

# Economic Outlook



## Thai Economic Performance in Q1 and Outlook for 2012

Macroeconomic Strategy and Planning Office

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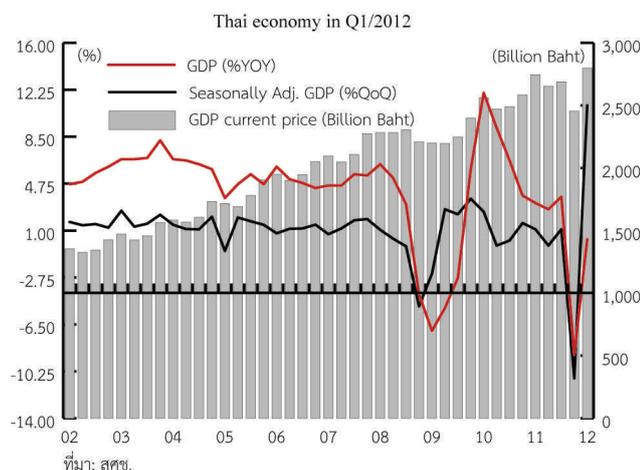
**Economic Projection Year 2012**

(% YOY)	2011			2012	
	Q3	Q4	Year	Q1	Projection
GDP (at 1988 price)	3.7	-8.9	0.1	0.3	5.5-6.5
Total Investment (at 1988 price)	3.3	-3.6	3.3	5.2	12.3
Private	9.1	-1.3	7.2	9.2	13.0
Public	-10.9	-12.1	-8.7	-9.6	10.0
Total Consumption (at 1988 price)	2.8	-3.0	1.3	2.0	4.4
Private	2.4	-2.8	1.3	2.7	4.5
Public	4.9	-4.1	1.1	-1.6	3.5
Export of Goods (US\$)	27.3	-5.2	16.4	-4.0	15.1
Volume	19.7	-7.5	10.2	-5.0	11.8
Import of Goods (US\$)	33.4	12.2	24.7	9.6	22.3
Volume	19.5	3.7	13.3	3.5	16.5
Current Account to GDP (%)	3.5	2.3	3.4	0.6	0.7
Inflation	4.1	4.0	3.8	3.4	3.5-4.0
Unemployment rate	0.7	0.6	0.7	0.7	0.7

- In the first quarter of 2012, Thai economy expanded by 0.3 percent, the main driving factors were the recovery in manufacturing, consumption, investment, and tourism. At the same time, industrial production and exports also continued to recover.
- After seasonal adjustment, Thai economy grew by 11.0 percent compared to the previous quarter.
- In 2012, Thai economy expected to grow by 5.5 – 6.5 percent, driven by acceleration of manufacturing production as well as recovery of domestic consumption and investment. Private consumption and investment expanded by 4.5 and 12.3 percent respectively, where exports growth was 15.1 percent. Additionally, headline inflation is forecasted to be in a range of 3.5 – 4.0 percent, while unemployment is expected to remain low at 0.7 percent. Current account will register a surplus of 0.7 percent of GDP.
- The economic management for 2012 should emphasize on these following key issues:
  - (i) Accelerating budget disbursement and implementing a reconstruction and future development plan are mandatory in order to lessen the impact on economic growth caused by a fiscal budget contraction as projects under 2012 Budget Act still in preparation phase in the first quarter. The budget disbursement would also strengthen investor's confidence and shifting the economic structure to achieve a long-term competitiveness.
  - (ii) Enhancing a speed of rehabilitation measures for the flood-damaged industries, as some of them exhibited a slower-than-expected recovery, particularly electrical appliances and electronics sectors which employs low capacity utilization. Moreover, labor-intensive industries are exposed to slowdown in demand from their major export markets, especially textile and leather industries.
  - (iii) Assisting entrepreneurs who are affected by a minimum-wage policy, particularly those labor-intensive SMEs by fostering them to utilize the government-assisting measures such that they could reduce production cost and enhance productivity. Furthermore, the measure should be broadened out towards entrepreneurs not covered by the current scheme. At the same time, the measure also need to accommodate the labor being laid off or forced to reduce their working hours. In addition, syndicated soft loans provided by Bank of Thailand and commercial banks should be fully utilized, with the current approval rate of only 0.97 percent of total amount.
  - (iv) Managing and maintaining fair pricing of goods and services throughout the supply chain, particularly prices of household consumption goods, with an objective to alleviate high living cost and inflationary pressure. In addition, cooperation among relevant agencies will be crucial in supporting production, value creation, and marketing of agricultural products to cope with seasonal factors and fluctuation in prices.
  - (v) Implementing monetary and exchange rate policies to be consistent with a direction of global economic environment. Although domestic economy is on upward trend for the rest of the year, however, this expansion is partly supported by low-based effect. For the rest of the year, industrial production inevitably remains facing with the inflationary pressure from the rise in minimum wage and the risk of EU economic crisis. Thus, suitable monetary and exchange rate policies will be vital to the recovery and expansion of domestic economy.

## Thai Economic Performance in Q1 and Outlook for 2012

In the first quarter of 2012, Thai economy expanded by 0.3 percent, improve from 8.9 percents contraction in the previous quarter. The main driving factors were the advancement in household consumption and private investment and recovery of manufacturing and services sectors. Although, export growth remained subdue but export value started to recover compared to previous quarter.



### Thai Economic in Q1/2012

- (1) **Household consumption** expanded by 2.7 percent, picked up from a contraction of 2.8 percent in previous quarter. This improvement was mainly due to an increase in expenditure for post-flood restoration and rehabilitation, while increased in consumption was partly attributed by government stimulus packages such as tax rebate for first-time car buyer scheme. The advancement in household consumption has driven the level of consumer confidence to 65.3 from 62.3, in the previous quarter, and likely to continue in the upward trend. Furthermore, government scheme on reducing cost of living and enhance people income like an increase in minimum wage rate and government official's starting salary also play an important roles in current advancement. Nevertheless, consumers still concerned over future cost of living as price of goods remained in upward trend.
- (2) **Private investment** expanded by 9.2 percent, improved from a contraction of 1.3 percent in the previous quarter. This was mainly contributed by the expansion in machinery and equipment following a post-flood restoration process. Likewise, Business Sentiment Index (BSI) advanced above level of 50 both in the first quarter (53.0) and in the next 3 months (55.9).
- (3) **Tourism sector:** In the first quarter of 2012, the number of inbound tourists stood at 5.7 million persons, increased by 7.1 percent compared to the same period of last year. The revenue from tourism sector recorded at 258,102 million baht, advanced by 9.7 percent from the same quarter of 2011. Furthermore, occupancy rate registered at 66.8 percent increased from 64.7 percent in the same period of last year, while inbound tourists from China, Australia, and France experienced an exceptional growth rate. Consequently, hotel and restaurant sector expanded by 5.2 percent significantly improved from a contraction of 5.3 percent in the previous quarter.
- (4) **Agricultural sector** in the first quarter expanded by 2.8 percent, advanced from 1.6 percent in the preceding quarter.

This was owing to an expansion in production of major agricultural product including oil palm, cassava, and rubber, whereas the production of paddy was declined. However, agricultural price dropped by 12.2 percent resulting in 10.9 percent contraction of nominal farm income, compared to 2.3 percent shrinkage in the previous quarter.

- (5) **Manufacturing Sector** contracted by 4.2 percent, improve from contraction of 21.6 percent in the previous quarter. This was largely due to the production recovery of industrial plants that got affected by the flood. Furthermore, capacity utilization rate stood at 63.0 percent, increased from 46.3 percent in the prior quarter. Likewise, Thailand's expected Industries Sentiment Index (TSI) for the next 3 months in April was moved upward to 112.6 from the last expectation of 109.5 released in March.
- (6) **Export value in terms of US dollar** in the first quarter of 2011 recorded at 53,803 million US dollars, contracted by 4.0 percent but improve from 5.2 percent contraction in the previous quarter. The improvement was owing to a continual expansion of export to US and ASEAN (9) with the growth rate of 2.1 and 9.2 percent, respectively. Nevertheless, export to major market, including EU and Japan, continued to contract at 16.9 and 7.0 percent respectively. Export price was increased by 1.1 percent.

### **Thai Economic Outlook for 2012**

**NESDB is expected a robust growth in the range of 5.5-6.5 percent.** Supporting factors include acceleration of manufacturing production as well as recovery of domestic consumption and investment. Moreover, Inflationary pressure starts to soften as energy price is expected to slow down in the second half of the year. Although, European debt crisis remain a major risk toward global economic outlook, nevertheless, global economic outlook is expected to steadily grow at a reasonable rate.

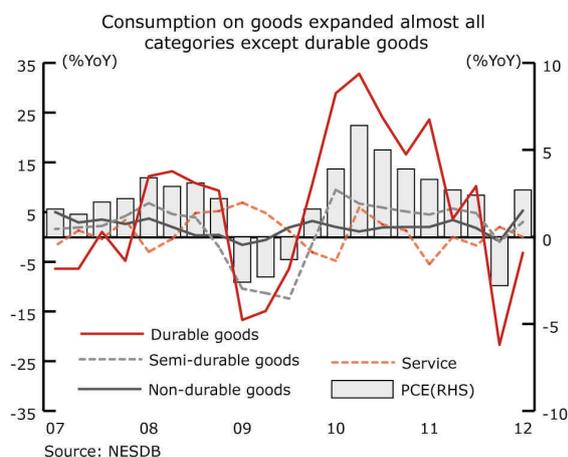
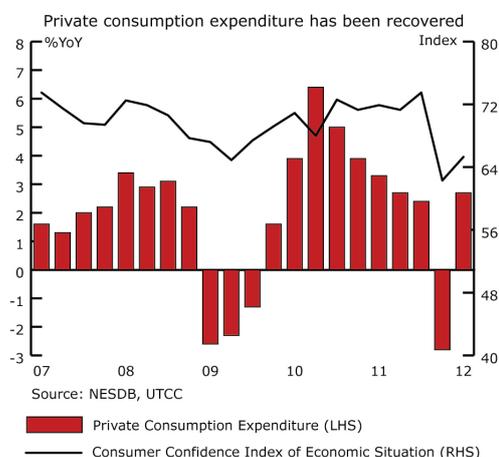
NESDB forecasts that in 2012 (i) the headline inflation rate will be in the range of 3.5 – 4.0 percent; (ii) household consumption will expand by 4.5 percent; (iii) investment will grow by 12.3 percent; (iv) export in terms of US dollar will expand by 15.1 percent and; (v) current account surplus will register approximately at 0.7 percent to GDP.

## 1. Economic Performance in Q1/2012

### Expenditure Side

Private consumption expenditure increased by 2.7 percent in the first quarter, improved from a contraction of 2.8 percent in the preceding quarter indicating a sign of recovery from severe flood. This was reflected by an increase in expenditure of goods for replacement of damaged assets caused by the devastating flood. The improvement was partially supported by post-flood rehabilitation measures and economic stimulus package of government as well as financial institutions. Moreover, the pent-up demand from the earlier period also play a crucial role particularly demand on automobiles which was supported by the tax rebate for the first car buyer scheme. This resulted in an improvement of domestic car sales which contracted only 17.8 percent in the first quarter, compared to a 54.4 percent contraction in the previous quarter. Automobile production has resumed to the nearly normal capacity. In addition, the producers are allowed to import assembled vehicles to compensate the production loss during the severe flood in order to cope the accumulated number of undelivered orders. Whereas domestic motorcycle sales in this quarter increased by 11.8 percent. This was consistent with the improvement in consumer confidence index. Consumer confidence index in the first quarter stood at 65.3, increased from 62.3 in the preceding quarter, mainly resulted from the economic recovery after the devastating flood. Furthermore, consumers still concerned over future cost of living as price of goods remained at high level following a rise in energy price. Nevertheless, there are various factors indicating a consumption expansion in the next period as follows: (i) employment remains high; (ii) household income tends to rise after an increase in minimum wage rate and government official's starting salary; and (iii) the government's cost of living reduction measures.

*Private consumption expenditure increased by 2.7 percent, exhibiting a sign of recovery from severe flood.*



Private Consumption Expenditure

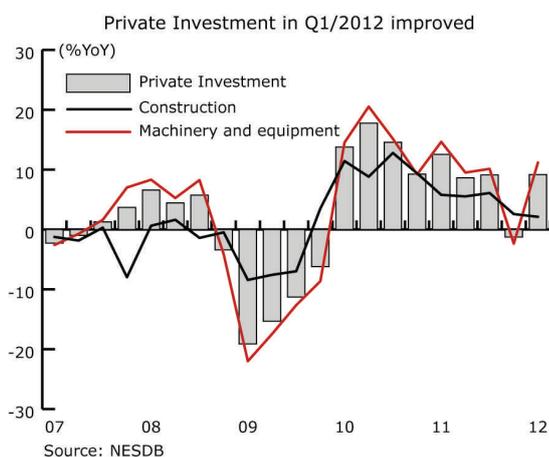
%YoY	2009	2010	2011				2012	
	Year	Year	Year	Q1	Q2	Q3	Q4	Q1
Private Consumption	-1.1	4.8	1.3	3.3	2.7	2.4	-2.8	2.7
Durable Goods	-7.1	25.1	3.3	23.6	3.6	10.2	-21.7	-3.2
Semi-durable Goods	-8.8	6.7	3.4	4.5	5.7	4.8	-1.0	3.0
Non-durable Goods	0.7	1.8	1.6	2.0	3.4	1.8	-0.9	5.3
- Food	0.6	0.5	2.0	2.0	4.4	1.8	-0.3	2.5
- Non-food	0.7	2.7	1.3	2.1	2.7	1.7	-1.2	7.4
Service	2.2	1.4	-1.1	-5.5	0.0	-1.7	2.0	0.0

Source: NESDB

**Private investment accelerated by 9.2 percent in the first quarter**, improved from a contraction of 1.3 percent in the previous quarter. This was mainly caused by an expansion of machinery and equipment investment. In detail, investment in machinery and equipment increased by 11.2 percent in the first quarter after a drop of 2.4 percent in the preceding quarter, as a result of the post-flood reconstruction. Thus import of capital goods increased by 14.4 percent particularly the industrial machinery. Similarly, domestic commercial car sales experienced an exceptional improvement with an expansion rate of 47.0 percent compared to a contraction of 62.4 percent in the previous quarter, as a result of higher demand. In addition, investment in construction expanded by 2.1 percent, in line with an expansion of domestic construction material sales.

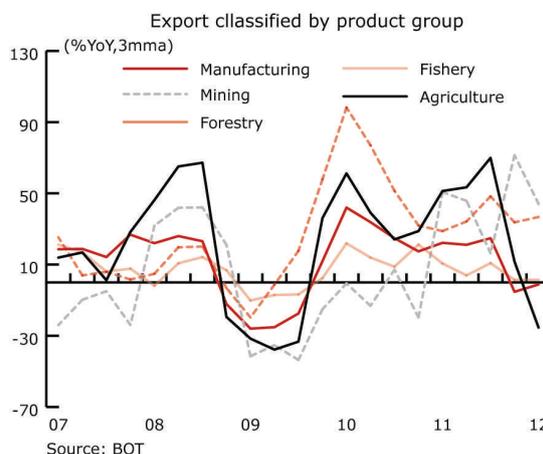
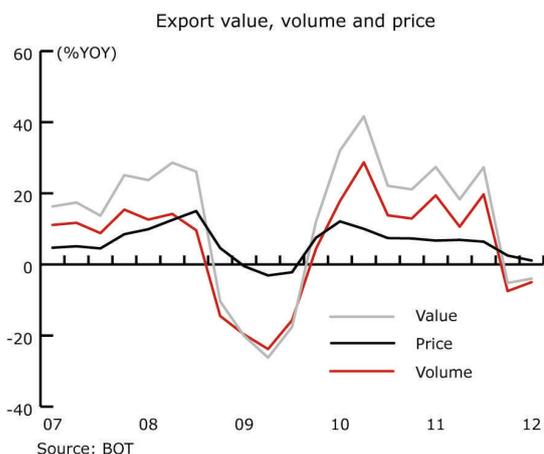
*Private investment accelerated, mainly driven by an expansion in machinery and equipment investment.*

Business Sentiment Index (BSI) in this quarter was at 53.0, increased from 41.4 in the previous quarter. Likewise, the expected BSI for the next 3 months stood at 55.9, increased from 51.4 in the preceding quarter. This reflected an improvement of investor’s confidence, despite the concern over increasing business cost following a rise in minimum wage rate and energy price. In addition, clarity and continuity of government policy, rule and regulation, as well as implementation of water resource management policy are key supporting factors for the restoration of domestic and foreign investor’s confidence.



**Exports:** Export value in the first quarter of 2012 recorded at 53,803 million US dollars (equivalent to 1,665,697 million baht), contracted by 4.0 percent, improved from 5.2 percent contraction in the previous quarter. Export volume fell by 5.0 percent while the export price rose by 1.1 percent compared to the last quarter of 2011. After seasonal adjustment, export value considerably expanded by 12.2 percent compared to the previous quarter.

*Export value recorded at 53,803 million US dollars – a 4.0 percent contraction.*



**Export value of agricultural commodities** shrunk by 25.4 percent while export volume declined by 19.6 percent. This was mainly due to 3 major reasons (i) a decrease in export volume of Thai rice as a result of severe flood, (ii) lower price competitiveness in Thai rice compared to major rivals especially India and Vietnam, and (iii) a decrease of cassava export. Moreover, the agricultural export price reduced by 7.3 percent, led by the lower prices of cassava and rubber during the deceleration of the world demand. However, the export of sugar expanded at a satisfactory rate.

**The volume and value of exported manufacturing products** contracted by 2.7 and 1.2 percent respectively, slightly improved from a reduction of 7.6 and 5.3 percent in the preceding quarter. Major exported manufacturing products such as electronics and electrical appliances declined by 8.3 and 7.9 percent consecutively, an improvement from a contraction of 29.0 and 17.6 percent in the previous quarter.

Major Export Market

(%YOY)	2009	2010	2011				2012		
	Year	Year	Year	Q1	Q2	Q3	Q4	Q1	Share Q1/55 (Percent)
USA	-17.8	21.3	8.2	21.3	17.5	5.2	-7.7	2.1	10.0
Japan	-21.8	29.8	17.9	30.2	27.2	21.0	-3.2	-7.0	10.1
EU (15)	-24.5	19.7	12	24.1	20.3	25.5	-18.3	-16.9	8.5
ASEAN (9)	-19.1	36.5	22.5	20.6	23.5	34.7	11.0	9.2	25.4
Hong Kong	-5.6	38.5	25.5	70.3	30.1	37.9	-18.8	-35.0	5.6
Middle East	-7.8	10.1	7.6	15.5	14.6	16.4	-15.1	6.5	5.3
China	-0.4	33.2	27.6	24.8	22.7	62.8	2.4	1.4	11.6
Australia	7.5	9.2	-14.7	-1.3	-34.5	10.8	-27.3	-9.6	3.6
Total Export	-14.3	28.1	17.2	28.1	18.5	29.0	-4.8	-3.9	100.0
Total Export by Balance of Payment	-13.9	28.4	16.4	27.4	18.3	27.3	-5.2	-4.0	98.5

Source: BOT

**Export markets: The value of export to major markets** particularly Japan and EU (15) plummeted by 7.0 and 16.9 percent respectively. On the contrary, the export value to the US and ASEAN (9) expanded by 2.1 and 9.2 percent consecutively. Meanwhile, value of exports to other export markets such as Hong Kong, Taiwan, and Australia showed a reduction, except India and China which continued to slow down.

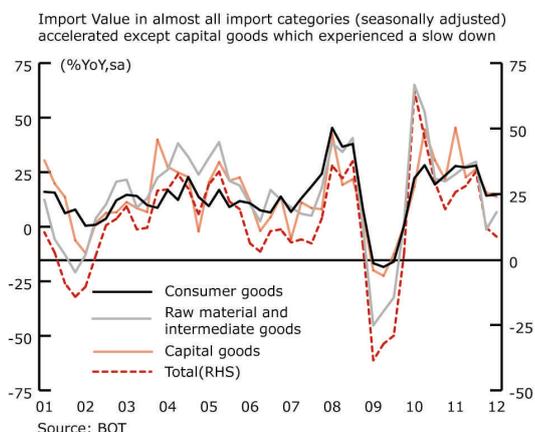
**Imports: Value, volume and price slowed down, compared to the same period of last year.** In the first quarter of 2012, import value in US dollar terms recorded at 52,630 million US dollars or grew by 9.6 percent, decelerated from 12.2 percent growth in the previous quarter. Import price rose by 5.9 percent. Import volume expanded by 3.5 percent, slightly slowed down from an expansion of 3.6 percent in the previous quarter. Import slowdown in the first quarter of 2012 was mainly due to a deceleration of capital goods. Whereas import of raw materials and intermediate goods and consumer goods started to show a sign of recovery from severe flood disaster.

After seasonal adjustment, almost all import categories accelerated except capital goods.

**Import value of raw material and intermediate goods** expanded by 6.7 percent, improved from a contraction of 1.3 percent in the previous quarter. Import goods that showed an impressive growth included crude oil, petroleum products, parts of electrical appliances, computer parts and accessories. **Capital goods** expanded by 13.7 percent, slowed down from an expansion of 15.7 percent in the preceding quarter. Import goods that recorded a positive growth included computer, telecommunication equipments, other machinery and mechanical

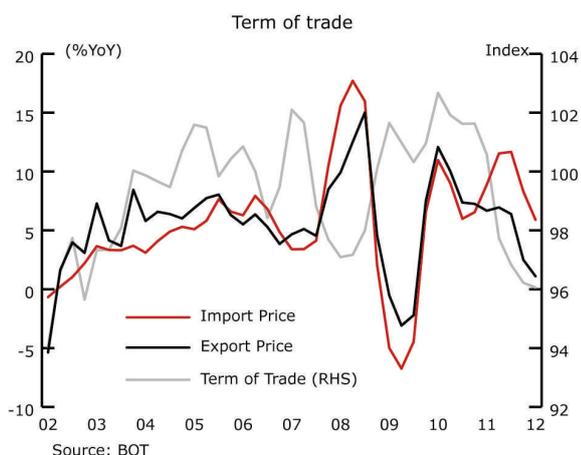
*Import value in US dollar terms grew by 9.6 percent, decelerated from the previous quarter. Almost all import categories accelerated except capital goods that slowed down.*

appliances and parts. **Consumer goods** grew by 14.7 percent, increased from 14.3 percent growth in the previous quarter in accordance with an improvement of private consumption expenditure. Consumer goods such as food, beverage and dairy products, household electrical appliances, jewelry (exclude pearls and precious stones), and animal and fishery products expanded considerably.



**Term of trade decreased from the previous quarter.** Export price increased by 1.1 percent while import price increased by 5.9 percent, particularly crude oil price. Hence, term of trade in the first quarter of 2012 contracted by 4.5 percent, a fifth consecutive quarters of reduction since the first quarter of 2011.

*Term of trade contracted by 4.5 percent from higher import price.*



**Trade balance** recorded a surplus of 1,173 million US dollars (equivalent to 36,548 million baht), higher than a surplus of 993 million US dollars (equivalent to 30,617 million baht) in the previous quarter.

*Trade balance registered a surplus*

**Production Side:**

**Agricultural sector** grew by 2.8 percent, despite the fact that some of in-season rice was damaged by the flood in late 2011. The main contributors to the rise in agricultural production are oil palm, cassava and rubber which rose by 55.2, 6.1, and 4.3 percent respectively. These were mainly due to the increase in their harvesting area and the rise of average yield of cassava. In contrast, paddy rice production declined by 26.4 percent compared to the same period of last year.

*Agricultural sector expanded by 2.8 percent, owing to an expansion of oil palm, cassava and rubber production.*

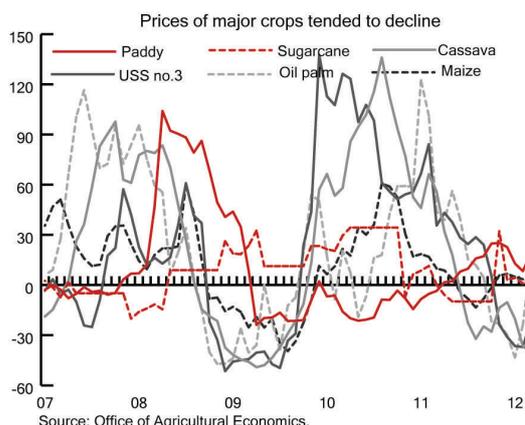
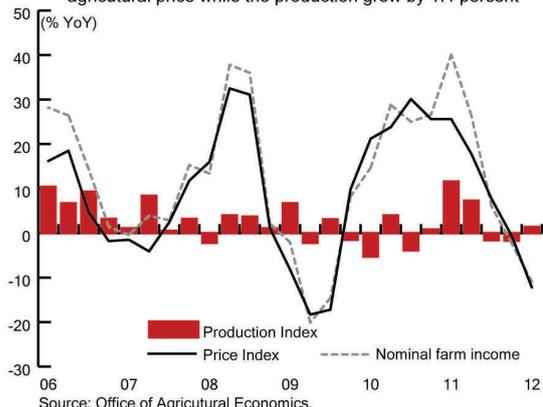
On the other hand, agricultural price declined by 12.2 percent from last year following a decline in price of cassava, rubber and oil palm by 32.5, 32.4, and 22.9 percent respectively. The fall of cassava and rubber prices were contributed by a slowdown in China’s demand, coupled with higher price competition of cassava from Vietnam and Myanmar which partly substitute Thai export to China. Moreover, the domestic automotive industry decelerated its

purchase of rubber following a shortage of labor while government rubber price stability policy remained unclear. Meanwhile, the decline of oil palm price was a result of the unusually high price last year, led by a shortage of oil palm in the domestic market. However, the price of oil palm in the first quarter stood at 5.4 baht per kilogram, which was higher than an average price over the past 5 years of 4.4 baht per kilogram.

However, the domestic paddy price rose by 9.1 percent, partly due to the government rice pledging measure<sup>1</sup> which supports the domestic price of rice while the global price experience a downward trend.

In conclusion, the decrease of agricultural price led to a 10.9 percent contraction of nominal farm income, compared to 2.3 percent shrinkage in the last quarter.

Nominal farm income fell by 10.9 percent due to a 12.2 percent fall of agricultural price while the production grew by 1.4 percent



Agricultural Production

%YoY	2008	2009	2011				2012	
	Year	Year	Year	Q1	Q2	Q3	Q4	
Agricultural Production Index	1.1	-2.5	5.1	11.6	7.3	-1.6	-1.7	1.4
Agricultural Price Index	-9.4	25.2	12.2	25.6	17.8	7.7	-0.6	-12.2
Crop Production Index	-12.1	30.3	12.3	29.7	18.0	6.5	-2.8	-14.4
Farm Income	-8.4	22.1	17.9	40.1	26.4	6.0	-2.3	-10.9

Source: OAE, NESDB

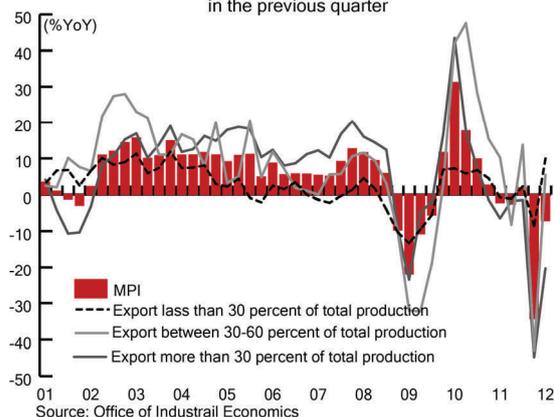
**Industrial Sector** contracted by 4.2 percent, compared to the 21.6 percent contraction in the previous quarter. This was largely due to the production recovery of industrial plants that got affected by the flood in the central region, leading to restart of the related-industry plants. Moreover, some industries have to accelerate their productions in order to meet the back order during the flooding period. Nonetheless, major industries such as automobile sector are expected to recover to their full capacity in the second quarter of 2012. However, flood affected industrial plants that need high precision machineries and equipments such as Hard Disk Drive (HDD) and electronic parts are likely to begin their production in the third quarter of 2012.

In the first quarter, the inventory index stood at 183.0 compared to 175.0 in the previous quarter or improved by 4.6 percent, as producer increase their inventory to make up for depleting stock after a production suspension during the flooding period.

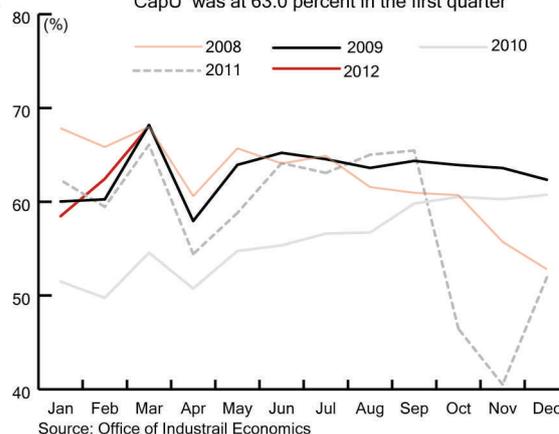
*Industrial sector contracted by 4.2 percent due to the flood impact to industries in the central region, however, the progress of recovery steadily improved.*

<sup>1</sup> Project period: in-season rice from 7<sup>th</sup> October 2011 to 29<sup>th</sup> February 2012 (for southern area from 1<sup>st</sup> February 2012 to 31<sup>st</sup> July 2012)  
 : off-season rice from 1<sup>st</sup> March 2012 – 15<sup>th</sup> September 2012 (for southern area from 1<sup>st</sup> July 2012 to 31<sup>th</sup> October 2012)  
 : redemption period lasts for 4 months from the pledging month

MPI contracted by 7.1 percent, compare to a contraction of 34.2 percent in the previous quarter



CapU was at 63.0 percent in the first quarter



Capacity utilization rate stood at 63.0 percent in the first quarter, increased from 46.3 percent in the prior quarter as a result of (i) the recovery of flood affected industrial plants, (ii) the pent up demand from consumer and post-flood housing rehabilitation, and (iii) an increase in purchasing power due to pay rise of government officers and hike in minimum wages (300 baht per day). The capacity utilization of major industries has shown major improvement. This include automobile (96.9 percent from 31.8 percent), radio, television and communication equipment (41.7 percent from 22.3 percent), and chemical and chemical products (86.4 percent from 71.1 percent), revealed an improvement.

Similarly, Thailand's expected Industries Sentiment Index (TSI) for the next 3 months was moved upward to 112.6 from the last expectation of 109.5 released in March, owing to an increase of total number of orders, sales and production volumes.

**Construction sector** expanded by 0.8 percent, increased from a 5.9-percent contraction in the previous quarter. Major drivers of growth were: (1) private construction increased by 2.1 percent as a result of flood-related rehabilitation in housing and factories. For those projects suspended, they could continue their construction after the flood subsided; and (2) public construction contracted by 1.0 percent, a significant improvement from the 15.9 percent contraction in the previous quarter.

However, construction area permitted still declined by 26.5 percent. Since projects were suspended during the flood, then contractors had to complete the existing projects first and the new projects must be delayed.

Construction material price expanded by 4.7 percent. The price rose by 13.3 percent for concrete products, and 10.7 percent for other materials (brick, sand, asphalt, and stone)

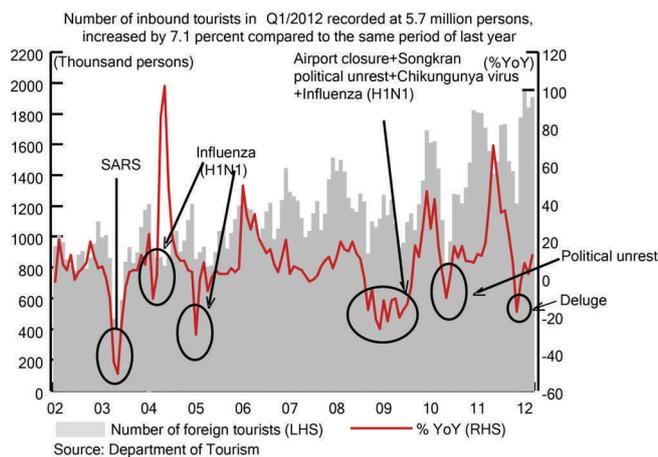
**Real estate sector** contracted by 1.3 percent, being worse than a 0.3-percent contraction in the previous quarter. As a result of the flood, consumers decided to postpone their buying decision. Evidently, housing transfer in Bangkok and vicinities declined by 14.4 percent from the corresponding period last year. However, growth was observed in housing loan, this was partly because individuals asked for loan to fix their flooded houses. The amount of loan rose by 6.3 percent, up from the previous quarter's 13.8 percent contraction. The house price continued to increase for single-detached house (including land), town house (including land), condominium, and land, where the year-on-year percentage growth was 0.9, 3.3, 8.1, and 6.9 respectively.

**Hotel and Restaurants** expanded by 5.2 percent, improve from the 5.3 percent contraction in the previous quarter. As evidence in (i) an increased in inbound tourists to 5.7 million persons or grew by 7.1 percent compared to the same period of last year, (ii) an rise in revenue from tourism sector recorded at 258,102 million baht, from 235,348 million baht in the same quarter of last year or a 9.7 percent, and (iii) an advanced in occupancy rate to 66.8 percent from the same period of last year and the prior quarter that recorded at 64.7 and 56.3 percent respectively.

*Construction sector expanded by 0.8 percent, which was led by 2.1-percent growth in private construction. Public construction contracted by 1.0 percent.*

*Real estate sector contracted by 1.3 percent due to post-flood impact which delayed consumers' buying decision.*

*Tourism sector is fully recovered from the flood crisis. As evidence in the expansion of Hotel and Restaurants at 5.2 percent and a rise of inbound tourist number at 7.1 percent.*



Number and Growth of Tourists Classified by Nationality

Thousand Persons	2008	2009	2011				2012	
	Year	Year	Year	Q1	Q2	Q3	Q4	Q1
Malaysia	1,757.8	2,059.0	2,470.7	574.4	645.3	683.2	567.8	577.2
China	777.5	1,122.2	1,760.6	474.9	397.5	526.3	362.0	561.1
Japan	1,004.5	993.7	1,126.2	317.0	248.2	343.8	217.1	339.8
Korea	618.2	805.4	1,014.3	288.8	226.6	282.2	216.7	305.2
United Kingdom	841.4	810.7	844.2	227.5	200.0	198.0	218.7	239.1
USA	627.1	611.8	684.1	188.9	160.4	152.7	182.1	207.5
India	646.7	698.0	916.8	207.3	267.3	231.8	210.4	210.7
Australia	614.6	760.4	854.1	185.5	204.1	226.2	238.3	215.6
France	427.1	461.7	509.2	167.6	92.6	122.6	126.5	192.2
<b>% YoY</b>								
Malaysia	-2.6	17.1	20.0	11.9	45.6	32.1	-3.0	0.5
China	-6.0	44.3	56.9	42.2	188.4	67.4	7.7	18.2
Japan	-13.0	-1.1	13.3	3.7	46.1	35.5	-17.9	7.2
Korea	-30.5	30.3	25.9	19.5	60.9	46.8	-6.1	5.7
United Kingdom	1.8	-3.7	4.1	-8.0	20.0	11.4	-0.2	5.1
USA	-6.3	-2.4	11.8	0.6	30.6	22.3	3.3	9.9
India	-6.9	7.9	20.6	22.6	52.7	23.9	-8.2	1.6
Australia	14.5	23.7	22.4	5.5	35.6	27.4	22.7	16.2
France	7.2	8.1	10.3	7.9	20.1	18.9	0.2	14.7

Source: Department of Tourism

Tourism sector rapidly recovered with an upward trend in inbound tourists from China, Australia, and France, which in this quarter grew by 18.2 16.2 14.7 percent consecutively.

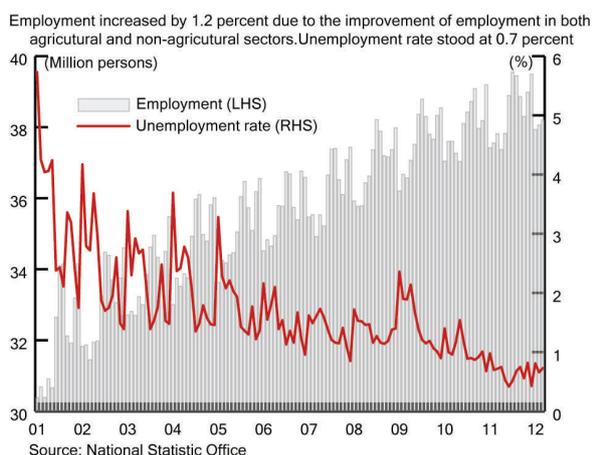
Domestic tourism continuously expanded, reflecting by the number of flights and passengers of low cost airlines that increased by 16.1 and 19.4 percent compared to the same period of last year.

**Employment** in the first quarter of 2012 stood at 38.06 million persons, increased by 1.2 percent compared to the same period of last year. The improvement in employment was seen in both agricultural and non-agricultural sectors, with the growth rate of 2.5 and 0.5 percent respectively. Part of the development of the employment in agriculture was from the expansion of several major agricultural products especially sugarcane, rubber, oil palm, and cassava while the increase of employment in non-agricultural sector was attributed by a rise of employment in manufacturing sector at 6.3 percent compared to the same period of last year, followed the recovery of production after the 2011 flood.

The average number of unemployed person in this quarter was 285,150 persons, declined by 20,843 persons compared to the same period of last year or declined by 6.8 percent. The unemployment rate was at 0.7 percent.

Tension of labor market rose, reflected by the ratio of vacancies over new registered applications at 0.8 compared to the last quarter at 0.7.

*Employment increased by 1.2 percent according to the improvement of employment in both agricultural and non-agricultural sectors at 2.5 and 0.5 percent respectively. The unemployment rate remained low at 0.7 percent.*



Employed Persons by Industry

%YOY	2009	2010	2011				2012	
	Year	Year	Year	Q1	Q2	Q3	Q4	Q1
Employed	1.9	1.0	1.2	0.6	1.4	1.6	0.9	1.2
- Agricultural	-0.1	0.5	2.4	2.1	6.4	2.3	-1.0	2.5
- Non-Agricultural	3.1	1.3	0.4	-0.3	-1.5	1.1	2.3	0.5
Manufacturing	-1.5	-1.3	1.9	1.3	1.2	4.2	3.4	6.3
Construction	4.0	2.2	0.0	4.0	-6.5	4.3	2.6	-1.6
Hotel and Restaurant	8.8	1.3	-3.2	-10.0	-2.3	2.3	-5.8	-11.9
Wholesale	5.1	3.0	-3.6	-2.9	-6.8	-3.4	0.4	-1.1
Unemployment (Hundred thousand persons)	5.7	4.0	2.6	3.2	2.3	2.6	2.5	2.9
Unemployment Rate	1.5	1.0	0.7	0.8	0.6	0.7	0.6	0.7

Source: National Statistical Office

**Fiscal condition**

**On the revenue side**, in the second quarter of fiscal year 2012 (January - March 2012) net government revenue was at 414,360.1 million baht, exceeded the target by 17,578.0 million baht or equivalent to 4.4 percent. Similarly, net government revenue increased by 20,568.0 million baht compared to the same period of last fiscal year or equivalent to 5.2 percent growth. The expansion of revenue collection was a result of a recovery of domestic economy after the flood crisis especially in import tax of capital goods to replace affected machinery. Thus, import tax collection and value added tax exceeded the target by 5,232.87 million baht and 7,451.84 million baht, respectively, and increased from the same period by 19.0 and 15.2 percent, respectively. Collection of excise tax on automobile slightly lower than the target but still expanded by 8.2 percent compare to the same period of last year as production of automobile industry started to improve. Moreover, collection of excise tax on tobacco and beer increased from the previous year by 13.7 and 10.2 percent, respectively, as production has recovered to their normal level and producer has speeded up their production to restore depleted stock after a stall in production during the flood. Furthermore, state owned enterprise revenue sharply increased from the previous year by 33.2 percent from an outperforming revenue in 2011. Nevertheless, the current policy which holds the rate of excise tax on oil at exceptionally low level of 0.005 baht per liter has caused collection of excise tax on oil to be lower than the target and the previous fiscal year by 29.4 and 61.5 percent respectively.

**On the expenditure side**, the total budget disbursement in the second quarter of fiscal year 2012 was at 780,912 million baht. The total budget disbursement comprised of (i) the 2012 budget disbursement of 733,065 million baht, equivalent to 32.1 percent of the annual budget and exceeded the target by 22.0 percent. In detail, the 2012 budget disbursement included (a) current budget disbursement of 651,239 million baht or 33.1 percent of total current budget, and (b) capital budget disbursement of 81,826 million baht or 26.1 percent of total capital budget. The

*Net Government revenue collection exceeded the target by 4.4 percent as economy started to recover after the flood crisis.*

*The budget disbursement in the second quarter is much higher than the set target, as a result of speed up disbursement process after the approval of budget act.*

total disbursement of fiscal year 2012 in the first half was at 1,172,279 million baht, equivalent to 51.4 percent of the annual budget and exceeded the set target at 42.0 percent. This was mainly due to the speed up of disbursement process after the approval of budget act. (ii) carry-over budget disbursement was at 47,847 million baht with the total first half disbursement at 98,303 million baht.

**Flood relief budget** (central budget of 120,000 million baht), up until 11 May 2012, has approved total of 2,344 projects with an allocated budget of 119,536 million baht equivalent to 99.6 percent of the total flood relief budget. The project can be classified according to their procurement process as follow: (i) 2,103 projects or 89.7 percent of total approved project with the total budget allocation of 98,986 million baht or 82.5 percent of the total flood relief budget, and (ii) partially disburse 1,639 projects or 69.9 percent total approved project with budget disbursement of 55,507 million baht or 46.3 percent of the total flood relief budget

Fiscal Balance

Unit: Million Baht

Fiscal Year	2010	2011					2012	
	Year	Year	Q1	Q2	Q3	Q4	Q1	Q2
Government Revenue	1,678.9	1,891.0	395.6	393.8	597.5	504.2	398.3	414.4
Compared with the target (%)	24.4	14.6	12.5	16.9	15.6	13.4	4.1	4.4
Compared with prior year (%)	19.0	10.9	13.4	17.0	8.8	7.3	0.7	5.2
Budget Disbursement	1,627.8	2,050.5	553.8	516.9	521.9	458.0	439.2	733.1
Percent of annual budget (%)	95.8	94.5	25.5	23.8	24.1	21.1	21.2	32.1
Higher / Lower the target (%)	1.8	1.5	5.5	-0.2	0.1	-3.9	1.2	10.1

Source: FPO &amp; GFMIS

**Fiscal balance** in the second quarter of fiscal year 2012, the budget balance on cash basis recorded a deficit of 375,167.7 million baht. However, non-budgetary balance recorded a surplus of 91,414.8 million baht and government has conducted a cash balance management through deficit financing by borrowing in the amount of 93,610.0 million baht. Thus, budget cash balance registered a deficit of 190,143.0 million baht. At the end of March 2012, the treasury reserve recorded at 74,534.0 million baht declined from the end of September 2011 that registered at 446,756.0 million baht or 85.7 percent reduction.

**Public debt** at the end of February amount to 4,345,979.9 million baht, accelerated by 88,570.1 million baht or by 2.1 percent from the same period of last year. However, public debt compared to the end of 2011 fiscal year (September 2011) declined by 102,314.7 million baht or by 2.3 percent. The ratio of public debt to GDP at the end of February 2012 was at 37.6 percent, classify into government debt at 3,143,585.6 million baht or 27.2 percent of GDP. (Forecasted 2012 GDP is 11,572,300 million baht)

Public Debt

Unit: Billion Baht

Public Debt End of Period (Fiscal Year)	2009	2010	2011				2012	
			Q1	Q2	Q3	Q4	Q1	Q2 (Feb.)
Public Debt End of period	4,002.0	4,230.7	4,282.1	4,246.1	4,263.6	4,448.3	4,297.9	4,346.0
Public Debt to GDP (%)	44.3	41.9	42.4	40.3	40.5	42.2	40.8	37.6
Direct Government	2,586.5	2,907.5	3,002.4	2,988.8	3,000.5	3,181.2	3,088.5	3,143.5
Non-Financial State Enterprises Debt	1,108.7	1,084.0	1,081.0	1,065.9	1,074.3	1,079.7	1,061.0	1,039.2
Special Financial Institutions Guaranteed Debt	208.7	177.2	168.1	160.3	158.3	156.9	148.4	163.2
FIDF Debt (Liability)	98.1	62.1	30.6	31.1	30.5	30.4	0.0	0.0
Autonomous Agency Debt (VF & EFPO)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: MOF

*Disbursement of flood relief budget amounted to 55,507 million baht equivalent to 46.3 percent of the total budget.*

*Treasury reserve recorded at 74,534.0 million baht declined by 85.7 percent from the end of 2011 fiscal year.*

*The ratio of public debt to GDP was at 37.6 percent, remain under fiscal sustainability framework.*

## Financial Condition

**Policy rate declined.** During the first quarter of 2012, the Monetary Policy Committee (MPC) decided to lower the policy interest rate from 3.25 percent per annum to 3.00 percent per annum. The assessment were intend to support restoration of flood damage in 2011. Meanwhile global economic outlook was weaken and inflationary pressure remained contain. Similarly, several countries in the region started to relax their monetary policy in order to maintain their economic growth under the situation of global economic slowdown. In May, MPC decided to maintain the policy interest rate at 3.00 percent per annum, as the recent easing of monetary policy has helped to shore up private sector confidence and contributed to a broad-based recovery at a satisfactory rate.

World Policy Rate Changes

Unit : Percent

Country	2009	2010	2011				2012		Policy Rate at the end of Apr 2012
			Q1	Q2	Q3	Q4	Q1	Apr.	
Thai	-1.50	+0.75	+0.50	+0.50	+0.50	-0.25	-0.25		3.00
USA									0.25
Europe	-1.50			+0.25	+0.25	-0.50			1.00
China		+0.50	+0.25	+0.25	+0.25				6.56
Japan		0-0.1							0 - 0.1
Philippine	-1.50		+0.25	+0.25			-0.50		6.00
Vietnam	-1.50	+1.00	+3.00	+1.00		+1.00	-1.00	-1.00	13.00
Indonesia	-2.75		+0.25			-0.75	-0.25		5.75
Malaysia	-1.25	+0.75		+0.25					3.00

Source : CEIC

**Commercial banks' interest rate declined following a reduction in policy interest rate, while real interest rate increased as inflation rate soften.** An average of 12-month deposit rate and MLR lending rate declined from 2.87 and 7.25 percent per annum in the previous quarter to 2.86 and 7.13 percent per annum, respectively. Accompany with the slowed down of inflation rate at 3.45 percent per annum in March, the real deposit rate increased to -0.59 percent per annum and the real lending rate slightly dropped to 3.45 percent per annum. **In April**, commercial banks' deposit and lending rate remained stable while inflation rate declined significantly to 2.47 percent. Thus, the real deposit rate was at 0.39 percent per annum, the first positive registration in two years.

**Deposits including Bill of Exchange (B/E) of Depository Corporations increased by 10.4 percents, decelerated from 12.7 percent in the previous quarter.** As the new Bill of Exchange (B/E) issuing regulation, that aim to raise individual investor protection, will take effect in the third quarter. These will subsequently hinder access of individual investor to the B/E market while increase overall cost of issuing B/E by the commercial bank. Consequently, commercial bank has shifted their capital raising activity from B/E to deposits in preparation of the forthcoming B/E issuing regulation. Thus, the issuance of B/E in the first quarter of 2012 dramatically slowed down to 8.9 percents, comparing to 60.4 percents in the preceding quarter. In contrast, deposits advanced to 10.7 percents comparing to 6.4 percent in the previous quarter.

**Private loans (excluding accrued interest) grew by 15.5 percents slowed down from 16.2 percent in the previous quarter**, mainly due to the slowdown in business loan of the commercial banks, particularly industrial and banking sectors. However, business loan of SFI expanded by 50.2 percents partly resulted from the government measures of post-flood

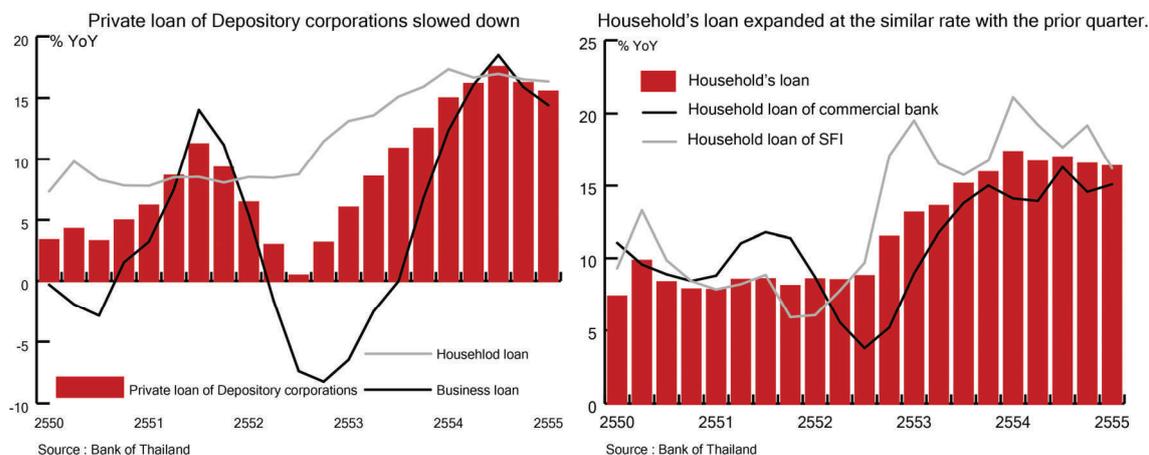
*Policy rate in Thailand and in several countries in the region declined due to the weak global economic outlook.*

*Commercial banks' interest rate declined following a reduction in policy interest rate.*

*Deposits including Bill of Exchange (B/E) decelerated, owing to dramatically slowed down in B/E while deposit increased.*

*Private loans slowed down, due to the contraction in business sectors loan of the commercial banks. However, business loan of SFI expanded from the government measures.*

rehabilitation. Household's loan expanded at 16.3 percent, the similar rate with the prior quarter. Although there is a rising concerns over cost of living and energy prices, however, household loan particularly consumer loans of commercial bank advanced. Similarly, number of credit cards and credit card expenditure, owing to ascend in consumption demand after the flood and a hike in consumer confidence index during the first two months in this quarter. Nevertheless, Household's loan of SFI declined relative to same quarter of previous year.



**Excess liquidity of commercial bank system slightly tightened.** Commercial bank's credit (excluding repurchase position: RP) to deposits (including B/E) ratio gradually improved to 94.9 percent relative to 93.7 percent in the preceding quarter due to higher increase in loan than deposits including B/E. For the rest of the year, commercial banks likely to increase fundraising activity in order to support an augmentation of loan in response to improvement in economic condition.

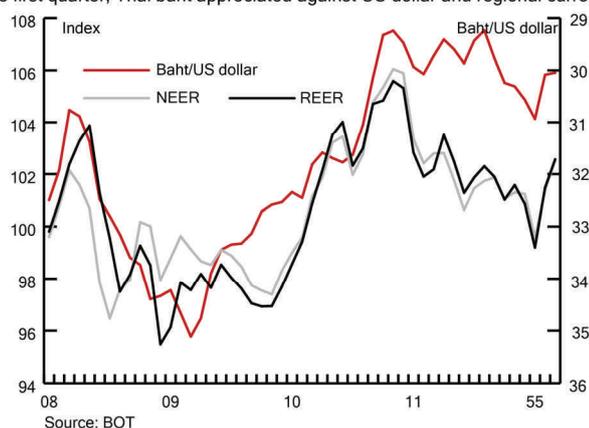
**Thai baht appreciated against US dollar.** An average exchange rate in the first quarter of 2012 was at 31.00 baht per US dollar, slightly appreciated from the previous quarter by 0.06 percent but depreciated by 1.45 percent from the same period of last year. In the first two months of the first quarter, Thai baht appreciated following an improvement in European debt crisis situation and US economic outlook. Thus, capital inflow toward Thai stock and bond market has advanced tremendously. However, Thai baht slightly depreciated to 30.69 baht per US dollar in March due to the slowdown of Japan and China economies and the increasing concern over the European debt crisis and US economic outlook. In April, . An average exchange rate was at 30.89 baht per US dollar, depreciated by 0.65 percent, compared with an average exchange rate in March. The depreciation of Thai baht was caused by a reduction in investor risky assets holding, following a rising concern over the public debts crisis in euro zone and the deceleration of Chinese economy. Furthermore, an average exchange rate over the period of 1<sup>st</sup> – 18<sup>th</sup> of May was at 31.15 baht per US dollar, since Eurozone sovereign debt crisis tends to spread broadly.

Thai baht depreciated against other regional currencies including that of export-competing-countries. Nominal effective exchange rate (NEER) was at 101.16 decreased by 0.03 and 1.64 percent compared to the previous quarter and the same period of last year, respectively. Similarly, Real Effective Exchange Rate (REER) decreased by 0.07 and 1.19 percent compared to the previous quarter and the same period of last year, respectively.

*Excess liquidity of commercial bank system slightly tightened, due to higher increased in loan than Deposits including B/E.*

*Thai baht depreciated against US dollar following an improvement in European debt crisis situation and US economic outlook.*

In the first quarter, Thai baht appreciated against US dollar and regional currencies



**Capital and financial account recorded a net inflow<sup>2</sup>.** In the first quarter of 2012, capital and financial account recorded a net inflow of 2.02 billion US dollar, improved from net outflow of 5.77 billion US dollar in the last quarter of 2011. The net inflow was mainly contributed by inflow from (i) Banking sector following an increase in short term trade credit and foreign net buy of banking security, and (ii) Bank of Thailand (BOT) following an advance in foreign net buy of BOT bond. On the other hand, the other sector recorded a net outflow of 7.37 billion US dollar compared to net inflow of 3.97 billion US dollar in the previous quarter. In regard to type of investment, the net inflow was mainly contributed by a remarkable increase in portfolio investment by foreign investor which registered at 6.79 billion US dollar.

*Capital and financial account recorded a net inflow as a result of an increase in short term trade credit and foreign net buy of banking security.*

Capital and Financial Account

(billion of USD )	2009	2010	2011				2012	
	Year	Year	Year	Q1	Q2	Q3	Q4	
Monetary authorities	1.48	2.71	-0.14	1.70	-0.65	0.11	-1.31	2.91
Government	0.59	3.56	3.68	1.17	0.34	1.83	0.38	0.93
Bank	8.34	10.32	-7.71	1.52	0.01	-1.07	-8.81	5.54
Others	-13.01	7.40	-2.20	-3.73	0.53	-2.81	3.97	-7.37
Non-Depository Financial Corporations	-25.57	1.39	-3.68	0.09	-1.41	-0.63	-1.72	na.
Non-bank	12.56	6.01	1.17	-3.82	1.94	-2.34	5.39	na.
Capital and Financial A/C	-2.60	23.99	-6.36	0.65	0.23	-1.94	-5.77	2.02

Source: BOT

Capital and Financial Account by type of investment

(billion of USD )	2010	2011				2012	
	Year	Year	Q1	Q2	Q3	Q4	
Direct investment	4.17	-1.09	-4.15	1.59	-0.61	2.08	-0.56
Portfolio Investment	9.17	3.30	3.31	-1.75	2.57	-0.83	1.86
Thai	0.71	-0.46	0.45	-1.00	0.79	-0.71	-4.93
Foreign	8.46	3.76	2.86	-0.75	1.78	-0.12	6.79
Others	10.65	-9.03	1.50	0.39	-3.90	-7.02	0.72
Trade credit	1.27	-0.24	-0.81	0.22	-2.48	2.84	-1.97
Total	23.99	-6.36	0.65	0.23	-1.94	-5.77	2.02

Source: BOT

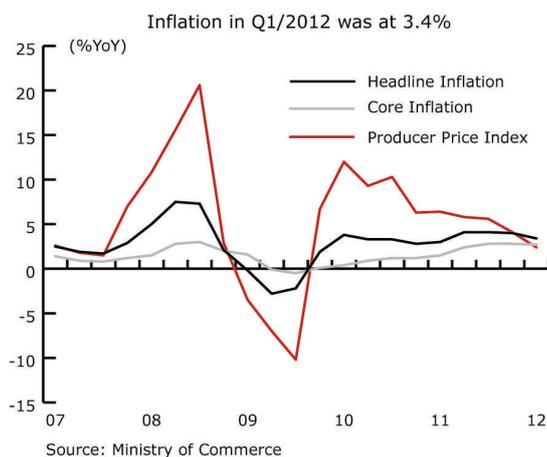
**Current account** registered a surplus of 551 million US dollars (equivalent to 17,820 million baht), decreased from a surplus of 1,843 million US dollars (equivalent to 57,539 million baht) in the previous quarter. This was attributed by trade balance surplus of 1,173 million US dollars and net services, primary income and secondary income deficit of 622 million US dollars.

*Current account registered a slowdown on surplus.*

<sup>2</sup> Capital and Financial account figure at the end of first quarter preliminary data from Bank of Thailand, which is subjected to be changed.

**International reserve** at the end of April 2012 stood at 178.96 billion US dollars (excluding net forward position of 30.39 billion US dollars), equal to 3.7 times of short-term foreign debt (at the end of the fourth quarter of 2011) and 3.4 months of import value (at the end of the first quarter of 2012).

**Headline inflation in the first quarter of 2012 was at 3.4 percent, slowed down from 4.0 percent in the preceding quarter, mainly resulted from a slowdown in fresh food price.** Food and beverage price index was at 7.3 percent, slowed down from 9.7 percent in the previous quarter, mainly from an increased in production of vegetables, fruits, meat, egg, as well as milk in the post-flood crisis, together with a season of various vegetables and fruits. However, there was still more concerns over high price of prepared food even the growth rate tends to slowdown. Whereas, non-food and beverage price index increased by 1.0 percent, after an expansion of 0.5 percent in the previous quarter, mainly due to an increase in domestic oil price following a rise in world crude oil price. Moreover, the Oil Fund contribution rate has been steadily increased which in turn affected retail fuel price, especially octane-91, octane-95 gasoline and gasohol. **Core inflation (excluding fresh food and energy) in the first quarter stood at 2.7 percent**, slowed down from 2.8 percent in the preceding quarter, mainly owing to the slowdown in price of prepared food, as well as seasonings and condiments such as sugar and oil.<sup>3</sup>



**Producer price index in the first quarter of 2012** was at 2.4 percent, slowed down from 4.1 percent in the previous quarter. Such deceleration was due to a slowdown in price of manufacturing products and mining products. Furthermore, price of rubber and plastic products immensely decreased as a result of entrepreneurs' suspension on purchasing ribbed smoked rubber sheet and block rubber due to high stock levels together with a demand decrease for ribbed smoked rubber sheet (RSS 3) from major buyer like China. On the contrary, price of agricultural products increased. Regarding producer price index by stage of processing, the pressure on production cost continually decreased, especially on non-food raw materials.<sup>4</sup>

**SET index advanced significantly compared to other stock market in the Asia.** At the end of the first quarter, SET index closed at 1,196.8 points, increased by 16.7 percent from the end of 2011. Consequently, SET was the third highest growth market in the region after Vietnam and Philippines. An average daily trading value was recorded at 30.5 billion baht, increased from 23.0 billion baht in the previous quarter. Foreign investors recorded a net buy of 82.8 billion baht, increased from 30.2 billion baht in the previous quarter. This was mainly due to an improvement in US economic outlook and European debt crisis situation. Moreover, the

*International reserve at the end of April 2012 stood at 178.96 billion US dollars.*

*Headline inflation in the first quarter was at 3.4 percent.*

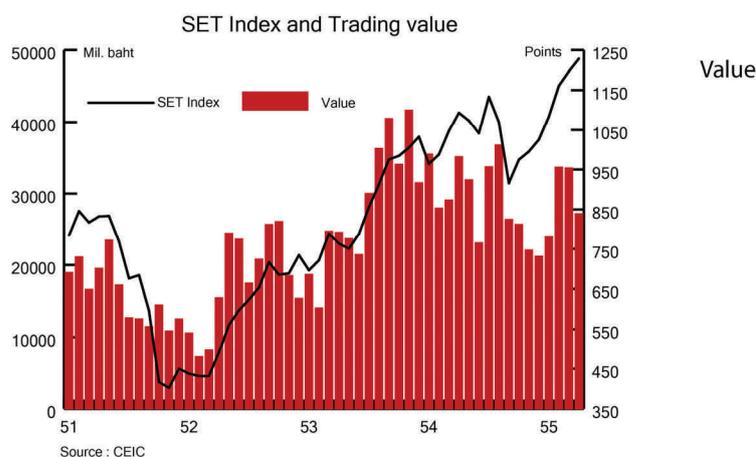
*Foreign investors' posted an impressive net buy following an increase in capital inflow toward Asian region.*

<sup>3</sup> In April 2012, headline inflation was at 2.5 percent and core inflation was at 2.1 percent. Therefore, in the first four months, headline inflation was at 3.2 percent and core inflation was at 2.6 percent.

<sup>4</sup> In April 2012, producer price index was at 0.8 percent. Whereas in the first four months, producer price index was at 1.5 percent.

attractiveness of SET has been raised as FTSE decided to upgrade SET investment position from secondary market to advance emerging market.

**In April 2012**, SET index continually improved and closed at 1,228.5 points or increased by 2.7 percent from previous month. This was mainly from improvement of economic situation of the US. Nevertheless, average daily trading value have dropped to 27.2 billion baht, compared to 33.5 billion baht in March, as well as, net buy position of foreign investors sharply declined from 33.4 billion baht to 1.2 billion baht. This contrast situation was partly because SET index has tremendously advanced in the first quarter. During May (1st – 18th of May) SET index sharply dropped at 1,154.4 points with foreign investors posted a net sell position of 7.8 billion baht due to the concern over the public debts crisis in euro zone after Greece political uncertainty intensified.



### **Bond trading volume and foreign investors' net buy position advanced tremendously.**

Daily average outright trading in the first quarter of 2012 registered at 76.1 billion baht, increased from 60.5 billion baht in the fourth quarter of 2011. Moreover, foreign investors' recorded a net buy of 298.5 billion baht, significantly increased from 30.5 billion baht in the previous quarter. The substantial increasing in capital inflow toward Thai bond market was motivated by both external and internal factors. In detail, external factor was due to the improvement of EU public debt crisis and the US economic conditions while internal factor was largely driven by the expectation of an increase in supply of bond issuance in the primary market and an upward trend of policy rate. As a result, the government bond yield for medium to long terms maturity has shifted upward.

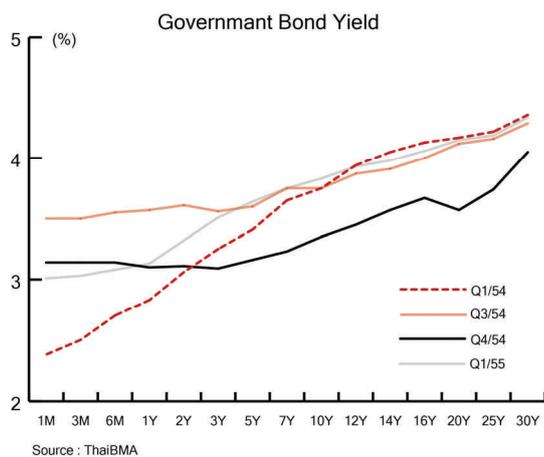
**In April 2012**, a daily average outright trading advanced to 97.1 billion baht, compared to 77.8 billion baht in March. Foreign investors' net buy position declined to 69.5 billion baht from 75.0 billion baht in the previous month due to the concern over debt situation in Greece that could potentially spread to Spain and Italy.

*Foreign investors recorded a net buy position, with an advancement of over ten folds from the previous quarter.*

Stock and Bond Market

(Billion Baht)	2009	2010	2011				2012		
	Year	Year	Year	Q1	Q2	Q3	Q4	Q1	Apr.
<b>Stock Market</b>									
SET Index	734.5	1,032.8	1,025.3	1,047.5	1,041.5	916.2	1,025.3	1,196.8	1,228.5
Daily average trading	17.8	28.7	29.0	30.8	30.0	32.3	23.0	30.5	27.2
Net Trading of Foreign Investors	38.2	81.7	-5.1	-0.6	-14.1	-20.7	30.2	82.8	1.2
<b>Bond Market</b>									
Gross Price Index (Point)	103.5	104.9	105.9	104.2	103.3	103.6	105.9	103.0	103.1
Daily Average Outright Trading Value	59.9	68.6	72.1	80.8	77.7	69.8	60.5	76.1	97.1
Net Trading of Foreign Investors	23.1	322.4	688.8	292.7	197.1	171.5	30.5	298.5	69.5

Source: CEIC and ThaiBMA



Source: ThaiBMA

**Bond issuance in public and private sectors were improved due to rising demand for rehabilitate money after flood crisis.** In the first quarter of 2012, government fundraising through government bonds, treasury bills, and promissory notes totaled at 258.7 billion baht sharply increased from 121.2 billion baht in the previous quarter. This was caused by the delay of the promulgation of the Budget Act in the fiscal year 2012 and an increased in demand for post-flood rehabilitation. Private fundraising in the first quarter of 2012 totaled at 423.0 billion baht, mostly in debt securities, increased from 257.0 billion baht in the previous quarter but slightly declined from the same period of last year which recorded at 443.4 billion baht. Moreover, majority of private fundraising was through debt securities issuance.

*Public and private fundraising through debt securities improved following a rising demand in the post-flood crisis.*

New issuances of securities in Primary Market

(Billion baht)	2010	2011				2012	
	Year	Year	Q1	Q2	Q3	Q4	Q1
<b>Public securities</b>							
Government bonds	511.5	396.1	84.6	113.8	165.5	32.1	150.7
Treasury bills /Promissory notes	538.2	301.4	74.4	4.1	133.8	89.1	108.0
State enterprises bonds	42.2	40.9	6.9	9.3	16.8	10.2	3.8
Monetary authority bonds & Specialized organization bonds	9,435.3	1,0862.7	3,116.8	2,772.6	2,489.1	2,484.2	2,326.5
<b>Total</b>	<b>10,527.7</b>	<b>11,601.1</b>	<b>3,280.4</b>	<b>2,899.8</b>	<b>2,805.2</b>	<b>2,615.7</b>	<b>2,589.0</b>
<b>Private securities</b>							
Equity Securities	96.2	92.1	39.0	37.2	9.3	7.9	6.5
Debt Securities	969.9	1,124.8	404.4	343.4	221.0	249.1	416.5
<b>Total</b>	<b>1,066.0</b>	<b>1,216.9</b>	<b>443.4</b>	<b>380.5</b>	<b>230.3</b>	<b>257.0</b>	<b>423.0</b>

Source: BOT

## 2. Crude Oil Price in Q1/2012

World crude oil price increased at a slower pace as a result of European economic uncertainty, particularly public debt crisis in Greece. In the first quarter of 2012, an average world crude oil price (Dubai, Brent, Oman, and WTI) stood at 112.61 US dollars per barrel or grew by 12.6 percent, decelerated from 22.1 percent in the prior quarter.

In the first quarter of 2012, an average Dubai crude oil price stood at 115.11 US dollars per barrel higher than 100.17 US dollars per barrel in the same period of last year. On 17<sup>th</sup> May 2012, Dubai crude oil price stood at 106.98 US dollars per barrel

*World crude oil price increased at a slower pace as a result of European economic uncertainty, particularly public debt crisis in Greece.*

Crude Oil Price

US dollar/ barrel		OMAN	DUBAI	BRENT	WTI	Average
2010	Q1	76.08	75.69	77.28	78.72	76.95
	Q2	78.15	77.90	79.44	78.07	78.39
	Q3	73.84	73.83	76.74	75.70	75.03
	Q4	84.40	84.22	87.23	85.13	85.24
	Year	78.12	77.91	80.17	79.41	78.90
2011	Q1	100.55	100.17	105.22	94.15	100.02
	Q2	111.10	110.73	117.19	102.67	110.42
	Q3	107.33	106.92	112.17	89.76	104.05
	Q4	106.98	106.31	109.03	93.97	104.07
	Year	106.49	106.03	110.90	95.14	104.64
2012	Q1	115.95	115.11	117.51	101.87	112.61
	Jan.	110.77	109.73	111.43	100.24	108.04
	Feb.	114.34	113.28	116.55	99.18	110.84
	Mar.	122.74	122.31	124.54	106.21	118.95
	Apr.	117.27	117.11	120.35	103.31	114.51
	1-17 May	110.50	110.47	113.40	97.81	108.04
	17 May	107.01	106.98	107.49	92.56	103.51

Source: Thairoil (PLC)

### 3. Global Economic Performances in Q1/2012 and Outlook for 2012

Most economies expanded by a satisfactory growth except for European Union where the crisis originated, leading to skyrocketing unemployment, particularly in Spain and Greece. In addition, Australia tended to experience a downturn, thus the policy interest rate must be cut to accommodate growth. World inflation went down from a high level, except for Japan that encountered deflation. Asian inflation deteriorated especially in Vietnam, allowing for a decline in policy rates. Trade surplus was widely observed except for the United States, United Kingdom, and Australia. Interest rates remained at low level in general but relatively high for China and Australia. Interest rate trend corresponded to a long-term bond yield.

- **United States** economy expanded by 2.1 percent on a year-on-year basis, improved from a 1.6 percent growth in the previous quarter as a result of the strong demand side. Growth was observed in consumption, housing, investment, exports and industrial production. The seasonally-adjusted quarter-on-quarter annualized growth was 2.2 percent. Purchasing Managers' Index (PMI) rose to 53.3, up from a level of 52.4 in the previous quarter. April 2012 witnessed a further increase of PMI to 54.8, reflecting a healthy growth of industrial activities. Nevertheless, a possible contraction in fiscal policy has been a threat for future growth as the U.S. government needs to pursue a fiscal sustainability.

Trade deficit increased to 173.7 billion US dollars in the first quarter of 2012, up from a 159.5 billion US dollars in the previous quarter. Growth rate of trade deficit declined from 15.4 percent (YoY) to 8.9 percent (YoY). Labour market continued to improve, evidenced by a decrease in unemployment rate from 8.7 to 8.3 percent during the first quarter, and stood at 8.1 percent in April 2012. Number of unemployed persons also declined in this quarter, from 13.1 to 12.7 million. Likewise, the seasonally-adjusted non-farm payroll increased to 132.9 million persons, from 132.2 million persons in the previous quarter, owing to the increase of private sector employment whereas the government still laid off some of its employees. Monetary policy was still eased to ensure growth such as prolonged 0-0.25 percent interest rate until 2014, and lengthen the bond maturity (Operation Twist). The fiscal policy was expanded as well via national defense, housing loan, and social security system.

**Eurozone Economy** remained 0.0 percent growth both on a year-on-year basis and a quarter-on-quarter basis. Most countries in the area are sliding into a recession as experiencing both decelerating and negative growth. Germany, Austria and France, for example, expanded at decelerating paces of 1.2, 0.7 and 0.3 respectively. The Netherlands, as well as PIIGS continued to contract, by 1.3 for the Netherlands and by 6.2, 1.3, 2.2 and 0.4 percent for Greece, Italy, Portugal and Spain respectively. Unemployment slightly rose to 10.9 percent from 10.4 percent in the previous quarter. Spain remained its top rate of unemployment in the area at 24.1 percent (March), while Austria retained its lowest rates at 4.0 percent. Inflation slightly eased to 2.6, but still remained above 2 percent mid-term target for four consecutive quarters. The policy rate remained unchanged at 1.0 percent. However, the considerably cross-country variation with the higher stress of sovereign debt problem and the controversial effects of fiscal austerity measures could be key factors for incoming changes that may occur.

- **Japanese Economy** grew by 2.6 percent (YoY), relatively impressive compared to the -0.5 percent growth in the previous quarter as the industrial sector exhibited a continuous recovery, coupled with an increase in reconstruction spending after the Earthquake. On a seasonally-adjusted quarter-on-quarter basis, the first quarter of 2012 saw a 1.0 percent gain in real GDP, improved from a zero-percent growth in the previous quarter. Some sectors with positive growth were, for examples, precision instrument, non-ferrous metals, and transportation equipment. They

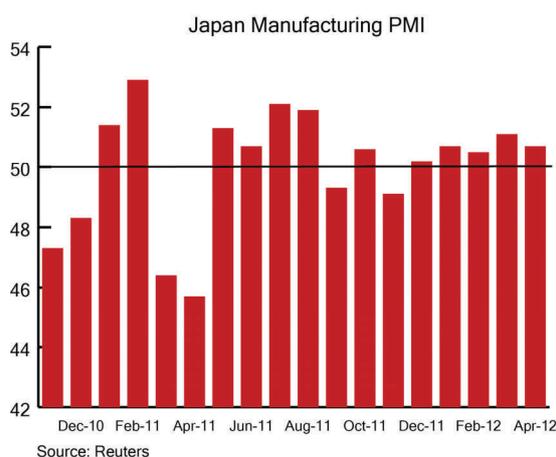
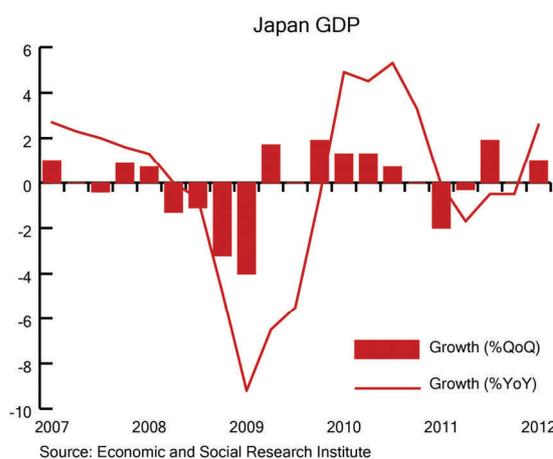
*US economy expanded at accelerated rate due to growing domestic demand and industrial production. Employment improved. Cautiously, trade deficit rose.*

*Eurozone economy faced stagnation at zero growth both on annual basis and quarter basis. A slight increase in unemployment and an inflationary ease supported the ECB's decision to keep the policy rate unchanged at 1.0 percent. Meanwhile, higher stress on sovereign debt and controversial austerity measures could intensify the incoming problems of the area.*

*Japanese economy tends to expand by a positive growth due to an expansion in industrial output, consumption, and government spending. However, the risk arises from global uncertainty.*

led to the overall industrial growth of 2.6 percent (YoY). Purchasing Managers' Index (PMI) on manufacturing sector rose from 50.0 to 50.8 in this quarter, indicating a small rate of expansion. In contrast, retail sales increased moderately by 4.8 percent (YoY), rising from 0.7 percent in the previous quarter. Government spending also contributed to growth as it jumped by 17.1 percent (YoY), accelerated from 5.4 percent (YoY) in the previous quarter. Despite Japanese Yen depreciation, export value contracted by 1.6 percent (YoY), but improved from a negative 5.5 percent. Unemployment declined to 4.5 percent.

However, uncertainty in European Union and Yen appreciation may weaken the export prospect. Domestic demand would then be an only factor encouraging growth. An expansionary monetary policy and lower unemployment rate supports this argument. Bank of Japan enlarged the size of Asset Purchase Program from 55 to 70 trillion Yen.



- **Chinese economy** grew by 8.1 percent (YoY), lower than the previous quarter's 8.9 percent, and being the smallest growth among the last 12 quarters. On a quarter-on-quarter basis with seasonal adjustment, the economy expanded by 1.8 percent. Global recession, particularly the European Union, played a key role in China's slowdown. Consequently, retail sales, industrial production, and real estate investment, expanded at decelerated rates. Trade surplus also shrank sharply to 1.1 billion US dollars, but greatly improved from a 706.4-million-dollar deficit in the same period of last year. However, trade balance resumed its surplus again in April, worth 18.4 billion US dollars. Industrial production experienced a slight growth, where manufacturing Purchasing Managers' Index (PMI) rose to 51.5 in the first quarter, going up from 49.9. Likewise, inflation also went down from 4.6 to 3.8 percent, only food prices continued to increase. April 2012 observed even a lower inflation of 3.4 percent. Decreasing inflation paved the way for easy monetary policy. So far, People's Bank of China (PBOC) lowered its required reserve ratio by 1.0 percent to 20.0 percent. For Agricultural Bank of China, PBOC granted a special ratio of 18.5 percent. Policy interest rate was unchanged, standing at 2.25 percent. China will further experience an economic slowdown, but no hard landing. The economic growth is still cushioned by domestic consumption, and the Government stands ready for further expansion in fiscal policy.
- **Indian Economy**, in the first quarter of 2012, tends to expand at a pace similar to the previous quarter, or 6.3 percent (YoY). A major indicator, Purchasing Managers' Index (PMI), rose from 52.4 to 56.3. However, there had been a reversing trend as PMI kept decreasing since January, and finally stood at 54.9 in April. Industrial production (Jan-Feb 2012) increased by 2.6 percent. Although this growth was greater than the previous quarter's 1.1 percent, it was

*Chinese economy expanded at decelerated rates due to global recession. By the way, soft-landing is expected after the implementation of expansionary monetary policy.*

*Indian economy tends to expand at a pace similar to the previous quarter. With a small growth in industrial production and global risk, Reserve Bank of India decided to lower the policy rate.*

deemed very low. Indian economy, had no exception, was affected by the global recession. Export grew by only 2.1 percent, lower than 11.3 percent in the previous quarter. Deterioration in demand, both domestic and external, led to a decline in inflation from 9.0 to 6.9 percent. The government shore up the foreign investors' confidence by delaying a tax imposed on merger and acquisition. Another measure, regarding monetary policy, was to cut the interest rate from 8.5 to 8.0, and lower the required reserve ratio from 6.0 to 4.75 in April 2012.

- **Newly-Industrialized Economies (Singapore, Taiwan, South Korea, and Hong Kong)** expanded at a lower rate this quarter, owing to a decline in export growth. Taiwan and Hong Kong experienced a negative export growth of 4.0 and 1.5 percent respectively, whereas Singaporean export grew by 1.7 percent, up from -0.2, but deemed to be a very small growth rate.

In the first quarter of 2012, Singaporean economy expanded by 1.6 percent (YoY), down from a 3.6 percent in the previous quarter. The slowdown was observed in manufacturing and wholesale-retail trade industries. Price stability also improved as inflation declined from 5.6 to 4.9 percent. Food price rose at a small increment.

South Korean economy grew by 3.0 percent, lower than 3.4 percent in the previous quarter. The lower growth was consistent to the export and construction slowdown. Similarly, general price level rose by 3.0 percent, down from 4.0 percent in the previous quarter. Hence, the central bank kept interest rate unchanged with an objective to maintain economic growth without a concern over inflation pressure.

Taiwanese and Hong Kong economies expanded by a very small pace, 0.4 and 0.5 percent respectively, slowed down from 2.5 and 3.0 percent growth respectively owing to a strong negative impact from the global recession. Some Taiwanese industries showed a sign of slowdown, namely manufacturing, construction, and wholesale-retail trade. In contrast, Hong Kong experienced a slowdown in logistics industry. Inflation also decreased to 0.7 and 5.2 for Taiwan and Hong Kong respectively.

- **Australian Economy** is expected to continually grow but at slightly decelerating rate compared to 2.3 percent increase in the last quarter of 2011, mainly due to an improvement in mining industry. Meanwhile, other sectors decelerated, unemployment remained stable at 5.2 percent with improving trend. Inflation, with key contribution of supportive housing and fruit prices, continued to ease for four consecutive quarters to 1.6 percent, compared with 3.5 and 3.1 percent in the third and fourth quarter respectively. As a result, the Reserve Bank of Australia decided to reduce the policy rate for the fourth time in 12 months by 50 basis points to 3.75 percent. However, the foreign exchange markets had remained volatile and being traded in a wide range against the US dollar. Overall, the Australian economy is expected to continue its expansion in 2012.
- **ASEAN-4 economy** (Indonesia, Malaysia, Philippines and Vietnam): Philippines accelerated to 5.5, compared to 3.7 in the previous quarter. Vietnam, Malaysia and Indonesia, on the contrary, slightly decelerated to 4.0, 4.6 and 6.3 percent respectively. Nevertheless, their inflation declined significantly. Vietnam, in particular, effectively reduced the rate to 10.5 percent in April (15.9 percent for Q1/2012), compared to 19.8 percent in the previous quarter. Subsequently, the pressure on inflation and policy rates in the region declined; and, in response to the lower pressure, Indonesia decided to lower its benchmark rate to 5.75 percent.

*NIEs tends to expand at a lower pace because of a strong negative impact of global recession, thus a lower demand towards their export goods.*

*Australian economy is expected to slightly decelerate this quarter with key contribution of supportive mining industry. Meanwhile, an easing inflation and a slight increase in unemployment caused the reserve bank decided to reduce the policy rate for fourth times in a year. The economy in 2012 is expected to see a better performance as term of trade improves and exports expands.*

*While Philippines continued to grow at good paces, Vietnam, Malaysia and Indonesia slightly decelerated, but with lower pressure on inflation.*

ASEAN-4's Headline inflation rates (%)

	2009	2010	2011				2012	
			Q1	Q2	Q3	Q4	Q1	
Malaysia	0.6	1.3	3.2	2.8	3.3	3.4	3.2	2.3
Indonesia	4.8	3.7	5.4	6.8	5.9	4.7	4.1	3.7
Philippine	3.3	4.3	4.4	4.1	4.5	4.5	4.7	3.1
Vietnam	6.7	7.9	18.6	12.8	19.4	22.5	19.8	15.9

Source: Collected by NESDB

GDP Growth of Major Economies

Country (%YoY)	2009	2010	2011				2012		
	Year	Year	Year	Q1	Q2	Q3	Q4	Q1	Forecast for 2012
World	-0.6	5.3	3.9	4.3	3.2	3.5	3.2	-	3.4-3.8
USA	-3.5	3.0	1.7	2.2	1.6	1.5	1.6	2.1	2.4
Eurozone	-4.3	1.9	1.5	2.4	1.7	1.4	0.7	0.0	-0.2
UK	-4.9	1.4	0.9	1.7	0.6	0.5	0.5	0.0	0.8
Japan	-5.5	4.5	-0.7	-0.1	-1.7	-0.5	-0.5	2.6	1.8
China	9.2	10.4	9.2	9.7	9.5	9.1	8.9	8.1	8.3
India	9.1	8.8	6.9	7.7	8.5	6.7	6.3	-	6.9
South Korea	0.3	6.2	3.6	3.9	3.4	3.6	3.4	3.0	3.5
Taiwan	-1.8	10.7	4.0	6.4	4.2	3.2	2.5	0.4	3.4
Hong Kong	-2.7	7.0	5.0	7.7	5.1	4.3	3.0	0.5	1.0-3.0
Singapore	-0.8	14.5	4.9	9.5	0.9	6.1	3.6	1.6	1.0-3.0
Malaysia	-1.6	7.2	4.9	5.2	4.3	5.8	4.8	4.6	4.0-5.0
Philippine	1.1	7.6	3.7	4.6	3.1	3.6	3.7	5.5	4.2
Vietnam	5.3	6.8	5.9	5.6	5.7	6.0	6.1	4.0	5.6
Indonesia	4.6	6.1	6.5	6.4	6.5	6.5	6.5	6.3	6.5
Thailand	-2.3	7.8	0.1	3.0	2.8	3.5	-9.0	0.3	5.5-6.5

Source: Collected and forecast by NESDB

## 4. Thai Economic Outlook for 2012

Thai economy in 2012 is likely to expand in the range of 5.5-6.5 percent with the supporting and risk factors as follows:

### □ Supporting Factors

- (1) **Manufacturing production is likely to accelerate**, resulting from the continual rise of capacity utilization and low base effect in the second and fourth quarters of 2011. Though major industries tend to recovery to their full capacity within the second quarter, the recovery of some industries may delay especially the semi-conductor, electrical appliance and electronic sectors which account for 23.9 percent of manufacturing sector.
- (2) **Household purchasing power is estimated to be restored** due to the recovery of manufacturing sector and the government stimulation measures such as the rise of government employee salaries and minimum wage and the measure on reducing the people's cost of living, for example, the extension of free bus and train services and the blue flag fair for lowering cost of living, etc.
- (3) **Investment is forecasted to expand impressively** since a number of BOI net application received in the first quarter of 2012 recorded at 470 projects (14.9 percent growth) with a total value of 231 billion baht (106.7 percent growth). Services and public utility industries are interested by foreign investors the most. Moreover, the business sentiment index for the next 3 months grow to the level of 55.9 from 51.4 in the previous quarter, reflected the improvement of entrepreneur's confidence after the relief of the flood.
- (4) **The inflationary pressure is anticipated to alleviate** since oil prices during the rest of this year tend to be lower than the prices during the first four months of the year. The oil prices are likely to reduce in the second and the third quarters due to the Eurozone's economic uncertainty particularly the Greek public debt crisis. However, the oil prices are predicted to increase in the fourth quarter as a result of the rise of demand during winter. Nevertheless, there still are important factors affected oil prices such as the prolongation of conflict in Iran, the result of negotiation between Iran and the six powerful nations (France, Germany, England, Russia, the US, and China) about the nuclear project in Iran which will be held on 23 May 2012 and the OPEC decision whether to increase or reduce the oil production.
- (5) **The world economy is forecasted to expand at a satisfactory rate** though the Greek sovereign-debt crisis is likely to bring about the debt default and cause more effects on the world economic stability. Nonetheless, the direct effect of Greek crisis on the world economic growth during the rest of this year is still limit; the 2012 global economy is predicted to expand at 3.4-3.8 percent.

### □ Risk Factors and Limitations

- (1) **The world financial volatility is likely to arise.** The Greek public debt crisis tends to affect the international fund flow and exchange rate. Moreover, the indirect effect of the concern on Greek debt default still is the risk which could pull the world economic growth down from the expectation.
- (2) **The self adjustment of the domestic manufacturing sector** to the rise of minimum wage and **the continual contraction of labor intensive industries** are the limitation for Thai economic growth in the latter half of this year, particularly textile and leather product industries which are affected by the rising wage rate.
- (3) **Agricultural production still is under the risk of natural disaster.**

□ **Key Assumption for 2012 Projection**

**Key Assumptions for 2012 Projection**

	2011	2012	
		20 Feb. 12	21 May 12
World Economic Expansion (%)	3.9	3.4-3.8	3.4-3.8
US	1.7	2.2	2.4
EU	1.4	-0.2	-0.2
Japan	-0.7	1.8	1.8
China	9.2	8.6	8.3
World Trade volume Expansion (%)	5.8	6.1-7.1	6.1-7.1
Exchange Rate	30.5	30.0-31.0	30.5-31.5
Oil Price (US\$/Barrel)	106.0	105-110	105-110
Export Price (%)	5.6	5.4	3.3
Import Price (%)	10.1	6.8	5.8
Tourists (Million persons)	19.1	21.0	21.0

Source: NESDB

- (1) **There is no devastating flood or in case of a flood there is an efficient water management**, especially in the industrial estates..
- (2) **The world economy in 2012 is projected to expand by 3.4-3.8 percent**, decelerating from a 3.9 percent growth in 2011. The major risk of the global economic growth is the stability of Euro zone economy which has a high sovereign debt. Meanwhile, the world trade volume is predicted to grow by 6.1-7.1 percent.

**US Economy** is estimated to grow by 2.4 percent, an improvement from the 1.7 percent growth in 2011. In the first quarter of 2012, the US seasonally adjusted economic growth recorded at 2.2 percent compared to the previous quarter or expanded by 2.1 percent compared to the 1.6 percent growth in the same period of last year. The supporting factor for the growth has turned from the inventory drive to private consumption drive, reflecting that the US real economy is getting stronger. Meanwhile, the net exports contracted at a decelerated rate due to the higher export growth, revealing the stronger demand of the US trade partners. Nevertheless, the economy is estimated to recover continually in 2012 with the supporting factor as follows: (1) an improvement of private consumption as shown by the number of car sales in March 2012 at 14.3 million units – the highest figure in almost four years (such an improvement was attributed to the continual development of labor market, which recorded the lowest unemployment rate in three years at 8.1 percent in April 2012, as well as the stabilized level of inflation rate); (2) a better condition of manufacturing sector with the manufacturing PMI in April 2012 at 54.8 compared to 53.4 in March 2012; (3) a better trend of expansion in real estate sector; and (4) a tiny decrease of government expenditure although the US has facing an increasing public debt continually. However, the US economic recovery has still confronted with key risks including: (1) the Eurozone’s economic contraction which would affect the US economic activities both on international trade and the volatility of money and capital markets; and (2) the trend of exchange rate appreciation since investors are more confident to hold US dollar than Euro, causing a limitation to the US exports.

**EU economy is expected to register a contraction merely by 0.2 percent.** In the first quarter, EU economy posted an immobile grew by 0.0 percent compared to the same period of last year; however, it decelerated from the expansion of 0.7 percent in the fourth quarter of 2011. In the first half of 2012, EU economy is estimated to contract but would

*Key assumption for the 2012 projection*

- (1) *There is no devastating flood or there is an efficient preparation of water management.*
- (2) *Global economy and trade volume expand by 3.4-3.8 and 6.1-7.1 percent respectively.*
- (3) *Average Dubai crude oil price is 105-110 US dollars per barrel.*
- (4) *Export and import prices in US dollar term grow by 3.3 and 5.8 percent consecutively.*
- (5) *Exchange rate is between 30.5-31.5 baht per US dollar.*
- (6) *Number of tourists is around 21.0 million persons.*

recover slowly during the second half of 2012. Moreover, all PIIGS countries are expected to face an economic contraction, whereas major economies like France and Germany would expand at a slower pace. On the monetary side, expansionary monetary policy to ease an economic recovery and the low inflationary pressure will attribute to a continual implementation of flexible monetary policy, particular remaining the policy rate at a low level and the expansion of money supply. On the fiscal side, fiscal policy remains a challenging issue for stabilizing the public finance of Eurozone as many member countries still experience the economic recession as well as the high unemployment rate. Nevertheless, changing in direction of EU's public finance will certainly cause a worrisome to the global economy.

**Japanese economy** is expected to expand by 1.8 percent, improved from the contraction by 0.7 percent in 2011. However, during the first half of 2012, the Japanese economy would still be fragile and would experience a gradually recovery. Meanwhile, the economy is estimated to register a solid rebound during the second half of 2012 following supporting factors: (i) increase in both public and private construction investment to restore and reconstruction resulting from the earthquake disaster; (ii) a positive change in inventory after a contraction for four consecutive quarters in 2011; (iii) a steady recovery sign of major manufacturing production, particularly automobile and electronics, in which indicated a contraction of 10 percent in 2011. Moreover, this was consistent with the Industrial Production Index (IPI) which expanded by 14.0 percent; (iv) an improvement of net export following the US economic recovery together with increasing domestic production. In addition, Japanese currency was at 79.36 yen against US dollar in the first quarter of 2012, appreciated from 77.40 yen per US dollar at the end of the fourth quarter of last year. Nevertheless, the recession in Euro economy which account for 11.0 percent of Japanese export would be the significant limitation for Japanese economic growth.

**Chinese economy** is expected to grow by 8.3 percent in 2012. During the first quarter, Chinese economy increased by 8.1 percent, lower than the earlier expectation, decelerated from 8.9 percent in the prior quarter. Therefore, a lower inflationary pressure together with such economic expansion, Chinese government would employ an expansionary monetary policy to stimulate domestic demand to compensate the decline in external demand. On 15<sup>th</sup> May, 2012, Chinese Central Bank cut the amount of reserve requirement of commercial banks by 0.50 percentage point with other monetary instruments such as credit extension.

- (3) **The 2012 average Dubai crude oil price is estimated to be in the range of 105 – 110 US dollars per barrel.** During the first quarter, oil price stood at 115.11 US dollars per barrel but continually declined throughout April and May. However, the following factors which could raise oil prices are: (i) the political tension between Iran and the EU and the US would result in higher oil price expectation; (ii) an increase in demand for oil in developing countries, China in particular, would increase global demand for oil consumption. The OPEC forecasts that demand for oil consumption will increase from 87.5 million barrel per day in 2011 to 88.6 million barrel per day in 2012; (iii) increasing demand for investment in oil fund from speculation in the way work in gold market as the consequent of high liquidity in money market while investment in other financial assets such as Stock and Bond market remains volatile; (iv) the natural disaster which would affect the production bases. Nevertheless, crude oil price could decline as the following factors; (i) increase in anxiety to the deceleration of global economy, Euro zone recession in particular; (ii) Libyan oil output will return to normal; (iii) the value of US dollar tends

to appreciate; (iv) the OPEC excess production capacity (29.8 million barrels per day in 2011 compared to 31.3 million barrels per day in 2010).

- (4) **Export price in terms of US dollar is estimated to grow by 3.3 percent.** In the first quarter of 2012 export price slightly increased by 1.1 percent, this was mainly due to a contraction of agricultural products by 7.3 percent. However, export price is anticipated to increase for the rest of the 2012 due to: (i) rice export price remains high, reflected by Rice Mortgage Scheme; and (ii) an increase in cost of production. **Import price in terms of US dollar is anticipated to expand by 5.8 percent.** During the first quarter, import price grew by 5.9 percent, following an expansion of 6.4 percent of import price of raw materials and fuels. Nonetheless, price of raw materials and fuels is estimated to decelerate during the second quarter and picked up again in the fourth quarter.
- (5) **Exchange rate is anticipated to be in the range of 30.5-31.5 baht per US dollars.** For the first half of 2012, the Thai baht tends to depreciate due to an appreciation of US dollar. Nonetheless, Thai baht is expected to appreciate comparing to the first half of the year, owing to the following factors; (i) a higher trade balance surplus after domestic production returns to normal; (ii) the depreciation of US dollar is expected after the Eurozone economic recovery.
- (6) **Number of inbound tourists** is estimated to be 21.0 million persons.

#### □ The Compositions of 2012 Economic Growth

- (1) **Consumption expenses is expected to grow by 4.4 percent. Household consumption** is projected to show a solid expansion of 4.5 percent, compared to 1.3 percent in 2011. Moreover, such expansion is supported by an increase in Thai people's income and a recovery in production sector such as manufacturing, tourism and agricultural sector. Likewise, government expenditure is assumed to grow by 3.5 percent, accelerate from the expansion of 1.1 percent in 2011.
- (2) **Total investment is anticipated to increase by 12.3 percent.** Private investment is likely to improve by 13.0 percent comparing with an expansion of 7.2 percent of last year. This expansion is estimated to increase due to: (i) a faster than expected recovery in domestic consumption such as an increase in import of raw materials and commercial car sales; (ii) investment in major industries is likely to grow, automobile and electronics in particular. **Likewise, the public investment expenditure is projected to expand by 10.0 percent,** improved from the contraction of 8.7 percent in 2011. This is mainly due to the government investment in various infrastructure projects aiming at the rehabilitation after the flood disaster as well as water management plan.
- (3) **Export value in terms of US dollar is likely to grow by 15.1 percent in 2012.** Export price tend to expand by 3.3 percent, slightly slowed down from 5.6 percent from previous year. In addition, export quantity is estimated to grow by 11.8 percent improved from 10.2 percent in the preceding year. Such an improvement led by the rising trend of car export which expected to be higher than last year. Moreover, export volume of goods and services is anticipated to grow by 11.5 percent.
- (4) **Import value of goods in US Dollar terms in 2012 is estimated to expand by 22.3 percent.** Import price is expected to expand by 5.8 percent and import quantity is like to grow by 16.5 percent comparing with the expansion of 13.3 in the previous year, mainly due to an increase in import of necessity machine to restoration from the flood damaged as well as improvement in investment. Import volume of goods and services is projected to grow by 14.2 percent, advanced from 13.7 percent in the previous year.

- (5) **Trade balance, services balance and current account are forecasted to record a surplus.** Balance of trade is expected to register a surplus of 12.7 billion US dollars, shrink from 23.5 billion US dollars in previous year. Such decrease is contributed by upward trend of import together with services account is expected to register a deficit by 10.0 billion US dollars. As a result, current account is projected to register a surplus of 2.7 billion US dollars or 0.7 percent of GDP.
- (6) **Economic stability in 2012:** Average headline inflation is expected to be in the range of 3.5-4.0 percent, standing at the same level of last year. Unemployment is expected to remain at low rate at 0.7 percents.

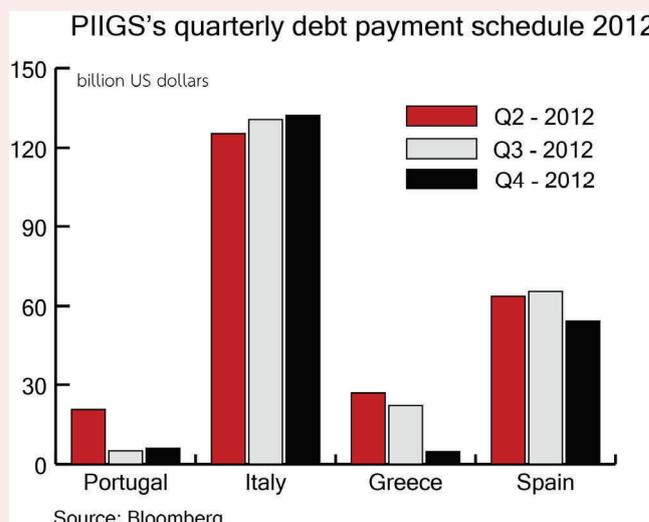
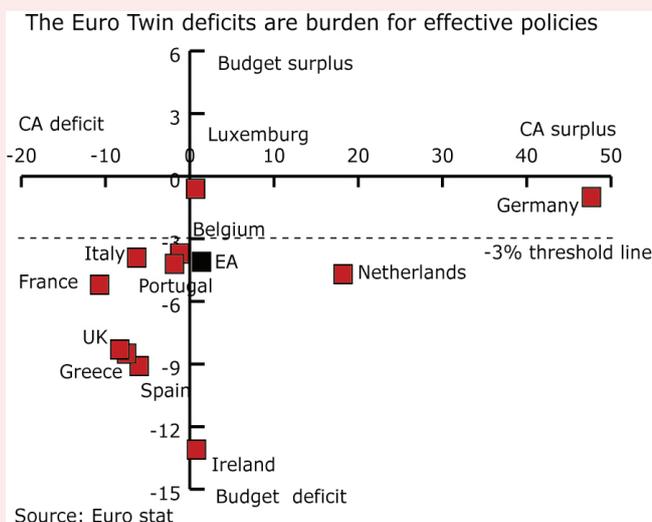
## 5. The Economic management for 2012 should emphasize on the following key issues

- (1) **Accelerating budget disbursement** and implementing a reconstruction and future development plan are mandatory in order to lessen the impact on economic growth caused by a fiscal budget contraction as projects under 2012 Budget Act still in preparation phase in the first quarter. The budget disbursement would also strengthen investor's confidence and shifting the economic structure to achieve a long-term competitiveness.
- (2) **Enhancing a speed of rehabilitation measures for the flood-damaged industries**, as some of them exhibited a slower-than-expected recovery, particularly electrical appliances and electronics sectors which employs low capacity utilization. Moreover, labor-intensive industries are exposed to slowdown in demand from their major export markets, especially textile and leather industries, which experienced a contraction of 17.7 and 18.0 percent respectively in 2011. The downturn was also observed in 2012 where the two industries contracted by 30.2 and 31.6 percent respectively.
- (3) **Assisting entrepreneurs who are affected by a minimum-wage policy**, particularly those labor-intensive SMEs by fostering them to utilize the government-assisting measures such that they could reduce production cost and enhance productivity. Furthermore, the measure should be broadened out towards entrepreneurs not covered by the current scheme. At the same time, the measure also need to accommodate the labor being laid off or forced to reduce their working hours. In addition, syndicated soft loans provided by Bank of Thailand and commercial banks in the amount of 300 billion baht should be fully utilized, with the current approval rate of only 0.97 percent of total amount.
- (4) **Managing and maintaining fair pricing of goods and services throughout the supply chain**, particularly prices of household consumption goods, with an objective to alleviate high living cost and inflationary pressure. In addition, cooperation among relevant agencies will be crucial in supporting production, value creation, and marketing of agricultural products to cope with seasonal factors and fluctuation in prices.
- (5) **Implementing monetary and exchange rate policies to be consistent with a direction of global economic environment**. Although domestic economy is on upward trend for the rest of the year, however, this expansion is partly supported by low-based effect. For the rest of the year, industrial production inevitably remains facing with the inflationary pressure from the rise in minimum wage and the risk of EU debt crisis. Thus, suitable monetary and exchange rate policies will be vital to the recovery and expansion of domestic economy.

### Outlook for 2012 Eurozone crisis

**Current situation and trends**

- (1) Political uncertainty and a possible chance for the pro-expansionary policy party to win the incoming re-election could intensify a great chance for Greece to exit the euro area and increase risk for European Financial Stability Facility (EFSF) bailout to be suspended. Such incidence will widely stir Euro financial and economic structure, at least in the early period of adjustment which could take a few quarters or more. A clearer picture is likely to be seen after Greece’s re-election on June 17, 2012.
- (2) In short-term, the effects of ECB’s Long-Term Financing Operation (LTRO) measures aimed to support bank lending could help increasing European bank liquidity and easing economic contraction, if effectively dispersed to private investors. However, the measure would limit ECB financial ability and, soon afterwards, cause trouble in weathering a dual-inflation problem of the euro area, under a single policy rate.
- (3) Most countries are experiencing current account deficits, except Germany and the Netherlands. Meanwhile, all countries have their budget balance deficit, with huge deficits in Ireland, Greece and Spain, clearly indicating the problem of twin deficits in the Euro area which deter these countries from stimulating the economy through government spending. Hence, to solve the troubles, external assistance is essential and private sectors have to play more crucial roles.
- (4) Apart from Greece, Italy, Spain, Portugal and Ireland are the countries that are at risk in sovereign-debt crisis. Italy and Spain, in particular, are due to debt repayments of 130 and 61 bn USD respectively in remaining quarters. Portugal and Ireland are due to Troika’s review in the end of May and July, respectively. In addition, Ireland is burdened to its high budget deficit of 13 percent approx. which limits it from spending under EFSF conditions for bailouts.



Debt Quarterly Payment 2012 - PIIGS				
	Unit: million USD			
	Portugal	Italy	Greece	Spain
Q2	20,580	125,312	26,877	63,726
Q3	5,046	130,621	22,143	65,501
Q4	5,949	132,137	4,726	54,349

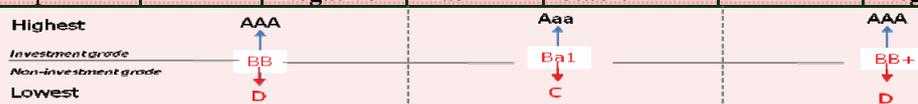
Source: Bloomberg, March 2012

**❑ Credit rating of PIIGS**

PIIGS’s credit rating has been downgraded towards the severity of the Euro sovereign-debt crisis. However, Greece’s debt restructuring early this year made situation improved and Greece’s credit rating was upgraded 4 notches to CCC from SD by S&P afterwards.

**Credit Rating – Eurozone and Major Economies (as of 20<sup>th</sup> May 2012)**

	S&P		Moody's		Fitch	
	Rating	Outlook	Rating	Outlook	Rating	Outlook
France	AA+	Negative	Aaa	Negative	AAA	Negative
Germany	AAA	Stable	Aaa	Stable	AAA	Stable
Belgium	AA	Negative	Aa3	Negative	AA	Negative
Spain	BBB+	Negative	A3	Negative	A	Negative
Italy	BBB+	Negative	A3	Negative	A-	Negative
Greece	CCC	Stable	C		CCC	Stable
Ireland	BBB+	Negative	Ba1	Negative	BBB+	Negative
Portugal	BB	Negative	Ba3	Negative	BB+	Watch Negative
U.S.	AA+	Negative	Aaa	Negative	AAA	Negative
China	AA-	Stable	Aa3	Positive	A+	Stable
Japan	AA-	Negative	Aa3	Stable	AA	Negative

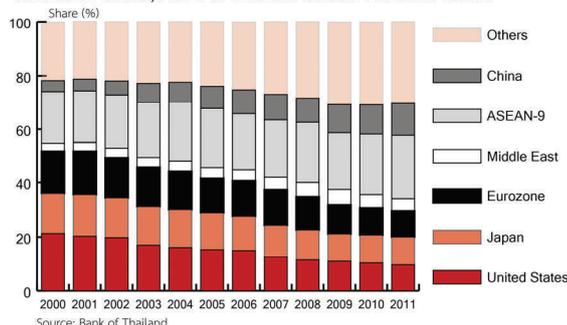


Source: compiled by NESDB, 20<sup>th</sup> May 2012

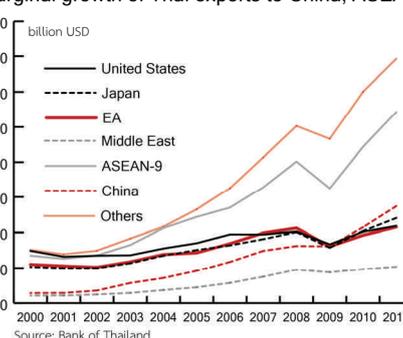
**❑ Impacts on Thai exports**

- (1) The crisis in PIIGS and Greece in particular, including the impacts of European contractionary fiscal policies have raised political uncertainties and social conflicts in several areas. The incidence could also weaken the confidence of overall markets, giving chances to high speculation over market fluctuation. The Euro and policy rate are expected to vary over the year 2012, which may fluctuate Thailand financial market subsequently.
- (2) The Euro area remains its importance to Thai exports as a major trading partner, but with declining share to total Thai exports, from 15.8 percent in 2000 to merely 9.4 percent in 2011. Meanwhile, shares and values of Thai exports to other markets, ASEAN and China in particular, increased significantly indicated changes in patterns and trade direction of Thai exports. Nevertheless, trade linkages between the Euro area and Asia could affect, more or less, Thai exports as a result of the euro crisis, but hopefully with a limited impact.

While shares of major destinations in total Thai exports decreased, shares of China, ASEAN and the Middle East increased



Marginal growth of Thai exports to EA was small, compared with marginal growth of Thai exports to China, ASEAN and the Middle East



**Share of Major Destinations in Total Thai Exports**

Share (%)	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
United States	21.3	20.3	19.8	17.0	16.1	15.3	15.0	12.6	11.4	10.9	10.3	9.6
Japan	14.7	15.3	14.6	14.2	14.0	13.6	12.6	11.8	11.3	10.3	10.5	10.5
EA	15.8	16.2	15.0	14.7	14.3	12.9	13.0	12.9	12.0	10.5	9.8	9.4
Middle East	3.0	3.3	3.6	3.6	3.8	4.0	4.4	4.9	5.3	5.7	4.9	4.5
ASEAN-9	19.3	19.3	19.9	20.6	22.0	22.0	20.8	21.3	22.6	21.3	22.7	23.7
China	4.1	4.4	5.2	7.1	7.4	8.3	9.0	9.6	9.1	10.6	11.0	12.0
Others	21.7	21.3	21.9	22.8	22.4	23.9	25.1	26.9	28.3	30.6	30.7	30.3

Source: Bank of Thailand

## Economic Projection for 2012

	Actual Data			Projection for 2012	
	2009	2010	2011	20 Feb 12	21 May 12
GDP (at current prices: Bil. Bht)	9,041.6	10,104.8	10,540.1	11,572.3	11,573.1
GDP per capita (Bht per year)	135,144	150,117	155,926	170,403	170,415
GDP (at current prices: Bil. USD)	263.3	318.8	345.6	379.4	373.3
GDP per capita (USD per year)	3,936.0	4,735.5	5,113.0	5,587.0	5,497.3
GDP Growth (at constant prices, %)	-2.3	7.8	0.1	5.5-6.5	5.5-6.5
Investment (at constant prices, %)	-9.2	9.4	3.3	14.2	12.3
Private (at constant prices, %)	-13.1	13.8	7.2	14.5	13.0
Public (at constant prices, %)	2.7	-2.2	-8.7	13.0	10.0
Consumption (at constant prices, %)	0.1	5.1	1.3	4.4	4.4
Private (at constant prices, %)	-1.1	4.8	1.3	4.5	4.5
Public (at constant prices, %)	7.5	6.4	1.1	3.5	3.5
Export volume of goods & services (%)	-12.5	14.7	9.5	11.5	11.5
Export value of goods (Bil. USD)	150.7	193.7	225.4	264.2	259.5
Growth rate (%)	-14.0	28.4	16.4	17.2	15.1
Growth rate (Volume, %)	-14.2	17.7	10.2	11.8	11.8
Import volume of goods & services (%)	-21.5	21.5	13.7	15.1	14.2
Import value of goods (Bil. USD)	118.1	161.9	201.9	250.9	246.8
Growth rate (%)	-25.2	37.0	24.7	24.3	22.3
Growth rate (Volume, %)	-23.2	26.8	13.3	17.5	16.5
Trade balance (Bil. USD)	32.6	31.8	23.5	13.3	12.7
Current account balance (Bil. USD) <sup>1/</sup>	21.9	13.2	11.9	4.5	2.7
Current account to GDP (%)	8.3	4.1	3.4	1.2	0.7
Inflation (%)					
CPI	-0.9	3.3	3.8	3.5-4.0	3.5-4.0
GDP Deflator	1.9	3.7	4.2	3.5-4.0	3.5-4.0

Source: Office of National Economic and Social Development Board, May 21<sup>st</sup>, 2012

Note <sup>1/</sup> Bank of Thailand has adjusted the balance of payments calculation method based on the 6th IMF balance of payment and international investment position manual (for more information, see <http://www.bot.or.th/Thai/Statistics/EconomicAndFinancial/ExternalSector/Pages/Newtable.aspx>).