

### Another cut

We have revised our [GDP forecast for 2020 from +1.4%](#) to -0.4% after the COVID-19 outbreak has turned from a regional outbreak into what looks like a global pandemic. [Under the base case](#), we now assume that quarantine efforts and containment measures would limit economic activities in major economies for most of 2Q20 and 3Q20. The impact would be particularly severe for Thailand as the economy is heavily exposed to external trade and tourism.

### Tourism is the key assumption

The key assumption for the growth forecast is tourism, which accounts for 12% of GDP in 2019. We now assume that the number of tourist arrivals would fall by 50% for most of 1Q20 and all of 2Q20 before making a slow recovery in 2H20. For the year, tourist arrivals would fall by 25%. This would deal a bigger blow to the outlook than previously expected, while other growth engines continue to suffer from growth headwinds since last year. The lower oil prices could have a small net positive impact on growth.

### The 'R' word

As tourism disruption is expected to continue into 2Q20, a technical recession—two consecutive quarters of economic contraction—is now in our base case. We expect a moderate U-shape recovery and for tourism and economic activities to slowly start to normalize in 2H20.

### Further easing measures

With the deterioration in growth and the expectation of the US Fed's zero interest rate policy, we see further pressure on the Thai Monetary Policy Committee (MPC) to cut the policy rate. We expect a 25bp rate cut to a historically low 75bp at the next meeting on 25 March, a week after the FOMC meeting. Given the MPC's cautious stance, we do not assume a further cut, but would not be surprised if it happens. But we think targeted credit and liquidity provision measures to prevent the liquidity issue from turning into a solvency crisis are important. We also look for more ambitious and targeted fiscal easing measures, given the fiscal space, to provide relief and stimulus to the economy.

### A moderate global recession scenario

Under a 'moderate' global recession scenario where global growth falls to 1.4%, Thai GDP growth may fall by 2% in 2020. We expect a further impact through tourism, exports, knock-on effect on other sectors, and domestic confidence. In this scenario, we would expect tourism to fall 40% (-16mn arrivals) for the year as sentiment remains gloomy. We expect two 25bp rate cuts, bringing the policy rate to 0.50% by year-end.

### Risk to the outlook

Despite our downward revision, risks remain tilted the downside. We have not factored in a local widespread outbreak, which is not impossible given other countries' experiences. In that scenario, domestic consumption likely would tumble further. On the upside, an effective containment or a medical breakthrough (drugs or vaccine) would alleviate public concern and bring back the much-needed recovery.

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**Table 1: Key economic forecasts**

|                           | New forecast |       | Previous forecast |       | 2021E |
|---------------------------|--------------|-------|-------------------|-------|-------|
|                           | 2019         | 2020E | 2021E             | 2020E |       |
| Real GDP                  | 2.4          | -0.4  | 4.5               | 1.4   | 3.5   |
| Private consumption       | 4.5          | 2.3   | 3.2               | 2.8   | 3.1   |
| Government consumption    | 1.4          | 2.4   | 3.5               | 2.5   | 3.0   |
| Gross fixed investment    | 2.2          | -0.1  | 5.0               | 2.3   | 4.8   |
| Private                   | 2.8          | -0.5  | 4.0               | 2.5   | 4.0   |
| Public                    | 0.2          | 2.5   | 8.0               | 3.0   | 7.0   |
| Headline CPI              | 0.7          | 0.7   | 1.2               | 0.9   | 1.1   |
| Exports                   | -3.2         | -2.6  | 3.5               | 0.5   | 2.5   |
| Imports                   | -5.4         | -5.5  | 7.0               | 1.5   | 4.4   |
| Current account (US\$ bn) | 37.3         | 25.9  | 30.8              | 28.8  | 30.0  |
| as % of GDP               | 6.8          | 4.9   | 5.5               | 5.2   | 5.0   |
| Policy rate               | 1.25         | 0.75  | 1.00              | 0.8   | 1.0   |
| Bt/US\$--end period       | 29.9         | 32.0  | 31.5              | 31.0  | 29.0  |

Source: Phatra Securities

# Disclosures

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