



## Thai Economic Performance in Q1 and Outlook for 2014

Macroeconomic Strategy and Planning Office

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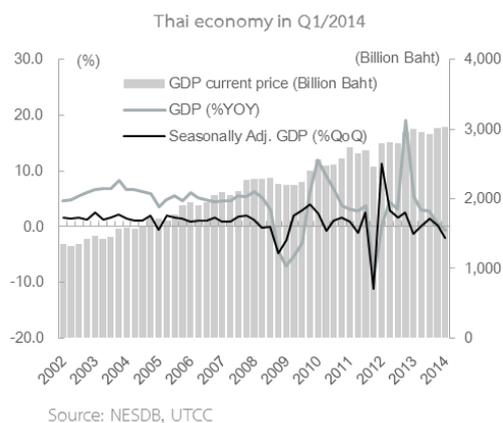
Economic Projection for 2014

(% YOY)	2012	2013			2014	
	Year	Q3	Q4	Year	Q1	Year
GDP (at 1988 price)	6.5	2.7	0.6	2.9	-0.6	1.5-2.5
Total Investment (at 1988 price)	13.2	-6.3	-11.4	-2.0	-9.8	-1.3
Private	14.4	-3.1	-13.2	-2.8	-7.3	-0.2
Public	8.9	-16.2	-4.7	1.3	-19.3	-5.0
Total Consumption (at 1988 price)	6.8	0.4	-3.3	1.1	-2.1	1.0
Private	6.7	-1.2	-4.1	0.3	-3.0	0.8
Public	7.5	7.3	0.8	4.9	2.9	1.8
Export of Goods (US\$)	3.1	-1.8	-1.0	-0.2	-0.8	3.7
Volume	2.5	-1.2	0.2	0.2	0.9	4.2
Import of Goods (US\$)	8.8	-2.9	-7.6	-0.4	-14.8	0.5
Volume	7.1	-0.9	-6.3	1.7	-13.8	1.0
Current Account to GDP (%)	-0.4	0.5	3.1	-0.6	8.8	0.5
Inflation	3.0	1.7	1.7	2.2	2.0	1.9-2.9
Unemployment rate	0.7	0.8	0.6	0.7	0.9	0.7

- ❑ The Thai economy in the first quarter of 2014 contracted by 0.6 percent compared to an expansion of 0.6 percent in the previous quarter. After seasonal adjustment, the Thai economy declined from the previous quarter by 2.1 percent (%QoQ SA).
- ❑ On the **expenditure side**, domestic demand and exports contracted while government spending slowed down. On the **production side**, the agricultural sector expanded while the manufacturing, construction, real estate, hotels and restaurants, and retail trade sectors contracted.
- ❑ The Thai economy in 2014 is forecasted to grow at a slow pace due to the contraction of the economy in the first quarter and the constraints on domestic demand recovery in the latter half of the year, particularly consumption and private investment affected by domestic political uncertainty as well as the continued slowdown of household income and the overall economy. Meanwhile, a formation of the new government is expected to be delayed, thereby imposing additional constraints on government budget disbursement and on implementation of key economic measures. Moreover, the slow global economic recovery tends to lower export growth than earlier anticipated. Nonetheless, the economic stability remains sound. Inflation rate will be steady at a low level while the trade and current account balance will improve from 2013.
- ❑ In 2014, the Thai economy is forecasted to grow by 1.5 – 2.5 percent. Export sector is expected to expand by 3.7 percent and private consumption will grow by 0.8 percent while total investment is estimated to decline by 1.3 percent. Headline inflation is expected to be in the range of 1.9 - 2.9 percent while current account will record a surplus of 0.5 percent of GDP.
- ❑ Economic management for 2014 should focus on expediting exports to expand at its full potential especially by raising export income from major markets and newly high-potential markets as well as promoting border and regional trade. The tourism sector also needs to be stimulated particularly by restoring tourists' confidence and promoting additional tourism campaigns. Meanwhile, policies need to emphasize on expediting public activities and thus disbursement of the FY2014 of both current and capital budget as well as preparing the budgeting process for the FY 2015. In addition, it is necessary to restore economic sentiment by maintaining accommodative monetary policy to further support the economic recovery, applying communication strategy to provide accurate and up-to-date information, and preparing measures to support those affected by the economic slowdown.

## The Thai economy in the first quarter and the outlook for 2014

**Thai economy in the first quarter of 2014 contracted by 0.6 percent. On the expenditure side,** both domestic demand and export value declined while government spending slowed down. **On the production side,** the agricultural sector expanded slightly while industrial, construction, real estate, hotels and restaurants, and retail trade sectors experienced contractions. After seasonal adjustment, the Thai economy in the first quarter of 2014 declined from the previous quarter by 2.1 percent (QoQ SA).



### Thai economy in the first quarter of 2014

- (1) **Private consumption expenditure** declined by 3.0 percent, continuing from a contraction of 4.5 percent in the previous quarter. This was mainly due to a contraction of expenditure on durable goods, especially in domestic car sales which dropped by 58.2 percent along the normalizing adjustment after the first-car-buyer scheme ended. Other private consumption also experienced somewhat slowdown following the continual deceleration of household income and the overall economy as well as the political uncertainty which lowered consumer confidence and made people become more cautious about their spending. The consumer confidence index in the first quarter of 2014 was at 60.0, the lowest level in 15 years (since the second quarter of 1999).
- (2) **Total investment** declined by 9.8 percent, compared with a contraction of 11.4 percent in the previous quarter. **Public investment** contracted by 19.3 percent owing to declines in investment of both government and state-owned enterprises. **Private investment** declined by 7.3 percent, contributed by a contraction in machinery and equipment of 11.6 percent in line with the 7.5 percent contraction of import value of capital goods (at constant price). In addition, construction investment declined by 7.8 percent. Meanwhile, values of net applications for investment promotion from the Board of Investment (BOI) declined by 10.6 percent which was partly because investors still wait and see for the new investment promotion policy and the appointment of the new BOI board (which was officially appointed on 22<sup>nd</sup> April 2014). Investors' confidence also dropped due to concerns over the political uncertainty. The Business sentiment index remained under 50, though increasing slightly to 47.1 from 46.4 in the last quarter.
- (3) **Export value** was 55.6 billion US dollars. Export volume increased by 0.9 percent in line with the slow global recovery that remained limited to industrialized countries. However, export price continued to decline by 1.6 percent, causing export value to decline by 0.8 percent. With unwrought gold excluded, the value of export contracted by 2.6 percent. Export items with value contraction include cassava, fishery products, metal and steel, and petroleum products. Export items with value expansion include automotive, electronics, electrical appliances, and machinery and equipment. Export value to U.S., Europe, and Japan expanded

in line with the economic recovery of major export markets. However, export value to China, and ASEAN countries declined as the Asian economies have been on a slowdown trend.

- (4) **The agricultural sector** expanded by 0.8 percent from an expansion of 2.1 percent in the previous quarter. The slowdown owed to decline in key products including off-season rice, cassava, oil palm, and agricultural prices. Nevertheless, production of rubber, fruits, and livestock expanded and further supported farm income.
- (5) **Hotels and restaurants sector** declined by 3.1 percent in contrast with 5.7 percent growth in the last quarter. This was the first contraction experienced in the past 9 quarters due to the declines in tourist number and tourism receipts of 5.8 and 4.2 percent, respectively. Main reasons were a result of the political situation, the new Chinese tourism law to improve quality of tourists, and the slowdown of Chinese economy. However, the number of tourists travelling through regional airports and the number of tourists from Europe, South America, and Africa expanded.
- (6) **Manufacturing sector** declined by 2.7 percent continuing from a contraction of 2.8 percent in the previous quarter and declining for the fourth consecutive quarter. This was a result of the decline in private consumption, the end of the first-time-car-buyer scheme, the contraction of manufacturing product exports, and the declined investment due to political uncertainty. This was also in tandem with the contraction of the Manufacturing production index and lower capacity utilization rate to reach the lowest point in 9 quarters.
- (7) **Construction sector** contracted by 12.4 percent, continuing from a contraction of 8.5 percent in the previous quarter owing to contractions of 7.8 and 11.8 percent in public and private constructions, respectively. This was in line with the reduction of permitted construction areas in the previous three quarters as well as the slowdown of cement sales in the past four quarters. However, metal sales and construction material prices increased.

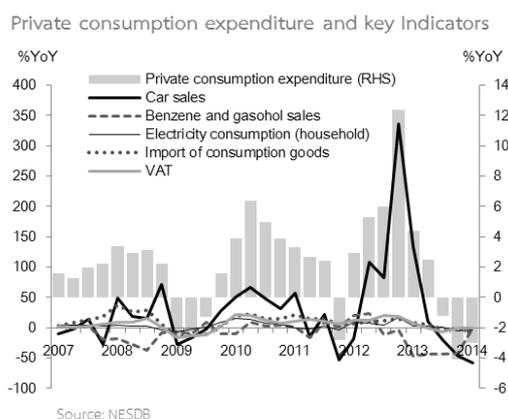
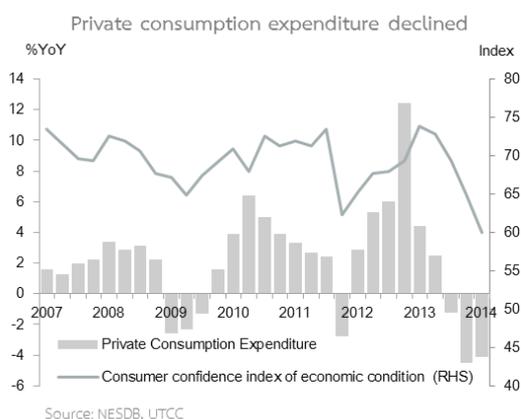
#### Thai Economic outlook for 2014

NESDB projected that Thai economy in 2014 will expand in the range of 1.5 – 2.5 percent, a downward revision from the previous forecast of 3.0 - 4.0 percent released on 17<sup>th</sup> February 2014. This downward revision was due to the following factors: (i) growth of world trade and the pace of global economic recovery were overestimated since the expansion in the first quarter is limited to industrialized countries, (ii) the export price is likely to contract by 1.0 – 0.0 percent compared to the previous estimation of that it would expand by 1.9 – 2.9 percent, (iii) private consumption and private investment are expected to contract in the first half of the year while the recovery in the second half of the year remains constrained by the political situation and the continued economic slowdown in the prior period, (iv) formation of the new government is delayed from previously expected, affecting economic policy implementation, budget disbursements, and preparation process of FY2015, and (v) the number of inbound tourists in 2014 is downwardly revised from 27.5 million persons to 27 million persons. Export values (in US dollar term) are projected to grow by 3.7 percent. Private consumption expenditure is projected to grow by 0.8 percent while total investment is expected to contract by 1.3 percent. The headline inflation is expected to lie in the range of 1.9 - 2.9 percent and the current account is forecasted to record a surplus of 0.5 percent of GDP.

## 1. The Thai Economy in Q1/2014

### □ Expenditure Side:

**Private consumption expenditure contracted due to a high base effect in domestic car sales, household income slowdown, and declining consumer confidence as a result of uncertain political condition and economic deceleration.** In the first quarter of 2014, private consumption expenditure contracted by 3.0 percent, compared with a 4.1 percent decline in the previous quarter. This was due to a contraction in expenditure on durable goods, especially on domestic car sales which declined by 58.2 percent due to a high base effect and the stabilization to its normal level after the end of the first-car-buyer scheme. A slowdown in other spending was due to weak income and more cautious consuming behaviors. The sales of motorcycle, import value of consumer goods, electricity consumption, and beer sales contracted by 2.2, 8.3, 3.2, and 6.0 percent respectively. Consistently, value added tax collection (at constant price) contracted by 0.3 percent and the Consumer Confidence Index about the overall economic situation continued to decline from 65.0 in the previous quarter to 60.0 in the first quarter of 2014, the lowest in 60 quarters (since Q2/1999).

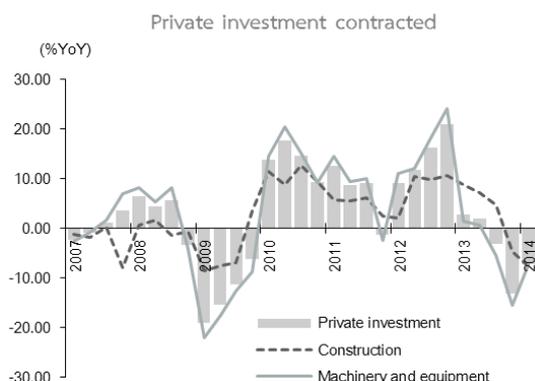


**Private investment declined due to the contraction in machinery and equipment and construction investment.** In the first quarter of 2014, private investment declined by 7.3 percent, compared with a contraction of 13.2 percent in the previous quarter. **The machinery and equipment investment** contracted by 7.2 percent compared to 15.5 percent contraction in previous quarter. This is in line with the 7.5 percent contraction of import value of capital goods (at constant price). Domestic commercial car sales contracted by 41.9 percent. **Construction investment** declined by 7.8 percent, compared with a contraction of 4.6 percent in previous quarter. Furthermore, the value of net applications for investment promotion from the Board of Investment (BOI) recorded a total value of 234 billion baht, declined by 10.6 percent, as a result of the lack of clarity in investment promotion policy and the appointment of new BOI board (appointed on 22<sup>nd</sup> April 2014) to approve the applications made since October 2013, as well as the concerns over political situation. The Business Sentiment Index (BSI) remained below 50 level for the third consecutive quarter, from 47.8 and 46.4 in the third quarter and the last quarter of 2013 respectively to 47.1 in this quarter.

*Expenditure in the first quarter of 2014 declined owing to a contraction in domestic demand. Although net export increased, it was not enough to compensate for the decline in domestic demand.*

*Private consumption expenditure contracted by 3.0 percent due to a high base effect in domestic car sales, income slowdown, and declining consumer confidence.*

*Private investment declined by 7.3 percent, compared with a contraction of 13.2 percent in the previous quarter. The contraction was seen in both machinery and equipment and in construction.*

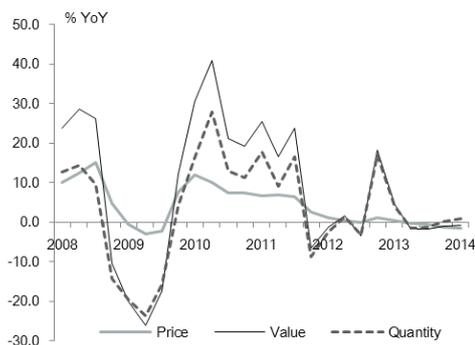


Source: NESDB

**Exports recovered gradually alongside the global economy which remained limited in industrial countries. However, the value of export continued to decline as the falling prices of goods in global market and the gradually increasing export quantity, as well as the constraints on production of key products.** Export value in the first quarter of 2014 was recorded at 55.5 billion US dollars – a 0.8 percent decline, compared with a 1.0 percent contraction in the previous quarter. The export quantity increased by 0.9 percent from the same period last year, while export price contracted by 1.6 percent. Export value (excluding unwrought gold) decreased by 2.6 percent. In baht term, the value of exports, recorded at 1,814.5 billion baht, expanded by 8.8 percent, compared with a growth of 2.4 percent in the previous quarter.

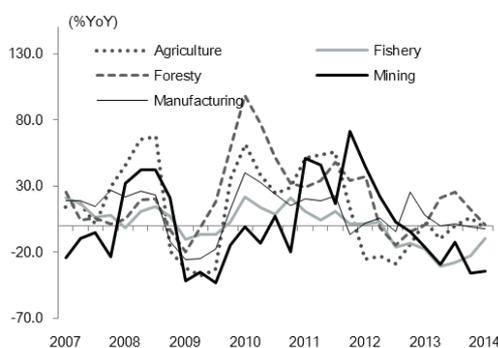
*Export value (USD term) contracted by 0.8 percent due to the slump in export prices, as well as the constraints on production of key products. In baht term, the value of exports expanded by 8.8 percent.*

Value, Quantity, and Price of Export



Source: BOT

Exports Classified by Product Group



Source: BOT

**Export of agricultural commodities:** Export value of agricultural commodities shrank by 2.0 percent, compared to a growth of 5.9 percent in the previous quarter. This was primarily due to the decline in the export price of key agricultural products (10.9 percent decline), such as rice, rubber, cassava and sugar. Although the quantity of exports grew by 10.0 percent, it was not enough for the value of agricultural export to have a positive growth in this quarter. The export value of **rice** increased by 4.6 percent as there was an increase in export quantity of rice by 43.3 percent (owing to the expedited release of government’s stockpiles). Similarly, the export value of **cassava** increased by 26.9 percent, contributed by an increase in export quantity, especially the export to China who has a growing demand for cassava for ethanol production. Meanwhile, the export value of **rubber** declined by 15.5 percent, mainly due to a drop in the price of rubber by 24.3 percent, owing to a high level of stockpile of China who is the primary importer. Export value of **sugar** decreased for the sixth consecutive quarter by 28.8 percent, as export price and quantity dropped. **Manufacturing products** continued to contract due to the slow recovery of global demand, as well as the constraints on production of key products which continued to decline, such as crustaceans (canned, prepared, or preserved) which face a lack of raw materials for processing as shrimp farms do not have enough breeders. Moreover, due to an abnormally

*Export values of agriculture, manufacturing, and fishery products all contracted.*

high base of metal products last year (steel and iron), the quantity and value of export contracted by 2.2 and 2.7 percent respectively. Nonetheless, the goods that recorded growth in export included automotive, electronics, electrical appliances, and machinery and equipment began to grow slowly by 3.1, 0.2, 7.2, and 8.7 percent respectively. Fishery products continued to contract for the seventh consecutive quarter, albeit at a slower rate of 9.4 percent compared with a 22.9 percent contraction in the previous quarter.

Export Value of major commodities

%YoY	2012	2013					2014				Shared Q1/14
	Year	Year	Q1	Q2	Q3	Q4	Q1	Jan	Feb	Mar	
<b>Agriculture</b>	<b>-22.1</b>	<b>0.0</b>	<b>3.2</b>	<b>-9.8</b>	<b>-0.2</b>	<b>5.9</b>	<b>-2.0</b>	<b>-4.5</b>	<b>5.6</b>	<b>-6.5</b>	<b>8.5</b>
Rice	-28.0	-4.6	8.6	-14.0	5.5	-14.0	4.6	-6.8	17.4	6.2	2.1
Rubber	-31.1	-5.9	-8.7	-16.8	-11.1	13.8	-15.5	-11.7	-13.8	-21.0	3.6
Tapioca	9.0	18.1	34.9	-8.3	19.1	25.5	26.9	36.6	36.2	10.7	1.5
<b>Industry</b>	<b>6.1</b>	<b>1.8</b>	<b>8.1</b>	<b>-0.4</b>	<b>1.4</b>	<b>-1.1</b>	<b>-2.7</b>	<b>-4.2</b>	<b>0.6</b>	<b>-4.1</b>	<b>86.9</b>
Agro Manufacturing Product	4.1	-2.6	-1.7	-3.1	-4.5	-0.9	-7.8	-6.1	-7.8	-9.2	11.4
Sugar	8.9	-27.2	-37.4	-22.6	-32.2	-1.2	-28.8	-18.8	-43.8	-21.0	1.0
Apparels and textile materials	-16.2	-19.5	-13.6	-24.6	-21.2	-18.2	-25.2	-26.9	-26.5	-22.4	0.4
Shrimp, Crab Manufacturing Product	-12.0	3.6	1.3	6.8	4.2	2.2	-1.3	-1.5	0.6	-2.9	3.3
Electronics	0.9	-0.7	3.6	-8.6	2.6	1.7	0.2	2.7	4.7	-5.8	14.0
- Computer and parts	14.3	-5.6	-1.2	-18.1	-1.6	0.9	-3.2	3.0	0.7	-11.9	6.7
- Integrated circuits & parts	-15.4	7.9	2.0	7.4	18.7	3.1	5.2	1.6	10.3	4.2	3.0
- Other electronic parts	-4.9	7.9	8.4	-1.9	10.8	14.6	10.2	5.7	17.7	7.7	2.1
Electrical Appliances	2.2	2.3	13.4	-1.4	-0.8	-0.6	7.2	13.1	6.7	3.0	5.8
Automotive	26.3	7.6	16.8	12.2	7.2	-3.9	3.1	-12.1	17.5	4.0	14.4
- Passenger Vehicle	-9.3	16.6	68.2	40.7	16.9	-25.0	-8.0	-27.2	6.1	-4.6	2.8
- Vehicle parts	11.1	7.7	3.1	8.7	8.6	10.2	8.8	5.7	11.2	9.4	5.8
Metal & Steel	21.3	-5.5	55.9	6.6	-21.0	-37.2	-34.2	-38.8	-40.0	-21.7	4.0
- Steel	63.1	-14.8	140.6	6.7	-45.7	-62.7	-62.5	-67.3	-68.7	-42.3	1.1
Petroleum products	15.7	-1.3	-6.3	-19.3	9.6	11.8	-15.5	-2.7	-18.8	-23.4	4.6
Machinery & Equipment	1.9	4.0	4.2	-1.5	4.7	8.9	8.7	11.3	14.7	1.7	8.2
Chemical	2.1	7.6	15.9	10.0	4.6	0.2	-7.3	-6.8	-0.3	-13.6	3.8
Gold	12.8	-50.1	-86.8	-29.1	-46.8	-8.7	469.3	1103.1	360.9	305.3	2.2
<b>Fishery</b>	<b>-7.1</b>	<b>-25.4</b>	<b>-18.2</b>	<b>-31.6</b>	<b>-28.2</b>	<b>-22.9</b>	<b>-9.4</b>	<b>-12.3</b>	<b>-5.7</b>	<b>-9.9</b>	<b>0.9</b>
Shrimp, Crab, Lobster	-14.3	-33.4	-19.0	-46.5	-35.1	-29.8	-27.1	-33.4	-23.5	-23.5	0.3

Source: BOT

**Export markets: exports to major markets such as the U.S. and EU (15) and Japan grew in this quarter, while exports to ASEAN (9), China, Australia, and Hong Kong contracted.** This is in line with the slow recovery of the global economy which remains concentrated in key industrial countries, while the Chinese and ASEAN economies are decelerating. Exports to the US, and EU (15) grew by 0.6 and 4.8 percent, decelerating from a growth of 5.2 and 6.3 percent respectively in the previous quarter. Such growth was in line with the deceleration of the US economy and the gradual recovery of the European economy. Export to Japan recorded a growth of 2.0 percent after three consecutive quarters with contraction as Japan economy began to show signs of recovery. Meanwhile, exports to ASEAN (9) and China contracted by 5.4 and 4.4 percent compared with a growth of 1.2 and 12.9 percent in the previous quarter respectively due to the economic slowdown in China, Singapore, and Vietnam. At the same time, export to Australia declined by 17.4 percent contributed primarily by a contraction in exports of automotive and parts, and iron, metal and steel. Similarly, export to Hong Kong continued to contract by 1.8 percent.

*Exports to primary markets grow, but exports to ASEAN (9), China, and Australia contracted.*

Major Export Market

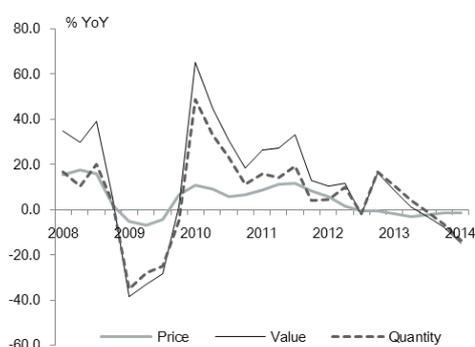
(%YOY)	2012	2013					2014				Shared Q1/14
	Year	Year	Q1	Q2	Q3	Q4	Q1	Jan	Feb	Mar	
USA	4.6	0.8	2.6	-3.5	0.7	5.2	0.6	0.4	-2.3	3.6	10.0
Japan	-1.6	-5.2	1.5	-6.2	-10.1	-5.5	2.0	1.8	2.7	1.6	10.2
EU (15)	-9.2	2.7	8.7	-5.2	3.3	6.3	4.8	4.6	7.0	2.9	8.7
ASEAN (9)	5.0	5.0	5.9	2.5	10.8	1.2	-5.4	-5.0	0.9	-10.9	25.7
Hong Kong	9.6	0.7	11.2	7.8	-1.4	-12.0	-1.8	-14.0	8.7	0.1	6.5
Middle East	12.8	0.3	5.4	-6.9	0.6	2.4	2.6	5.4	1.5	1.5	5.1
China	2.5	1.4	7.3	-13.4	-0.3	12.9	-4.4	-0.8	-0.8	-11.2	11.3
Australia	22.1	6.0	33.6	16.3	-5.5	-10.7	-17.4	-25.5	-1.7	-24.1	4.7
Total Export	3.1	-0.3	4.3	-2.2	-1.7	-1.0	-1.0	-2.0	2.4	-3.1	100.0
Total Export by Balance of Payment	3.1	-0.2	4.5	-1.9	-1.8	-1.0	-0.8	-1.5	2.2	-2.7	98.9

Source: BOT

**Imports contracted in line with the declining exports and the weakening domestic demand, declining import prices, as well as the abnormally high import of gold in the same period last year (import value of gold in Q1/2013 was 6.35 billion US dollars):** import in US dollar term was recorded at 49.1 billion US dollars in the first quarter of 2014. This represented a decline of 14.8 percent, as import quantity declined by 13.8 percent, representing a decline in all categories. The price of imports declined by 1.4 percent, due to the contraction in prices of crude oil, gold, vehicle parts and accessories, and iron and steel. With unwrought gold excluded, the value of import contracted by 6.4 percent. In Thai baht term, the value of import was recorded at 1,602.83 billion baht, or a decline of 6.6 percent compared with a contraction of 4.6 percent in the previous quarter.

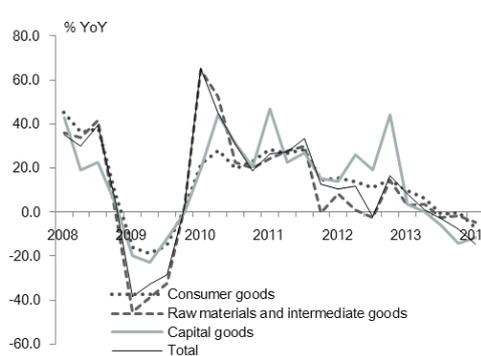
*Import in US dollar term contracted by 14.8 percent in line with the declining exports and the weakening domestic demand, as well as the decline in price of imports and the abnormally high import of gold in the same period last year. In Thai baht term, the value of import contracted by 6.6 percent.*

Value, Quantity, and Price of Import



Source: BOT

Import value per economic classification



Source: BOT

Overall, there was a decline in all categories of import. **The import value of raw materials and intermediate goods** contracted by 4.7 percent. This was due to the decline in import of crude oil, natural gas, minerals, non-agro manufacturing products (such as construction materials, materials of base metal, parts of electrical appliances, computer parts and accessories, and other electrical apparatus. Such decline is in line with the contraction in manufacturing production, domestic investment, and the export sector, as well as the maintenance shutdown of several oil refineries which led to a decline in crude oil import. **The import value of capital goods** contracted by 11.1 percent. This contraction was a result of the decline in import value of machinery, equipment, and supplies, computers and aircrafts, ships, floating structures, and locomotive. **The import value of consumer goods** declined by 7.3 percent. This was in line with the slowdown in private consumption expenditure. The goods whose import value declined include food, beverage, and dairy products, animal and fishery products and household electrical appliances.

*There was a decline in all categories of import.*

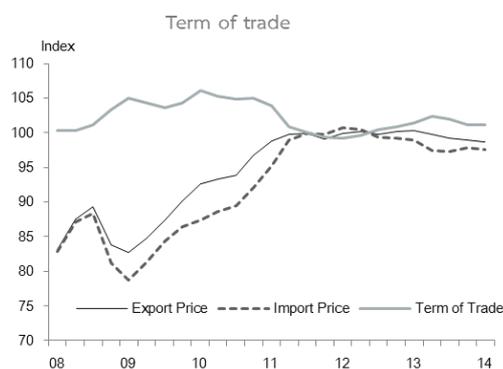
Import Value of major commodities

%YoY	2012	2013					2014				Shared Q1/14
	Year	Year	Q1	Q2	Q3	Q4	Q1	Jan	Feb	Mar	
<b>Raw materials and intermediate goods</b>	4.7	0.6	3.3	3.4	-2.6	-1.6	-4.7	1.1	-5.8	-9.7	60.4
Crude oil	9.0	8.6	6.2	10.1	-4.9	23.8	-4.3	18.8	-8.0	-21.7	16.5
Natural gas	10.0	16.6	31.5	45.7	-5.1	3.5	-6.4	12.4	-63.7	37.3	1.6
Petroleum products	12.9	10.2	-1.4	20.2	12.4	9.6	42.3	6.3	157.3	28.4	3.9
Minerals	-1.2	-21.6	8.3	-22.4	-25.6	-50.2	-44.0	-47.2	-46.6	-38.3	1.2
Materials of base metal	1.5	-1.1	10.4	4.3	-0.7	-17.2	-19.2	-11.3	-20.5	-26.1	8.3
Construction materials	16.5	-0.1	11.0	3.1	-4.1	-9.1	-8.9	-10.3	-13.9	-2.6	1.8
Parts of electronics and electrical appliances	-9.3	0.4	-4.9	3.7	1.8	0.9	3.6	8.2	6.6	-3.5	4.0
Parts of electrical appliances	6.1	-1.6	-8.7	-0.4	12.1	-8.6	-5.8	-0.1	-7.0	-10.4	1.1
Computer parts & accessories	13.5	-12.3	-1.5	-15.6	-15.0	-16.7	-16.8	-13.5	-15.6	-21.5	2.0
Other electrical apparatus (excl. printed circuits)	4.4	-2.4	6.5	-4.2	-1.1	-10.1	-10.2	-4.6	-16.1	-10.3	3.6
<b>Capital goods</b>	25.4	-4.5	3.6	0.2	-6.1	-14.1	-11.1	-16.9	-2.3	-12.2	23.4
Machinery, equipment, and supplies	28.3	-10.1	-1.9	-12.0	-9.6	-16.0	-7.6	-8.3	-13.0	-1.6	19.3
Aircrafts, ships, floating structures, and locomotive	13.1	46.5	65.2	178.0	25.7	-5.8	-36.9	-71.8	133.6	-66.6	2.1
<b>Consumer goods</b>	13.6	3.6	9.6	6.4	-1.1	0.0	-7.3	-12.1	-10.2	1.4	8.6
Food, beverage, and dairy products	12.0	8.3	17.4	5.0	4.5	6.4	-12.4	-29.4	-5.5	10.9	2.1
<b>Other Imports</b>	0.8	6.5	42.6	2.5	11.3	-26.5	-60.3	-63.9	-67.7	-45.6	7.7
Non-monetary gold (excl. articles of goldsmiths)	-24.8	21.0	55.4	0.8	70.3	-24.9	-82.5	-84.8	-89.4	-68.0	2.0
<b>Total Imports (Customs basis)</b>	9.3	0.3	8.8	2.8	-2.0	-7.9	-15.4	-15.5	-16.6	-14.2	100
<b>Imports, f.o.b. (BOP basis)</b>	11.8	-0.4	8.5	1.0	-2.9	-7.6	-14.8	-12.4	-18.9	-13.7	88.4

Source: BOT

**Term of Trade remained stable compared to the previous quarter.** Export price decreased by 1.6 percent while import price decreased by 1.4 percent, bringing the term of trade to 101.2 compared to 101.1 in the previous quarter.

*Term of Trade remained stable compared to the previous quarter.*



Source: BOT

**Trade balance recorded a surplus for the third consecutive quarter.** The trade balance in the first quarter of 2014 recorded a surplus of 6,519 million US dollars (equivalent to 211,715 million baht), compared to a surplus of 3,849 million US dollars (equivalent to 123,016 million baht) in the previous quarter. This was due to the faster decline of import value over export value.

*Trade balance recorded a surplus.*

**Production side**

**Agricultural sector** decelerated following the declines in off-season paddy, oil palm and cassava. In the first quarter, agricultural sector expanded by 0.8 percent slowed down from 2.1 percent in the previous quarter. This was mainly caused by the decline in production of off-season paddy, oil palm and cassava from the affect of drought and conversion of cassava’s plantation area to sugar cane. However, other major agricultural production expand moderately, particularly rubber, fruit, and livestock due to (i) increase in rubber tapping area, (ii) higher yield of fruit production from long period of winter season, and (iii) acceleration of livestock production following an increase in price and demand from both domestic and international markets. This was in line with an increase of 2.9 percent in Agricultural Production index. **Agricultural Price Index decreased** from 1.8 percent growth in the previous quarter to 0.1 percent in this quarter following a decline in price of paddy (16.8 percent), rubber (22.8 percent) and maize (23.8 percent). This was mainly contributed by (i) acceleration of rice sale from government’s stockpiles and the termination of Government’s Rice Pledging scheme, (ii) increase in global rubber production as well as high China’s rubber stock and its sluggish economy, and (iii) increases in maize’s yield and planting areas. Major agricultural products with increased prices included oil palm (53.0 percent), cassava (5.8 percent), and white shrimp (70.4 percent). These higher prices were due to (i) greater cassava demand for ethanol production required by domestic market and China, (ii) contracted oil palm production caused by drought, (iii) not fully-recovery of fishery production, and (vi) higher demand for fruit and livestock products. All in all, farm income grew by 2.8 percent compared to 3.3 percent in the previous quarter.

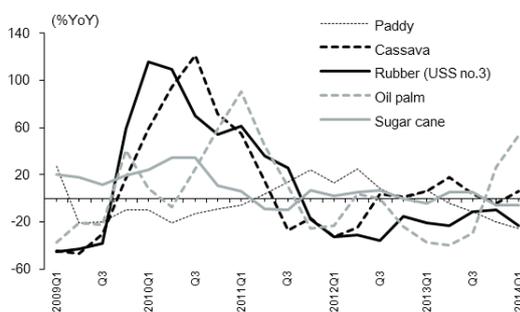
*Agricultural sector decelerated by 0.8 percent following an effect from drought and conversion of planting area which resulted in the declines of paddy, oil palm and cassava production.*

Farm income expanded following the increases in outputs and prices of major agricultural products



Source : OAE

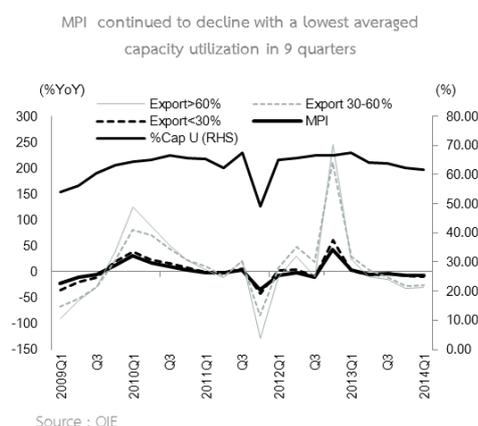
Prices of paddy, rubber, and sugar cane declined; while, prices of oil palm and cassava increased



Source : OAE

**Industrial Sector** continuously contracted for four consecutive quarters due to the decreases in investment, export volume, and domestic consumption. In the first quarter, industrial production decelerated by 2.7 percent, continuously contracted from a decrease of 1.1, 0.5, and 2.8 percent in the second, third and fourth quarters of last year, respectively. The contraction was caused by (i) the decline in domestic consumption, though partly offset by recovering export, (ii) the normalization of car production as the first-time-car-buyer scheme has ended, (iii) the temporary plant’s closure for maintenance of oil refinery, tobacco and chemical product plants, and (iv) the lower demand for hard disk drive due to changes in technology and the global demand. In details, the highly contracted industries included jewelry (20.1 percent), automotive and parts (26.0 percent), petroleum products (6.7 percent), leather products (10.5 percent) and hard disk drive (7.8 percent). On the other hand, industries that still expanded includes clothing (7.5 percent), rubber and plastic products (3.7 percent), electronic appliances (7.5 percent) and electronic tubes (5.0 percent). **The average capacity utilization was** lowest in nine quarters at 61.8 percent, slightly decreased from 62.1 percent in the previous quarter and 67.4 percent in the same quarter last year.

*Industrial sector contracted, by 2.7 percent, the fourth consecutive quarter decline due to the contraction in investment, export, and domestic consumption.*



**Construction Sector contracted in both public and private sectors.** In the first quarter, the sector dropped by 12.4 percent, a continuous drop from 8.5 percent in the previous quarter. In detail, public and private construction fell by 7.8 and 11.8 percent. This was in line with the reduction of permitted construction area in the last three quarters by 4.6, 6.6, and 17.6 percent, respectively; although, the permitted construction in this quarter grew by 3.9 percent. Furthermore, cement sales continuously decelerated for five consecutive quarters at 0.4 percent. However, metal sale volumes were up by 12.4 percent. In price, construction material increased by 1.3 percent following higher cost of raw materials and wages.

**Real Estate Sector** contracted following a slowdown in domestic economy and political situation. In this quarter, the sector contracted by 0.3 percent, dropped from 3.8 percent growth in the previous quarter. On the **demand side**, housing right transfer in Bangkok and vicinities area decreased by 5.8 percent due to an economic slowdown and political uncertainty which primarily affected demands for housing. In addition, housing credits for Bangkok and vicinities area dropped by 3.2 percent following bank's tighten loan criteria. On the **supply side**, although newly completed and registered housing units in Bangkok and vicinities expanded by 2.4 percent, the numbers of new projects contracted by 41.6 percent, especially for condominium project which dropped by 50.5 percent. This partly was the results of political uncertainty and continually sluggish economy that lessen business confidence. In price, land and house prices rose. In details, prices of land, town house (including land), single detached house (including land), and condominium increased by 7.0, 6.2, 5.7 and 3.8 percent, respectively.

**Hotels and Restaurants Sector** contracted following the political circumstances, the new Chinese tourism law and Chinese economic slowdown. In this quarter, the sector contracted for the first time since the flood disaster occurred in the fourth quarter of 2011 by 3.1 percent, compared to 5.7 percent growth in the previous quarter. This was consistent with following indicators; (i) a first drop of inbound tourist numbers in nine quarters by 5.8 percent (or 6.6 million persons). Tourists from most countries declined, except European, South American and African, (ii) a first drop of tourism revenue since Q2/2010 political turmoil by 4.2 percent (or 330,082 million baht), and (iii) a drop of average occupancy rate to 60.3 percent from 72.1 percent in the same period last year .

Remarkably, although inbound tourist number travelled via Suvarnabhumi and Don Muang<sup>1</sup> Airports sharply dropped by 15.0 percent, the tourists travelled via other airports in the country rose by 16.9 percent, especially Samui, Chiangmai, Krabi and Phuket Airports which increased by 174.0, 73.9, 46.7, and 6.1 percent, respectively. Furthermore, the inbound tourists from Europe, South America and Africa still increased by 6.6, 19.7 and 10.1 percent, respectively. Top five of inbound tourists were Russian, French, Finnish, Laotian, and Italian, which increased by 18.7, 7.3, 15.0, 39.2, and 8.9 percent, respectively.

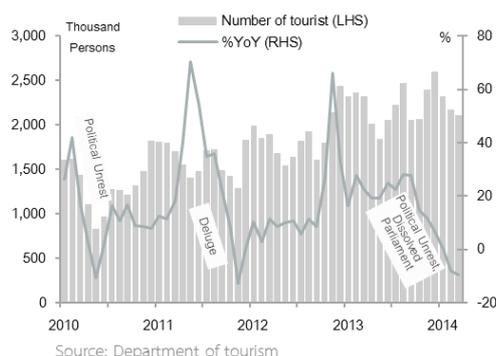
*Construction sector contracted by 12.4 percent, following 7.8 and 11.8 percent decreases in public and private construction, respectively.*

*Real Estate Sector contracted by 0.3 percent following economic slowdown and political uncertainty. However, higher land price led to higher housing prices.*

*Hotel and restaurant sector contracted by 3.1 percent following the political unrest, the new Chinese tourism law to uplift the quality of Chinese tourists and Chinese economic slowdown. The inbound tourist numbers dropped by 5.8 percent (or 6.6 million persons)*

<sup>1</sup> The number of inbound tourists travelled via Suvarnabhumi and Don Muang Airports accounts for approximately 59 percent of total inbound tourists.

Foreign Tourist number was down for the first time in 9 quarters by 5.8 percent



**Wholesale and retail trade sector** contracted following a decline in investment, tourism and domestic consumption. In this quarter, wholesale and retail trade sector dropped for the first time in eighteen quarters by 0.5 percent, compared to 2.2 percent expansion in the previous quarter. **In wholesale trade**, machinery and equipments continued to drop since the third quarter in 2013 following the reduction of investment on machinery and equipments. This was in line with declining business sentiment index for three consecutive quarters from 47.8 and 46.4 in the third and fourth quarters last year to 47.1 in this quarter. However, agricultural raw materials, construction materials, and fuel increase; while food slowdown. **In retail trade**, department store and automobiles contracted following the completion of first-car-buyers scheme and the contraction in tourism sector. However, food and beverages continued to grow at high rate.

*Wholesale and retail trade sector declined by 0.5 percent which lowered from 2.2 percent expansion in the previous quarter following the decline in investment, tourism and domestic car sale.*

Wholesales and retail sales indices

%YoY	2012	2013					2014		
	Year	Year	Q1	Q2	Q3	Q4	Jan	Feb	2M
<b>Retail sales index</b>	<b>18.4</b>	<b>-0.5</b>	<b>10.0</b>	<b>2.8</b>	<b>-5.4</b>	<b>-8.1</b>	<b>-10.4</b>	<b>-8.0</b>	<b>-9.2</b>
Food and beverages	-16.3	51.7	106.6	104.5	14.7	13.5	46.7	33.9	38.8
Department stores and supermarket	8.8	2.2	4.4	3.8	-1.2	1.9	-0.6	-1.0	-0.8
Motor vehicles and fuel	29.1	-2.9	14.1	0.6	-9.7	-14.3	-16.1	-14.4	-15.2
<b>Wholesales index</b>	<b>20.4</b>	<b>-2.1</b>	<b>11.1</b>	<b>-1.8</b>	<b>-5.9</b>	<b>-10.6</b>	<b>-19.0</b>	<b>-13.5</b>	<b>-16.3</b>
Agricultural raw material and live animals	-12.2	0.7	-0.3	0.1	3.1	0.0	-9.4	19.9	4.0
Food and Beverage	10.8	12.0	13.9	13.8	15.0	6.2	-0.2	5.6	2.6
Fuel	16.0	5.4	6.8	2.6	-1.8	13.7	18.9	7.3	13.5
Construction material	10.9	5.8	9.6	5.3	9.7	-0.8	0.9	2.2	1.6
Machinery and equipment	18.6	1.6	26.6	1.6	-8.3	-10.7	-14.1	-4.6	-9.4

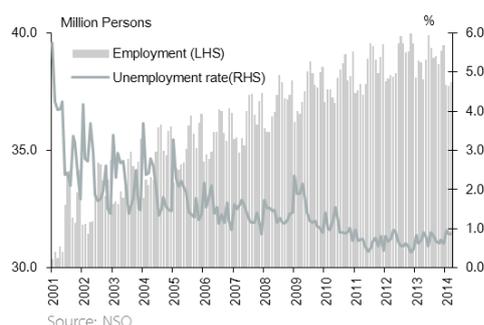
Source: BOT

**Employment** declined following economic deceleration and contraction; while unemployment rose but remained low. In the first quarter of 2014, employment stood at 37.81 million persons, dropped by 0.5 percent following a decline in non-agricultural employment by 277,650 persons or 1.1 percent, including: (i) **construction sector**: decreased by 176,800 persons or 6.8 percent due to the contraction in public and private construction following economic slowdown and weak business confidence, (ii) **wholesale and retail trade sector**: decreased by 102,127 persons or 1.6 percent and was in line with the declines in wholesale trade index and retail trade index of 16.3 percent and 9.2 percent, respectively, and (iii) **industrial sector**: decreased by 88,333 persons or 1.3 percent and was consistent with the drop in manufacturing output. However, agricultural employment increased by 0.7 percent (or 88,343 persons) following greater planting area and production of major crops, as well as a modest recovery in shrimp production.

*Employment dropped by 0.5 percent following a 1.1 percent decline in non-agricultural employment; while, agricultural employment rose by 0.7 percent. Unemployment rate increased, but was still low at 0.9 percent.*

The average number of unemployed persons in this quarter was 344,430 persons or increased by 75,703 persons from the same period last year. Unemployment rate remained low at 0.9 percent.

Employment decreased by 0.5 percent following  
the decrease in non-agricultural employment by 1.1 percent  
with 0.9 percent unemployment rate



Employed Persons by Industry

%YoY	2012	2013					2014			
	Year	Year	Q1	Q2	Q3	Q4	Q1	Jan	Feb	Mar
Employed (100%)	1.2	-0.1	1.3	0.9	-1.2	-1.3	-0.5	0.4	-1.2	-0.7
- Agricultural (38.7%)	3.7	-0.2	1.2	0.5	-1.7	-0.4	0.7	1.0	-1.2	2.4
-- Non-Agricultural (61.3%)	-0.3	0.0	1.4	1.1	-0.8	-1.9	-1.1	0.1	-1.2	-2.1
Manufacturing (14.9%)	1.8	0.8	1.1	-1.3	2.5	0.9	-1.3	-1.7	-0.1	-2.2
Construction (6.5%)	5.1	2.0	6.0	5.6	-3.2	-1.4	-6.8	-11.3	-5.6	-3.9
Hotel and Restaurant (6.0%)	-9.4	-0.3	4.4	7.2	-6.0	-6.4	-1.3	-2.7	-2.3	1.3
Wholesale (15.3%)	-0.7	0.2	3.5	2.3	-1.2	-3.7	-1.6	1.0	-2.1	-3.8
Unemployment (Hundred thousand persons)	2.6	2.8	2.8	2.9	3.1	2.6	3.4	3.6	3.3	3.4
Unemployment Rate (%)	0.7	0.7	0.7	0.7	0.8	0.7	0.9	0.9	0.9	0.9
Of Which under employment (Hundred thousand persons)	3.5	3.4	3.9	2.8	3.3	3.5	2.8	3.1	2.3	2.8

Source: National Statistical Office

## □ Fiscal conditions

**On the revenue side**, revenue collection was lower than the target and the same period of last year. In the second quarter of fiscal year 2014 (January – March 2014) net government revenue collection stood at 432,470.4 million baht, or 7.1 percent lower than target and 7.9 percent lower than the same period of last year. This was caused by (i) the reduction of tax rate on personal income tax and the tax base's expansion fell short from the target (ii) the decrease of Value added tax (VAT) collection on import due to decline in import value and (iii) the deceleration of excise tax on automotive due to the decline of car purchase from its high base in the same period of last year.

**The first half of fiscal year 2014**, net government revenue collection was at 935,919.5 million baht or 2.2 percent lower than target and 4.3 percent lower than the same period of last year.

*Net government revenue collection was 7.1 percent lower than the target due to the reduction of tax rate on personal income tax, the decrease of VAT collection, and the deceleration of excise tax on automotive.*

Government Revenue

Fiscal Year (Billion Baht)	2012	2013					2014		
	Year	Year	Q1	Q2	Q3	Q4	Q1	Q2	6M
Net Government Revenue	1,975.9	2,161.3	508.5	469.6	641.9	541.3	503.4	432.5	935.9
Compared with the target (%)	-0.2	2.9	16.2	5.2	-1.4	-4.3	2.5	-7.1	-2.2
YOY (%)	4.4	9.4	27.6	13.7	3.4	-0.5	-1.0	-7.9	-4.3

Source: Ministry of Finance

**On the expenditure side**, the total budget disbursement in the second quarter of the fiscal year 2014 was at 642,735.9 million baht, decreasing by 3.6 percent compared with the same period last year. The total budget disbursement of this quarter comprised of the current budget of 483,940.5 million baht (increased by 6.3 percent) and the capital budget of 158,818.7 million baht (decreased by 24.9 percent).

The budget disbursement classified by source of funding were (i) the 2014 annual budget disbursement of 482,641.6 million baht (equivalent to 19.1 percent disbursement rate of the total budget which was lower than the target of 24 percent ) The annual budget disbursement comprised of current expenditure of 448,240.5 million baht (equivalent to 21.4 percent disbursement rate which was 0.2 percent higher than the same quarter of last year) and capital expenditure of 34,401.1 million baht (equivalent to 8.0 percent of total budget which was lower than the target of 20 percent but higher than the same quarter of last year by 0.2 percent). The slowdown was partly due to the delay in allocation of the specific purpose subsidies for local government, and the obstacle on project operation such as contractor shortage and delay in bidding process. (ii) carry-over budget disbursement of 70,456.3 million baht decreased by 3.1 percent comparing to the same quarter of last year (or equivalent to 23.4 percent disbursement rate), (iii) off-budget loan of 7,631 million baht which included the disbursement of TTK stimulus package II of 2,990 million baht, the Development Policy Loan (DPL) of 3,536 million baht, and the Royal Decree on investment loan for water resource management and future development of 1,105 million baht and (iv) state-owned-enterprises' (including PTT public company limited) capital budget disbursement of 82,045.7 million baht, improved by 9,614.4 million baht or 13.3 percent from the same period of last year. It was mostly contributed from the disbursement of Mass Rapid Transit Authority of Thailand and PTT public company limited.

In the first half of fiscal year 2014, public expenditure stood at 1,567,342.8 million baht, contracted by 4.2 percent compared with the same period of last year. Capital expenditure disbursement registered at 412,524.6 million baht, contracted by 18.2 percent while current expenditure disbursement registered at 1,154,818.2 million baht, grew by 2.1 percent, comparing with the same period of previous year.

*The annual budget disbursement remained below the target because capital budget disbursement was significantly below the target.*

Government Expenditure

Fiscal Year (Bil baht)	2012	2013					2014		
	Year	Year	Q1	Q2	Q3	Q4	Q1	Q2	6M
budget disbursement	2,684.9	2,847.0	968.5	666.7	564.1	647.7	924.6	642.7	1,567.3
YOY (%)	9.7	6.0	68.4	-21.0	7.4	-12.6	-4.5	-3.6	-4.2
Current Expenditure	1,945.8	1,994.9	675.4	455.3	413.0	451.2	670.9	483.9	1,154.8
YOY (%)	4.2	2.5	59.1	-32.1	6.4	-2.4	-0.7	6.3	2.1
Capital Expenditure	739.0	852.1	293.1	211.4	151.1	196.5	253.7	158.8	412.5
YOY (%)	27.1	15.3	95.0	22.6	10.6	-29.3	-13.4	-24.9	-18.2
Disbursement excluded Department of local administration	2,501.0	2,654.1	891.3	594.5	528.8	639.5	826.5	634.6	1,461.1
YOY (%)	NA	6.1	68.0	-19.5	3.4	-11.2	-7.3	6.7	-1.7
<b>1. Annual Budget</b>	<b>2,148.4</b>	<b>2,171.4</b>	<b>699.8</b>	<b>512.8</b>	<b>452.5</b>	<b>506.3</b>	<b>760.8</b>	<b>482.6</b>	<b>1,243.4</b>
Disbursement	90.3	90.5	29.2	21.4	18.9	21.1	30.1	19.1	49.2
Disbursement Target (%)	93.0	94.0	20.0	24.0	25.0	25.0	22	25	47.0
Current Budget	1,873.0	1,894.8	641.4	422.1	402.3	429.0	644.3	448.2	1,092.5
Capital Budget	275.4	276.6	58.4	90.7	50.2	77.3	116.5	34.4	150.9
Disbursement	66.3	68.7	14.6	22.6	12.6	18.9	27.2	8	35.2
Disbursement Target (%)	72.0	80.0	10.0	15.0	25.0	30.0	15	20	35.0
Disbursement of Department of local administration	183.9	192.9	77.2	72.2	35.3	8.2	138.2	39.5	177.7
Annual Budget excluded Department of local administration	1,964.5	1,978.5	622.5	440.6	417.2	498.1	622.6	443.2	1,065.8
<b>2. Carry-over-budget</b>	<b>146.8</b>	<b>231.0</b>	<b>86.2</b>	<b>72.7</b>	<b>30.8</b>	<b>41.3</b>	<b>70.3</b>	<b>70.5</b>	<b>140.8</b>
<b>3. Off-budget loan</b>	<b>33.6</b>	<b>40.3</b>	<b>8.1</b>	<b>8.8</b>	<b>10.3</b>	<b>13.1</b>	<b>7.9</b>	<b>7.6</b>	<b>15.5</b>
<b>4. State-own-enterprise's capital budget</b>	<b>356.1</b>	<b>404.3</b>	<b>174.4</b>	<b>72.4</b>	<b>70.5</b>	<b>87.0</b>	<b>85.6</b>	<b>82.0</b>	<b>167.6</b>

Source: FPO &amp; GFMIS &amp; NESDB

**Fiscal balance**, in the second quarter of fiscal year 2014, the cash balance before debt financing recorded a deficit of 111,065.4 million baht. This comprised of a deficit in budgetary balance of 125,648.7 million baht and a deficit of non-budgetary balance of 52,282.7 million baht. Furthermore, the government conducted the cash balance management through borrowing of 66,866 million baht. Thus, treasury reserve at the end of March 2014 remained at 213,667 million baht.

**For the first half of fiscal year 2014**, the government budget balances recorded deficit in budgetary balance of 460,320.7 million baht and a deficit of non-budgetary balance of 60,096.5 million baht. Moreover, the government conducted a cash balance management through borrowing of 130,160.1 million baht (the ceiling for borrowing in fiscal year 2014 is at 250,000 million baht).

**Public debt** at the end of February 2014 amounted to 5,530,363.9 million baht or equivalent to 46.1 percent to GDP, increase from the previous month and the same period of last year by 0.3 percent and 1.98 percent respectively. The component of public debt consisted of government debt at 3,905,865.7 million baht (70.6 percent of total debt), non - financial institution SOEs debt at 1,090,502.45 billion baht (19.7 percent of total debt), and financial institution SOEs debt (government guarantee) at 533,422.7 million baht (9.7 percent of total debt).

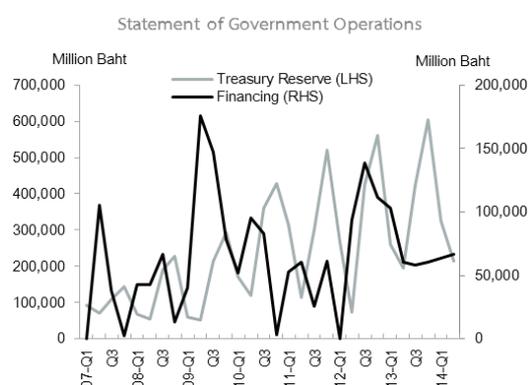
*Treasury reserve at the end of March recorded at 213,667 million baht.*

*Public debt was at 46.1 percent to GDP.*

Public Debt

End of Fiscal Year (Billion Baht)	2012	2013					2014	
	Year	Year	Q1	Q2	Q3	Q4	Q1	Q2 (End of Feb 14)
Public Debt End of Period	4,937.2	5,430.6	4,961.3	5,074.0	5,209.3	5,430.6	5,449.8	5,530.4
Public Debt to GDP (%)	44.5	45.5	43.7	44.1	44.1	45.5	45.8	46.1
Direct Government	3,515.0	3,774.8	3,516.6	3,555.6	3,642.1	3,774.8	3,827.1	3,905.9
Non-Financial State Enterprises Debt	1,064.3	1,113.0	1,072.8	1,072.4	1,076.2	1,113.0	1,085.0	1,090.2
Special Financial Institutions Guaranteed Debt	352.2	541.9	364.6	437.9	490.2	541.9	536.9	533.4
FIDF Debt (Liability)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Autonomous Agency Debt (VF&EFO)	5.7	0.8	7.3	8.1	0.8	0.8	0.8	0.8

Source: FPO



Source: MOF

## □ Financial condition

**Policy rate declined.** During the first quarter of 2014, The Monetary Policy Committee (MPC) decided to lower the policy interest rate from 2.25 to 2.00 percent per annum. Such decision was due to the heightening of economic downside risks as political unrest remains. Nevertheless, major countries, such as the US, EU and Japan, continually kept their policy rates at a low level. Meanwhile, most of ASEAN countries also kept their policy rate unchanged, except for Vietnam which decided to cut both Refinancing Rate and Discount Rate by 0.50 percent per annum to bolster its economy. **In April 2014**, the MPC announced that the policy interest rate will be kept unchanged at 2.00 percent per annum while the MPC will closely monitor domestic economic situation in order to implement an appropriate monetary policy in the timely manner. Such decision was in line with other ASEAN countries.

**An average deposit and lending rates of Commercial bank and Specialized Financial Institutions declined following a reduction in policy interest rate.** At the end of the first quarter of 2014, an average 12-month deposit rate of four major banks, medium commercial banks and Specialized Financial Institutions (SFIs) declined from 2.23, 2.37, and 2.60 percent per annum in the previous quarter to 1.75, 2.02 and 2.49 percent per annum, respectively. Similarly, an average MLR of four major banks and medium commercial banks declined from 6.85 and 7.25 percent per annum to 6.75 and 7.17 percent per annum. Thus, the real deposit and lending rate<sup>2</sup> reduced from the previous quarter to -0.36 and 4.64 percent per annum, respectively. **In April 2014**, commercial banks slightly decreased their 12-month deposit rate while average MLR was kept unchanged from March 2014.

*MPC decided to lower policy rate by 25 basis points as economic downside risks increased.*

*An average deposit and lending rates declined following a reduction in policy interest rate. However, the greater reduction in deposit rate when compare to lending rate has resulted in negative real deposit rates.*

Interest rate

Bank	2012				2013				2014				Interest rate at the end of Apr 2014
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Jan	Feb	Mar	Apr	
Policy Interest rate	-0.25			-0.25		-0.25		-0.25			-0.25		2.00
The commercial banks' 12-month deposit rates change													
Four Major banks	-0.01			-0.40		0.05		-0.27	-0.04	-0.09	-0.36	-0.02	1.73
Medium Commercial Banks	-0.04	0.08	-0.03	-0.29	-0.06			-0.13	-0.02	-0.03	-0.30	-0.10	1.92
Retail Bank	-0.13			-0.17				-0.11			-0.23		2.49
The commercial banks' Minimum Loan Rates change													
Four Major banks	-0.12			-0.13				-0.16	0.03		-0.13		6.75
Medium Commercial Banks	-0.11		0.02	-0.13				-0.13			-0.09		7.17
Retail Bank	-0.08			-0.04				-0.12					6.92

Source: CEIC, BOT

**Deposits including Bill of Exchange (B/E) of Commercial Banks** expanded by 6.5 percent, slowing down from the expansion of 7.1 percent in the previous quarter. This was mainly caused by the reduction in fundraising activities of commercial banks in accordance to the new loan target in 2014 that was lowering down to match current economic condition. Moreover, the slowdown in deposit also caused by the reduction in deposit rate as well as saving shift toward other asset class that yield higher return especially mutual fund.

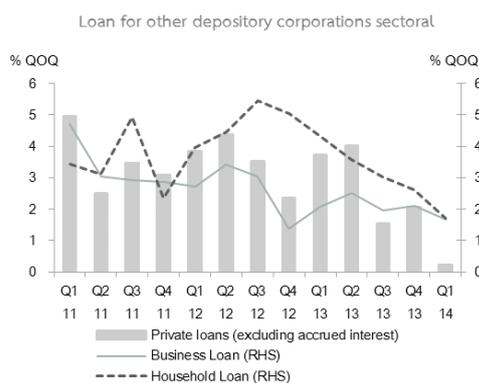
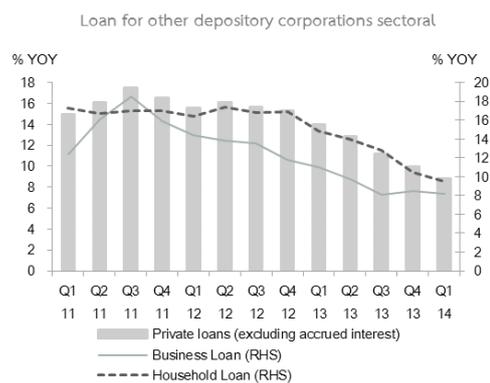
**Private loans (excluding accrued interest) in the first quarter decelerated from the same period of last year and in the previous quarter.** Commercial bank's loan grew by 8.1 percent, decreasing from the expansion of 11.8 percent in the same period of last year. Furthermore, on the quarter-on-quarter basis, commercial bank's loan merely expanded by 0.23

*Deposits including Bill of Exchange (B/E) of Commercial Banks slowed down as the competition to attract deposits using various instruments declined while more saving has shift toward mutual funds.*

<sup>2</sup> Calculated from an average 12-month deposit and minimum loan rate of 4 major banks minus with headline inflation rate.

percent (%QoQ S.A.) comparing to the growth rate of 2.06 percent (%QoQ S.A.) in the previous quarter. The deceleration mainly owed to the deceleration of household loan. Furthermore, the deceleration was partly due to the high based effect in the previous year particularly loan for purchase or hire purchase Cars and Motor-cycle. Moreover, the slowdown in economic momentum also induced the commercial bank to concern more about the solvency of household and be more cautious about loan approval. Meanwhile, business loan expanded at a similar pace compare to the previous quarter with sound growth rate in agriculture, manufacturing, construction and real estate sectors while trade sector slightly dropped. Furthermore, demand for loan in large corporation declined while demand for loan in SMEs increased especially for working capital. Credit cards expenditure contracted by 31.3 percent from the previous quarter in line with reduction in household consumption.

*Private loans slowed down in accordance to domestic economy, especially household credit which was pressured by high base effect and stricter loan approval process. Meanwhile, Business loan still show improvement in some sectors.*



**Commercial bank's credit (excluding repurchase position: RP) to deposits (including B/E) slightly loosened in line with the increase in excess liquidity of commercial bank system.<sup>3</sup>** Commercial bank's credit (excluding repurchase position: RP) to deposits (including B/E) ratio slightly loosened to 100.6 percent relatively to 101.4 percent in the preceding quarter due to the slowdown in commercial bank's credit which was in line with the rise in excess liquidity from 1,310.4 billion Baht in the previous quarter to 1,391.7 billion Baht.

*Commercial bank's credit (excluding repurchase position: RP) to deposits (including B/E) slightly declined in line with the rise in excess liquidity.*

**Thai baht appreciated against US dollar since the beginning of 2014 but depreciated compared with the previous quarter.** An average exchange rate in the first quarter of 2014 stood at 32.67 baht per US dollar compared to 31.69 and 29.81 baht per US dollar in the previous quarter and the same period of last year respectively. The appreciation of Thai baht mainly contributed by (i) depreciation of the US dollar due to a lower-than-expected economic expansion (ii) eased domestic political tension (iii) improved sentiments on emerging markets and improved Asian economies prospect and (iv) US's Federal rate is expected to remain low. In the first quarter, Thai baht depreciated by 3.08 percent from the previous quarter. **In April 2014**, Thai baht continued to appreciate from the previous month with an average exchange rate at 32.32 baht per US dollar or appreciated by 0.22 percent. Moreover, average Thai baht during 2nd -16th of May was at 32.46 baht per US dollar.

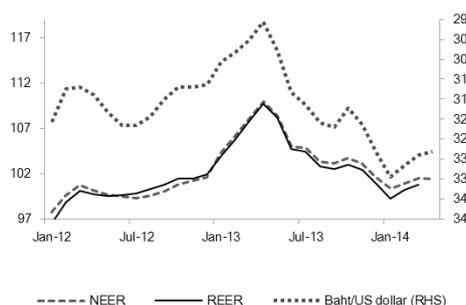
*Thai baht appreciated against US dollar since the beginning of 2014 but depreciated from the previous quarter*

**Thai baht against trading partner's<sup>4</sup> depreciated when compared to the previous quarter and the same period of last year.** At the end of the first quarter of 2014, Nominal Effective Exchange Rate (NEER) was at 101.53, depreciated by 0.08 and 6.10 percent compared with the previous quarter and the same period of last year respectively. Similarly, Real Effective Exchange Rate (REER) depreciated by 0.14 and 6.54 percent compared with the previous quarter and the same period of last year respectively.

<sup>3</sup> Excess liquidity equals to 90 percent of net repurchase position + 40 percent of net foreign assets + 50 percent of investment in government and Bank of Thailand bond.

<sup>4</sup> The BOT began using the new NEER and REER in March 2013. The base year would also be changed to 2012, that the indicators could capture the true structure of trade in line with changing international trade dynamics.

Thai baht appreciated against US dollar since the begin of 2014 but depreciated from the previous quarter



Source : Bank of Thailand

**Capital and financial account recorded a net outflow for the third consecutive quarter.**

Capital and financial account in the first quarter of 2014 recorded a net outflow of 6.27 billion US dollars with all of the sector record an outflow except for the central bank sector. The outflow was mainly attributed by (i) the repayment of short term foreign loan in the banking sector, (ii) a net sell position of foreign investor in portfolio investment, and (iii) a net buy position of Thai investor in an outbound portfolio investment. Nevertheless, a net inflow from foreign direct investment (FDI) declined to 2.89 billion US dollars, compared to a net inflow of 4.28 and 4.11 billion US dollars in the third and the fourth quarter of 2013, respectively.

*Capital and financial account recorded a net outflow from (i) the repayment of short term foreign loan in the banking sector, (ii) a net sell position of foreign investor in portfolio investment, and (iii) a net buy position of Thai investor in an outbound portfolio investment.*

Capital Flow

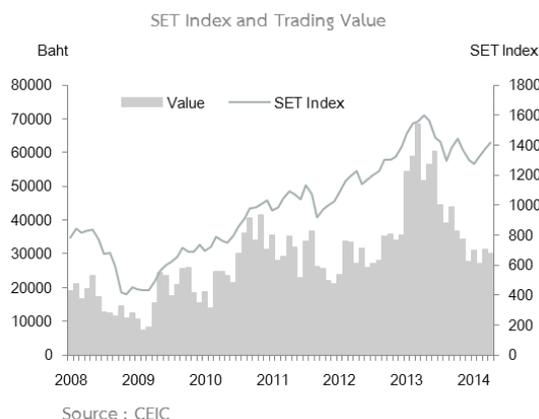
(Billion US dollars)	2013				2014		
	Year	H1	Q3	Q4	Q1	Feb	Mar
Capital and financial account	0.38	8.09	-1.28	-6.43	-6.27	-4.37	-2.13
Monetary Authorities	4.41	3.95	0.18	0.28	-1.00	-0.30	-0.25
Government	-4.56	-0.84	-0.28	-3.44	0.15	0.05	0.04
Bank	-1.01	3.63	-4.83	0.20	-3.32	-2.72	3.29
Others	1.54	1.36	3.66	-3.47	-2.11	-1.39	-5.21
Direct Investment	6.35	0.86	2.69	2.81	2.00	0.12	-0.74
Thai investor	-6.64	-3.74	-1.60	-1.30	-0.89	-0.15	-1.25
Foreign investor	13.00	4.60	4.28	4.11	2.89	0.26	0.51
Portfolio Investments	-7.33	-0.23	0.14	-7.24	-3.77	-2.04	-1.38
Thai investor	-2.83	-0.93	0.44	-2.33	-2.06	-1.13	-1.75
Foreign investor	-4.50	0.70	-0.30	-4.91	-1.71	-0.91	0.37
Loans	10.64	9.44	-2.34	3.54	-2.83	-2.07	1.04
Other	-9.29	-1.98	-1.76	-5.54	-1.68	-0.37	-1.05

Source: BOT

**SET index fluctuated throughout the first quarter due to rising concern over the stability of emerging economies and the domestic political situation.** In the first quarter, SET index moved in the range of 1,205.4 - 1,381.2 points and closed at 1,376.3 points at the end of the quarter, increased by 6.0 percent from the fourth quarter of 2013, with an average trading value declined to 29.9 billion baht. A net sell by Foreign investors recorded at 20.8 billion baht due to sell-off trend in risky assets during January and February. This was a result of investors' concern over a negative impact on emerging markets after Fed's QE tapering measure that started in 2014. However, foreign investors reversed to a net buy position in March after the Fed monetary policy direction become clearer and the economic situation of emerging economies started to improve. Nevertheless, the domestic political disturbance remained a downward pressure to the investment volume of foreign investors in SET.

*An average trading value declined while SET index fluctuated throughout the quarter due to increasing concern over the recovery of emerging economies and the domestic political instability.*

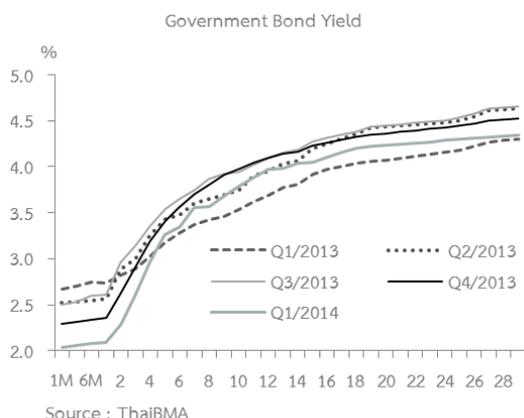
In April 2014, SET index increased to 1,414.9 points, with a slight increase in an average trading value to 30.2 billion baht. Foreign investors continually recorded a net buy of 15.9 billion baht, in line with the foreign capital inflow toward regional capital markets. During 2<sup>nd</sup> – 16<sup>th</sup> of May, SET index remained volatile due to prolonged domestic political uncertainty.



**Bond trading value increased.** Average daily outright transaction in the first quarter registered at 75.2 billion baht, improving from 69.9 billion baht in the fourth quarter. Foreign investors registered a net sell of 0.3 billion baht, compared to a net buy of 7.5 billion baht in the fourth quarter, the net sell was largely registered during January (6.0 billion baht) and February (1.7 billion baht). The deviation in foreign investor position owed to (i) increase of risk aversion behavior after Fed’s QE tapering began, (ii) new bonds issuances were expected to be lower due to unclear essence in infrastructure investment bill, and (iii) rising concern of investors over the policy interest rate direction after the political unrest started to affect Thai economy. However, foreign investors shifted their position to a net buy of 7.4 billion baht during March after the Fed policy rate was kept unchanged. In addition, Thai government bond yield at the end of this quarter shifted downward in all maturity, especially short and medium term maturities. This was a result of the reduction in policy interest rate and lower new issuances of short-term bond.

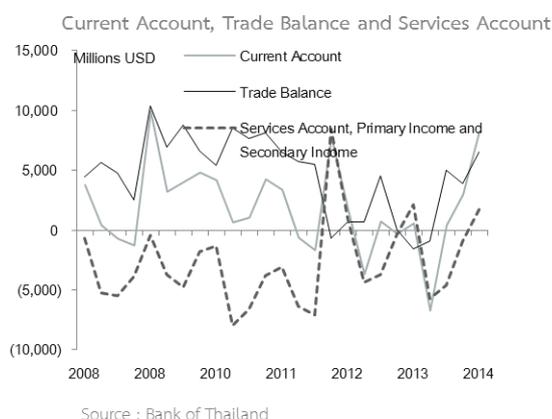
*Bond trading volume increased while foreign investor’s recorded a net sale. Thai government bond yield shifted downward.*

In April 2014, average daily outright trading volume was 93.6 billion baht, significantly increasing from the first quarter and March 2014. Foreign investors continually recorded a net buy of 41.6 billion baht following a decision of MPC to kept policy rate unchanged. Furthermore, institutional investors also contributed to the rise in the average daily outright trading volume.



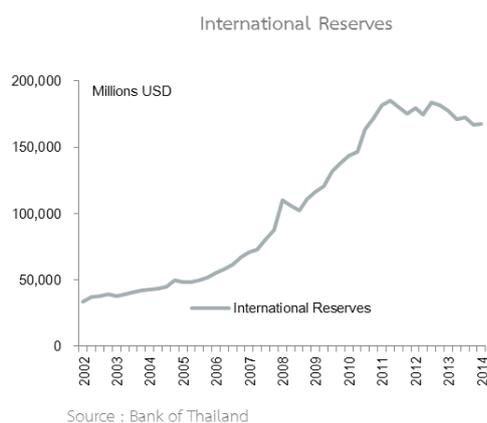
**Current account** in the first quarter of 2014 registered a surplus of 8,226 billion US dollars (267,929 billion baht), compared with a surplus of 2,962 billion US dollars (95,105 billion baht) in the previous quarter. This was a result of a trade surplus of 6,519 billion US dollars and a surplus in services, primary and secondary income of 1,707 billion US dollars.

*Current account registered a surplus.*



**International reserve** at the end of March 2014 stood at 167.45 billion US dollars (excluded net forward position of 23.60 billion US dollars), which was equal to 2.8 times of short-term foreign debt (at the end of the fourth quarter of 2013) or 10.2 months of import value (the average of import value in the first quarter of 2014).

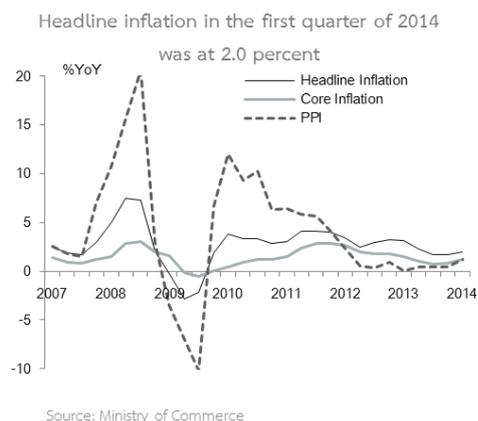
*International reserve at the end of March 2014 stood at 167.45 billion US dollars.*



**Headline inflation in the first quarter of 2014 was at 2.0 percent**, accelerating from 1.7 percent in the previous quarter. **Food-and-beverage price index** increased by 4.1 percent, accelerating from 3.2 percent in the previous quarter as the prices of meats, fruits, and vegetables increased due to drought impact on production. Prices of prepared food increased continuously from the previous quarter as the result of the 0.5 baht-per-kilogram-per-month increase in LPG price since September 2013. **The non-food-and-beverage price index increased by 0.9 percent**, unchanged from the previous quarter. The core inflation was at 1.2 percent, compared with 0.8 percent in the previous quarter.<sup>5</sup>

*Headline inflation in the first quarter of 2014 was at 2.0 percent.*

<sup>5</sup> In April 2014, headline inflation was 2.5 percent while core inflation was 1.7 percent. In the first four months of 2014, headline inflation was 2.1 percent while core inflation was 1.3 percent.



Producer Price Index (PPI) in the first quarter of 2014 rose by 1.2 percent, accelerating from 0.4 percent in the previous quarter, due primarily to the increase in prices of agricultural and mining products. The prices of agricultural products on average increased by 3.1 percent, due to the increase in prices of livestock, fish, and other fishery products. The price of mining products increased by 7.3 percent, accelerating from 3.0 percent in the previous quarter, owing to an increase in the price of lignite, petroleum, and natural gas. In particular, lignite price increases significantly in line with the rise in the futures market. The price of manufacturing products grew by 0.8 percent due especially to the increased prices of petroleum products from the effect of depreciation of Thai Baht on the importing cost.<sup>6</sup>

*Producer Price Index (PPI) in the first quarter of 2014 rose by 1.2 percent.*

<sup>6</sup> In April 2014, Producer Price Index rose by 1.9 percent. In the first four months of 2014, Producer Price Index rose by 1.4 percent.

## 2. Crude oil price movement in Q1/2014

**The average crude oil price decelerated from the previous quarter.** In the first quarter of 2014, the average crude oil price in the 4 major markets (Dubai, Oman, Brent and WTI) stood at 103.76 US dollars per barrel, compared to the previous quarter price of 105.16 US dollars per barrel and 2013 average price of 104.52 US dollars per barrel. The price was a 2.1 percent decline from the same quarter of last year (%YOY).

The decline in crude oil price was due to (i) an increase in the production capacity of the US, the largest consumer of crude oil (20.9 percent of the world's total oil consumption), (ii) the gradual recovery of US economy, (iii) the slowdown of Chinese economy, the second largest consumer of crude oil (11.8 percent of the world's total oil consumption), and (iv) the appreciation of US dollar, reducing speculative demand in the global crude oil market.

*Crude oil price decelerated from the previous quarter due to a slowdown of the global demand*

Crude Oil Price

Year		US Dollar per Barrel					Growth (%YOY)				
		OMAN	DUBAI	BRENT	WTI	Average	OMAN	DUBAI	BRENT	WTI	Average
2012	Q1	117.02	116.19	118.50	103.05	113.69	16.1	15.6	12.5	9.6	13.5
	Q2	106.45	106.35	108.55	93.60	103.74	-4.2	-3.9	-7.2	-8.6	-5.9
	Q3	106.55	106.32	109.84	92.09	103.70	-0.9	-0.7	-3.0	2.7	-0.6
	Q4	107.48	107.46	110.19	88.02	103.29	0.4	1.0	0.6	-6.5	-1.0
	Year	109.37	109.08	111.77	94.19	106.10	2.6	2.7	0.5	-0.9	1.3
2013	Q1	108.20	108.19	113.17	94.29	105.96	-7.5	-6.9	-4.5	-8.5	-6.8
	Q2	100.85	100.77	103.31	94.13	99.77	-5.3	-5.2	-4.8	0.6	-3.8
	Q3	106.44	106.30	110.25	105.80	107.20	-0.1	0.0	0.4	14.9	3.4
	Q4	106.87	106.83	109.59	97.36	105.16	-0.6	-0.6	-0.5	10.6	1.8
	Year	105.59	105.53	109.08	97.90	104.52	-3.5	-3.3	-2.4	3.9	-1.5
2014	Jan	103.68	103.69	107.12	94.68	102.29	-3.8	-3.8	-4.6	-0.1	-3.2
	Feb	104.77	104.72	108.73	100.39	104.65	-5.7	-5.7	-7.0	5.4	-3.6
	Mar	104.34	104.02	107.58	100.29	104.06	-1.2	-1.5	-2.0	8.0	0.6
	Q1	104.39	104.26	107.90	98.47	103.76	-3.5	-3.6	-4.7	4.3	-2.1
	Apr	105.21	104.66	108.20	102.05	105.03	3.4	2.9	5.1	11.0	5.5
	1-15 May	104.74	104.94	108.12	100.55	104.59					

Source: Thai oil PLC

WTI projection in 2014

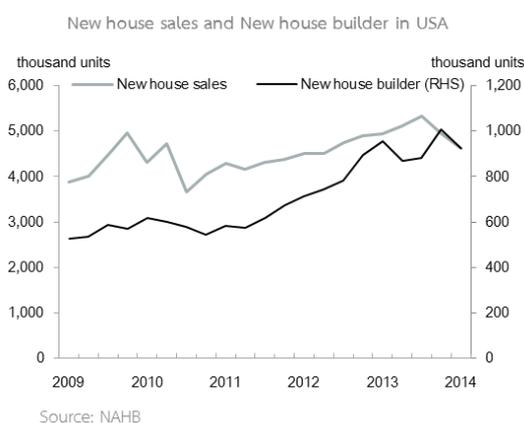
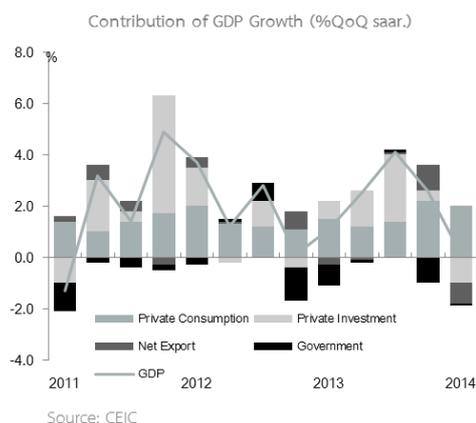
Institution	WTI Projection (US Dollar / barrel)
Deutsche Bank AG (January 2014)	88.75 US\$/Barrel
EIA (April 2014)	95.60 US\$/Barrel
Barclays (December 2013)	104.80 US\$/Barrel
EIU (December 2013)	100.6 US\$/Barrel

Source: Collected by NESDB

### 3. World Economy in Q1/2014

- US economy** in the first quarter of 2014 slightly expanded from the previous quarter by 0.1 percent (%QoQ saar). Compared with the same quarter last year, the US economy grew by 2.3 percent, slowing down from 2.6 percent in the previous quarter. The slowdown was a result of contractions in net export and private investment. Residential investment decelerated significantly due to the harsh winter weather and the uptrend of mortgage rate. Nonetheless, private consumption expenditure continually picked up and remained a key growth contribution in this quarter. Likewise, the employment situation continually improved especially non-farm employment which increased closed to the pre-crisis level in 2008. Meanwhile, the unemployment rate declined steadily to 6.7 percent. In addition, the central government spending expanded for the first time in 6 quarters indicating impacts of fiscal drag had waned. Moreover, the manufacturing sector continued to recover from a slowdown during the first quarter due to the unusual winter weather condition. Therefore, the ISM manufacturing index rose for 4 consecutive months to reach 54.9 in April.

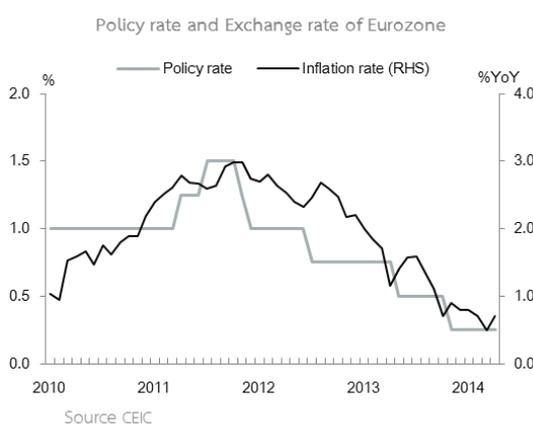
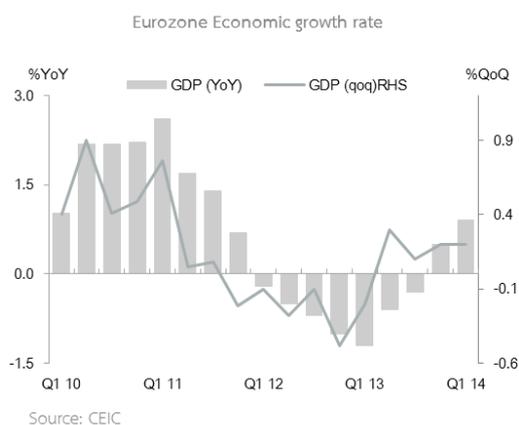
As a result of the continued recovery of the US economic activities in March, the continual rebound of labor market, the fiscal drag wanes, as well as the low inflation expectation, the Federal Open Market Committee (FOMC) meeting during 29<sup>th</sup>-30<sup>th</sup> April 2014 decided to reduce its Quantitative Easing measure from 55 billion US dollars per month to 45 billion US dollars per month which was a forth tapering since the meeting decision in December 2013.



- Eurozone economy** in the first quarter of 2014 grew by 0.2 percent compared with the previous period (%QoQ SA), exhibiting the fourth straight quarters of expansion. Comparing with the same period of last year, the Eurozone economy expanded by 0.9 percent up from 0.5 percent in the previous quarter, contributed mainly by net exports. Production activities also recovered firmly as the composite PMI in the first quarter averaged at 53.1, rising from 51.8 in the previous quarter. The increases in the composite PMI were apparent in both manufacturing and service sectors. Moreover, domestic demand recovered gradually reflecting from increased retail sales and improved consumer confidence index to hit its 7-year high in March. However, the unemployment rate soared at 11.9 percent for five consecutive quarters. The deflationary pressure also remained high. The inflation rate in the first quarter averaged 0.6 percent, lower than 1.0 percent for the second consecutive quarter. Nevertheless, the rate increased to 0.7 percent in April. As a result of these deflationary pressures, the ECB continually employed the expansionary monetary policies by maintaining the policy rate at 0.25 percent on 8<sup>th</sup> May 2014.

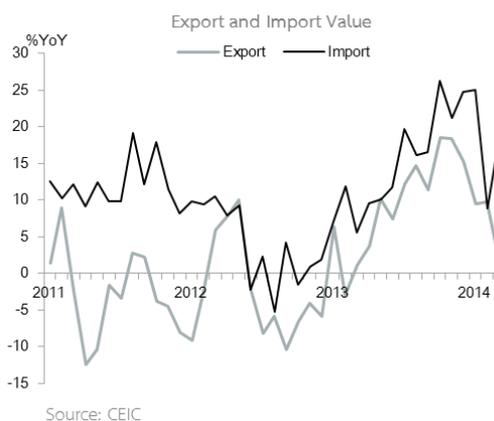
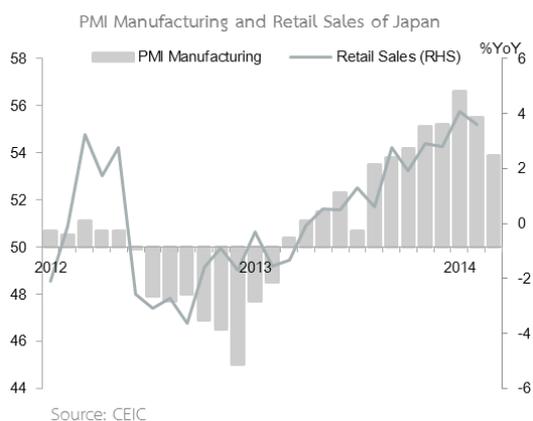
*US economy in Q1 expanded by 2.3 percent (%YoY) decelerating from 2.6 percent.*

*Eurozone economy in Q1 grew by 0.2 percent (%QoQ SA), exhibiting the fourth straight quarters of expansion.*



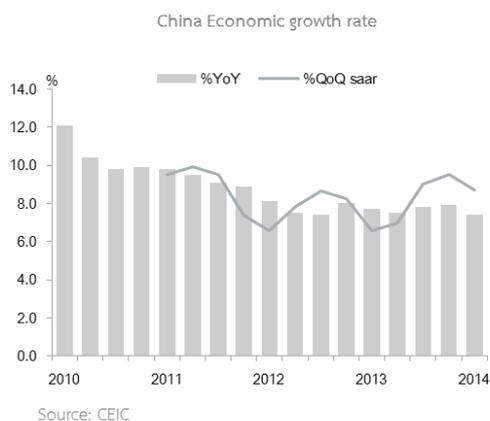
Japanese economy in the first quarter of 2014 expanded well in response with the speed up in private consumption prior to the consumption tax hike introduced in April 2014. Employment conditions also improved as reflected in a six-year lowest unemployment rate of 3.6 percent in the first quarter. In addition, manufacturing production continued to grow in which that PMI manufacturing index stood at 55.3 remaining above 50. Nevertheless, exports continually slowed down while imports expedited especially fuel imports in order to offset energy supply losses. Thus, trade balance turned into deficit. Inflation hiked up continuously and reached 1.5 percent in the first quarter since the Bank of Japan continued its expansionary monetary policies.

*Japanese economy continued to recover.*

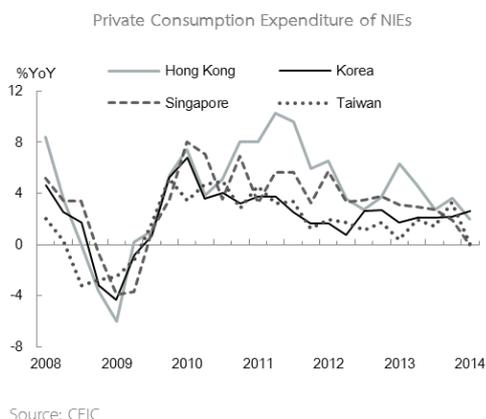
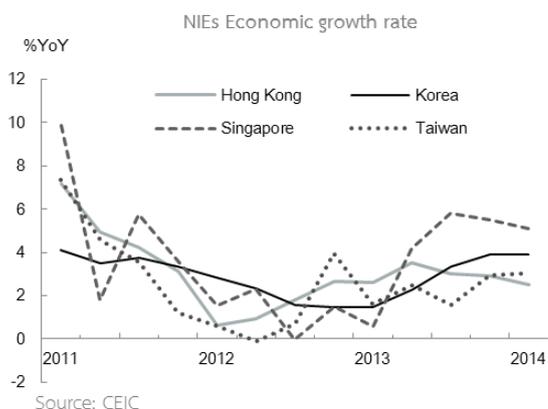


Chinese economy in the first quarter of 2014 expanded by 7.4 percent compared with the same quarter of last year, slowing down from 7.8 percent in the previous quarter. Comparing with the previous quarter, the economy grew by 1.4 percent decelerating from 1.7 percent. The slowdown was primarily due to a deceleration of investment in industrial, real estate and construction sectors in response to the economic reform package aiming at more balanced and sustained growth. Similarly, manufacturing production grew by 8.7 percent in the first quarter, slowing down from 10.0 percent in the previous quarter. In addition, export value contracted due to over-invoicing exports a year earlier which caused an artificial high base. Meanwhile, imports increased which brought about the trade balance deficit in February for the first time since March 2013. However, the Renminbi began to depreciate partly due to the People's Bank of China intervention measures including purchasing the US dollars in the money market and widening the Renminbi daily trading band. Inflation in the first quarter remained low at 2.3 percent.

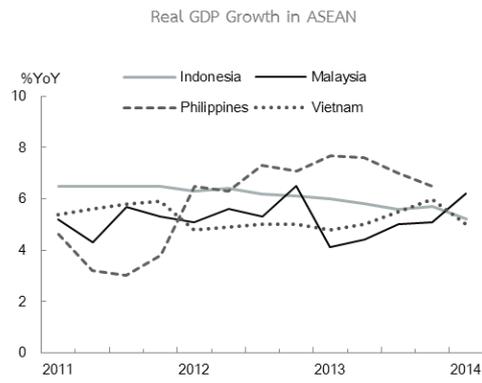
*Chinese economy in Q1 grew by 7.4 (%YoY) decelerating from 7.8 percent of the previous quarter.*



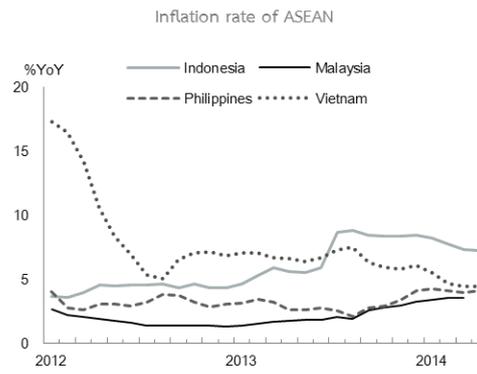
□ **Newly industrial economies:** In the first quarter of 2014, the South Korea and Taiwan economies grew at a higher rate than the previous quarter while Singapore and Hong Kong economies slowed down. The South Korea economy expanded by 3.9 percent accelerating from 3.7 percent in the previous quarter, thanks to better private consumption and export performance. Meanwhile, there were some slowdown in capital accumulation and imports. The Taiwan economy grew by 3.0 percent driven largely by domestic demand. On the contrary, the Singapore economy expanded by 5.1 percent, slowing from 5.5 percent in the previous quarter due to a slowdown in the service sector specifically retail trade, finance, and insurance. Meanwhile, production in manufacturing and construction sector still expanded from the previous quarter.



□ **ASEAN economy:** In the first quarter, the economies of Indonesia, Vietnam, and Malaysia grew by 5.2, 5.0, and 6.2 percent respectively, compared to 5.7, 6.0, and 5.1 percent in the previous quarter. The economic slowdown of Indonesia was due to export contraction of 0.8 percent. Meanwhile, the Indonesian rupiah became more stable and inflation softened. The Vietnam economy also decelerated following weak domestic demand which is in line with low credit expansion. However, more progress in resolving NPLs in the banking sector helped strengthen business sentiment. In addition, export value expanded by 14.1 percent. Meanwhile, the Malaysia economy enjoyed the expansion by growing at the fastest pace in past five quarters. This was mainly driven by private consumption and investment. Exports also increased by 7.9 percent in line with the recovery of the US and Eurozone economies. The average inflation remained higher than the previous quarter due to elevated domestic production cost. Similarly, the Philippines economy continued to grow well owing mainly to higher remittances with 5.8 percent growth during January and February. However, inflationary pressures started to increase.



Source: CEIC



Source: CEIC

GDP and export growths in NIEs and ASEAN economies

%YOY	GDP Growth		Export Growth		
	Q4/13	Q1/14	Jan	Feb	Mar
<b>NIEs</b>					
Hong Kong	1.1	n.a.	-0.4	-1.3	3.4
South Korea	3.7	3.9	-0.2	1.4	5.1
Singapore	5.5	5.1	0.5	8.7	6.1
Taiwan	3.0	3.0	-5.4	7.9	2.0
<b>ASEAN</b>					
Indonesia	5.7	5.2	-5.9	-3.0	-1.3
Malaysia	5.1	6.2	3.3	5.2	-8.4
Philippines	6.5	n.a.	9.2	24.4	n.a.
Vietnam	6.0	5.0	-5.8	1.2	20.0

Source: CEIC

#### 4. World Economic Outlook for 2014

The world economy for the remainder of 2014 is likely to recover more strongly and broadly. The recovery will be driven mainly by the acceleration of the US economy after a slight slowdown in the first quarter due to the unusual harsh winter condition. The Euro zone economic recovery will also become more pronounced due to the improvement in overall economic and financial conditions following progress of the economic reform package as well as the continued accommodative monetary policy. The Japanese economy continues to grow, thanks to the stimulus policies and monetary easing, despite that fact that the economy tends to slowdown from last year due to the consumption tax hike. Besides, the Chinese economy will enjoy the additional stimulus measures including the infrastructure investment. Under such circumstances, the world economy and merchandise trade volume are expected to grow stronger in the latter half of 2014 which will enhance exports of Asian emerging economies. Nevertheless, the slow recovery in the first quarter as well as the Chinese's rebalancing economic reform will be likely to restrain economic growth and trade volume growth to be lower than the previous projection. It is thus expected that the world economy and trade volume in 2014 will grow by 3.4 and 4.2 percent, better than 3.0 and 3.0 percent in the previous year, downwardly revised from 3.6 and 4.4 percent in the earlier forecast, respectively.

- ❑ **US economy** in 2014 is forecasted to grow by 2.8 percent, accelerating from 1.9 percent last year in line with the strong rebound of domestic private demand and less fiscal drag. Key supporting factors for domestic demand recovery are as follows: (i) the improvement of labor market reflected by the continued drop of unemployment rate to the lowest level since the 2008 crisis, (ii) the expansion of asset and real estate prices together with a decline in household debts which helped raise the household net worth, and (iii) the easing monetary policy which is likely to maintain throughout 2014.
- ❑ **Euro zone economy** in 2014 is expected to grow by 1.0 percent, up from 0.5 percent in 2013. This is resulted from the accommodative monetary policy. Moreover, export sector will also grow well thanks to the global economic recovery and the slow increase in real wage during the post economic crisis period which will enhance the price competitiveness. Besides, the progress in economic and fiscal reform boosts business and consumer confidences despite some concern over situation in Ukraine.
- ❑ **Japanese economy** is expected to expand by 1.2 percent, decelerating from 1.5 percent in 2013. The slowdown is mainly a result of the increase in consumption tax rate and the diminishing impulse from the economic stimulus policies which exacerbated private consumption. This is in tandem with worsened consumer confidence. On the other hand, it is believed that the Yen depreciation and the recovery of the US and the Eurozone economies will further support the expansion of manufacturing and export sectors.
- ❑ **Chinese economy** in 2014 is projected to grow by 7.4 percent, slowing down from 7.7 percent last year, due to the rebalancing economic policy and the financial sector reform which caused the economic in the first quarter to experience a slight slowdown. To tackle the deceleration, the government announced additional economic stimulus measures in March, including rail system development in rural area, residential investment for low-income households, and the extension of tax reduction for small businesses until the end of 2016 in order to stimulate the economic growth and employment. Meanwhile, the economic recovery and the Renminbi depreciation tend to enhance export sector and will support the economy to achieve the official growth target.

*The world economy for the remainder of 2014 is likely to recover more strongly and broadly. The world economy and trade volume in 2014 are expected to grow by 3.4 and 4.2 percent respectively.*

- ❑ **NIEs economies** in 2014 tend to recover. Economies of Hong Kong, Korea, and Taiwan in 2014 are expected to expand by 3.7, 3.6, and 3.1 percent respectively, speeding up from 2.5, 2.3, and 2.1 percent in 2013. The recovery is mainly driven by improved domestic demand and export which is supported by the recovery of advance economies. Besides, the Singapore economy is expected to expand by 3.8 percent, down from 4.2 percent in 2013 due to deceleration in the service sector.
- ❑ **ASEAN economy** in 2014. Economies of Indonesia and Philippines are expected to slow down while Malaysia and Vietnam tend to accelerate. The Indonesia economy is expected to grow by 5.4 percent, decelerating from 5.8 percent in 2013 owing primarily to a slowdown in domestic demand resulting from an increase in interest rate and upward inflationary trend due to the abolition of domestic oil price subsidy. However, the Indonesia economy tends to improve in the latter half of the year once the policies from the new government become settled and help restore economic sentiment. Exports continue to speed up following the recovery of trading partners and the Rupiah depreciation. The Philippines economy is expected to grow by 6.5 percent, slowing down from 7.2 percent in 2013. However, the private consumption will remain the key growth contribution fueled by continued increase in remittance from overseas Filipinos. The Vietnam economy is expected to grow by 5.5 percent, slightly improving from 5.4 percent in 2013. The growth is partly due to significant progress from the resolution of Non-Performing Loans in the banking sector which improves business confidence. The export sector is also likely to perform well in line with the recovery of the US and Eurozone economies. The Malaysia economy is expected to grow by 5.0 percent, accelerating from 4.7 percent in 2013 led by robust export performance in tandem with the global recovery.

## 5. The Thai Economic Outlook for 2014

The Thai economy in 2014 is likely to grow at a slow pace following the contraction of the economy in the first quarter and the constraints on domestic demand recovery in the latter half of the year, particularly consumption and private investment affected by the domestic political uncertainty as well as the continued slowdown of the income base and the overall economy. Meanwhile, formation of the new government is expected to be delayed, thereby imposing additional constraints on government budget disbursement and on implementation of key economic measures. Moreover, the slow global economic recovery in the first quarter tends to lower the export growth than earlier anticipated. Nonetheless, the economic stability remains sound. Inflation rate will be steady at a low level while the trade and current account balance will improve from 2013. In all, key supporting factors, constraints and risks associated with the Thai economic expansion in 2014 are as follows:

### □ Supporting factors

- 1) **The recovery of the global economy and world trade volume will become more pronounced and more broadly in the second half of 2014.** In the first quarter of the year, although the recovery of the global economy remained slow and concentrated in the key economies, such improvement has begun to improve Thai exports. This is reflected in the recovery of export value of key manufacturing products, such as automotive and electrical applicants. Export values to key markets, such as US, Europe, and Japan also expanded. Therefore, the clearer sign and more prevalence of the global recovery in the second half of 2014 are expected to provide additional support for export to grow more robustly.
- 2) **Pressures from oil price and inflation are anticipated to remain low and provide favorable condition for maintaining accommodative monetary policy to support economic recovery,** in tandem with softened oil prices in global markets and slow recovery of domestic demand.

### □ Risk factors and limitations

- 1) **Export prices in the global market remain subdued** and have constrained the income from agricultural exports, especially export prices of rice, rubber, and cassava which declined by 27.0, 24.3, and 10.7 percent respectively in the first quarter. Main reason includes high level of domestic production and stockpiles of those products in many major countries. Meanwhile, the Chinese and ASEAN economies, the main importers, decelerated. Combined with the slow recovery of industrial commodity prices, Thailand's export price index in the first quarter of 2014 declined by 1.6 percent. This is likely to further exacerbate export price for the year 2014 to decline and imposes constraints for the growth of value and income of the overall export sector.
- 2) **There are constraints on contribution from government expenditure** as the new government formation is expected to be slower than expected, which will delay the disbursement of FY2014 budget and the formulation of the FY2015 budget. Moreover, lower-than-target revenue collection in the FY2014 is likely to limit the FY2015 budget ceiling and the annual budget disbursement in the last quarter of the FY 2014.
- 3) **The recovery of private consumption expenditure still faces with many limitations** including (i) the prolonged political situation and the slowdown of overall economy since the first quarter of 2013, which dampened consumer confidence index to continually decline to 58.7 in March, the lowest level in the past 12 years. Therefore, the uncertain political conditions are likely to cause further delay in the recovery of consumers' confidence and private consumption expenditure than earlier expected, (ii) the unusual high base of automotive sales in first half of 2013, which become constraints on the growth

*Supporting factors for 2014 economic outlook: the recovery of the global economy and world trade volume, and low inflationary pressures.*

*Risk factors and limitations: export prices in the global market remain subdued, domestic demand still faces with many limitations, and tourist sector is affected by political situation.*

of expenditure on durable goods. It is expected that the number of car sales in the second quarter of 2014 will decline by 40 – 50 percent compared to the decline of 58.2 percent in the previous quarter, (iii) the decline in price of agricultural products, such as rice, rubber, and maize which will continue to constrain farm income growth, and (iv) more credit restriction imposed by financial institutions due to the economic contraction in the first quarter of 2014 and the lower-than-projected growth of the entire year.

- 4) **Private investment** faces limitations due to (i) low capacity utilization rate of 61.8 percent in the first quarter of 2014, (ii) the declines in applications and approval for BOI investment projects in the second half of 2013 and the first quarter of 2014 which are partly because investors still wait for the new investment promotion policy, (iii) despite the appointment of the new BOI board on 22<sup>nd</sup> April 2014, the approval projects for the rest of the year will need to go through several processes before the investment projects can start operation, and (iv) the political uncertainty and the continued economic slowdown which dampen business sentiment without a prevalence of a recovery sign.
- 5) **Number of inbound tourist in 2014 is likely to be lower than previously expected.** This is due partly to the domestic political uncertainty and the new Chinese tourism law aiming to uplift Chinese tourist's quality which impact on tourism sector more than expected. In the first quarter of 2014, the number of inbound tourists was 6.6 million persons, declining from the same period in previous year by 5.8 percent. This tends to lead to a contraction in tourist number in the first half of 2014, compared to the zero growth assumption in the previous projection. Despite lifting of the emergency decree and the Songkran festival led to the improvement in tourist numbers, the growth of inbound tourists for the remainder of the year however remains sensitive to the development of the domestic political situation.

#### □ Economic projection for 2014

The Thai economy in 2014 is forecasted to grow in the range of 1.5 – 2.5 percent, compared with 2.9 percent in 2013. The headline inflation is expected to be in between 1.9 - 2.9 percent, compared with 2.2 percent in 2013, and the current account is likely to record a surplus of 0.5 percent of GDP, improving from a deficit of 0.6 percent in 2013.

In the press release on the 19<sup>th</sup> May 2014, Office of the National Economic and Social Development Board (NESDB) revises the economic projection to be in the range of 1.5 – 2.5 percent downwardly from the previous projection of 3.0 – 4.0 percent in the previous projection released on 17<sup>th</sup> February 2014. The downward revision are due to following factors:

- 1) The Thai economy in the first quarter of 2014 contracted by 0.6 percent, lower than the lower bound of the forecast announced on the 17<sup>th</sup> of February 2014. Hence, possibilities of the Thai economy to grow in the range of 3.0 - 4.0 percent are lessen.
- 2) The revisions of projection assumptions include:
  - 2.1) A downward revision of the global economy and trade volumes from the growth rate of 3.6 and 4.4 percent in the previous assumption to 3.4 and 4.2 percent, respectively. The revision is mainly due to the slower-than-expected recovery of the global economy particularly China, Japan, and developing countries, which in turn lower the demand for export goods than previously assumed.
  - 2.2) A downward revision of the inbound tourist numbers from 27.5 million in the previous projection to 27.0 million persons. The revision is a result of the prolonged domestic political disturbance, the new Chinese tourism law which affected tourism in the first quarter more than anticipated. Furthermore, the recovery of the tourist numbers for the rest of the year remains sensitive to the domestic political

*The Thai economy in 2014 is forecasted to grow by 1.5 – 2.5 percent, Headline inflation will be in the range of 1.2 – 2.9 percent. The current account is likely to record a surplus of 0.5 percent of GDP.*

disturbance, and about 50 countries still maintain their warning alerts for their citizen traveling to Thailand, although the emergency decree was lifted in March.

- 2.3) A downward revision of the budget disbursement rate of the FY2014 from 92.4 in the previous projection to 90.4 percent since the annual budget disbursement rate in the first quarter of FY2014 registered at 19.1 percent, below the target of 24.0 percent. In addition, the formation of the new government is expected to delay than previously assumed.
- 2.4) A downward revision of the export price from the growth rate of 1.9 – 2.9 percent in the previous assumption to (-1.0) – 0.0 percent following a continual reduction of major agriculture product prices especially rice, rubber, and cassava which declined by 27.0, 24.3, and 10.7 percent in the first quarter and thus led to a contraction of 1.6 percent of total export price in the first quarter. Meanwhile, there is no clear sign of recovery of major agriculture product prices in the later half. Import price is also revised downwardly from an expansion of 0.5 – 1.5 percent to (-1.0) – 0.0 percent in response to softened oil prices and other commodity prices in the global market.
- 3) The expansion of private consumption continues to be affected from an unusual high base and the normalizing trend of domestic car sales. Sales of passenger car in the second quarter are expected to decline by 40 – 50 percent and remain constraints for private consumption on durable goods. Furthermore, concerns over unsolved political problem as well as a continual slowdown of the household income and the overall economy are likely to deter the improvement of consumer confidence.

World Economic Projection

	Actual Data		Projection of 2014	
	2012	2013	Feb 17, 2014	May 19, 2014
World Economic Growth (%)	3.2	3.0	3.6	3.4
USA	2.2	1.9	2.8	2.8
EU	-0.6	-0.5	1.0	1.0
Japan	2.0	1.5	1.7	1.2
China	7.8	7.7	7.5	7.4
World Trade Volume (%)	2.8	3.0	4.4	4.2
Exchange Rate (Baht/US dollar)	31.1	30.7	32.0 – 33.0	32.0 – 33.0
Dubai Crude Oil (US Dollar/Barrel)	108.8	105.0	102.5 – 107.5	102.5 – 107.5
Export Price (US Dollar) (%)	0.6	-0.5	1.9-2.9	(-1.0) – 0.0
Import Price (US Dollar) (%)	1.6	-2.1	0.5-1.5	(-1.0) – 0.0
Tourist (Million Person)	22.4	26.7	27.5	27.0

Source: NESDB

**□ Growth components of the 2014's economic growth**

- 1) **Total consumption is projected to grow by 1.0 percent**, the same rate as in 2013, downwardly revised from 1.6 percent in the previous estimation. This revision is due to (i) an adjustment of private consumption from 1.4 percent growth to 0.8 percent in line with the lower-than-expected growth of consumption in automotive and total consumption in the first quarter. Moreover, the recovery of household confidence remains unclear due to the prolonged political problem and the economic slowdown. (ii) A downward revision of government expenditure growth from 2.0 percent to 1.8 percent which owes to the adjustment of the current budget disbursement assumption from 96.6 percent to 94.4 percent.
- 2) **Total investment is expected to contract by 1.3 percent**, continually tapered from 1.9 percent contraction and a downward revision from 3.1 percent growth in the previous estimation. The adjustment owes to a downward revision of private investment from 3.8 percent growth to 0.2 percent contraction following the slowdown economic condition, low capacity utilization and the delay in the approval process of investment promotion as well as the ambiguity of recovery in business confidence. Moreover, a downward revision of public investment from an expansion of 0.3 percent growth to a contraction of 5.0 percent in this projection is due to the adjusted capital budget disbursement assumption from 72.0 percent to 70.8 percent.
- 3) **Export value of goods in US dollar term is likely to grow by 3.7 percent**, improving from the contraction of 0.2 percent in 2013 while downwardly revised from 5.0 -7.0 percent in the previous estimation. The downward adjustment is mainly due to the revision of the export price assumption from 1.9-2.9 percent expansion in the preceding estimation to be a contraction of 1.0-0.0 percent in the current forecast. Furthermore, downward revisions of the world economy and trade volume growth from 3.6 and 4.4 percent to 3.4 and 4.2 percent, respectively and thus cause the export volume to expand by 4.2 percent compare to 4.0-6.0 percent previously estimated. Together with a downward revision of the number of inbound tourists from 27.5 million to 27.0 million, export volume of goods and services is likely to expand by 3.6 percent, down from 6.0 percent in the previous projection released on 17<sup>th</sup> February 2014.
- 4) **Import value of goods in US dollar term is forecasted to expand by 0.5 percent, improving from a negative growth of 0.4 percent in 2013 while downwardly revised from 5.7 percent growth in the previous estimation.** The downward revision owes mainly to (i) the revised assumption of import price from 0.5-1.5 percent growth in the previous assumption to a negative growth of 1.0-0.0 percent, (ii) the decline in import value of gold which lower the contraction of import value in the first quarter than previously expected, and (iii) the growth revision of export, consumption and investment lower import demand to expand less than earlier projection. Coupled with the downward revision of import of services, import volume of goods and services is expected to grow by 1.3 percent, declining from 4.6 percent in the previous estimation.
- 5) **Current account tends to register a surplus of 1.9 billion US dollars**, compared with a deficit of 2.8 billion US dollars in 2013 and of 0.6 billion US dollars in the previous forecast. A surplus of current account is due to a downward revision of import value growth which outweigh a downward revision of export value growth. Trade surpluses thus tend to increase more than earlier projection.
- 6) **Headline inflation is expected to lie in the range of 1.9-2.9 percent**, unchanged from the previous estimation.

## 6. Economic Management in 2014

Economic management for the remainder of 2014 should focus on expediting exports to expand at its full potential especially by raising export income from major markets and newly high-potential markets as well as promoting border and regional trade. The tourism sector also needs to be stimulated particularly by restoring tourists' confidence and promoting additional tourism campaigns. Meanwhile, policies need to emphasize on expediting public activities and thus disbursement of the FY2014 of both current and capital budget as well as preparing the budgeting process for the FY 2015. In addition, it is necessary to restore economic sentiment by maintaining accommodative monetary policy to further support the economic recovery, applying communication strategy to provide accurate and up-to-date information, and preparing measures to support those affected by the economic slowdown.





## Economic Projection for 2014

	Actual Data		Projection	
	2012	2013	17 Feb 14	19 May 14
GDP (at current prices: Bil. Bht)	11,375	11,897	12,599	12,424
GDP per capita (Bht per year)	167,501	174,319	183,638	181,077
GDP (at current prices: Bil. USD)	366	385	388	382
GDP per capita (USD per year)	5,389	5,647	5,650	5,572
GDP Growth (at constant prices, %)	6.5	2.9	3.0-4.0	1.5-2.5
Investment (at constant prices, %)	13.2	-2.0	3.1	-1.3
Private (at constant prices, %)	14.4	-2.8	3.8	-0.2
Public (at constant prices, %)	8.9	1.3	0.3	-5.0
Consumption (at constant prices, %)	6.8	1.1	1.6	1.0
Private (at constant prices, %)	6.7	0.3	1.4	0.8
Public (at constant prices, %)	7.5	4.9	2.0	1.8
Export volume of goods & services (%)	3.1	4.2	6.0	3.6
Export value of goods (Bil. USD)	225.9	225.4	241.2	233.8
Growth rate (%) <sup>1/</sup>	3.1	-0.2	5.0-7.0	3.7
Growth rate (Volume, %) <sup>1/</sup>	2.5	0.2	4.0-6.0	4.2
Import volume of goods & services (%)	6.2	2.3	4.6	1.3
Import value of goods (Bil. USD)	219.9	219.0	231.7	220.2
Growth rate (%) <sup>1/</sup>	8.8	-0.4	5.7	0.5
Growth rate (Volume, %) <sup>1/</sup>	7.1	1.7	5.2	1.0
Trade balance (Bil. USD)	6.0	6.4	9.6	13.6
Current account balance (Bil. USD)	-1.5	-2.8	-0.6	1.9
Current account to GDP (%)	-0.4	-0.6	-0.2	0.5
Inflation (%)				
CPI	3.0	2.2	1.9-2.9	1.9-2.9
GDP Deflator	1.3	1.7	1.9-2.9	1.9-2.9

Source: Office of National Economic and Social Development Board, 19<sup>th</sup> May 2014

Note: <sup>1/</sup> Export and import base on the Bank of Thailand's data.

