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Please kindly help us to complete the following survey to let us know your opinions which will be very useful in improving our Economic Outlook Reports to you. The survey can be both accessed via link and QR code below. We thank you in advance for your time and kind opinions. https://az1.qualtrics.com/jfe/preview/SV\_5bzw4pAN106yJg1?Q\_CHL=preview or





Dear our valued clients,

We are pleased to release the Economic Outlook Report 2019 to you. It is a part of our constant endeavors to provide valuable insights to our clients. This report is compiled with high-level update and summary of the market conditions and impactful economic highlights. Thereby, we hope this report will bring you a greater understanding of the business environment and additionally provide support with your decision-making processes and strategic development for your business.

Global economic growth continues to slow down due to the uncertainties and risks in global situations in particular US and China trade tensions. This has impacted the global trade and investment and significantly dampens medium-term prospects for growth.

In 2019, the global economic growth is estimated at 3.3%, down from 3.6% in 2018. For Asia, the economic growth forecast has been adjusted to 5.1% due to the downward revision from Cambodia, Myanmar Vietnam and Singapore despite the upward revision of growth for Brunei, Lao, and Philippines.

For Thailand, GDP is expected to grow at 3.1% in 2019 which is lower than 2018, is driven primarily by a drop in export volumes owing to the trade war situation and global economic slowdown. Domestic demand decelerates due to slower-than-expected private investment, resulted from plummeting export and a slowdown in residential sector.

On behalf of Deloitte Thailand, we very much look forward to supporting you in the dynamic and changing business environment. If you have any questions or inputs, please do not hesitate to contact us at Deloitte. On the next page, we would appreciate if you could kindly take your time to complete our electronic survey on your overall satisfaction in our Economic Outlook Report and your views towards Thailand' economy in 2019 which will be helpful for us to keep improving continuously.

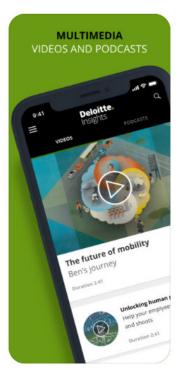
Best Regards,

**Subhasakdi Krishnamra** Country Managing Partner

# **Deloitte.** Insights









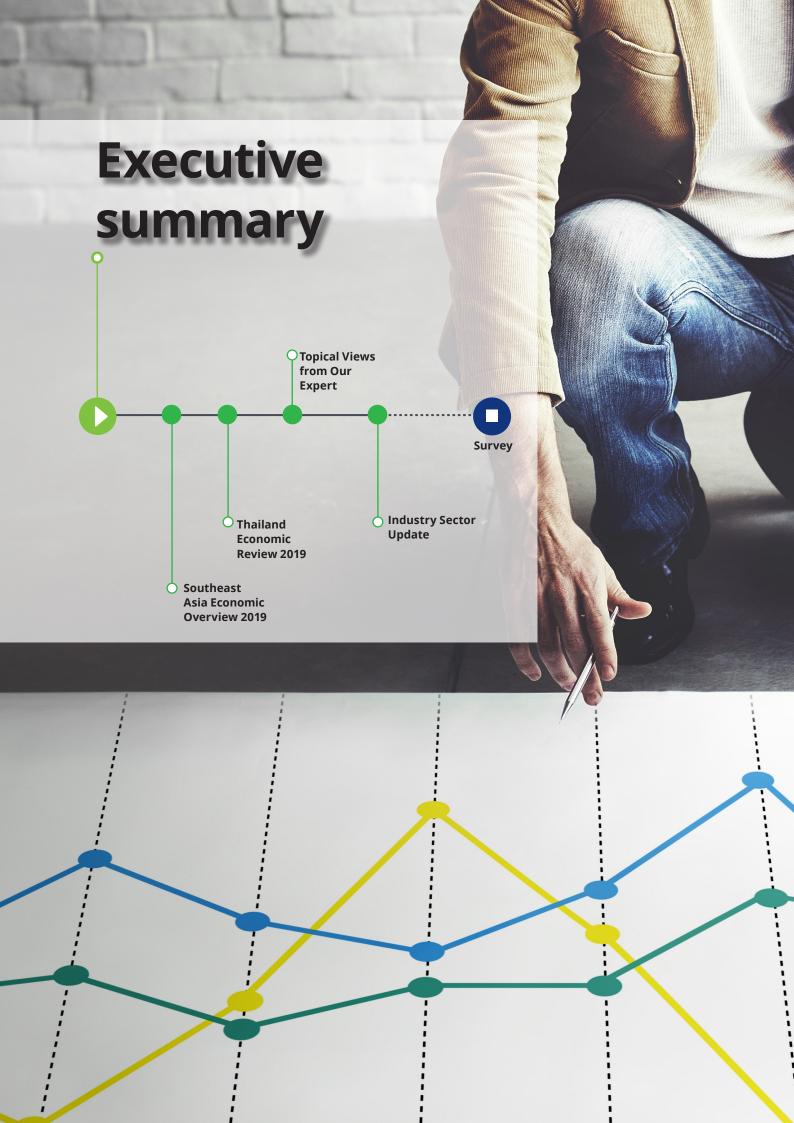
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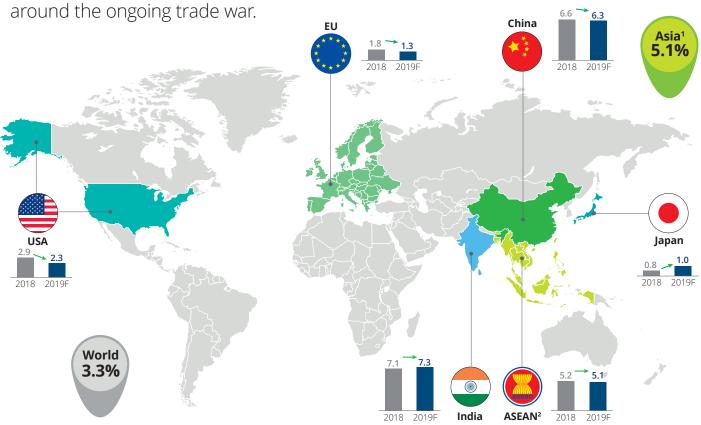
www.deloitte.com/insights







In 2019, the global economy is heading toward a decelerating trend with the IMF's April forecast suggesting a slip to 3.3% growth from a 20-year average of 3.8% pa by 2018, particularly in the manufacturing and exports sectors due to great uncertainty



Source: IMF WEO April 2019 and Dataconsult

Note:

#### Key takeaway and Watch list in 2019

#### **Watch list Key takeaway** The US dollar is projected to weaken due to A decision of US president to impose tariffs on automotive the Fed's easing of monetary policy products under section 232 The Trade war's impact on inflation remains A decision to impose tariffs on remaining Chinese imports limited under Section 301 EUR could appreciate against the US dollar as Impact on trade and investment from Brexit uncertainty the Fed sent a signal to ease monetary policy. Manufacturing output in the Eurozone Trade negotiations between EU and US to avoid auto tariffs weakened in line with the global trade slowdown Uncertain global economic conditions result in yen appreciation Curbs on exports of high-tech materials to South Korea, effective from July 9, may waver trade ties between Ipoh Global slowdown is behind the fall in Japanese countries exports

China



PBOC may interview if the Yuen weakens below CNY 7 per USD



Effectiveness of economic stimulus package in second half of 2019



Entrepreneurs are increasingly concerned over the domestic situation and the new round of the trade war

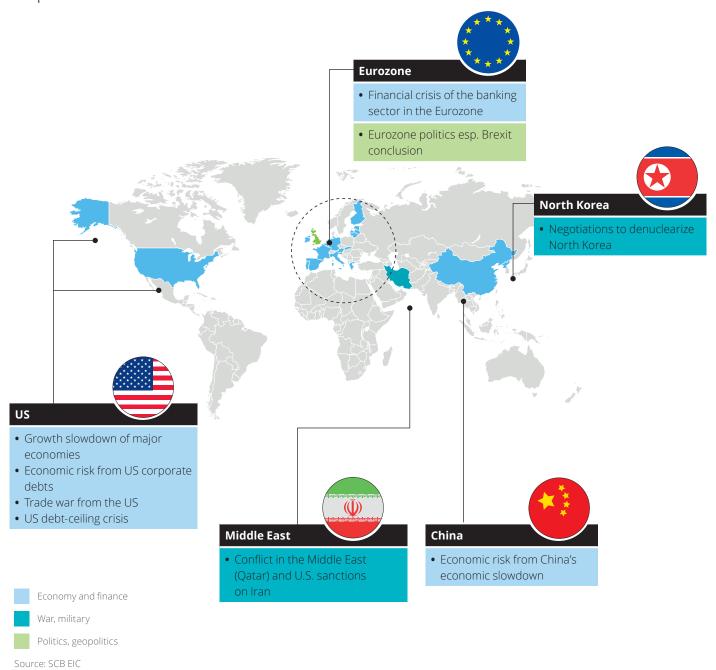


Risk of US imposing import tariffs on remaining Chinese goods worth USD 300 billion

<sup>1</sup> Asia refers to Asia and pacific

<sup>2</sup> ASEAN refers to The ASEAN 5: Indonesia, Thailand, Malaysia, Philippines and Singapore

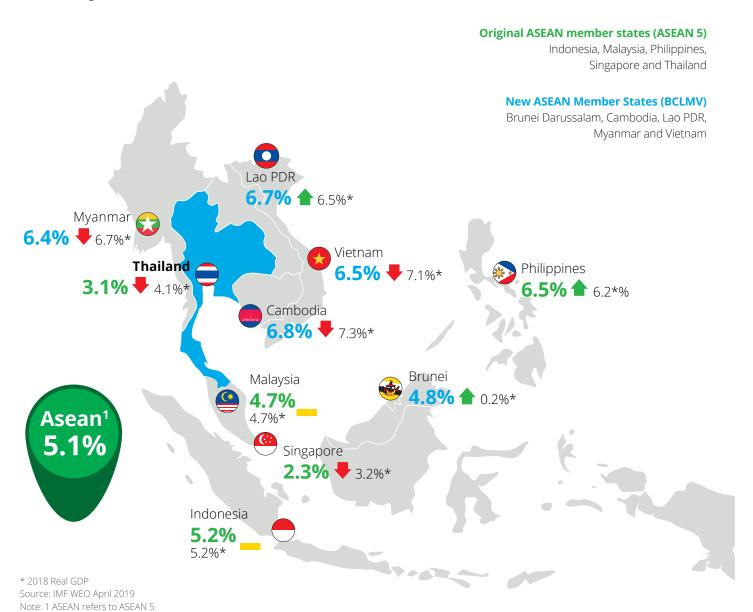
Trade war from the US, Growth slowdown of major economies and Eurozone politics are 3 major risks of the world's economy with high probability and high impact within 2019



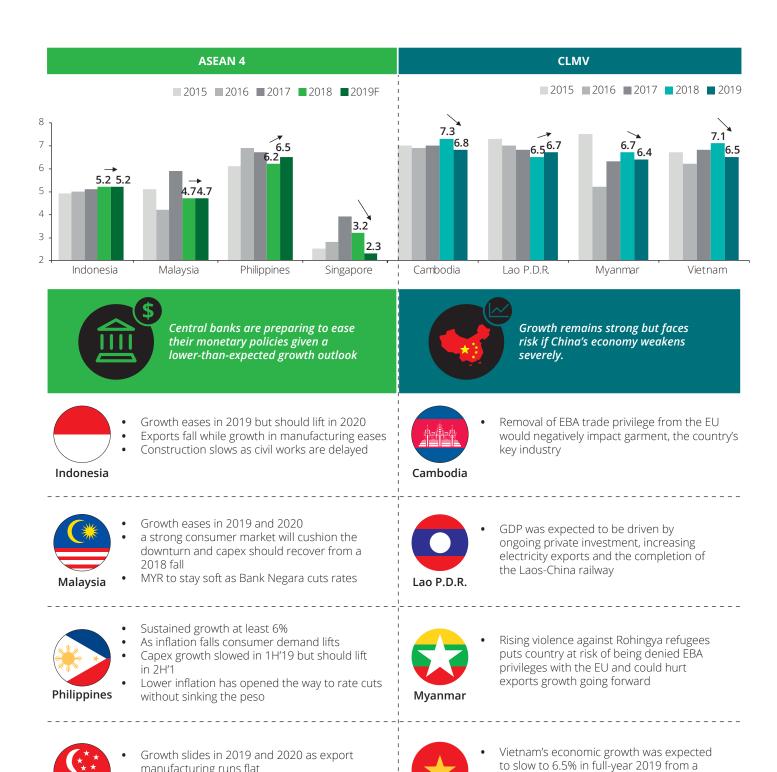


## The region remains resilient amid global uncertainties

#### **ASEAN GDP growth in 2019 (Forecast)**



### Key takeaway



10-year high of 7.1% in 2018, reflecting

weak external conditions.

Vietnam

Source: Dataconsult and IMF

Singapore

**SGD** 

manufacturing runs flat

Watch for construction growth to cool

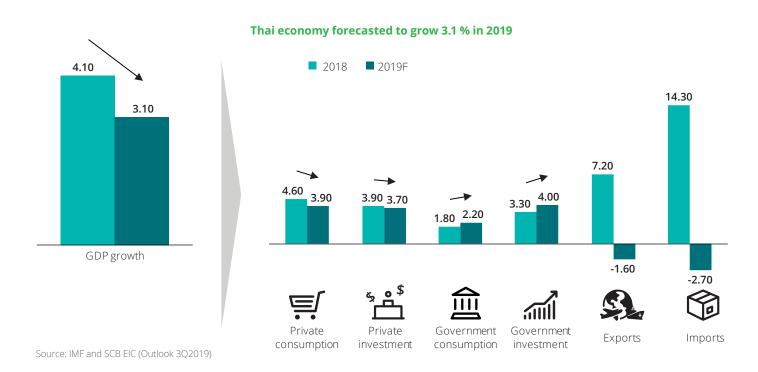
Moving towards deflation and a slightly weak





### Thailand

Thailand growth momentum is slowdown due to the trade war situation and global economic slowdown, which have negatively affected Thai exports. What's more, the impact of falling exports spread to domestic demand.







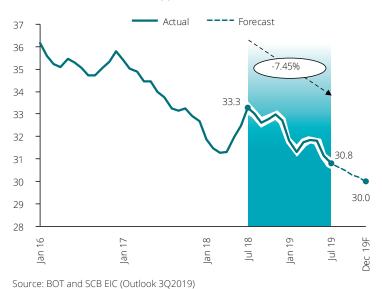
#### **Risk Factors**

- US-China trade war that can be further escalated
- Slower-than-expected global economic growth
- Impact of LTV measure on real estate market
- Impact of Thai baht appreciation on exports and tourism sectors
- Risk of the new government's stability and ability to implement policiesPublin

The baht should further appreciate from the Fed's increasingly dovish stance, and from its characteristics as E M safe haven during the trade war

#### Exchange rate (THB/USD)

#### THB forecasted to further appreciate



#### The key factors influencing the value of the Thai baht

- 1. The US dollar has the potential to depreciate from earlier quarters due to a decelerating US economy and the Fed being more dovish than the other central banks
- 2. The demand for Thai baht is high, as Thailand has a large current account surplus
- 3. The other regional central banks have decreased their policy rates, pressuring the Thai baht to relatively strengthen

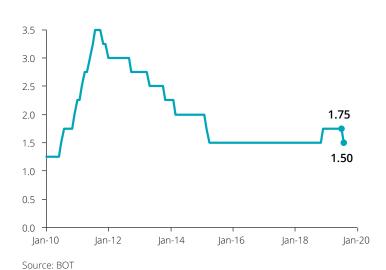
#### **Implication**





BOT cuts policy rate from 1.75% to 1.50% on Aug 2019 which should support faltering growth and weaken the strong baht.

#### Policy rate (%)



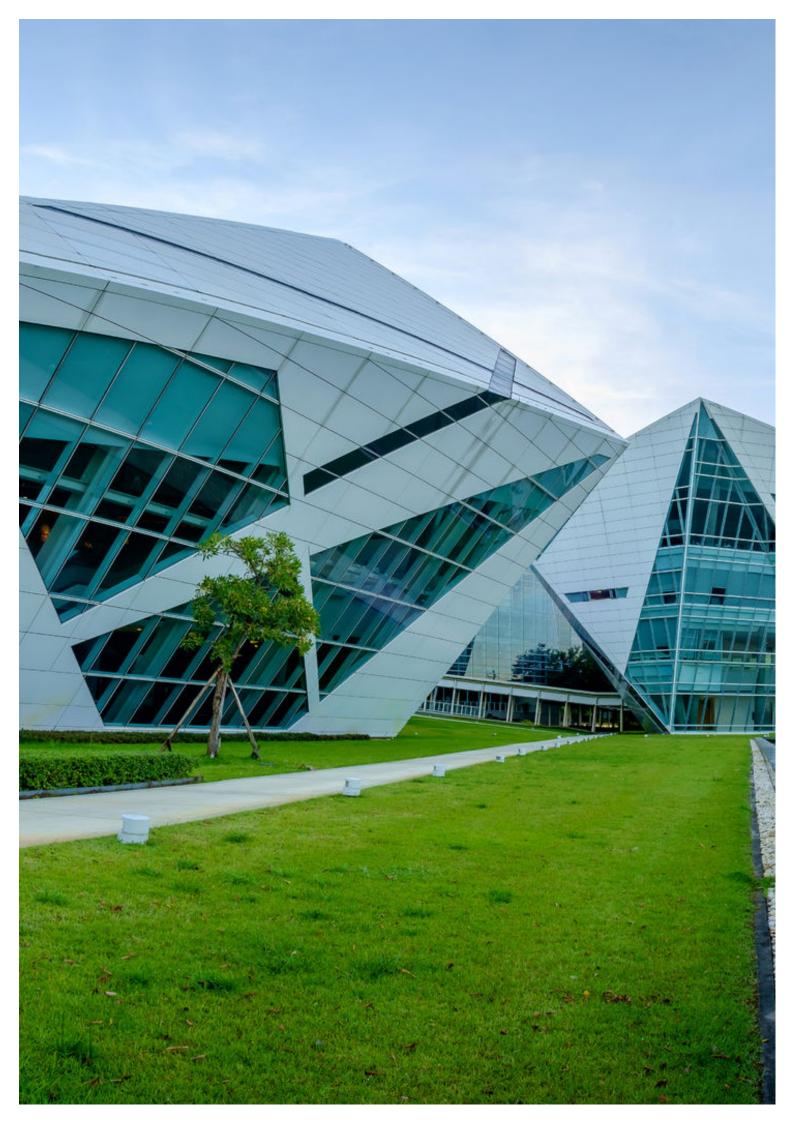
**Reasons** 

- A contraction in merchandise exports, which started to affect domestic demand
- Inflation was projected to be lower than the lower bound of the inflation target
- Domestic demand was slowdown

#### **Expected results**



- · The continuation of economic growth
- The rise of headline inflation toward target





# Topical Views from our expert

Overview 2019

Thailand Economic Review 2019

Southeast Asia Economic Overview 2019



Industry Sector Update

### Digital Vanguard - Deloitte Survey



**Viney Hora**Partner, Consulting Services

Digital and emerging technologies, changing market conditions, and regulatory pressures are common external forces that drive business transformation. Internally, new leadership and growth or consolidation strategies often spark transformation. Regardless of those driving forces, the same challenges typically apply: how to align your organization design, talent, leadership and culture with your business strategy, to drive and materialize the transformation vision, as well as to sustain it over

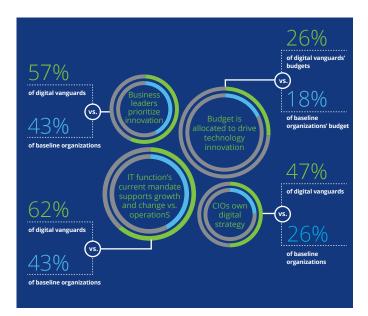
In Deloitte's 2018 global CIO survey, only 10 percent of companies emerged as 'Digital Vanguards' - companies that have a digital vision and strategy and whose IT function is perceived by the business as a market leader in digital and emerging technologies.

When analyzed, there are 3 perspectives that set these digital vanguards apart; Business-IT alignment, Talent Management and Technology strategy.

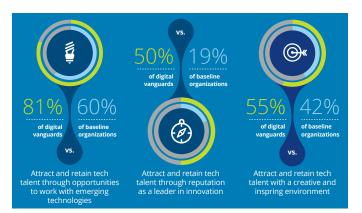
1. Business-IT Alignment - growth mindset drives innovation investments. Digital vanguards mandate a technology-driven emphasis on strategic business growth and prioritize tech-driven innovation. Without warning, powerful technology forces give rise to ripe opportunities while simultaneously rendering existing business models obsolete. Just as quickly, customers tailor their expectations to include new channels, products, and modes of engagement. Companies that don't anticipate and embrace this change may find themselves sinking slowly in its wake. Business and IT work together and well-aligned to achieve maximum business result while CIO own and drive digital strategy with adequate budget allocated for driving technology innovation.

The alignment between business and IT is one of the most important aspects of IT governance. It's generally enables firms to adhere to business objectives, and to maximize the value from investments. The changing role of IT within the enterprise—have remained constant, year after year driving disruption and transformation. No one still thinks of IT as a back-office support department—now everyone looks to IT as an integral part of overall strategy. But where should CIOs begin?

First, the business need to think beyond their own experiences and domain expertise and begin viewing IT through a wider operational and strategic lens. As organizations modernize their IT operating and delivery models, some are creating multifunctional teams and breaking down silos across IT. Second, they are also looking beyond organizational boundaries to explore the open talent market and to form new types of relationships with vendors, incubators, and academics. Finally, with technology dominating strategic business priorities, some companies



are educating executives and staff to increase awareness and understanding of both core and emerging technologies. For many, embracing this multifaceted approach may require major adjustments to organization models. The good news is that irrespective of an organization's legacy footprint, there are systematic approaches that can make the task more manageable. And the outcome may justify the effort: Services become "unbounded" and more efficient, transforming the IT organization.

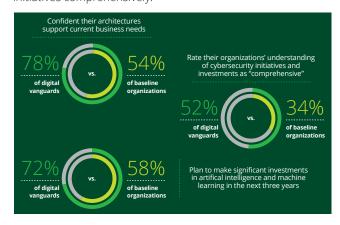


2. Talent Management - dynamic culture attracts top talent. Digital vanguards intentionally foster cultures that allow them to hire and retain top technology talent. Digital vanguards attract and retain tech talent with their reputation as a leader in innovation, opportunities to work with emerging technologies in a creative and inspiring environment.

Talent management remains a top business and HR issue as organizations capability and leadership challenges worldwide. Technology, globalization, and growing government regulation are reshaping the way people work, learn, collaborate, and lead. New, innovative HR programs are becoming essential to attract and keep critical talent in an increasingly demand-driven talent market. Given the complexity of this environment, many organizations are finding it difficult to navigate the path forward.

Where can we direct our efforts in order to make a meaningful impact? The first concern is with the future of the workforce: how organizations should adapts to the forces restructuring job and work design, the open talent economy, and leadership. Second is with the future of the organization: how teams, networks, and new approaches to rewards are driving business performance. And the third is with the future of HR: how the function is stepping up to the challenge of redesigning its capabilities, technologies, and focus to lead transformation in HR and across the enterprise. [Detail in 2019 Deloitte Global Human Capital Trends]

3. Technology strategy - well balances in core and emerging technology strategy & investments. Digital vanguards effectively manage both current and future business needs by balancing investments in foundational technologies with those in emerging technologies. While making sure that their IT architectures and infrastructures well support current business needs, it also invest significantly in new technologies, such as artificial intelligence (AI) and machine learning as well as putting in place a cybersecurity initiatives comprehensively.



The technology Strategy should aligned with the business direction, and leverages the advances in technology innovation. In a world of accelerating change and technology innovation, constantly developing and executing technology strategies that drive exceptional business value could help organization maximize the ROI on technology investments. To better and faster IT initiative implementation, companies might look beyond/think out of box, inorganic approach by considering acquiring instead of building thing from scratch. By combining the three element of good alignment between IT and Business, Talent management, and Technology strategy, the organization can be distinguished apart from other and become Digital Vanguards. Which, this will help creates an innovated and fast growing enterprise that easily adopt technology and utilize resources to its best potential.

\* This article is based on Deloitte 2018 global CIO survey: Manifesting legacy, which is a survey responses from 1,437 participants from 23 industries in 71 industries. To find out more, visit Deloitte Insight website.

# Navigate through the global and local boardroom agenda



**Phansak Sethsathira** Partner, Risk Advisory

#### Top of mind topics for board members

Regardless of their size, industry and other characteristics, companies frequently face a constant stream of challenges, old and new. Every challenges demand attention or action. Investors, regulators and other constituencies--and directors themselves--expect boards to rise to, and address these challenges. Board members are expected to address the complex challenges businesses are facing in the current environment while fulfilling their fiduciary duties. Moving forward for Thailand, this article demonstrates what could be on the board's agenda in 2019 onwards by identifying key common and different agenda from the US, UK, and Australia.

Recent publications on the board's agenda from Deloitte's Center for Board Effectiveness (US), The Deloitte Academy (UK), and the Australian Institute of Company Directors (AICD) share both similarities and differences in their view on what could be in the board's agenda. The two publications from Deloitte US and UK share considerable amounts in common in terms of a broader picture of what trends and challenges board may face such as social purpose issues, board diversity, regulatory development, risk and viabilities, and compensation. While AICD focuses solely on the future of boardroom composition, it strongly portrait the trend towards the future face of the boards and it's alignment with organization strategy and Environmental, Social and Governance (ESG) performance for the next decade.

By considering all aspects shared by the three countries, we believe that in moving forward for Thailand's board agenda, there are five major agendas/issues to be reckoned for the coming years;

#### Responsible business: Boards must be careful to go beyond intent and describe the true experience of stakeholders

The interest in corporate social purpose has been around for quite some time in both UK and US from climate change to sustainability. Not only that investors are more focus on their belief over corporate' role in society beyond monetary returns to investor but also from the employee's perspective, corporates have been experiencing employee activism causing work stoppages and protest. Additionally, companies increasingly recognize to embrace social purpose issues in order to provide a stronger value proposition in terms of differentiation, access to capital, and sustainability.

That might be the reason why several groups in the US are developing standards to evaluate sustainability performance by corporations while the UK Governance Code 2018 reflects the increased expectations of companies to clarify their intended relationship with the wider world and make a positive impact through their core business.

This year, we explore the developing pressures on companies from the PRA, FCA¹ and investors to move toward incorporating the voluntary recommendation of the Task Force on Climate-related Financial Disclosure (TCFD) in the

annual report. Some example of the recommendations include organization's governance around climate-related risks and opportunities; actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning; how the organization identifies, assesses, and manages climate-related risks; and the metrics and targets used to assess and manage relevant climate-related risks and opportunities.

By being responsible business in today's world, board can no longer deliberate only their impact to society, but being equally important, board must also incorporate other consequences from wider stakeholder considerations including their corporate culture in order to avoid culture risk borne by negative culture on the bottom line or in another words, employees. On the upper hand, positive culture can create positive impact on your company by being the company that others want to do business with. This task could be difficult because at board level, you are normally unaware of the corporate culture as you are not always present in company offices. However, tools such as employee engagement surveys could help boards to assess and oversee corporate culture to make sure that the potential risk and threat are minimized.

<sup>1</sup> **The Prudential Regulation Authority (PRA)** is a United Kingdom financial services regulatory body, responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms. It sets standards and supervises financial institutions at the level of the individual firm.

**Financial Conduct Authority (FCA)** is a financial regulatory body in the United Kingdom, but operates independently of the UK Government, and is financed by charging fees to members of the financial services industry. The FCA regulates financial firms providing services to consumers and maintains the integrity of the financial markets in the United Kingdom.

### 2. Board compositions: Boards will need to try harder to gain action required to deliver significant movement on board diversity

Board composition has always been on the boardroom agenda for decades. The importance of it has been increasing over the past few years as witnesses from numerous government initiatives around board diversity. As time passes, the board composition has become even broader and more complex with not just combination of skills set but also include other aspect of diversity such as gender, age, ethnicity, race, educational background, and professional backgrounds.

The prediction of AICD suggested more in that the future of the board composition will be younger as baby boomers generation will start to leave the workforce, paving its way toward younger generation to renew the board. This also align with Thailand context as we are now moving toward "Aging Society"; there will be more investors on boards as investors seek greater say in companies they own; and interestingly, as "Disruptive Technology" has been in the global trend for more than decade, the concept of robo directors might not be so far-fetched after all. When talking about 'robo' director, we do not expect to see robot directors to replace human directors. It is more likely that the software algorithms will be used as an input to help boards to understand their organizations they governed better so that they can make the right decision that best fit their organization, such as modelling executive pay outcomes. However, if the execution of these algorithms are in place, it might encourage firms to reduce their board sizes as the technology can do the routine tasks of many directors.

Even though there has been strong pressure on the board development on diversity, companies have failed to deliver significant movement as the challenge for companies aiming to increase diversity is self-reporting - the need to ask employees to inform the company about their protected characteristics in order to analyze diversity, improve policies and publish information. However, there are several good practice actions that can be implemented by companies and help towards reducing self-reporting barriers. These include internal communications campaigns to highlight to staff how data collected will be used to support equality, collecting data at regular intervals and on a rolling basis, publishing equality reports that show workforce breakdowns of employees by protected characteristics; monitoring recruitment bias; and establishing working groups or action plans to address ethnicity and disability pay gaps.

### 3. Compensation: Board must justify their approach in companies rewarding system as theirs pay ratio is being spotted

Compensation has been another one of the top and perhaps longest-standing issues on boardroom agendas and it shows increasing attention from investors. The area of focus in the coming year for UK is widening the remit of the remuneration committee. The new UK Corporate Governance Code will expand the remit of the remuneration committee, with a view to ensuring that executive pay decisions are made through a broader lens, and outcomes are clearly explained to wider stakeholders.

In the US, ongoing challenges still in debate includes CEO pay ratio disclosure and director compensation. Since the start of US companies' requirement to disclose CEO pay ratio in 2018, board can definitely anticipate questions rising from investors in terms of a ratio breakdown. Director pay has recently become a hot issue due to large payouts resulting from rising stock prices. As a result, many boards have been examining their pay packages and considering caps on pay to minimize concerns. In addition, as social issues and corporate culture are in the spotlight, investors are paying more and more attention to gender and ethnicity pay gaps and severance pay for executives who have left the company due to violation of company policy whether the severance pay was granted and why?

Exercising discretion when determining incentive payouts can be fraught with difficulty, and using a methodical approach or framework to assess whether the formulaic outcome is fair is vital in order to reach a position which is robust from the perspective of both executives and shareholders. Now more than ever, executive pay must stand up to external scrutiny and, in particular, not be excessive where performance does not justify it.

### 4. Risks and viabilities: Board must have clear approach to risks especially now that risk landscape evolves to disrupt strategies, business models, markets, and customer behavior

It has always been an obligation for the board to oversee risks that could have impact on their organizations in all aspects of their business, such as brand and reputational risk, strategic risk, and a number of risks associated with technology. Boards need an integrated perspective that can help them to understand the full risk landscape and its potential impact on the organization. They will need to broaden their perspective in their view on risk especially for the coming year as innovation, technology, and regulation evolve, so the risk landscape also evolves to disrupt strategies, business models, markets, and customer behavior. To protect and enhance long-term value, companies need to have a dynamic and active approach to risk. Risk that comes from innovation and disruption might have a more significant impact on companies that choose not to innovate, because they may fall behind disruptive competitors, as well as those that seek to transform their businesses, because they may incur significant losses or worse if unsuccessful.

Cyber risk is an area where boards should be very cautious as it could have an impact on every aspect of a company's business, including critical relationships with customers, suppliers, regulators, and others, as well as ongoing reputational risks. Hence, it is important for the board to find way to manage cyber risks and communication approach to investors and stakeholders effectively. There are programs that can help boards to oversee risks in order to make profound decisions regarding cyber or other risks such as Enterprise Risk Management (ERM) program.

Today's economic climate and the preponderance of the fraud schemes has forced organizations to take a stronger anti-fraud stance. The effectiveness on fraud risk oversight of the audit committee is a key element in significantly reducing the fraud risk at an organization and increasing the likelihood that, if fraud does occur, the organization have a mechanism to detect fraud at an early stage. To achieve this, the audit committee should be more proactive to combat fraud and explore solutions of fraud risk management that best suits to your organization.

Other emerging risks such as economic crises, market movement, regulatory changes and social media backlash can present major risks in an interconnected world such as Brexit, US-China Trade War, and especially recent election incident in Thailand. Board should make sure that their company forecast incorporates clear scenarios around the potential impacts of these emerging risks on their business and prepare to take necessary steps to mitigate these risks.

#### Regulatory development: Board will need to be mindful of emerging regulatory development and work with related stakeholder in framing company's business practices

Another area in which board should not overlook is regulatory development. Each year there may be some revision on regulations related to businesses boards sit in. For example, regulation related to audit quality of the auditor reports, trade regulations and antitrust enforcement, reporting on tax, or non-financial information statement and other new accounting standards, etc.

In the beginning of 2019, the Securities and Exchange Commission or SEC in the US announced that auditor reports for large, accelerated filers will have to include a new section addressing "critical audit matters" (CAMs). FRC in the UK issued an update to its Strategic Report Guidance that the disclosures required by the Non-Financial Reporting Regulations (NFRR) must be a separate statement within the strategic report. In Thailand, the transfer pricing law, which was approved by the National Legislative Assembly in September 2018, was enacted and published in the Royal Gazette on 20 November 2018. The new law was effective for accounting periods commencing on or after 1 January 2019.

Hence, board must consider these regulatory developments and continue to work with related stakeholders on those particular areas such as audit committee and their auditors to assess the nature and extent of reports. The nature of this type of development will stands tight in the board's agenda in moving forward.

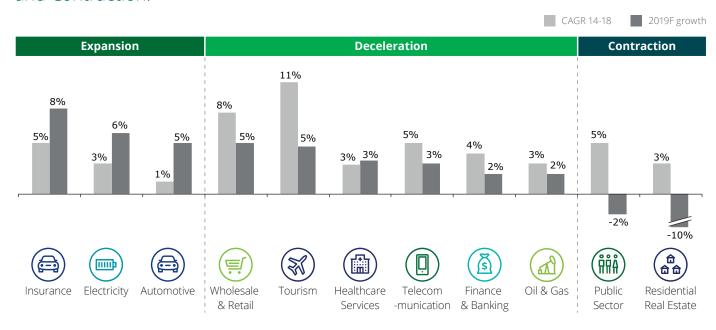
#### **Conclusion**

The five agendas mentioned in this article are just some of the main agenda extracted from board's related papers that we believed to be on the boardroom agenda for the next coming years. This year, we focus on the opportunity to enhance reputation and trust in business and highlight the ever-increasing reporting requirements about the wide range of activities undertaken by companies as they go about their daily affairs. The purpose of companies is being redefined in a more responsible manner, with the goal of creating higher living standards for all. Business conduct is also becoming more transparent. There will definitely be other agenda items appearing on Thai's board agenda as well and, given the rapidly changing governance and political environment, it is likely that new matters will come to the fore. Serving on a board of directors will continue to be a challenging role.



### **†** Executive summary

In 2019, sectors can be separated into 3 groups which are Expansion, Deceleration and Contraction.



#### **Expansion**

Insurance

Growth in insurance market was forecasted to rise 8% in 2019 mainly owing to expansion of life insurance.



Electricity

In 2019, electric consumption in Thailand was estimated to rise 6% driven by business and residential sectors.



Automotive

Automotive demand was expected to increase 5% in 2019 mainly due to strong replacement demand.



Wholesale & retail

Retail and wholesales market was expected to grow by 5% in 2019 due to economic slowdown.

No. of Foreign

Tourist arrivals

was projected to

increase merely

4.7% due to baht

appreciation and

global economic slowdown.



**Deceleration** 

Telecommunications

In 2019, The Thai communication market was predicted to grow 3% due to Growing consumption of mobile data services.



Finance & Banking

Outstanding loan grew 2% to reach THB 15.5 trillion in 1Q2019 mainly from contraction of loans to SMEs.



#### Residential Real Estate

Healthcare Services

**Tourism** 

Healthcare spending in Thailand is forecasted to increase by 3% owing to an aging population and a growing prevalence of chronic diseases.



Oil & Gas

Consumption of petroleum products was expected to increase 2% in 2019 to reach 58 billion liters.

In 2019, Transferred housing units were expected to reduce by 10% to 176 thousand units due to Loan-to-Value (LTV) measure and decline of the Chinese customers.

Contraction

Government budget

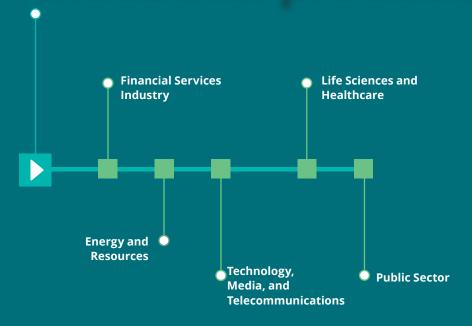
decreased in fiscal 2019

by 1.6%, however it was planned to expand by 6.7% in next fiscal year.

Public

Sector

# Consumer and industrial products

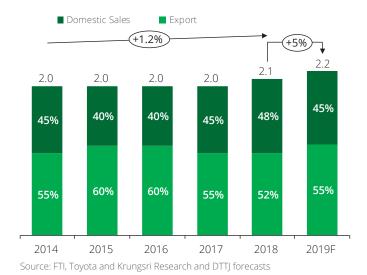






The outlook for the automotive sector will likely be one of growth and both domestic and export markets are forecast to strengthen.

#### **Domestic Vehicle Sales and exports (Million units)**





- Government incentives offered to eco car makers to produce eco EVs
- Strong replacement demand following the expiry of the five-year resale ban under the first-time buyer scheme introduced in 2012-2013
- Thailand's motorization rate is still relatively low



- High household debt and
- Stricter credit policy by financial institutions to tackle higher nonperforming car loans



#### Implication to businesses



#### **Vehicle manufacturers**

Turnover will improve in line with improvements in the domestic and export markets



#### Dealerships selling new private vehicles (passenger vehicles and 1-tonne pickups) and authorized importers

Turnover should grow but not dramatically so because although income from sales of new cars will increase, this will be balanced by falling income from service centers.

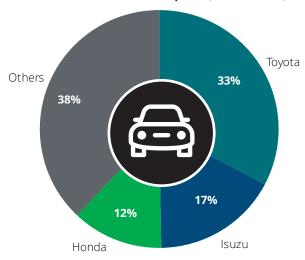


#### Distributors of trucks and other heavy vehicles

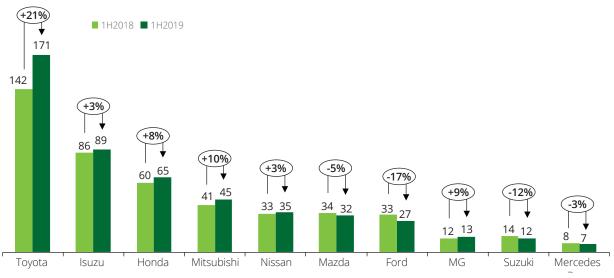
Progress on government infrastructure projects will increase demand for trucks

Toyota still positioned as market leader in 1H2019 with the highest share and growth at 33% and 21% respectively due to commercial vehicles sales.

#### **Domestic Vehicle Sales and exports (Million units)**



#### New vehicle sales by major makers during 1H2019 (Thousand units)

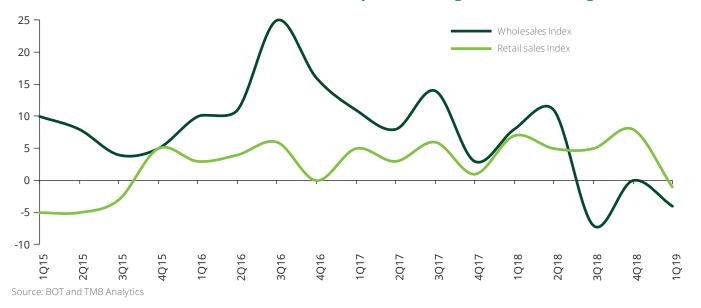


Source: Toyota Motor Thailand Co., Ltd. (TMT)



### Wholesale & retail

Retail and wholesales market was expected to grow by 5% in 2019 due to economic slowdown, moreover it was lower than last year which generated 8.5% growth.



		Retail	Wholesales
1	High growth	<ul><li>Modern trade</li><li>Online store</li></ul>	<ul><li>Food</li><li>Consumer goods</li><li>Medicine</li></ul>
	Low growth	Traditional store     Specific traditional store	<ul><li>Drinks and tobacco</li><li>Electronics</li><li>Computer</li><li>Household appliances</li></ul>



#### Implication to businesses



#### Wholesale

Wholesalers will be impacted the most as manufacturers tend to sell products to retail directly



#### Retail

It will be higher fierce competition from new players especially online stores

#### **Recommendations**



**Implement advanced technology** - Wholesalers should implement inventory management technology to manage optimal volume of inventory

Expanding distribution channel - Wholesalers should Expand distribution channel especially retail channel

Source: TMB Analytics







Sluggish global economy causes foreign tourist arrivals to drop in tandem with lower spending per tourist from baht appreciation.

#### Foreign Tourist arrivals (million persons)



• The overall number of foreign tourist arrivals will grow by 4.8% in 2019, or 40.1 million individuals.

However, During the first 5 months of 2019, spending per foreign tourist dropped following lower spending per head in various countries



- Increase in Japanese and Indian tourists
- Free Visa on Arrival (VOA)



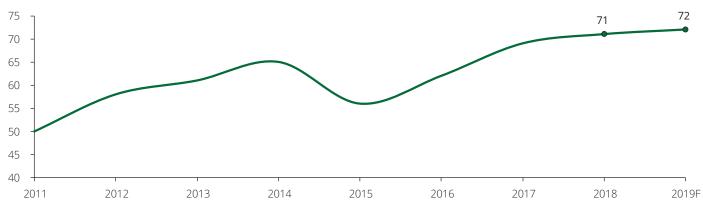
- Global economic slowdown
- The baht could continue to appreciate, influencing lower spending among tourists visiting Thailand
- Risks from airport space limitation
- Chinese tourist growth dropped, though at a slower rate.
   European tourist growth turned negative

Source: Department of Tourism, Krungsri research and SCB EIC (Outlook 3Q2019)



Occupancy rates are expected to rise slightly in 2019 to 72% from 71% in 2018. There is a rising competition because of the steadily rising supply of both traditional hotels and alternative accommodation.

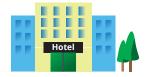
#### **Hotel Occupancy (%)**



- Average room rates may rise, though if they do, it is likely to be by only a small amount as the market continues to be affected by an oversupply of accommodation
- However, hotel operators also have to compete in an ever-more crowded market with suppliers of alternative accommodation, such as apartments and condominiums offered at daily rates, guest houses, and rentals offered through the increasingly popular Airbnb.

Source: Department of Tourism and Krungsri research

#### Implication to businesses



#### Hotels in the major tourist areas of Bangkok, Pattaya and Phuket

Businesses should be able to maintain healthy profits as occupancy rates are expected to stay high at 75-80%.



### Hotels in regional centers and other important tourist provinces Most of which focus on the domestic market.

It should be possible to maintain profits at a similar level to last year.



#### Hotels in other provinces

Turnover for these players are expected to soften amid excess supply of accommodation.

#### **Recommendations**

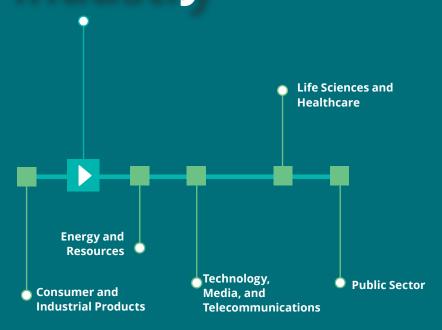


**Leverage the usage of tourist-related websites or online platforms –** To help promote and to help analyze the current competitive landscape and changing customer behaviors

Source: Krungsri research and SCB EIC



# Financial Services Industry

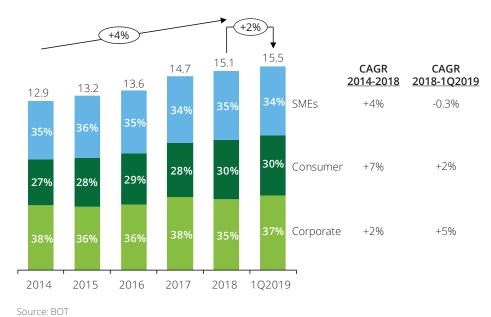




### Finance & banking

Outstanding loan grew 2% to reach THB 15.5 trillion in 1Q2019 mainly from contraction of loans to SMEs.

#### **Total outstanding loan (THB trillion)**





• Consumer loan from auto loan

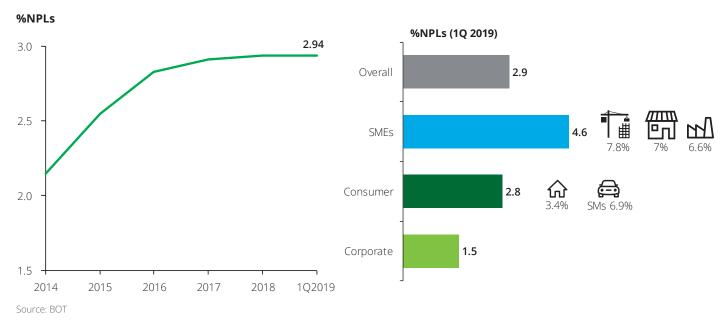


- Loan-to-Value (LTV) measure affects mortgage lending
- Higher %NPLs in SMEs



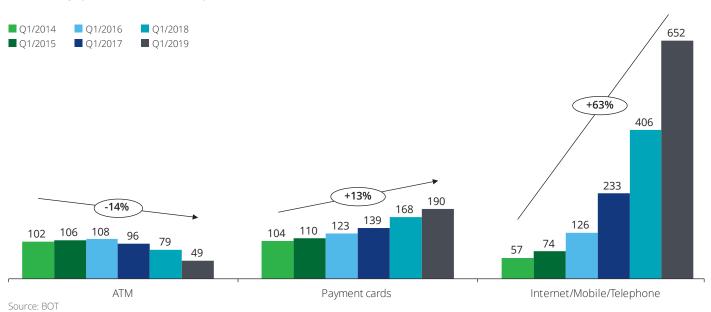
NPLs reached 2.94% in 1Q2019 especially SMEs which faced the highest NPLs at 4.6%.

In 2019, NPLs proportion is estimated with a slight increase to nearly 3% due to 3 factors, 1) concerning of SME loan, mortgage lending and auto loan 2) higher ratio of special mention loans (SMs) and 3) debt restructuring turning to become NPLs



Internet and mobile phone transaction became the most popular in 1Q2019 which soared by 63% CAGR.

#### Volume of payment transactions by channel (Million transactions)





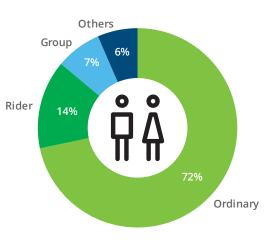


Both life- and non-life insurance market have expanded steadily and are projected to grow during 2018 by 4.7% and 5.9% respectively.

#### Life insurance's market size (THB billion)

## +6% 9% 686 504 538 568 600 627 2014 2015 2016 2017 2018 2019F

#### Thai Life Insurance Portfolio Mix by Type of Contract, 2017





- Government support (Tax deduction policy, saving account with attached life assurance policies)
- Growing aging society (Concern over healthcare and retirement savings)
- Country's disease burden increasingly shifts toward chronic illness
- Variety of distribution channels (Partnership with banks, online platforms)

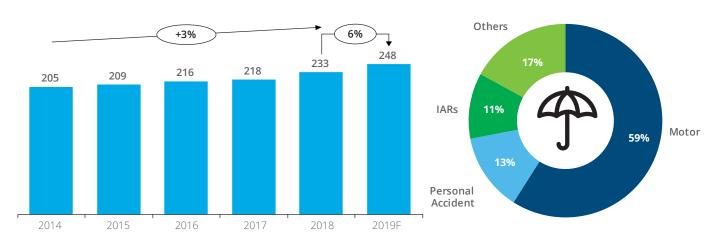
Source: TGIA and EMIS



Growth in non-life insurance is from government policy, government investment in infrastructures and new car sales. Motor is the main type of business in non-life insurance portfolio mix.

#### Life insurance's market size (THB billion)

#### Thai Non-life Insurance Portfolio Mix by Type of Business, 2018





- Government policy (Motor compulsory insurance, First car buyer scheme, Government crop insurance scheme)
- Government investment in infrastructures
- New cars sale

Source: TGIA and EMIS

#### Players movement in 2019



#### **Merger and Acquisition**





#### **July 2019**

FWD Group, an insurer from Hong Kong, acquire SCBLIFE which is valued nearly US\$3 billion, the biggest acquisition of an insurer in Southeast Asia.



#### **Partnership**



#### January 2019

Prudential Life Assurance (Thailand) signed a bancassurance partnership deal with Siam Commercial Bank Plc, aimed at the lender's wealthy clients.



#### **Technology Implementation**



#### August 2019

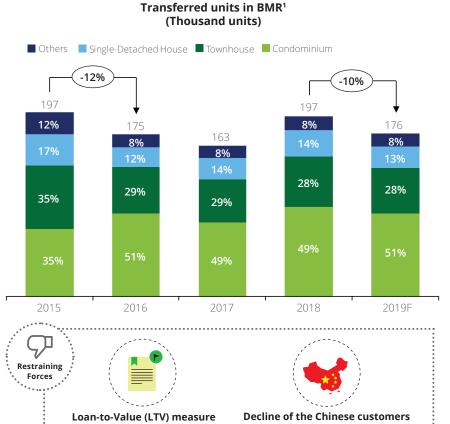
Thaivivat Insurance collaborate with AIS in bringing NB-IoT to apply with On-Off motor insurance to enhance the capabilities of motor insurance.

Source: Bangkok Post, AIA, Insurance Business Asia and AIS



### Residential Real Estate

In 2019, Transferred housing units were expected to reduce by 10% to 176 thousand units.



Source: SCB EIC (Outlook 3Q2019) Note: BMR or Bangkok Metropolitan Region is the metropolis and the five adjacent provinces of Nakhon Pathom, Pathum Thani, Nonthaburi, Samut Prakan, and Samut Sakhon.



### Effect from Loan-to-Value (LTV) measure should be monitored in 2019.

Segment	Previous LTV	New LTV	Demand	Impact
				Accelerate to transfer
Low Rise (< THB 10 billion/unit)	95%	70%-95%	Real Demand	Lower ability to purchase depend on pricing level and type of residential real estate (Direct effect)
				90%
	90%	70%-90%	\$	Lower willingness to purchase due to price expectation and market
Condominium (< THB 10 billion/unit)			Investment Demand	confidence (Indirect effect)
Low rise and Condo (> THB 10 billion/unit)	80%	70%-80%	Foreign Buyers	Lower willingness to purchase due to price expectation and market confidence (Indirect effect)

Source: BOT and SCB EIC

### Implication to businesses



#### Large developers

Income for large developers will continue to grow, as these players are able better to adjust themselves to changing circumstances. What's more, They also have lower financing costs.



### Small - sized developers and medium - sized developers

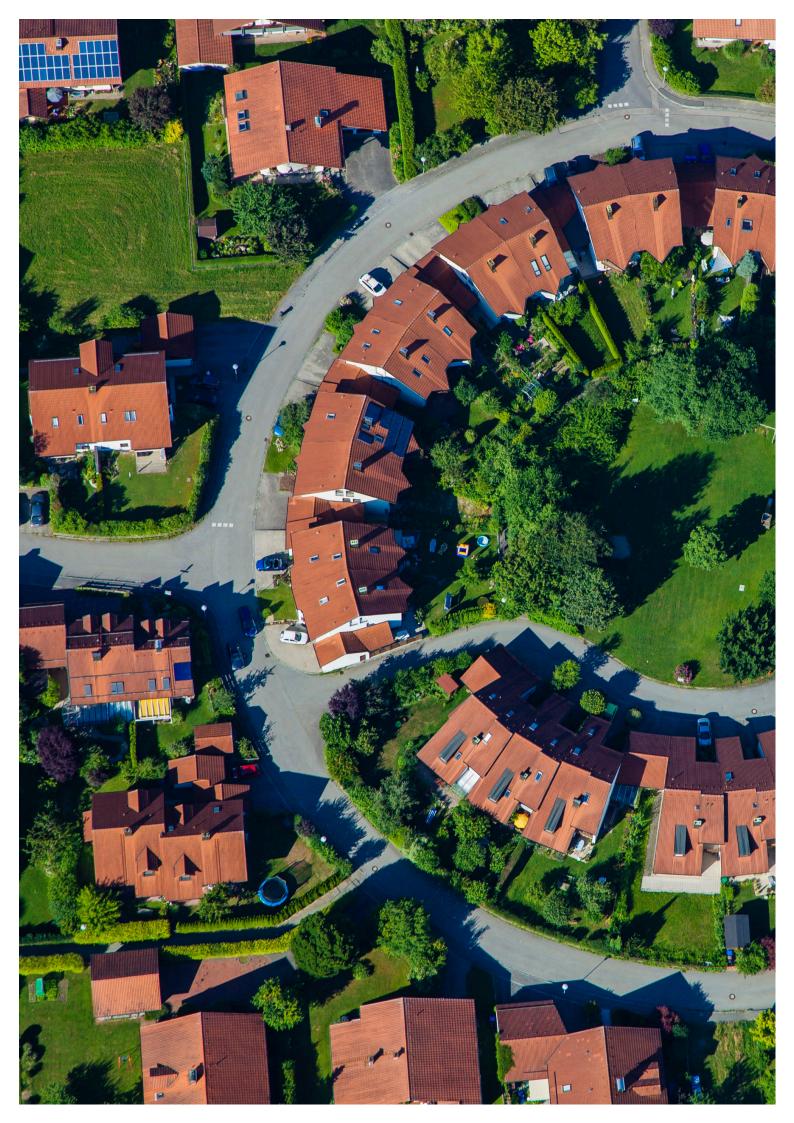
They will face greater levels of difficulty and will see their market share shrink because, relative to large players, smaller operators lack the flexibility to adjust their business activities and this in turn reduces their competitiveness.

#### **Recommendations**

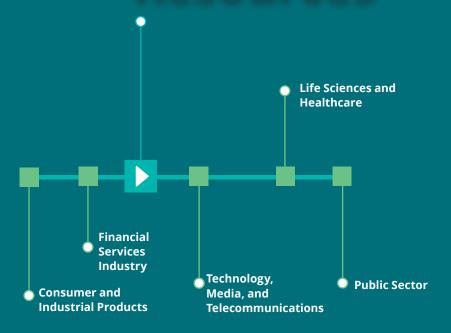


- Release the remaining stock
- Launch new project in potential location
- Screen customers and expand down payment period

Source: Krungsri research and SCB EIC



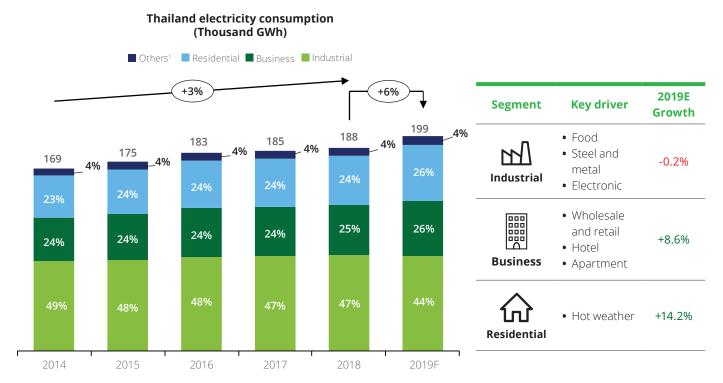
# **Energy and Resources**





# Energy: Electricity

In 2019, electric consumption in Thailand was estimated to rise 6% to reach 199 thousand GWh. The majority of electricity consumption in Thailand stems from both Industrial sector.



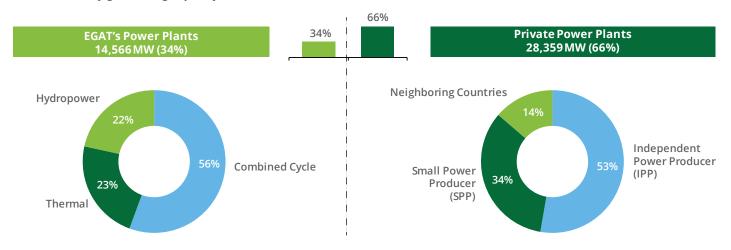
Source: EPPO and DTTJ Estimates

Note: 1 Others = Agriculture, Government and Non-Profit and others



### Electricity capacity is 42.93 thousand MW in 2019. Private power plans serve approx. 66% of total electricity capacity and the rest is from EGAT.

### Total electricity generating capacity<sup>1</sup>: 42,925 MW



Source: FPPO

Note: 1 Electricity capacity data as of June 2019, 2 Proportion of EGAT's Capacity is 2017 data

Gross electricity generation will expand by 3.9% a year on average over the forecast period as capacity rises. Small power producers (SPPs) will continue to play an important role; in 2013-17 SPPs contributed around half of the 10-GW increase in overall generating capacity.

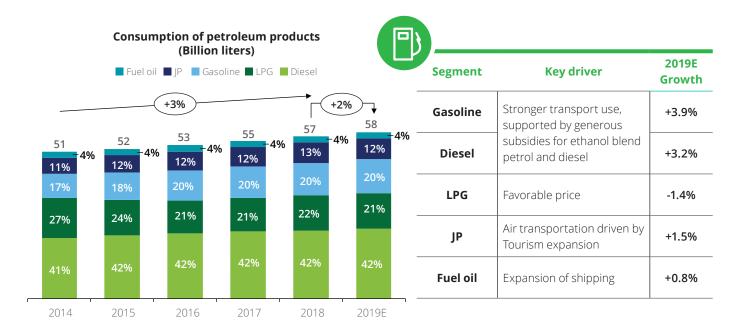
The EGAT is undertaking regional investment through its overseas investment arm, EGAT International, investing US\$525m in projects in Laos, Vietnam, Indonesia and other regional markets.

In September 2017 a power-purchasing agreement was signed between the governments of Laos and Thailand for the Nam Theun 1 Hydropower Plant Project, with an installed capacity of 514.3 MW. The project is expected to begin commercial operations in 2022. Three other projects that have signed contracts with EGAT in Laos are likely to begin operations in 2019.





Consumption of petroleum products was expected to increase 2% in 2019 to reach 58 billion liters.

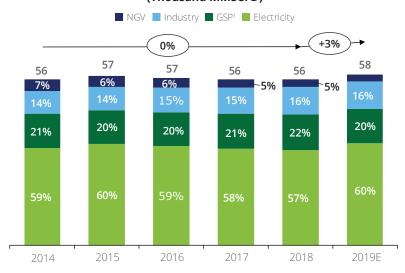


Source: EPPO and DTTJ Estimates



Thailand's consumption of natural gas is projected to have expanded by 3% in 2019, due to stronger demand for power generation and industrial use.

### Consumption of natural gas by sector (Thousand MMSCFD)



Source: EPPO, Fitch Solutions and DTTJ Estimates 1 Note: GPS is Gas Separation Plant



#### **Electricity**

The power generation sector continues to account for the biggest share of gas consumption in Thailand, although diversification efforts are gradually pushing growth in the sector towards solar and biomass.



#### Industry

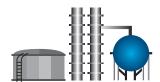
Industrial use accounts for about 16% of total gas consumption. The bulk of the gas is consumed as feedstock for chemical processes, mostly to produce olefins (ethylene, propylene), which are then used to produce finished products for consumption in other industries, such as food processing, electronics, construction and autos.



#### NGV

Outlook for the sector continues to be bleak, with the emergence of electric cars set to be yet another significant headwind. Growth in the NGV fleet is also hampered by a chronic deficit in NGV infrastructure due to the insufficient investment made over 2014-2016

### Implication to businesses



#### Refineries

Refineries are expected to show good profit rates over the next three years. Expanding demand in the country, gross refinery margins which are stable and at a level to support refinery businesses' profitability, and high capacity utilization rates together with a decline in price volatility and with it the risk of stock losses will all tend to support operators' profitability.

Source: Krungsri research



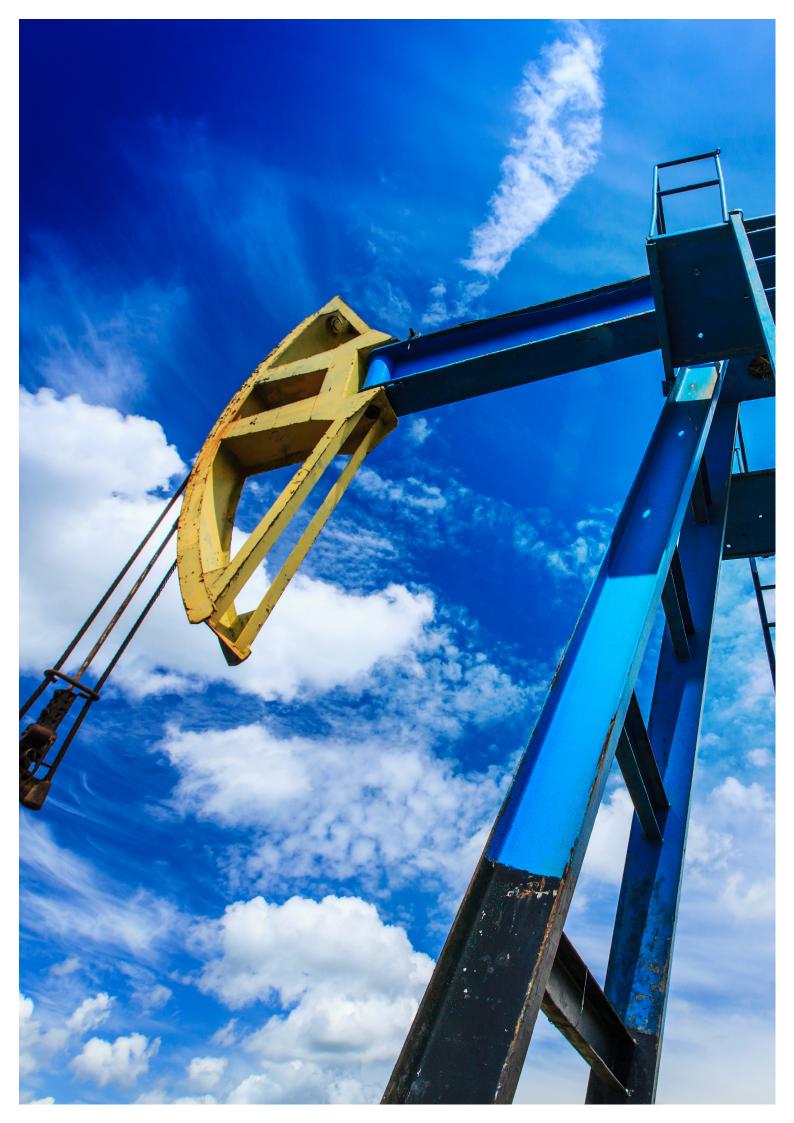
### Wholesalers of refinery products, oil and other liquid fuels

They will benefit from increasing demand for refined oil in Thailand and in neighboring countries. Most are also members of the same commercial networks as refineries so they face relatively low levels of market risk.

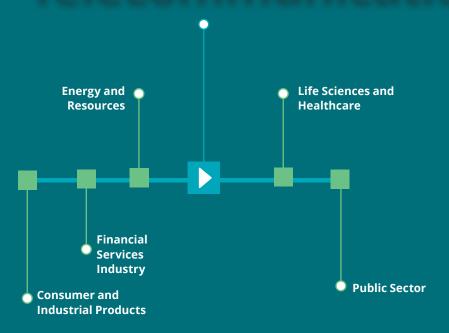


#### **Petrol stations**

Steadily increasing demand within Thailand for refined oil products will be a factor supporting a positive outlook for petrol stations but stiff competition and marketing margins which are at just THB 1-2/liter are also exposing businesses to management errors and risky business expansion. In addition, operators in this group are also increasingly under pressure to expand investment in business activities which are not connected directly to the sale of fuel, such as the rental of retail space in forecourts in order to increase competitiveness and build income.



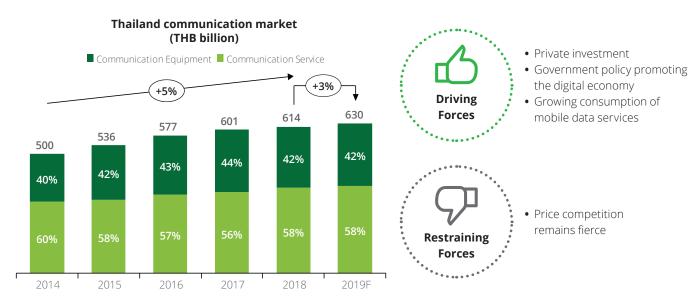
# Technology, Media, and Telecommunications





## (G) Telecommunications

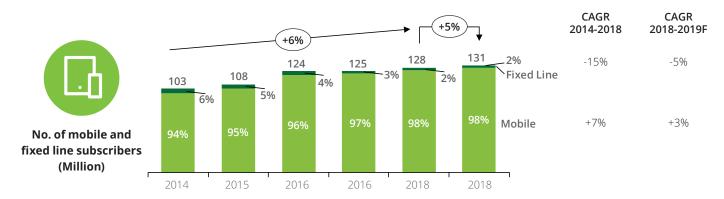
Mobile subscriptions have recovered from 2016 onwards. The growth of both internet and broadband services in 2018 remains increasing

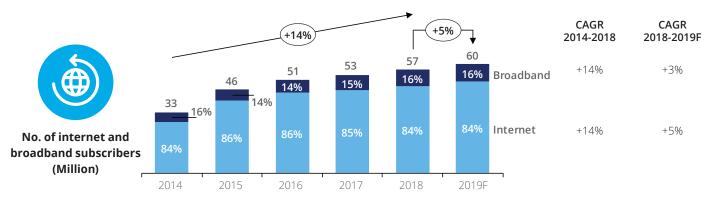


Source: NBTC



Mobile subscriptions have increased steadily, while fixed line subscribers kept decreasing. The growth of both internet and broadband services in 2019 remains increasing.





Source: NBTC

#### Implication to businesses



### Mobile phone service providers

Players should see growth in income from services of 4-5% annually, supported by a general expansion in the economy that is lifting consumption, a boost in the subscriber base as network coverage extends to cover almost the whole country, and increasing demand for data services.

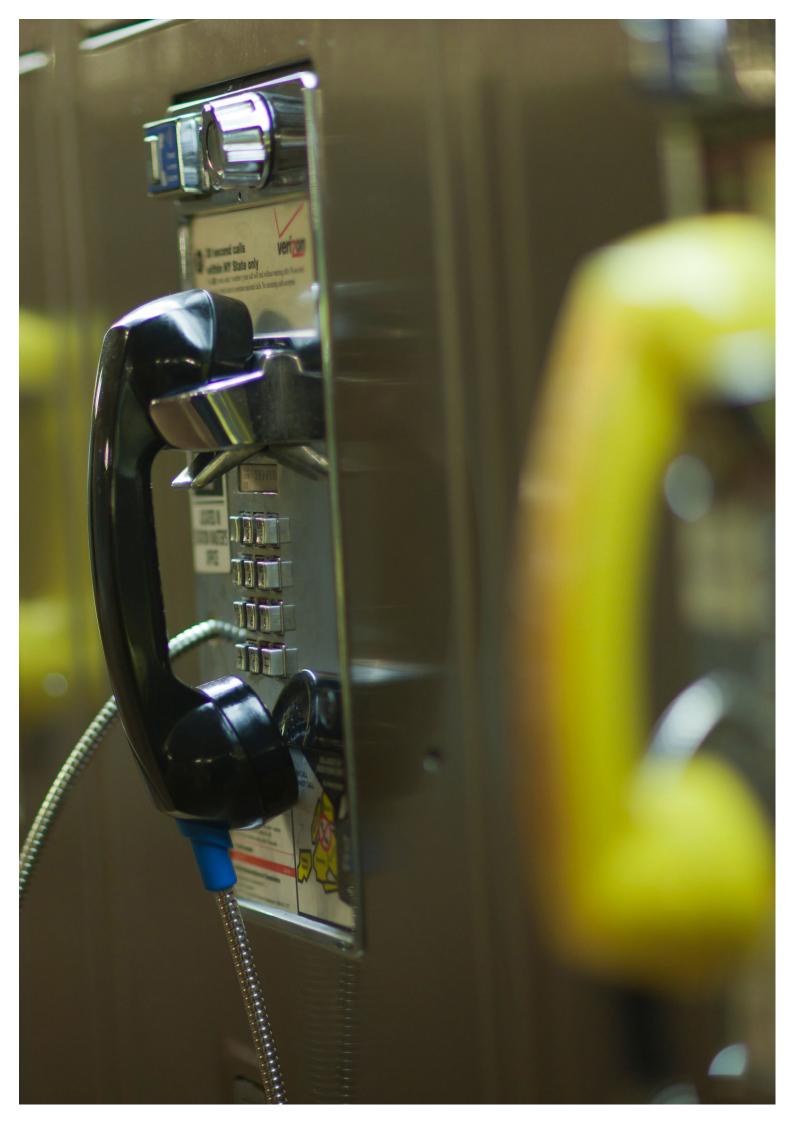
However, players will also come under pressure from costs arising from the need to increase the number and capacity of base stations and to pay for the operating licenses that cover the present period.

Source: Krungsri research

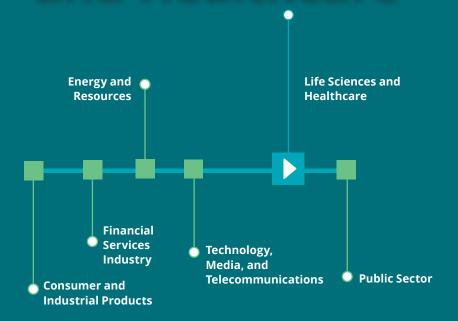


#### **Network installers**

These companies will experience growth in line with expansion in telecommunications networks according to their particular requirements, such as for 3G and 4G wireless networks, local digital television networks and network infrastructure supporting the development of the digital economy (e.g. for internet access).



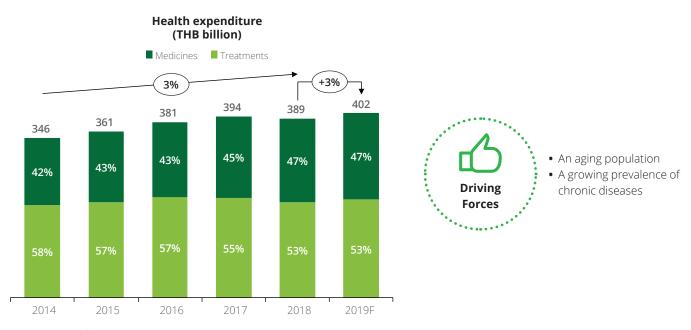
# Life Sciences and Healthcare





## Healthcare services

Healthcare spending in Thailand is forecasted to increase steadily as shown in past several years primarily due to an aging population and a growing prevalence of chronic diseases.

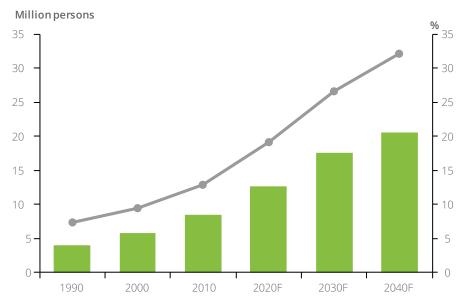


Source: NESDB and DTTJ Estimates



The transition to an aging society will support rising demand for complex and technology intensive medical interventions. According to National Statistical Office, typically 60% of the elderly have health problems





- Based on the current situation and historical statistics, it is projected that aging citizens will represent more than 30% of total population by 2040. Birth rate and population growth will still be a critical issue in the long term.
- The government will have to take into consideration regarding aging society issue as healthcare services must be well-prepared to cope with future needs.

Source: EIU, NESDB and Krungsri research Note: Aging population means those citizens with the age above 60 years old.

### Implication to businesses



### Large and specialist hospitals, specialist diagnostic and treatment centers, and medical centers offering care and residential facilities for the elderly

Demand for specialist services will likely increase in all age groups, though especially so for the elderly, who will need treatment for chronic and complex conditions that require specialist, high tech interventions.

Moreover, the ability to offer high quality services at a price that is lower than those charged by competitors in other countries should help to attract foreign customers.

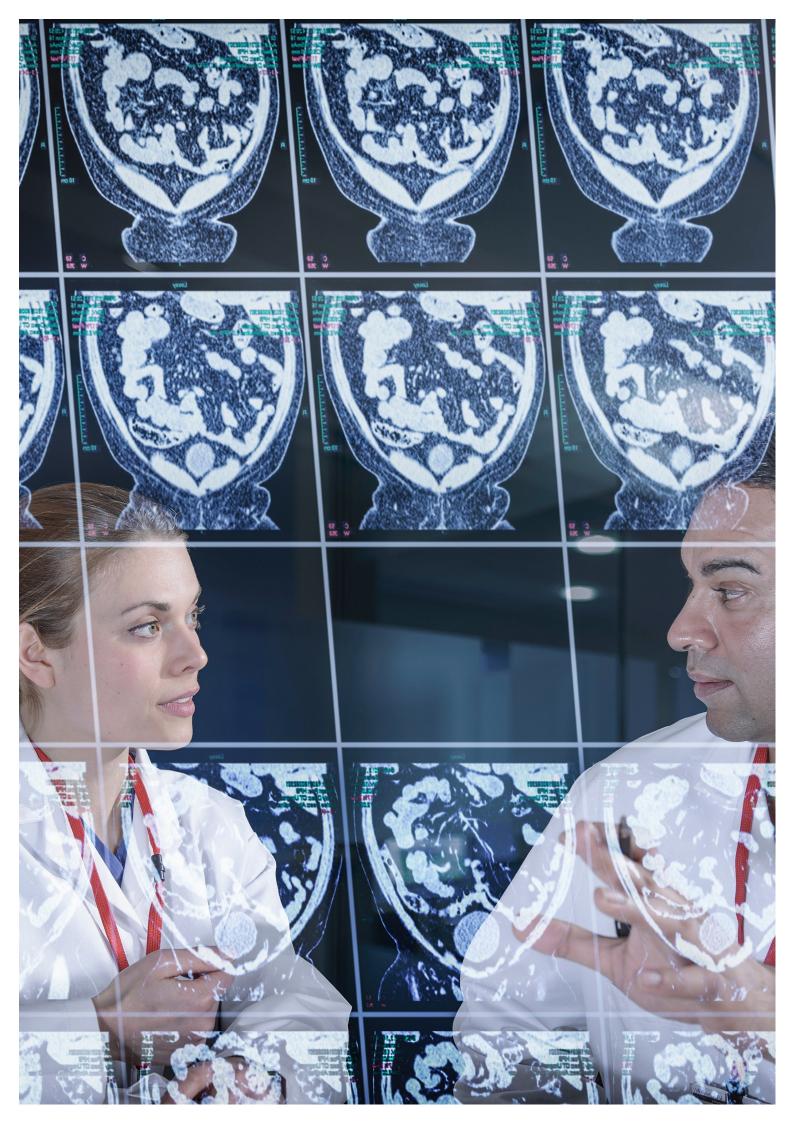
Plans to expand existing operations and to open new branches will also help operators reach out to new customers and this too will help to secure income growth.



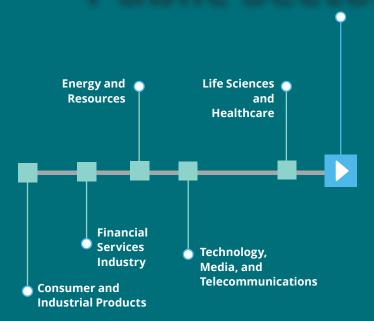
### Small and medium private hospitals (especially stand alone hospital)

Operators in this group are at risk of being bought or acquired through mergers and acquisitions because many smaller hospitals operate on a weak financial basis and this means that they lack the capital necessary to invest in equipment or in medical staff with high levels of expertise.

Source: Krungsri research



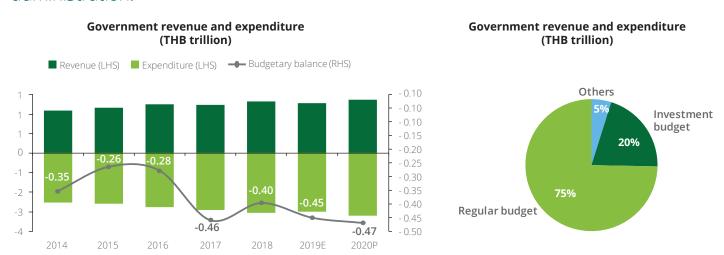
## **Public Sector**





## Public Sector

The government has set an expenditure of THB 3.2 trillion for fiscal 2020, up 6.7% from fiscal 2019 with an estimated decrease of THB 19 billion in public revenue and a rise in deficit to THB 469, compared to THB 450 billion estimated by the previous administration.



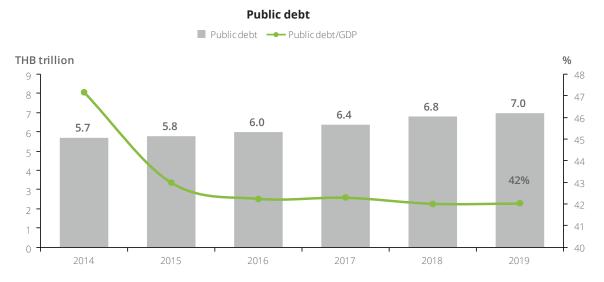
As the government aims to boost Thai economic, budget deficits has been run since fiscal 1999, except for in 2005 and 2006. Nevertheless Thailand is forecast to achieve a balanced budget in fiscal 2030, based on GDP growth of more than 4% a year.

Source: Ministry of Finance

Note: The Royal Thai Government's fiscal year starts from 1 October this year till 30 September next year.



### The government is also maintaining the proportion of public debt to GDP at 42%, still far below the cap of 60% under the fiscal sustainability framework.

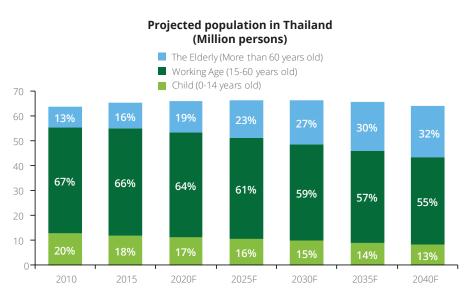


Even there are uncertainties in the global economies especially in China and US which expect to face a slowdown. The government can still deploy deficit fiscal policy to retain the momentum of economic growth in the coming years as the debt level is maintained at 42%, below the ceiling level at 60%.

Source: Ministry of Finance

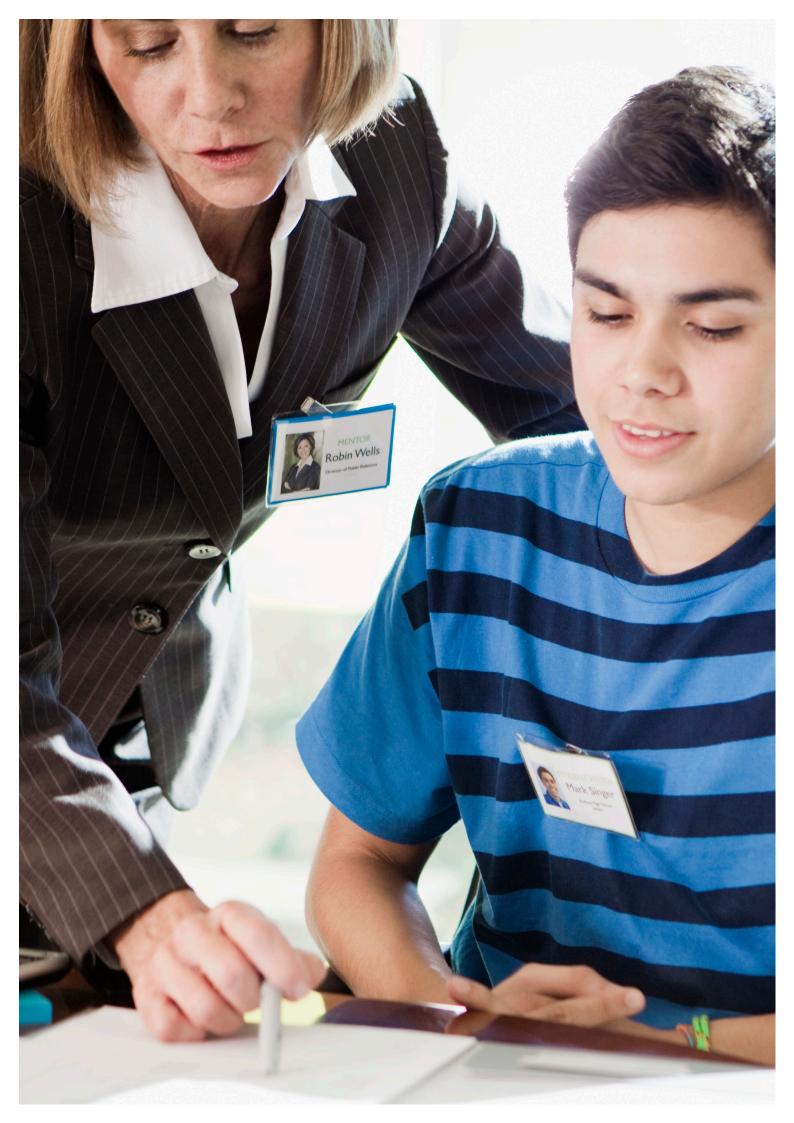
Note: The Royal Thai Government's fiscal year starts from 1 October this year till 30 September next year. And 2019 data is as of May 2019

The aging society is still a serious issue in Thailand's economy as the reduction of working age proportion will impact on productivity which directly links to GDP growth.

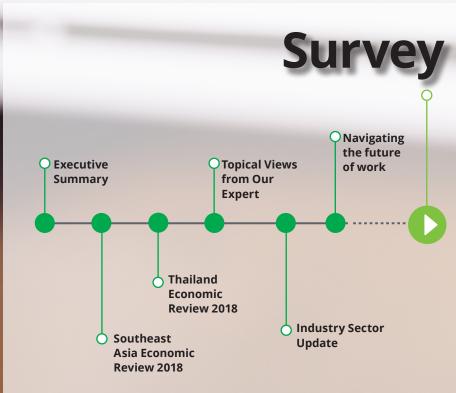


Source: NESDB, The Royal Thai Government, & College of Population Studies

- Based on NESDB projected data, both child and working-age population continue the negative growth years over years with CAGR of (1.4)% and (0.6)% respectively.
- With the moderate population growth rate of 0.4%, it is expected that by the end of 2040 the number Thai population will tie with 2010's level.
- Thai Government has adopted incentive schemes in both tax and non-tax mode to encourage the population growth rate, but also implemented policies (e.g., the elderly fund, the senior citizen health insurance) to support the elderly people.







Please kindly help us to complete the following survey to let us know your opinions which will be very useful in improving our Quarterly Economic Reports to you.

The survey can be both accessed via link and QR code below. We thank you in advance for your time and kind opinions.

https://az1.qualtrics.com/jfe/preview/SV\_5bzw4pAN106yJg1?Q\_CHL=preview

or



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