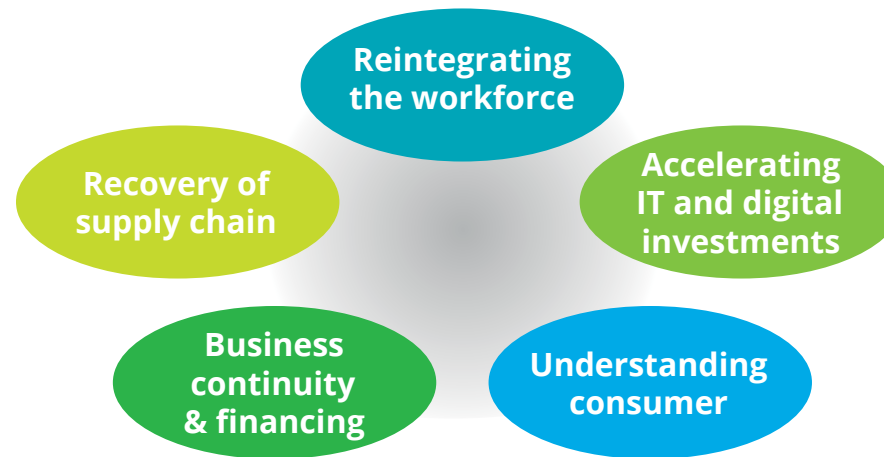
Supply chain-related questions:

- When to restart manufacturing and broader supply chain operations? Which businesses are still viable?
- How to manage working capital as operations restart and inventory and orders ramp up?
- How to ensure operational flexibility?

Deloitte recommendations:

- Set up a "control tower" to monitor for supply chain risk, customer service, logistics, factory, and quality control.
- Create a market sensing capability to support ongoing scenario planning and anticipate disruption.
- Focus on maintaining cash flow, proactively anticipate bankruptcies, and acquisition opportunities.

Leaders strike a balance between actively dealing with pressing issues and developing their Recover Playbook



Business continuity & financing - related questions:

- How to plan when the nature, timing and speed of recovery is so uncertain?
- How to think through and best position for radical reshaping and restructuring?
- What support might our business partners need, as we are all "in it together"?

Deloitte recommendations:

- Build a 'liquidity buffer' given likely future volatility, including in capital markets.
- Work with a dynamic risk/opportunity matrix to evaluate priority actions and plans.
- Be alert to M&A opportunities and ensure your own plans are clear and coherent.
- Stay focused on business and capital planning fundamentals; they've not changed.

IT & digital investment-related questions:

- What critical technology capabilities are required to equip and enable a physical, remote or hybrid workforce?
- How to accelerate remote, cyber and digital capabilities to prepare for a new future workplace model?
- How to prepare the organisation for the next major disruptive event?

Deloitte recommendations:

- Prioritise and accelerate the standardisation of remote collaboration tools and training programs; and establish a real time monitoring cyber command centre to protect remote work environments and employees.
- Develop a Future Ready and Resilience Playbook to include: digital innovations, 48 hr-customer support centers, trusted technology ecosystem, cloud platforms and technologies, IT sensing capability.
- Incorporate "digital twin" capabilities to reimagine the business and determine future capabilities.

Consumer-related questions:

- How to deeply understand the permanent shift in consumer buying behaviour in Recovery?
- How to redesign the business model to embed trust and deliver on all elements of trust?
- What is the impact on our cost structure and infrastructure (i.e. physical locations or stores)?

Deloitte recommendations:

- Design around human needs: physical, emotional, financial and digital.
- Redesign consumer experiences to blend physical with digital interactions and channels (i.e. telemedicine for physician visits).
- Accelerate digital storefront capabilities.
- An empathic approach to consumer interactions will require agility and adaptability.

5. Learn from others' successes

Organisations entering into Recover are creating new business models

Global virtual delivery models



Organisations have adapted global transformation programs from **in-person physical to virtual delivery centres**, ensuring they invest for the future and are ready for recovery....

AMERICAS-BASED TELECOM COMPANY

- Americas-based telecom company decided to continue the implementation of its large-scale critical SAP S/4HANA ERP during the crisis.
- The organisation leveraged a strategic partner to develop a robust contingency plan and command center, shifting from on-site to remote working.
- A global team continues to deliver on all planned key program milestones without any business disruption and has launched Phase 2 via the remote delivery model.

Strategic alliances and ecosystems



Organisations are looking to **ecosystem and alliance partners** to access professional talent and support employment....

NATIONAL US AIRLINE CREATES JOB PORTAL WITH EXTERNAL ROLES

- Large US airline company wanted to support its employees impacted by the crisis find opportunities to replace or supplement their income.
- Created an internal job site, advertising roles at a number of large US corporations who required an increased workforce.

IT and digital infrastructure



Organisations are **strengthening their cyber security** technology and practices to **build and strengthen trust** amongst their stakeholders....

LARGE EDUCATIONAL INSTITUTION IN ASIA PACIFIC

- An Asia Pacific university provided remote desktop access to students as an urgent response to being unable to attend in-person classes.
- Platform was compromised for a few days following rollout, which required immediate containment and eradication measures to address the initial vulnerability.
- Subsequently, a project has been undertaken to enhance the university's digital identity and cloud/remote access solutions, recognising that remote learning will be the "new normal" for the foreseeable future.



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