

## Respond, Recover, Thrive

The impact of COVID-19 on the economy

A view from Thailand



MAKING AN  
IMPACT THAT  
MATTERS  
*since 1845*

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# The impact of COVID-19 on the economy



## Current situation

- Although first detected in Wuhan, China, the COVID-19 outbreak is now truly global in scale: on 11 March 2020, it was officially declared a pandemic by the World Health Organisation (WHO).
- With multiple shifting epicentres, the number of confirmed COVID-19 cases outside China exceeded the number of confirmed cases within China for the first time on 16 March 2020.



## Overall economic impact

- As a result of the COVID-19 outbreak, global GDP projections for 2020 have plunged from 3% to 1.8%.
- The global tourism sector is grappling with the most immediate and direct impacts on the back of travel restrictions and flight cancellations, but other sectors such as Automobiles & Auto Parts have also been adversely impacted.
- Nevertheless, sectors such as Pharmaceuticals & Biotechnology are outperforming.



## A closer look at five of the world's largest economies

- In line with the global economy, economic growth is expected to slow down significantly in five of the world's largest economies: China, United States, European Union, United Kingdom, and Japan.
- As China is a major supplier of intermediate goods, a domino effect is cascading across the global supply chain.



## A view from Thailand

- Thailand's economy is expected to experience an immediate and direct impact from the COVID-19 outbreak due to its relatively higher reliance on the travel and tourism sectors, as well as high levels of exports and imports.
- Thailand is also experiencing supply chain disruptions as a result of factory closures and transportation restrictions. This problem is exacerbated by its high reliance on intermediate goods from other markets hit by the COVID-19 outbreak, including China, Japan, and South Korea.

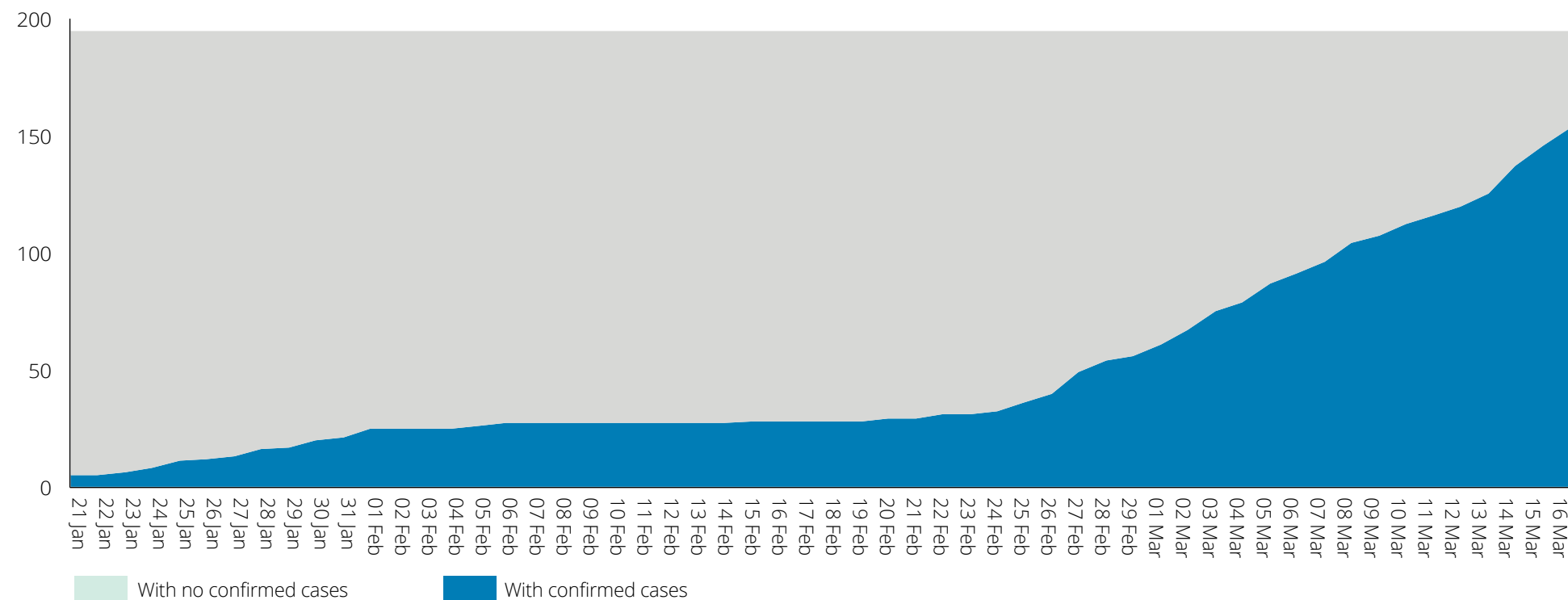
# Current situation



## Truly global in scale

First detected in Wuhan, China, the COVID-19 outbreak was officially declared a pandemic by the World Health Organisation (WHO) on 11 March 2020

### Number of countries with confirmed COVID-19 cases

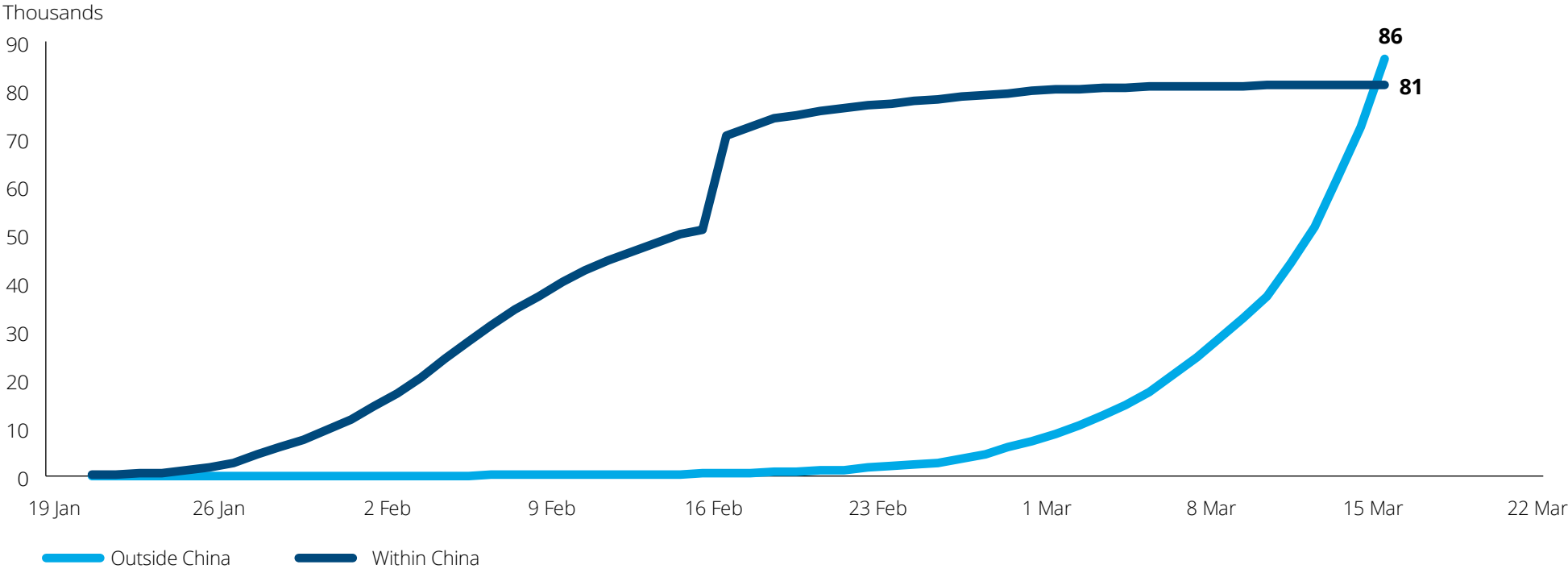


Source: World Health Organisation

Multiple shifting epicentres

The number of confirmed COVID-19 cases outside China exceeded the number of confirmed cases within China for the first time on 16 March 2020

Number of confirmed COVID-19 cases

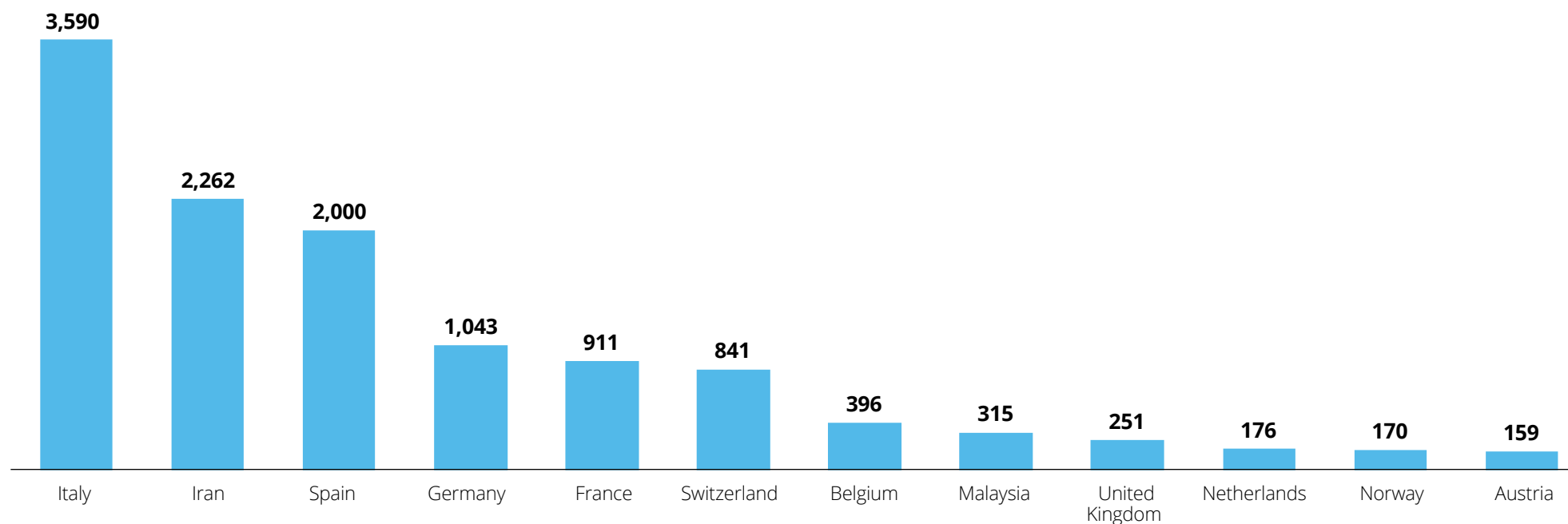


Source: World Health Organisation

## Multiple shifting epicentres

As of 16 March 2020, newly confirmed COVID-19 cases mostly concentrated in Italy, Iran, Spain, Germany, and France

### Number of confirmed COVID-19 cases on 16 March

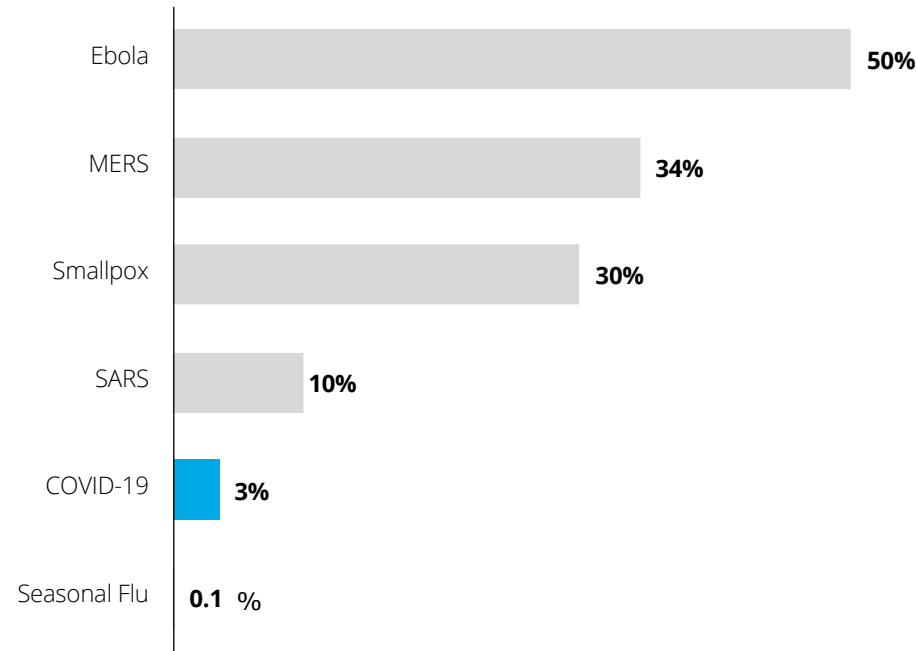


Source: World Health Organisation

Understanding case-fatality rates

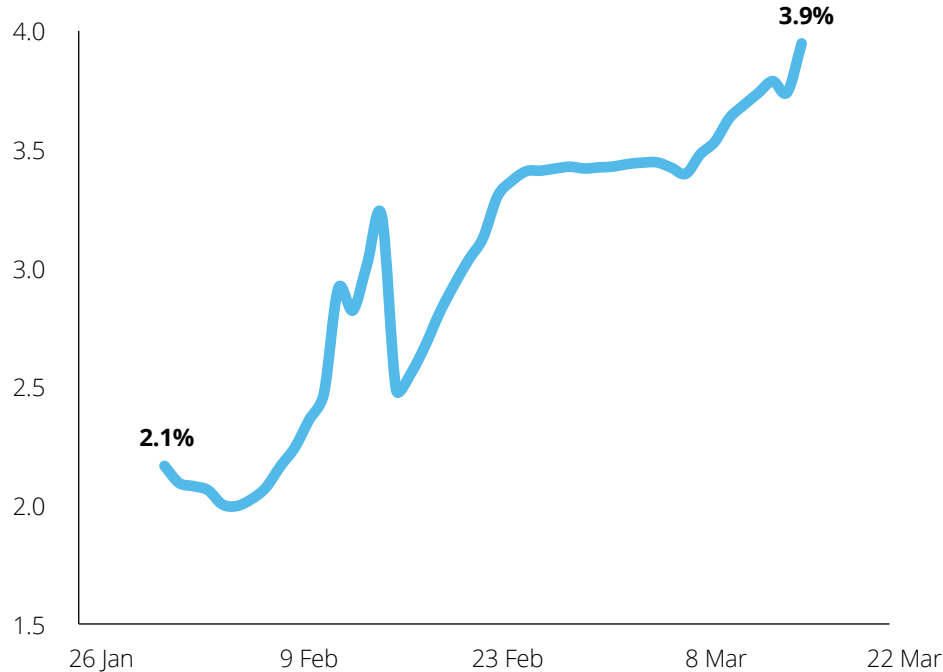
Although COVID-19 has a lower case-fatality rate than other outbreaks, it can vary significantly depending on access to treatment

Case-fatality rate comparison across outbreaks



Source: Bloomberg, World Health Organisation

Worldwide case-fatality rate for COVID-19





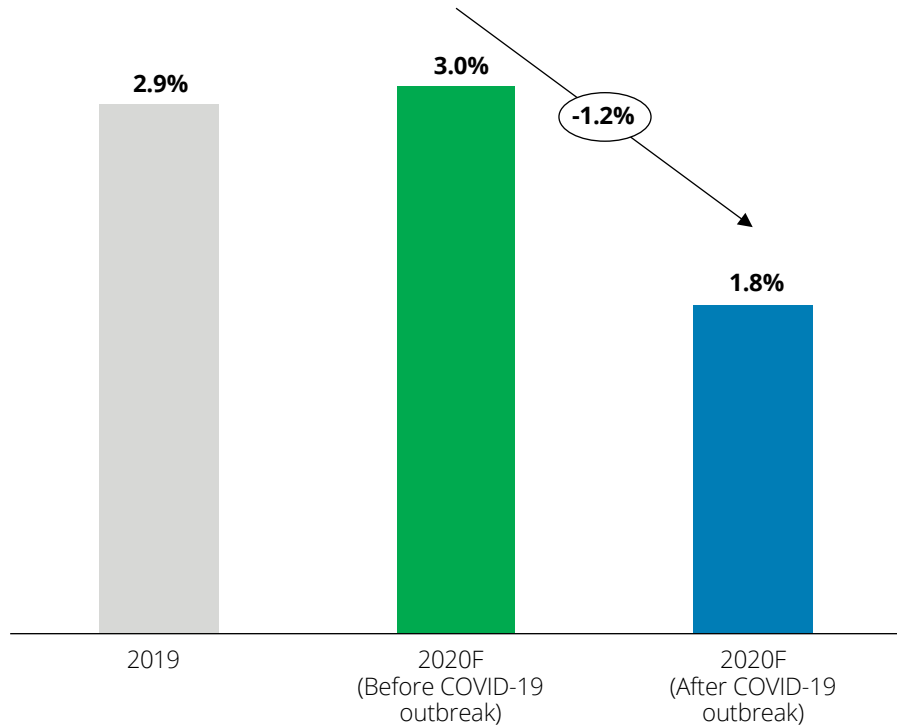
Overall economic impact



## Gross Domestic Product (GDP) takes a hit

As a result of the COVID-19 outbreak, Global GDP projections have been revised downwards from 3% to 1.8%

### Projected global GDP growth rate in 2020



- Economic growth rates in China and other major economies have slowed down in the backdrop of the WHO declaration of COVID-19 as a global pandemic.
- The stimulus effect of government policies is likely to be weakened during the early phases of the COVID-19 outbreak as the focus will be on containment.
- Asset prices are likely to continue to decline despite the lowering of interest rates in many countries.

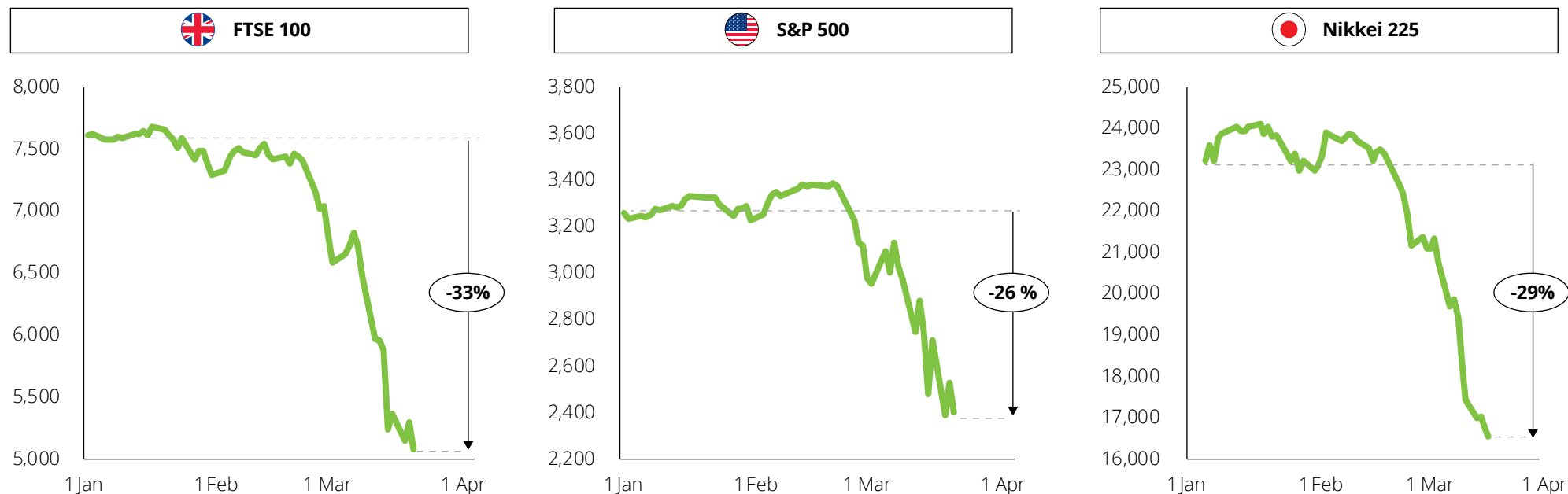
Source: Siam Commercial Bank Economic Intelligence Centre

## Stock markets tumble

Since the beginning of 2020, stocks have plunged by around 30% as fears of COVID-19's impacts rock markets worldwide

### Stock market indexes as of 18 March 2020

Across the globe, markets went into shock as fears about the COVID-19 outbreak were compounded by news of an oil price war between Saudi Arabia and Russia.

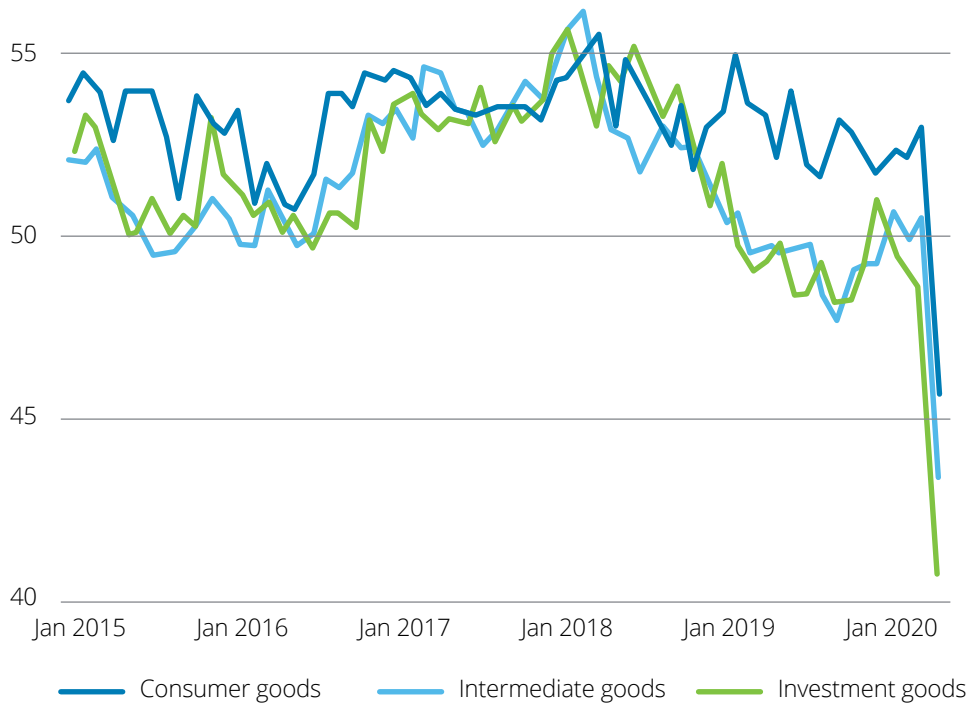


Source: ShareCast

Worldwide factory production experiences steepest plunge since April 2009

Companies have reported falling demand and reduced supply of inputs

Global Manufacturing Purchasing Managers' Index



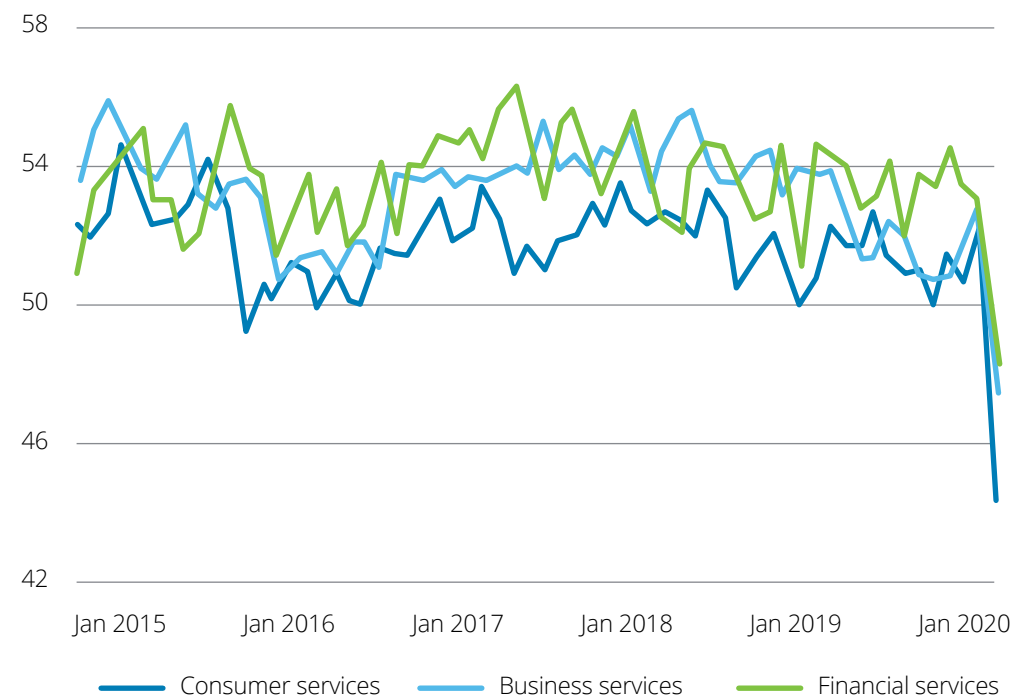
- Global survey data revealed a broad-based drop in factory output across all main product groups.
- Worldwide output fell at the steepest rate since comparable data first became available in late 2009 for consumer goods, intermediate goods (inputs supplied to other companies), and investment goods.
- The plunge in investment goods output is especially noteworthy because it reflects a marked drop in new orders from businesses worldwide for plant, machinery, and other capital equipment.

Source: IHS Markit, JPMorgan

## Growth in services weakens to slowest pace since May 2009

Services sector experienced record plunge in February 2020

### Global Services Purchasing Managers' Index



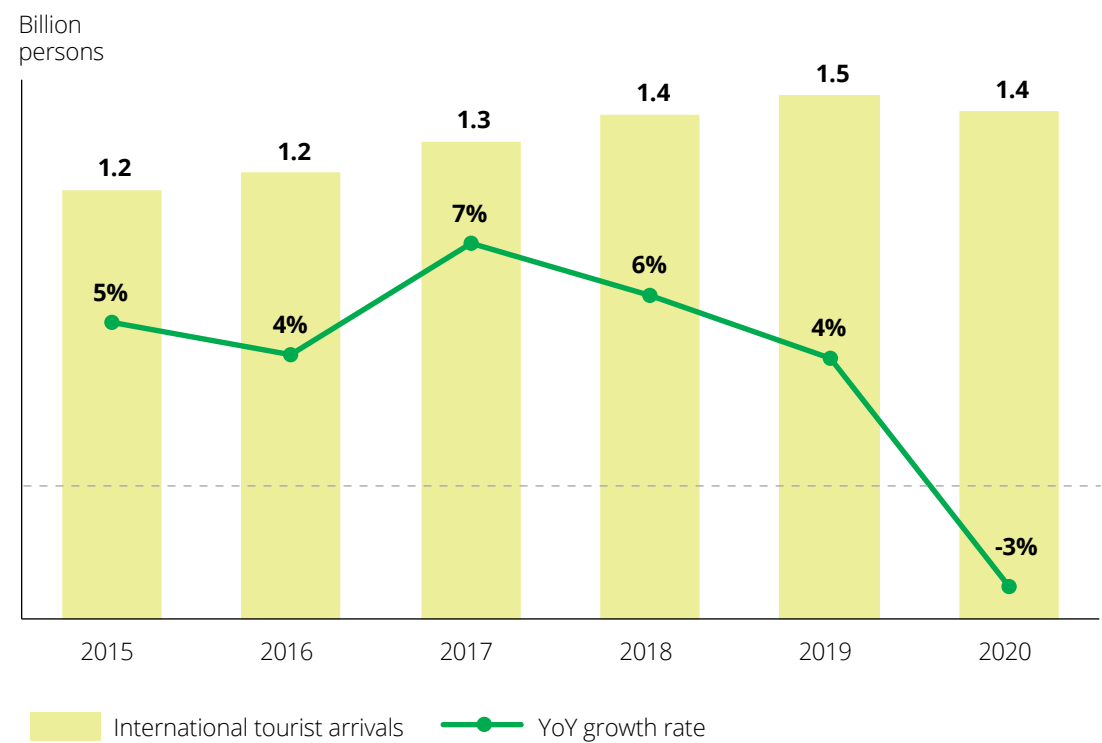
Source: IHS Markit, JPMorgan

- Global survey data revealed supply-side disruptions and shortages, as well as weakened demand for many services.
- This trend was especially pronounced for consumer services, which witnessed the highest incidence of negative impacts as the travel and tourism sectors bore the brunt of the COVID-19 outbreak.

Tourism sector faces the most immediate impact

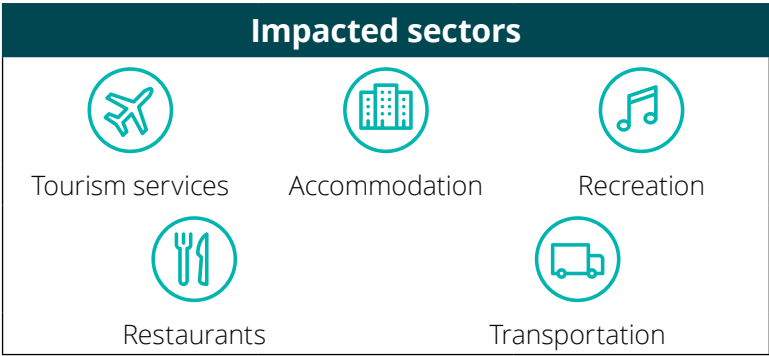
The World Tourism Organisation (UNWTO) estimates that international tourist arrivals could experience a growth rate of -3% in 2020 globally, a drastic decrease from early January growth estimates of 3-4%

Revised 2020 forecast for international tourist arrivals



Source: World Tourism Organisation (UNWTO)

Travel restrictions and flight cancellations, in addition to reduced travel demand, especially in China – one of the world’s largest outbound travel markets – is expected to result in a contraction of the global tourism industry.

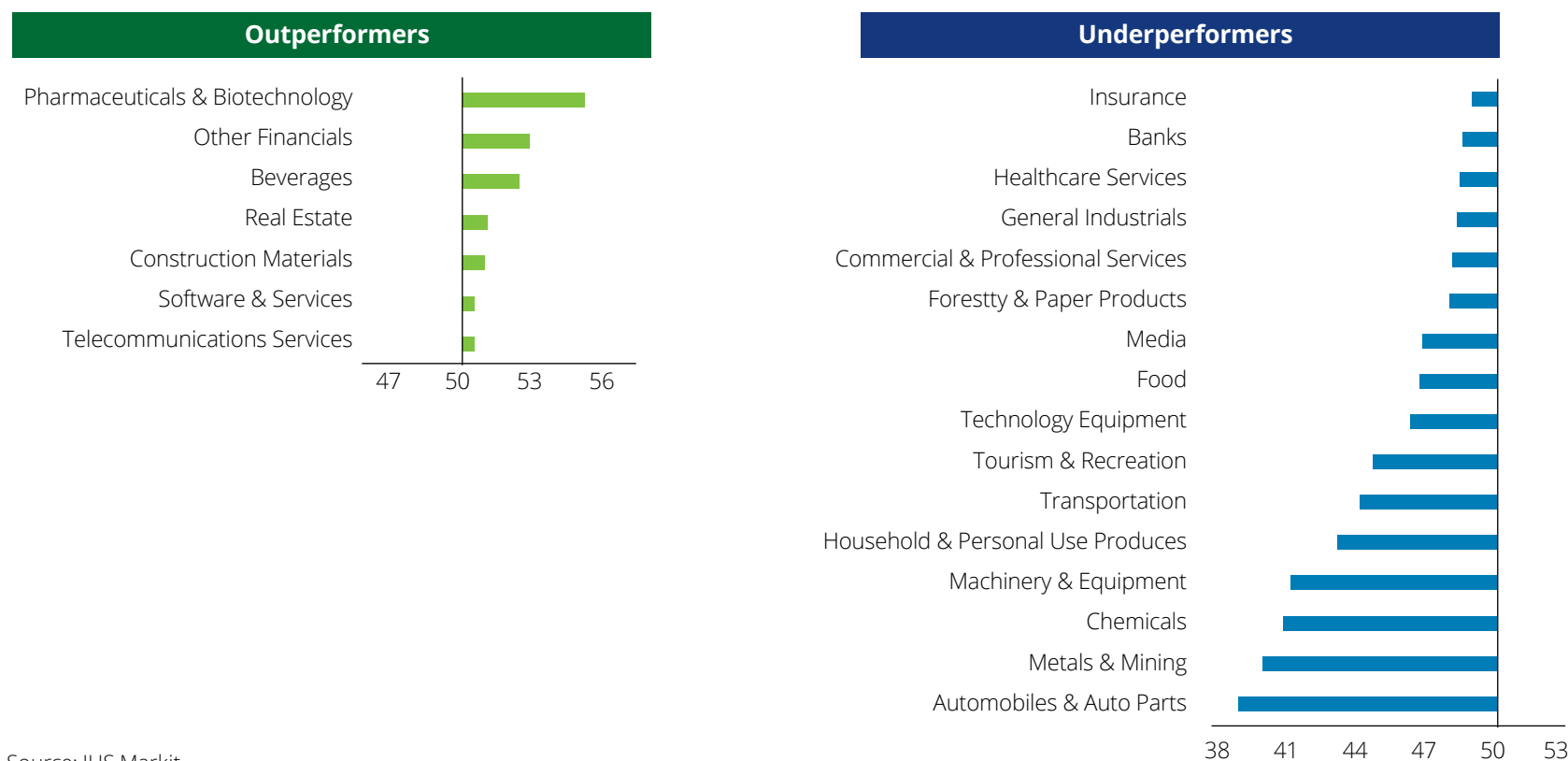


## Outperformers and underperformers

Automobiles & Auto Parts face steepest decline in output, while Pharmaceuticals & Biotechnology outperform

### Global Sector Output Index in February 2020

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



Source: IHS Markit

- Eight out of 23 sectors saw record declines in output. The steepest decline was reported by the Automobiles & Auto Parts sector, which witnessed its steepest drop in production since late 2009. The sector's existing malaise and weak car demand had been exacerbated by the impact of factory closures and supply chain disruptions in China.
- Other sectors seeing record declines in activity include Metals & Mining, Chemicals, Machinery & Equipment, Household & Personal Use Products, Transportation, Tourism & Recreation, Technology Equipment, and Food.

A closer look at five of the  
world's largest economies

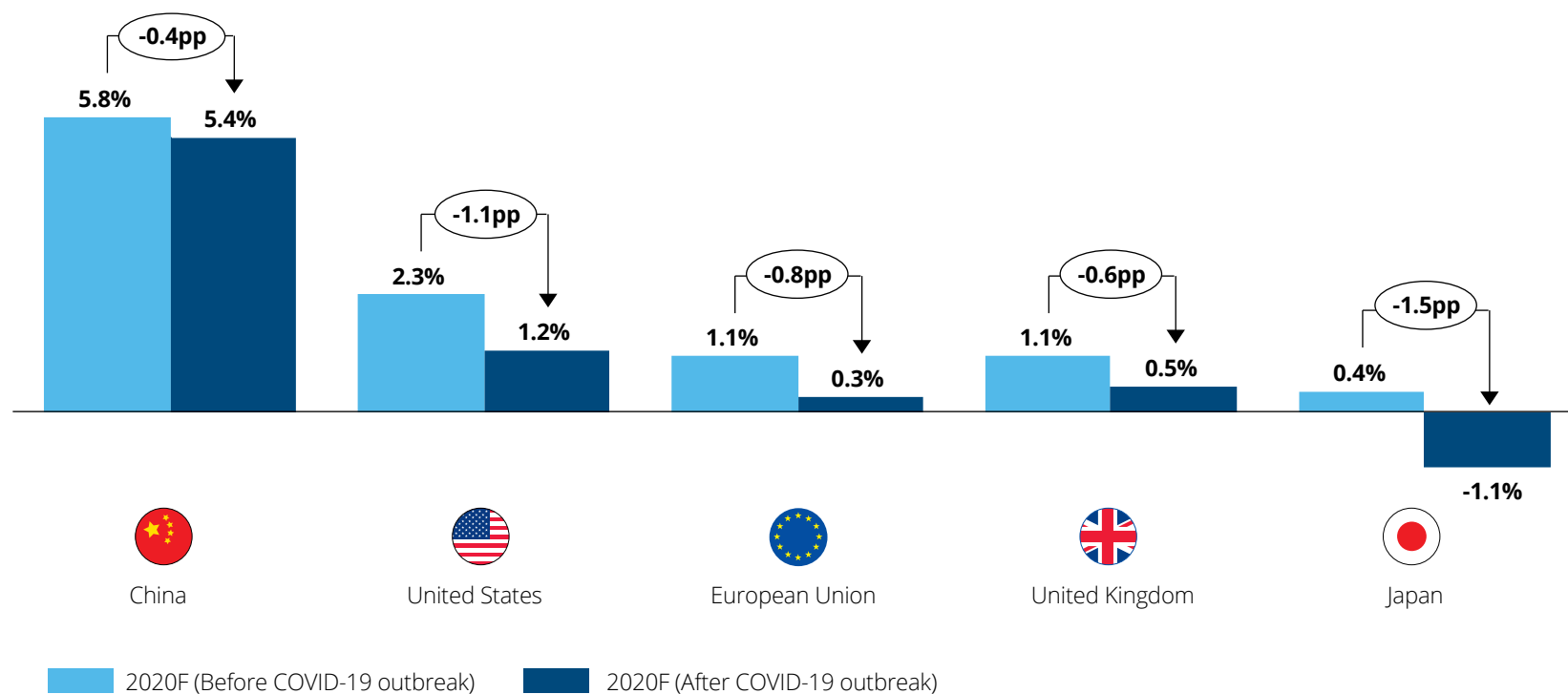




## Drastic fall in GDP growth rates expected

In line with the global economy, economic growth is expected to slow down significantly in five of the world's largest economies: China, United States, European Union, United Kingdom, and Japan

### Projected 2020 GDP growth rates as of March 2020








Source: Siam Commercial Bank Economic Intelligence Centre

Policy response

Central banks have implemented expansionary monetary policies and introduced a slew of other measures to counter the impact of the COVID-19 outbreak

Measures deployed by central banks

	 <b>People’s Bank of China</b>	 <b>Federal Reserve</b>	 <b>European Central Bank</b>	 <b>Bank of England</b>	 <b>Bank of Japan</b>
<b>Interest rate</b>	Interest rate maintained at 4.05%	Interest rate lowered to 0-0.25%	Interest rate maintained at -0.5%	Interest rate lowered to 0.1%	Interest rate maintained at -0.1%
<b>Reserve requirement rate</b>	Lowered reserve requirement rate	Lowered reserve requirement rate	Reserve requirement rate cut to zero	Lowered capital requirements for UK banks	
<b>Quantitative easing and other measures</b>	<ul style="list-style-type: none"><li>One-year loan prime rate (LPR) lowered by 10bps to 4.05%</li></ul>	<ul style="list-style-type: none"><li>USD 700 billion worth of asset purchases</li><li>Slash in rate of emergency lending at the discount window for banks by 125bps to 0.25%</li></ul>	<ul style="list-style-type: none"><li>EUR 750 billion asset purchase program, covering public and private sector securities</li></ul>		<ul style="list-style-type: none"><li>JPY 1.3 trillion government bond purchase</li></ul>

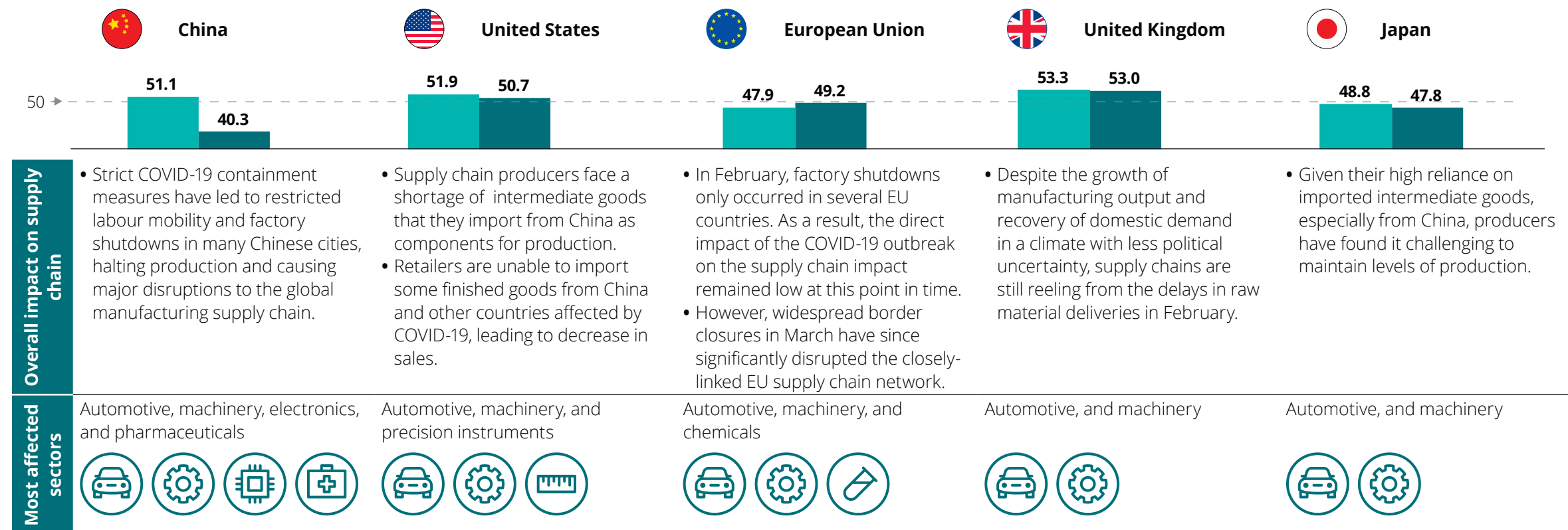
Source: Siam Commercial Bank Economic Intelligence Centre, The Wall Street Journal, CNN

## Supply chain disruption

A domino effect is cascading across the global supply chain as China is a major producer of intermediate goods

### Manufacturing Purchasing Managers' Index in February 2020

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



Source: IHS Markit, Siam Commercial Bank Economic Intelligence Centre, European Commission, UNCTAD

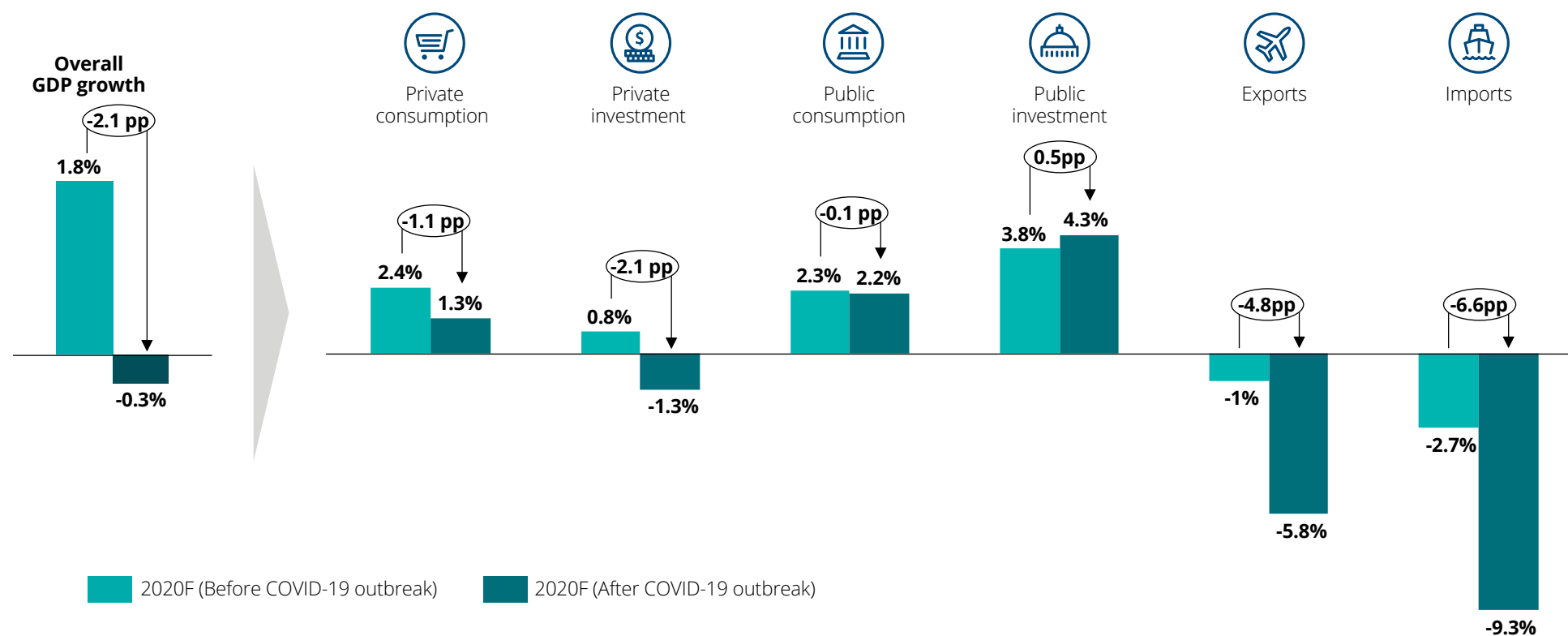
A view from Thailand



## Thailand's GDP growth projections revised downwards to -0.3%

Exports and imports likely to take a major hit as a result of the COVID-19 outbreak

### Projected GDP growth rate in 2020

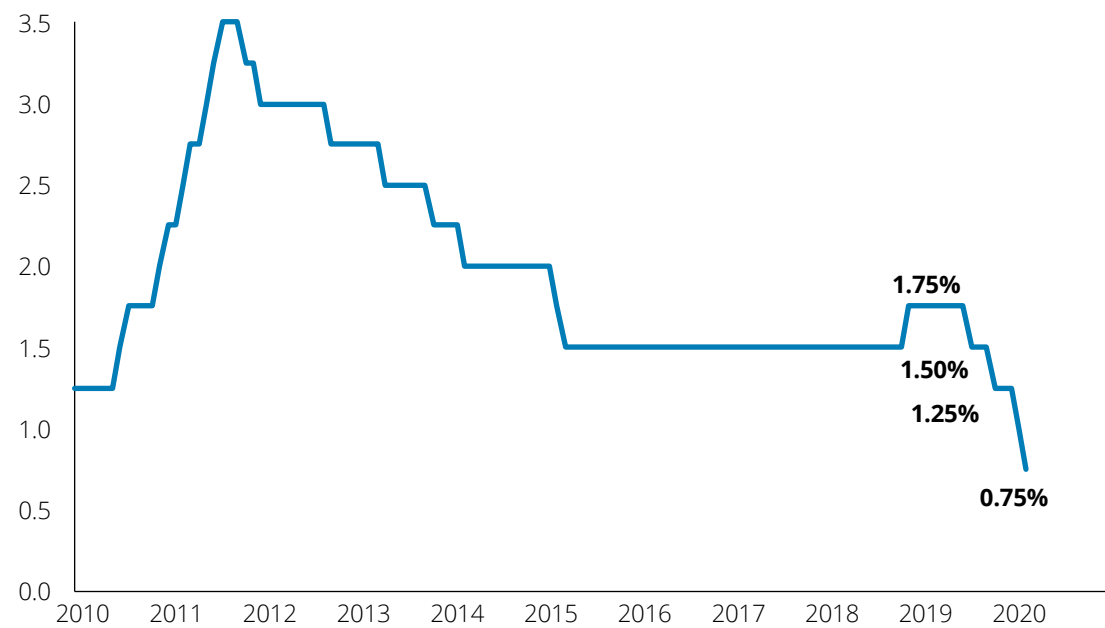


Source: Siam Commercial Bank Economic Intelligence Centre

Thailand's policy response

Interest rate slashed to a historical low of 0.75%

Historical interest rates from 2010 to 2020



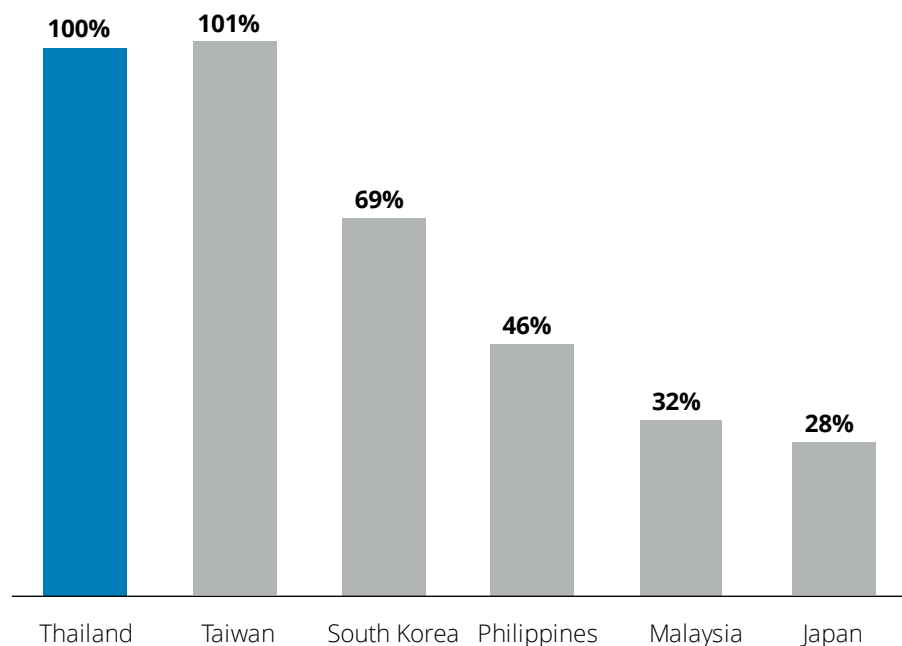
Source: Bank of Thailand, Siam Commercial Bank Economic Intelligence Centre, Nikkei Asian Review

- The Bank of Thailand has slashed its interest rate by 0.25 percentage point to 0.75% effective 23 March.
- The objective was to reduce interest burdens on borrowers affected by the outbreak and alleviate liquidity strain in the financial markets.
- The central bank had already cut its policy rate by a quarter point once this year in February.
- Even after the 2008 global financial crisis, the lowest interest rate level the bank had maintained was 1.25% from April 2009 to July 2010.

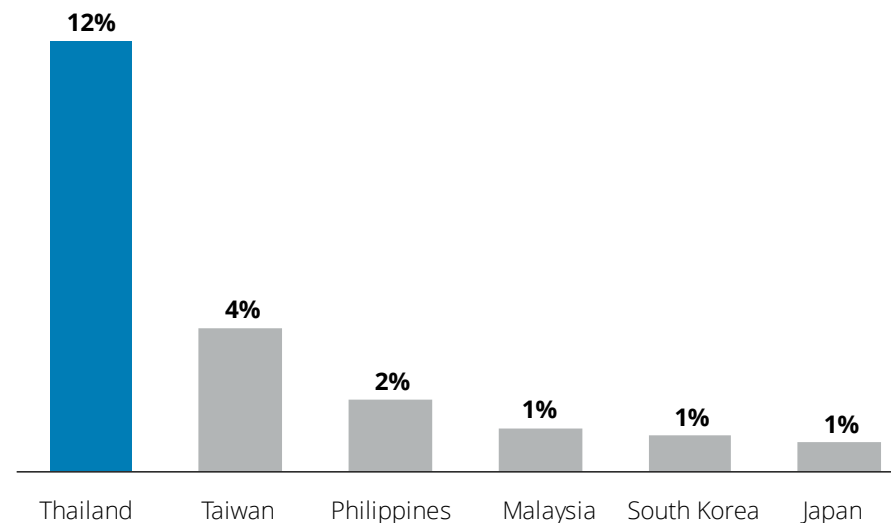
## Thailand's economy is expected to experience an immediate and direct impact from the COVID-19 outbreak

This is due to its relatively higher levels of exports and imports, as well as high reliance on the travel and tourism sectors

### Exports and imports as a percentage of GDP



### Travel and tourism contribution to GDP

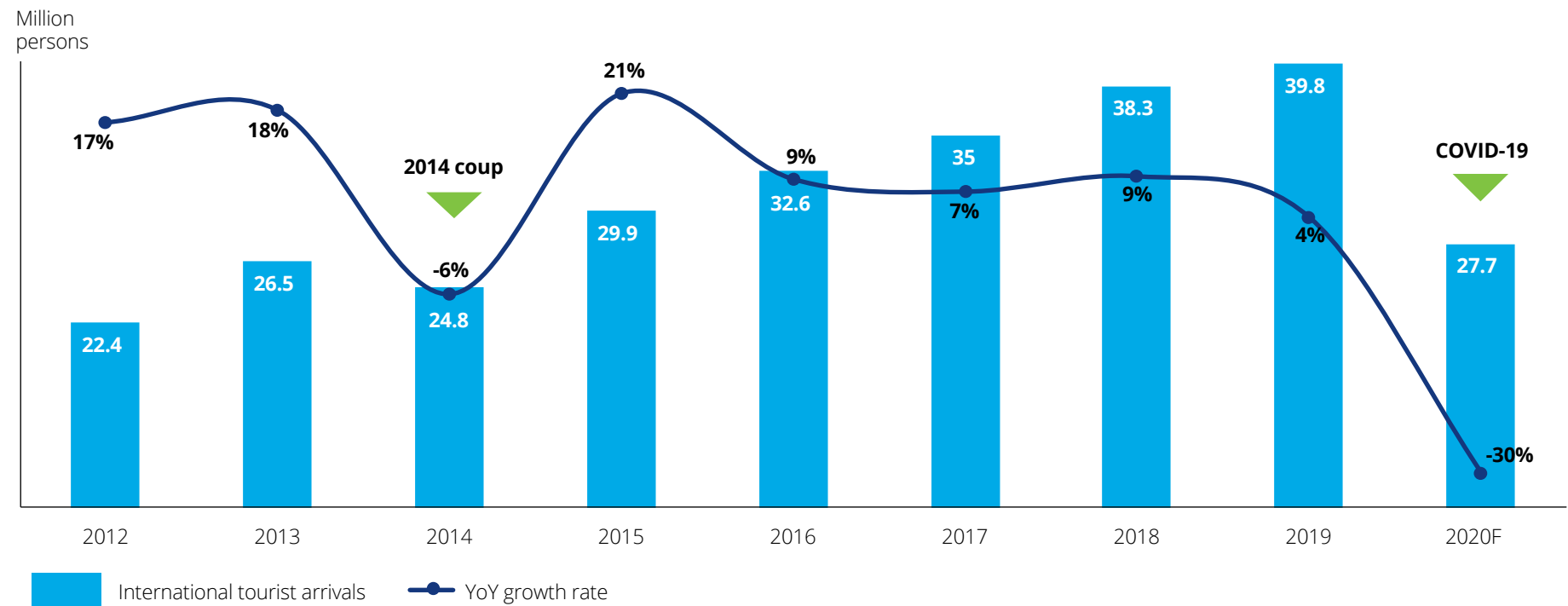


Source: KKP Research

Drastic reduction in international tourist arrivals expected

Travel restrictions and COVID-19 fears are expected to cause a significant dip in Thailand’s international tourist arrivals that will end its five-year growth streak since the 2014 coup

International tourist arrivals



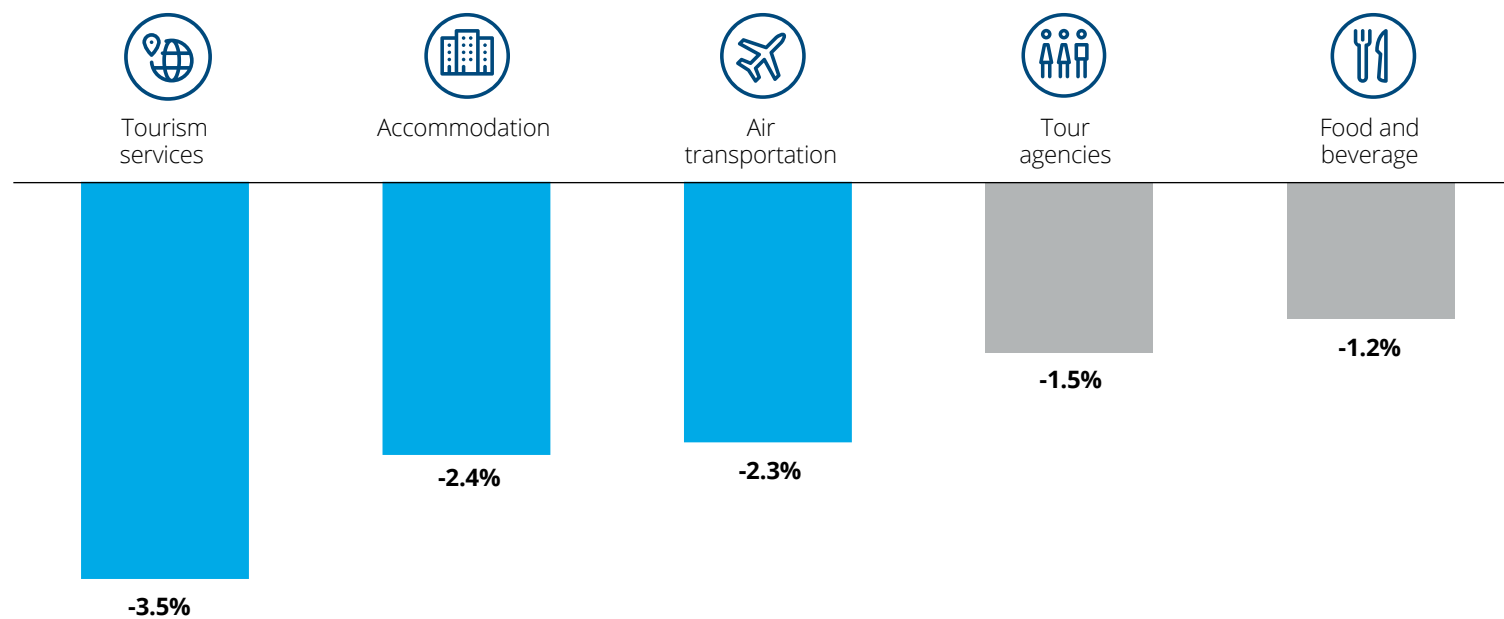
Source: Bank of Thailand, Siam Commercial Bank Economic Intelligence Centre



## Contraction projected for most tourism-related businesses in Thailand

Tourism services, accommodation, and air transportation are amongst the most affected

### Growth rates of selected tourism-related businesses in 2020

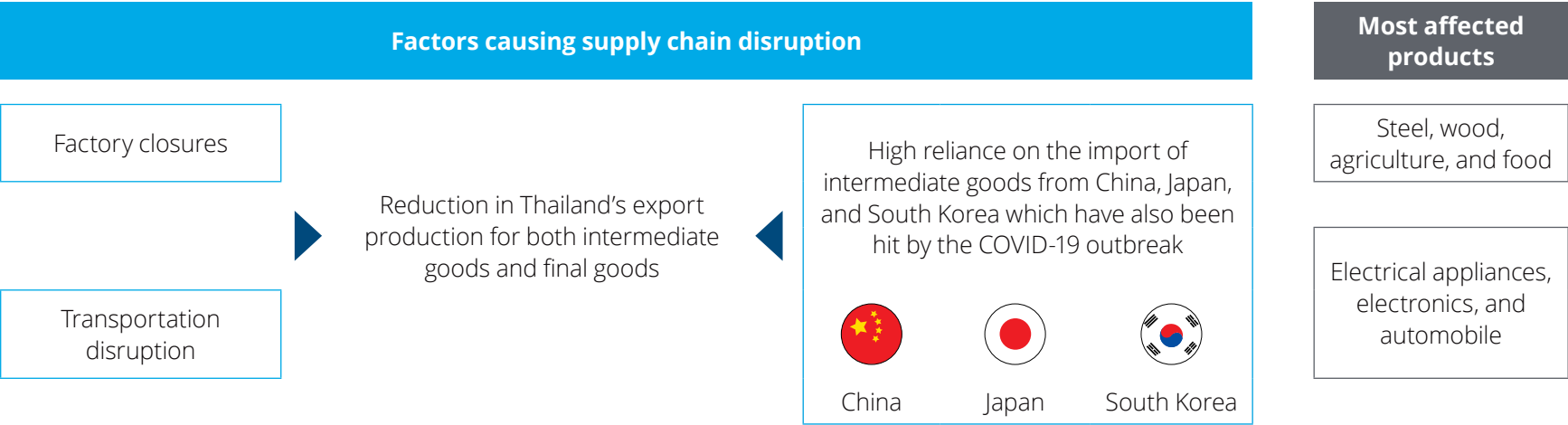


Source: Siam Commercial Bank Economic Intelligence Centre

Thailand is experiencing supply chain disruptions as a result of factory closures and transportation restrictions

This problem is exacerbated by its high reliance on intermediate goods from other markets hit by the COVID-19 outbreak, including China, Japan, and South Korea

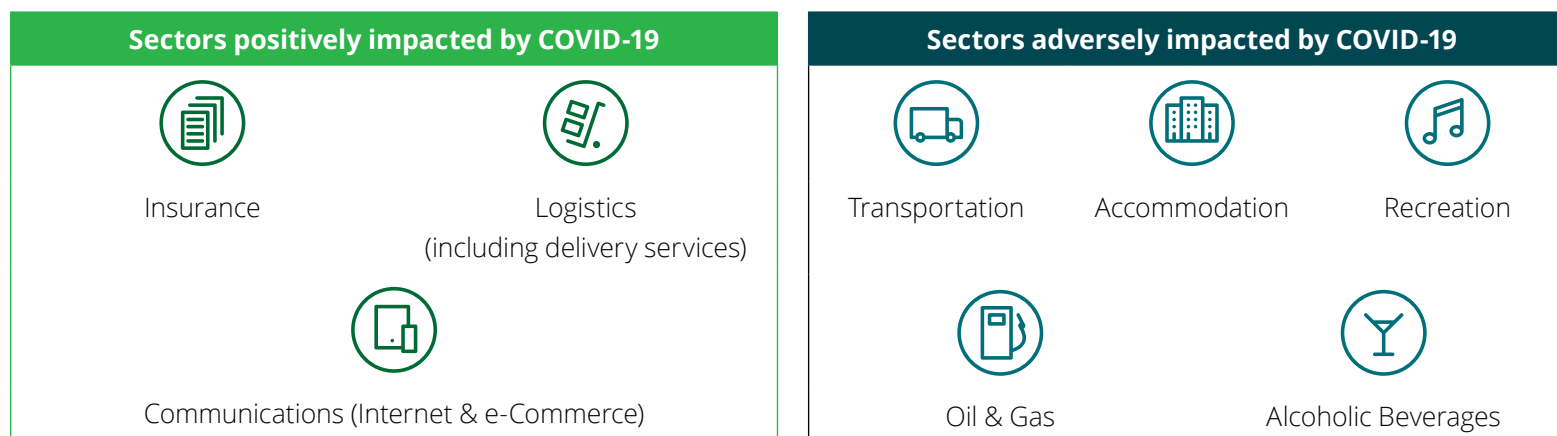
Supply chain disruption in Thailand



Source: Siam Commercial Bank Economic Intelligence Centre

### A silver lining

Despite COVID-19's overall negative impact on economic growth, several sectors such as insurance, logistics, and communications are benefiting from increased growth



Source: Siam Commercial Bank Economic Intelligence Centre

Respond, Recover, Thrive



# Top-of-mind issues

## Addressing six major organisational needs

Deloitte has taken the pulse of CxOs around the world to develop a deeper understanding of the most pressing issues facing organisations today.

### What are we hearing?

- Boards of Director are frequently asking management what they are doing to prepare for a downturn
- Downturn scenarios will be central sensitivities for the next annual budgeting season
- Few senior leadership teams have guided an enterprise through a downturn – 11 years ago they were only running divisions or business units

We have identified six major needs that organisations will need to respond to in these volatile times.



### Set the foundation

Create a resilient and agile organisation that is prepared for volatile times



### Defend and drive revenue

Identify opportunities to improve top line growth



### Reduce and manage costs

Increase margin and operating profit to counteract impacts to revenue



### Optimise assets, liabilities and liquidity

Curate portfolio of assets, strengthen balance sheet, and manage for cash



### Accelerate digital

Use technology and data to enable growth, decrease costs, and become an insights-driven organisation



### Manage expectations

Align and fulfill stakeholder expectations, and proactively address risks created by volatile conditions

# Respond, Recover, Thrive

## Five fundamental qualities at the heart of resilient leadership

In the face of certain challenges and a still uncertain set of risks, business leaders are rightly concerned about how their companies will be affected and what they have to do next. We have pooled the insights of Deloitte leaders in affected areas around the world to provide practical insights for chief executives and their leadership teams in taking appropriate action. Ultimately, we believe that there are five fundamental qualities at the heart of resilient leadership that will enable an organisation to recover from COVID-19 – regardless of the extent of its impacts.



## The heart of resilient leadership

Resilient leaders are then defined by **what they do** along three dimensions



### Prioritise

The seven functional areas most at risk during a crisis



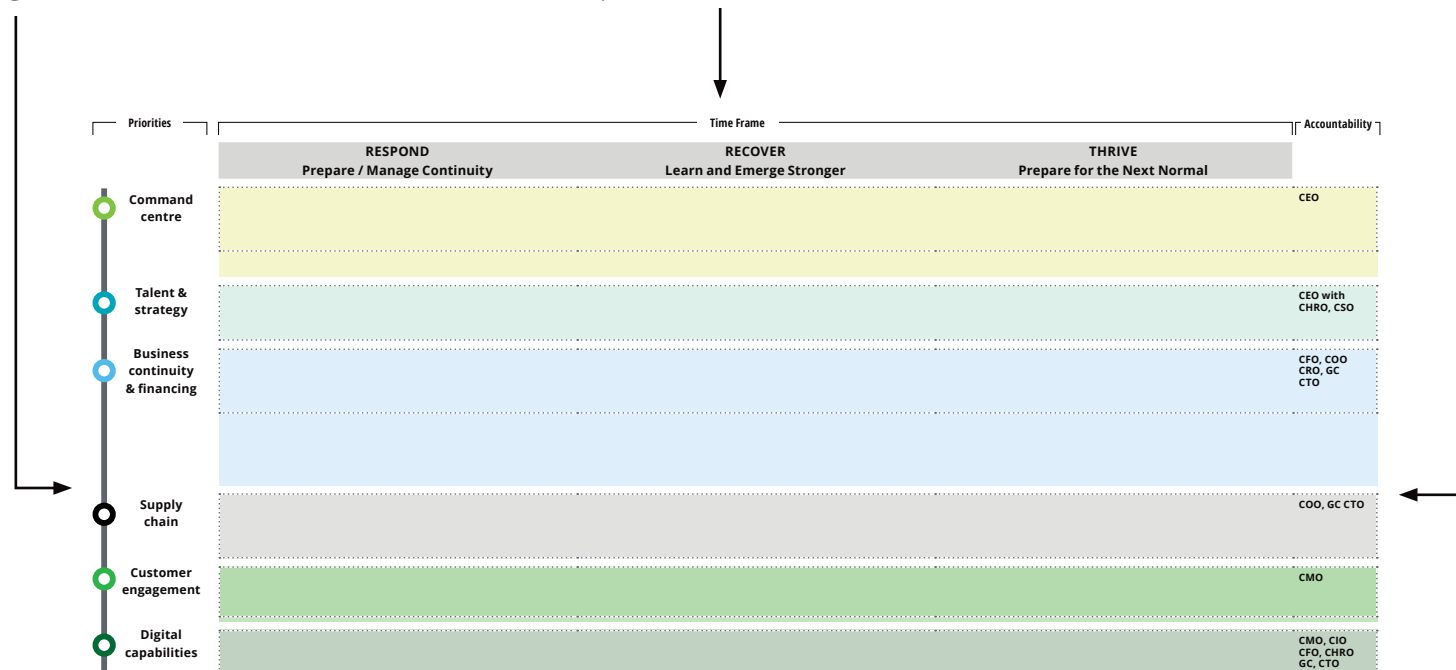
### Time frame

Thoughtfully selecting when to pivot from Respond to Recover to Thrive



### Accountability

Defining who is responsible and accountable in the business



## The heart of resilient leadership

Resilient leaders in a crisis **take specific actions** across these three dimensions

Priorities		Time Frame			Accountability
		RESPOND Prepare / Manage Continuity	RECOVER Learn and Emerge Stronger	THRIVE Prepare for the Next Normal	
Command centre		<ul style="list-style-type: none"> <li>Institute crisis and resilience planning</li> <li>Nominate task force leadership team (and back-up)</li> <li>Activate and empower COVID-19 command centre</li> <li>Itemise organisational vulnerabilities by impact and value</li> <li>Develop and launch communications plan and strategy</li> <li>Activate and communicate pandemic preparedness strategy</li> <li>Scenario plan to determine decisions to make today or defer</li> </ul>	<ul style="list-style-type: none"> <li>Activate recovery contingency plan if required</li> <li>Reflect on lessons learned and rebuild with resilience</li> <li>Formalise and update crisis and resilience playbook</li> <li>Embed relevant command centre protocols into BAU</li> </ul>	<ul style="list-style-type: none"> <li>Institute crisis and resilience planning as BAU</li> <li>Update crisis playbook to reflect COVID-19 lessons learned</li> <li>Organisational design for resilience and flexibility</li> <li>Regularly refresh vulnerabilities assessment</li> </ul>	CEO
Talent & strategy		<ul style="list-style-type: none"> <li>Optimise corporate HR policy – leave, travel, global mobility</li> <li>Review employment contracts for potential issues</li> <li>Implement and monitor safe/flexible working arrangements</li> <li>Prioritise strategic choices and investments</li> </ul>	<ul style="list-style-type: none"> <li>Reimagine talent strategy and operating model</li> <li>Adopt “above-the-bar” regulatory/governance protocols</li> <li>Manage rapid employee return and ramp-up (future state)</li> <li>Execute on strategic growth, partner and M&amp;A ambitions</li> </ul>	<ul style="list-style-type: none"> <li>Rework employment arrangements to reflect next normal</li> <li>Employee education and training in crisis and resilience</li> <li>Consider shape of business models and ecosystems of the future</li> <li>Build scenario thinking/sensing into strategic decision-making</li> </ul>	CEO with CHRO, CSO
Business continuity & financing		<ul style="list-style-type: none"> <li>Ensure actions uphold Responsible Business principles</li> <li>Implement cash conservation and recovery actions</li> <li>Evaluate working capital and liquidity requirements</li> <li>Rapid working capital optimisation and credit solutions</li> <li>Control discretionary operating costs and capex</li> <li>Negotiate more flexible financing terms with lenders</li> <li>Communicate with other key financial stakeholders</li> <li>Understand impacts on contractual obligations (e.g. loss quantification, force majeure)</li> <li>Gather documentation for contract negotiations and claims</li> <li>Implement cash tax strategies/leverage government incentives</li> </ul>	<ul style="list-style-type: none"> <li>Initiate claims and contract dispute resolution</li> <li>Ramp-up to normalised financial reporting</li> <li>Ensure internal audit resources reallocated based on risk</li> <li>Right size and operating model of support function (e.g. fixed vs variable resources; manpower vs technology)</li> <li>Implement equity raising and low-cost debt refinancing</li> <li>Exit of non-core and under-performing assets</li> </ul>	<ul style="list-style-type: none"> <li>Maintain robust financial forecasts and scenario planning</li> <li>Stress test corporate model and capital structure</li> <li>Build resilience into operations and financing</li> </ul>	CFO, COO, CRO, GC, CTO
Supply chain		<ul style="list-style-type: none"> <li>Identify supply chain risks and potential disruptions</li> <li>Develop contingency plans for operational disruption</li> <li>Understand demand and supply side shocks and develop inventory strategies to buffer volatility and risk</li> </ul>	<ul style="list-style-type: none"> <li>Establish multi-tier supplier network visibility to risks</li> <li>Collaborate with customers and suppliers to synchronise operations to priorities within constraints</li> <li>Manage inventory and cash flow through agile execution</li> </ul>	<ul style="list-style-type: none"> <li>Establish control towers to predict, sense and prescribe risk responses</li> <li>Restructure supply chain to improve resilience</li> <li>Implement Industry 4.0 and Digital Supply Network (DSN) solutions to improve end-to-end visibility, synchronisation, optimisation, and agility</li> </ul>	COO, GC, CTO
Customer engagement		<ul style="list-style-type: none"> <li>Engage with key customers to support business continuity</li> <li>Reinforce loyalty by protecting and rewarding customers</li> <li>Secure commercial and financial support from customers</li> <li>Develop communication strategy with front line employees</li> </ul>	<ul style="list-style-type: none"> <li>Review orders vs. commitments and inventory</li> <li>Use advanced technology in customer communications</li> <li>Reset receivables cycle and collections process and KPIs</li> </ul>	<ul style="list-style-type: none"> <li>Establish open communication channels with customers</li> <li>Evaluate capacity/incentives to provide financial support</li> <li>Develop contingency plans for financial disruption</li> <li>Reimagine the operational model to strengthen customer engagement</li> </ul>	CMO
Digital capabilities		<ul style="list-style-type: none"> <li>Assess and address systems and cyber vulnerabilities</li> <li>Enable data-driven insights and situational awareness</li> <li>Develop real-time sensing/red flag reporting dashboard</li> </ul>	<ul style="list-style-type: none"> <li>Update digital properties to synch with availability</li> <li>Design digitally-enabled flexible work arrangement</li> <li>Optimise e-commerce and customer/channel strategy</li> </ul>	<ul style="list-style-type: none"> <li>Implement digitally-enabled future of work including for business processes and back-office functions</li> <li>Reflect on lesson learned and share best practices</li> </ul>	CMO, CIO, CFO, CHRO, GC, CTO



## The heart of resilient leadership

Resilient leaders will need to evaluate actions within the context of **geographic location and sector**

**CASE STUDY:** China took decisive actions to contain the impact of the crisis on their sectors. While the country was clearly impacted in Q1 FY20, there is evidence of recovery.

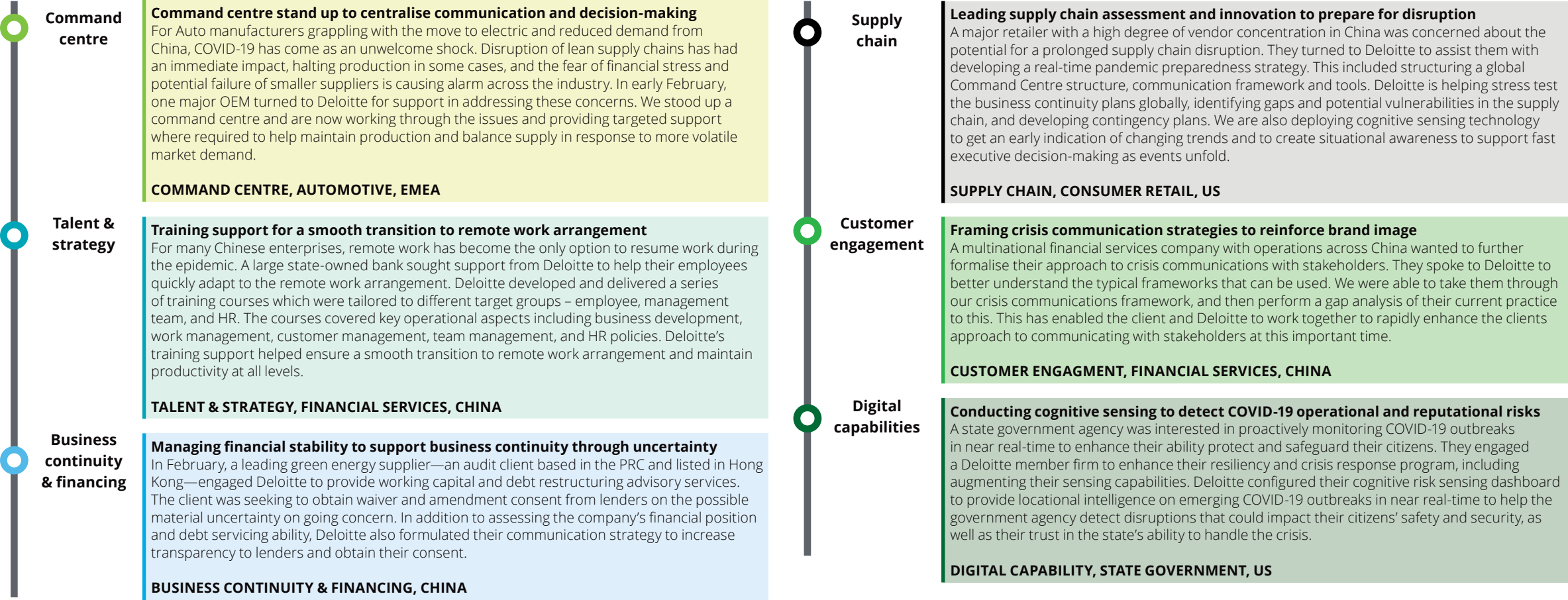
Short term		Impact in Q1 2020					
Recovery scenario		Impact predominantly in H1 2020, recovery through H2 2020 (assuming normalisation in rest of world)					
Priority impact sectors	Scenarios		Influencing factors				
	Short term	Recovery scenario	Reduced/restricted travel	Production suspended	Supply chain interruption	Reduced consumption	Working capital pressure
Automotive	H	M	x	x	x	x	x
Consumer Goods (Clothing & Essentials)	M	M		x	x	x	
Consumer Goods (Luxury Goods)	H	M	x			x	x
Transportation and Hospitality	H	M	x	x	x	x	x
Technology (Hardware)	H	M	x	x	x	x	x
Real Estate	H	N	x	x		x	x
Oil & Gas	H	M	x	x	x	x	
Life Sciences	H	O	x	x	x	x	x
Healthcare	H	M	x	x	x	x	x

H	High impact	N	Neutral or low impact
M	Significant disruption/financial impact	O	High demand/opportunity

## Key learnings from leading companies in the Chinese market...



The heart of resilient leadership  
...while *leveraging the learnings* of those experiencing the same crisis conditions



# Key takeaways

## Five practical guiding principles to help you thrive in these volatile times

1

### Guiding principle 1: Think about multiple futures

Planning is not about getting rid of uncertainties but about understanding and being aware of them. Precisely **define multiple future scenarios**, characterise the threats and the opportunities they represent for your business and quantify their potential impacts. Specific tools could include trend analysis, scenario planning, and stress-testing methodologies.

2

### Guiding principle 2: Be decisive and specific

There is no off-the-shelf plan, you will need a **tailored plan** for your company's specific business model and current context. Downturns strengthen the competitive edge of the prepared players and deepen troubles for unprepared. Having a plan will help you differentiate from the competition, and thus come out of the downturn stronger. Strategies could include optimising portfolios (fix, sell, or close), accelerating inorganic growth, revisiting risk management strategies, and re-examining tax strategies.

3

### Guiding principle 3: Get a clear view on the end goal and the journey

Now that you have a clear plan, it's time to **establish your path**. From business model assessment – cost competitiveness, what should be changed and what should be preserved – to your envisioned goal. Specific areas to consider could include operating model re-configurations, SG&A cost reduction, delivery services optimisation (shared services), automation opportunities assessment, and vendor or contract reviews.

4

### Guiding principle 4: Act as soon as possible

Make your organisation directionally right – quickly – rather than precisely right but too late. While the specifics are important, they should not be a roadblock to management **working efficiently** to make decisions about how to thrive in a downturn.

5

### Guiding principle 5: Remain curious and flexible

The next downturn will likely be different and bring about **new kinds of disruption**. While it is critical to have a clearly defined strategy, it is also vital to be able to adapt it quickly. Bringing flexibility to your organisation and processes, and curiosity to your work culture should be fundamental pillars of your battle plan.

Indeed, a potential downturn could create the burning platform often needed to jumpstart digital transformation as companies seek to decrease costs, improve organisational agility, and attract/retain customers. Businesses should also think critically about how they can become truly insights-driven organisations to enable them to more effectively identify and pursue growth opportunities, improve margins, and manage volatility.



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