

Economic Outlook



Thai Economic Performance in Q4 and 2012 and Outlook for 2013

Macroeconomic Strategy and Planning Office

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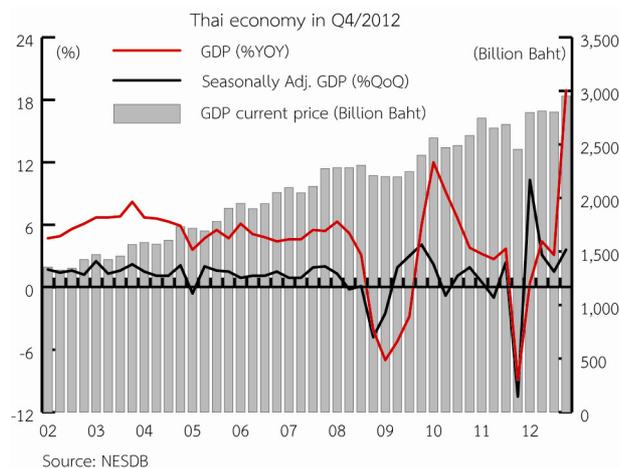
Economic projection for 2013

(% YOY)	2011	2012		2013	
	Year	H1	H2	Year	Projection
GDP (at 1988 price)	0.1	2.2	10.7	6.4	4.5 - 5.5
Total Investment (at 1988 price)	3.3	7.7	19.2	13.3	8.9
Private	7.2	10.5	18.9	14.6	8.0
Public	-8.7	-2.7	20.4	8.9	12.0
Total Consumption (at 1988 price)	1.3	3.9	9.4	6.7	3.5
Private	1.3	4.1	9.1	6.6	3.5
Public	1.1	2.7	10.8	7.4	3.5
Export of Goods (US\$)	16.4	-0.2	6.3	3.2	11.0
Volume	10.2	-3.3	5.9	2.6	7.0
Import of Goods (US\$)	24.7	13.4	5.6	7.8	11.3
Volume	13.3	6.6	6.1	6.1	7.9
Current Account to GDP (%)	3.4	-0.5	2.0	0.7	0.9
Inflation	3.8	3.0	3.1	3.0	3.2

- In the fourth quarter of 2012, Thai economy expanded by 3.6 percent (QoQ SA) reflecting the recovery from global economic slowdown.
- Compared to the same period of 2011, Thai economy grew by 18.9 percent, accelerating from 0.4, 4.4, and 3.1 percent growth in the first three quarters respectively. On the production side, the expansion was mainly driven by manufacturing, hotels and restaurants, and construction sectors. On the demand side, the expansion was supported by private consumption, private investment, and government expenditure.
- In 2012, Thai economy grew by 6.4 percent, with headline inflation of 3.0 percent and current account surplus of 0.7 percent of GDP.
- Thai economy in 2013 is expected to grow by 4.5 - 5.5 percent. Export value will expand by 11.0 percent. Private consumption and total investment will grow by 3.5 and 8.1 percent respectively. Headline inflation is forecasted to be in the range of 2.5 - 3.5 percent with a current account surplus of 0.9 percent of GDP.
- Economic management for 2013 should emphasize on the following areas:
 - i) Ensuring exchange rate stability while monitoring its movement to be in line with the economic fundamentals and other regional currencies, especially during the second half of the year when the appreciation pressure is likely to intensify, ii) Managing domestic stability: the prices of major goods, particularly energy, construction materials, and raw material in agriculture, should be well managed to move in line with the movement of exchange rate in order to soften price pressure, and ward off fluctuation in major markets that are sensitive to the capital inflow, iii) Maintaining growth momentum to reduce effect from consumption slowdown as the first-time-car-buyer scheme fades out. This could be achieved by solving the export obstacles in the major markets, accelerating private investment that has been granted BOI incentive in the past year, and expediting disbursement of government budget, especially in the fourth quarter when the economic expansion experiences a high base effect, iv) Expediting relief measures for SMEs to alleviate the impact from Thai baht appreciation, rising labor cost, and a weak demand in Eurozone, as well as strengthening SMEs and the problem-solving mechanism, and v) Expediting public investment under the Royal decree on investment loan for water resource management and future development, infrastructure development plan, and accelerating the development of new economic areas in order to enhance the long-term economic growth potential.

Thai Economy in Q4/2012 and Outlook for 2013

Thai economy in the fourth quarter of 2012 expanded by 3.6 percent (QoQ SA), indicating a clear sign of recovery from the global economic slowdown. Compared to the same quarter of 2011, Thai economy grew by 18.9 percent, accelerating from 0.4, 4.4, and 3.1 percent growth in the first three quarters respectively. On the production side, the expansion was mainly driven by manufacturing, hotels and restaurants, and construction sectors. On the demand side, the expansion was supported by private consumption, private investment, and government expenditure.



Thai Economy in Q4/2012

- 1) **Private consumption expenditure**, after seasonal adjustment, grew by 2.6 percent (%QoQ SA). Compared to the same period of 2011, private consumption expanded by 12.2 percent, accelerating from 6.0 percent in the previous quarter. This strong expansion was mainly supported by the first-time-car-buyer scheme, improvement of household income, low inflation and exchange rate. Domestic car sales increased by 312.9 percent. The consumer confidence index stood at 79.0, improving from 77.7 in the previous quarter. In 2012, private consumption expenditure expanded by 6.6 percent.
- 2) **Total investment** expanded by 23.5 percent, compared to 15.5 percent in the previous quarter, supported by the solid expansion of private and public investment. Private Investment expanded by 21.7 percent, following an expansion in machinery and equipment, and construction investment. Public investment grew by 31.1 percent as government expedited disbursement of investment budget. In addition, Thai Airways International PCL. during the quarter has imported 4 airplanes worth 23.8 billion baht. In 2012, total investment expanded by 13.3 percent.
- 3) **Export** value in the fourth quarter of 2012 was recorded at 56.4 billion US dollars (1,730.8 billion baht) –a 18.2 percent growth compared to a 3.0 percent contraction in the previous quarter. The seasonally adjusted export volume grew by 3.3 percent from the third quarter. This clearly reflects the turn around from the global economic slowdown. The export of manufacturing products expanded by 25.4 percent, especially vehicles (77.0 percent), electrical appliances (35.2 percent), and electronics (34.4 percent). Exports accelerated in all major markets, including US (14.3percent), EU (13.4percent), ASEAN (15.2percent), Japan (9.0percent), Australia (64.9 percent), and China (9.9 percent). In 2012, export value expanded by 3.2 percent.
- 4) **Manufacturing sector** grew by 37.4 percent, compared to a 1.1 percent contraction in the previous quarter. Manufacturing Product Index (MPI) rose by 44.0 percent, due to a number of reasons including the low base effect from 2011, a higher-than-expected automobile production, as well as recovery of hard disk drives, electronic parts and integrated circuit industries. In 2012 industrial sector increased by 7.0 percent.

- 5) **Agricultural sector** expanded by 0.8 percent, decelerated from 8.3 percent in the third quarter due to the slowdown of in-season rice production. Meanwhile, rubber, sugar cane and livestock production grew at a satisfactory rate. Prices of key agricultural products continued to decline, especially oil palm and rubber as inventory remain high, while world market condition was unfavorable. Consequently, farm income contracted by 3.0 percent. In 2012, agricultural sector expanded by 3.1 percent.
- 6) **Hotels and restaurants sector** grew by 25.4 percent, picked up from 7.0 percent growth in the previous quarter, following a record high of inbound tourists of 6.3 million persons, or a 39.3 percent growth. **In 2012**, hotels and restaurants sector expanded by 11.5 percent. The total number of inbound tourists registered at 22.3 million persons or rose by 16.0 percent.
- 7) **Construction sector** increased by 14.1 percent, accelerating from 9.8 percent in the previous quarter as public and private construction grew by 27.1 and 10.6 percent respectively. This was in line with higher sale of cement and steel products. **In 2012** construction sector increased by 7.8 percent.
- 8) **Wholesale and retail trades** expanded by 7.6 percent, accelerating from 4.0 percent in the previous quarter due to low base effect from the 2011 and a strong expansion in household consumption. Trade grew in all sub-sectors, particularly automobiles, constructions, foods, and fuel due to an improvement of consumer confidence and the government economic stimulus measures. **In 2012**, wholesale and retail trades increased by 5.2 percent.

Thailand Economic Outlook for 2013

Thai economy in 2013 is expected to grow at a satisfactory rate, with external demand will play a more important role in driving the economy following the global recovery. Nevertheless, domestic demand tends to slowdown as the impulse from government stimulus measures and post-flood reconstruction spending fade out. Economic stability remain favorable. However, the appreciation pressure on Thai baht tends to persist.

Thai Economic Projection for 2013

Thai economy in 2013 is projected to grow by 4.5 - 5.5 percent. The export value is expected to expand by 11.0 percent, while household consumption and investment are forecasted to grow by 3.5 and 8.9 percent respectively. The headline inflation rate is projected to be in the range of 2.5 – 3.5 percent, with the current account surplus of 0.9 percent of GDP.

1. Economic Performance in Q4 and 2012

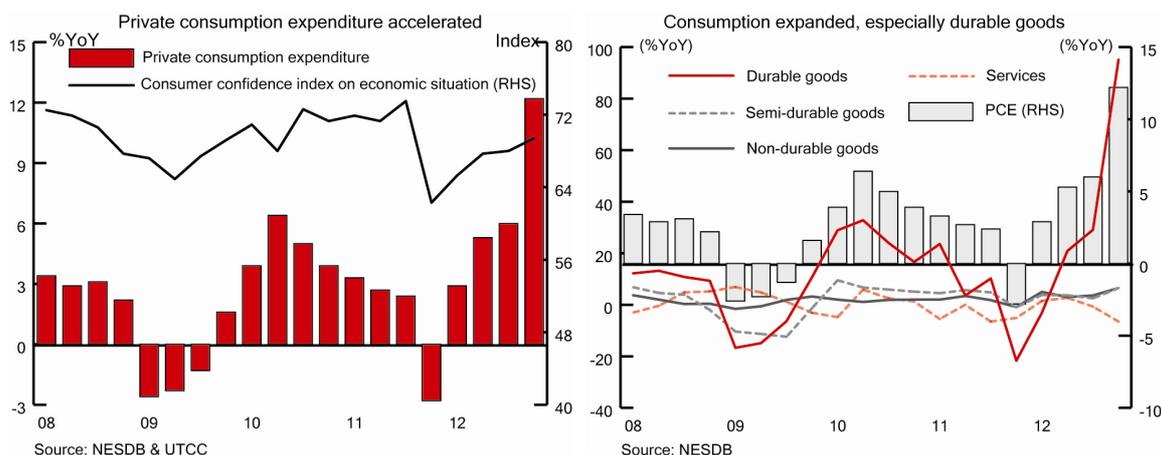
Expenditure Side

Private consumption expenditure in the fourth quarter expanded by 12.2 percent, accelerating from the growth rate of 6.0 percent in the previous quarter. The expenditure on durable goods expanded strongly by 95.1 percent, reflecting the increase in domestic car sales and motorcycles which grew by 312.9 and 99.1 percent respectively. Supporting factors for a strong consumption expansion include (i) the impact of the first-time-car-buyer scheme; (ii) household income, which received a boost from the increase in minimum wage and the improvement of labor market condition; (iii) low real interest rate; (iv) the low base effect; and (v) the improvement of consumer confidence that continued to increase from 65.3 in the first quarter to 69.4 in the fourth quarter of 2012. After seasonal adjustment, private consumption grew by 2.6 percent from the third quarter (%QoQ SA), reflecting the strength of household demand.

In 2012, private consumption expenditure expanded by 6.6 percent, accelerating from 1.3 percent growth in the previous year. This was resulted from an increase of 31.3 percent in durable goods consumption, 4.2 percent in semi-durable goods consumption, and 4.5 percent in non-durable goods consumption, whereas service consumption decreased by 0.9 percent.

Expenditure expanded strongly, supported by growth of domestic demand, especially private consumption expenditure and private investment. Both Import and Export also expanded.

Private consumption expenditure continued to expanded by 12.2 percent, mainly supported by first-time-car-buyer scheme.



Private Consumption Expenditure

%YoY	2011					2012				
	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4
Private Consumption	1.3	3.3	2.7	2.4	-2.8	6.6	2.9	5.3	6.0	12.2
Durable Goods	3.3	23.6	3.6	10.2	-21.7	31.3	-3.1	20.9	29.1	95.1
Semi-durable Goods	3.4	4.5	5.7	4.8	-1.0	4.2	3.8	3.7	2.5	6.5
Non-durable Goods	1.6	2.0	3.4	1.8	-0.9	4.5	5.0	3.0	3.6	6.5
- Food	2.0	2.0	4.4	1.8	-0.3	1.4	1.7	0.7	1.0	2.2
- Non-food	1.3	2.1	2.7	1.7	-1.2	6.7	7.4	4.6	5.5	9.2
Service	-1.1	-5.5	0.0	-1.7	2.0	-0.9	1.5	2.7	-0.7	-6.5

Source : NESDB

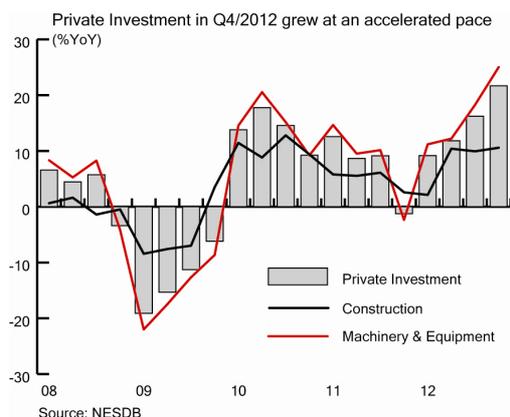
Private Investment expanded by 21.7 percent, accelerating from 16.2 percent growth in the previous quarter. This strong expansion was supported by an expansion of both machinery and equipment investment and construction investment. The machinery and equipment investment in the fourth quarter expanded by 25.0 percent, accelerating from 18.2 percent in the previous quarter. This was in line with the increase of capital goods import and domestic commercial car sales in the fourth quarter. Construction investment in the last quarter expanded by 10.6 percent, accelerating from 9.9 percent in the previous quarter mainly due to construction of houses and commercial buildings. This also reflects in the growth of steel and cement sales

Private Investment expanded by 21.7 percent due to an expansion of both machinery & equipment investment and construction investment.

which grew by 49.5 and 20.6 percent respectively. Investment prospect in 2013 remains solid, which can be observed from the value of investment projects applying for investment incentives to the Board of Investment (BOI) in 2012 that registered at 1.48 trillion baht, higher than the target of 0.8 trillion baht.

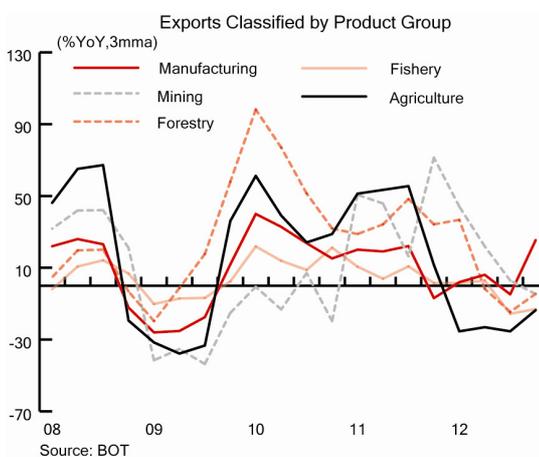
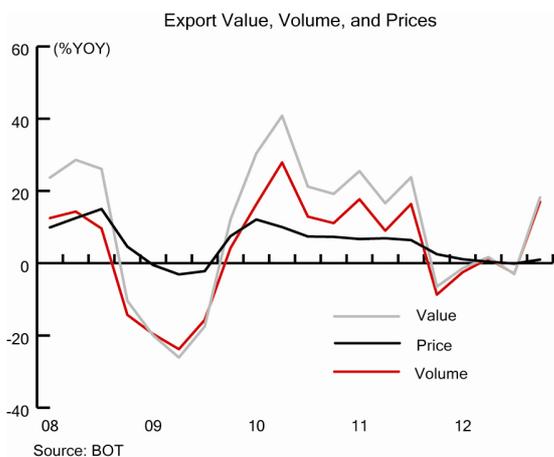
In 2012, private investment grew by 14.6 percent, accelerating from 7.2 percent in 2011, with an expansion of 16.4 and 8.3 percent in machinery and equipment investment and construction investment respectively

Business Sentiment Index (BSI) for the fourth quarter increased to 51.6 from the level of 50.6 in the third quarter. Similarly, the expected BSI for the next three months increased from 55.1 in the previous quarter to 55.5 in the last quarter. This reflects an improvement in investors' confidence.



Exports: Export value in the fourth quarter of 2012 was recorded at 56.4 billion US dollars (1,730.8 billion baht) – a 18.2 percent growth compared to a 3.0 percent contraction in the previous quarter. The seasonally adjusted export volume grew from the third quarter by 3.3 percent. This clearly reflects the turn around from the global economic slump. In addition, together with the low-base effect, the export volume increased by 17.0 percent from the fourth quarter of 2011. Furthermore, export price grew by 1.0 percent. When exclude the export of unwrought gold, the value of exports grew by 19.7 percent.

Export value in US dollar term grew by 18.2 percent, equivalent to 56,415 million US dollars.



Export value of agricultural commodities decreased by 13.6 percent due to decline in export volume and price by 9.5 and 4.5 percent respectively. The contraction of export volume was owing to the decline in exports of rubber and sugar. The shrinkage in prices was mainly concentrated on the major export products such as rice, rubber, and cassava. The rice exports were negatively affected by the lower prices of rice from Vietnam and India while the rubber price in the world market has decreased continually, following the slowdown of Chinese economy. **The export volume and value of manufacturing products** expanded by 23.6 and 25.4 percent, consecutively. These improvements were seen in the expansion in vehicles and metal products, which grew by 77.0 and 72.3 percent respectively. Meanwhile, exports of electrical appliances and electronics also grew by 35.2 and 34.4 percent, consecutively.

In 2012, export value registered at 226.2 billion US dollars (7,029.4 billion baht) – an increase of 3.2 percent – with the rise of export volume and price at 2.6 and 0.6 percent, respectively.

Export markets: The value of exports expanded in all major markets, particularly the US, EU, Japan, and ASEAN (9) which grew by 14.3, 13.4, 9.0, and 15.2 percent, respectively. Likewise, exports to all other high potential markets showed a satisfactory improvement, especially (i) Hong Kong (59.2 percent) following the expansion of exports in iron, steel and their products, (ii) Australia (64.9 percent) following the expansion of exports in vehicles, parts and accessories, and (iii) China (9.9 percent) following the expansion of exports in computers, parts and accessories and electrical appliances.

Global recovery and the resumption of electronics production started to support export expansion in fourth quarter of 2012

Global recovery coupled with low base effect in the last quarter of 2012 has resulted in a positive expansion of Export in all major industries (excluding jewelry and accessory that were affected by the reduction of gold price). Nevertheless, export of major agricultural products (rice, rubber, and shrimp) and labor intensive industries remained contract. This shrinkage has caused export in the fourth quarter to expand at a slower pace than previously expected. However, the export price accelerated from the previous period in parallel with the recovery of global economy. Thus, the continual expansion of global economy will improve overall export growth to expand at its normal rate.

Export products that remain in contraction

%YoY	Q4/2011	2012				
		Year	Q1	Q2	Q3	Q4
Gold	-49.3	12.8	-14.7	-34.1	130.1	-36.0
Rice	-25.1	-28.0	-38.7	-36.9	-34.1	5.0
Rubber	25.9	-31.1	-26.6	-27.5	-39.7	-30.6
Canned and processed prawn & Crab	11.9	-16.2	-6.1	-12.2	-24.2	-17.4
Textiles	-14.0	-12.0	-15.3	-15.7	-15.5	0.5
Footwear	-10.9	-20.3	-16.0	-20.9	-30.8	-9.7

Source: BOT

Export products that has recovered and continue to expand

%YoY	Q4/2011	2012				
		Year	Q1	Q2	Q3	Q4
Electronic	-29.0	0.9	-8.3	5.8	-14.7	34.4
Electronic Appliance	-21.0	2.2	-7.9	1.0	-8.7	35.2
Metal Product	-0.8	21.3	5.4	-0.6	24.2	72.3
Automobile	-20.4	26.3	2.6	33.7	10.3	77.0
Chemical product	27.1	2.1	8.3	-2.9	1.7	2.3
Rubber product	9.8	2.7	-2.8	8.0	-7.2	14.4

Source: BOT

Major Export Market

(%YOY)	2011					2012									
	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Oct	Nov	Dec	Shared Q4/12	
USA	7.8	21.3	17.5	3.9	-7.7	4.6	2.1	4.6	-1.2	14.3	17.0	22.0	4.6	9.9	
Japan	17.5	30.3	27.4	20.6	-4.5	-1.6	-6.3	-1.3	-6.3	9.0	10.2	13.5	3.1	10.2	
EU (15)	12.0	24.1	20.3	25.5	-18.3	-9.2	-16.9	-7.5	-19.2	13.4	9.7	30.9	2.9	8.5	
ASEAN (9)	21.9	20.6	23.5	34.7	9.0	5.0	9.2	7.2	-9.0	15.2	14.0	18.6	13.2	24.7	
Hong Kong	6.2	44.7	3.4	23.5	-33.3	9.6	-6.5	-8.4	9.8	59.2	55.9	85.3	40.9	5.7	
Middle East	7.5	15.5	14.6	16.4	-15.8	12.8	6.5	9.8	4.5	36.2	38.8	60.7	15.6	5.1	
China	22.2	24.8	22.7	41.3	2.6	2.5	1.4	13.7	-11.8	9.9	-7.7	32.1	10.1	11.7	
Australia	-14.6	-1.3	-34.5	10.8	-27.3	22.1	-9.6	20.5	23.7	64.9	45.4	72.4	81.5	4.3	
Total Export	15.1	26.3	16.8	25.6	-6.1	3.1	-1.4	2.0	-3.8	18.5	15.6	26.9	13.5	100	
Total Export by Balance of Payment	14.3	25.5	16.6	23.8	-6.5	3.2	-1.4	1.7	-3.0	18.2	14.4	27.1	13.6	98.7	

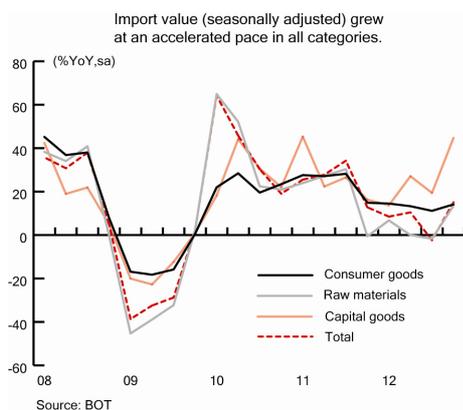
Source: BOT

Imports: the value and volume of import expanded, while the prices of import declined. Import in US dollar term recorded at 55.7 billion US dollars in the fourth quarter of 2012. This represents an expansion of 14.9 percent, compared to a contraction of 2.5 percent in the previous quarter. The import volume increased by 15.4 percent, shifted from a contraction of 2.0 percent in the previous quarter. The import volume increased in all categories, especially capital goods which increased by 42.3 percent. On the other hand, the price of imports declined by 0.4 percent, compared to a decline of 0.5 percent in the previous quarter, due to the decline in the prices of world crude oil, gold and gems.

After seasonal adjustment, import value in most categories accelerated. Import value of **raw materials** expanded by 13.5 percent, compared to a contraction of 1.7 percent in the last quarter.

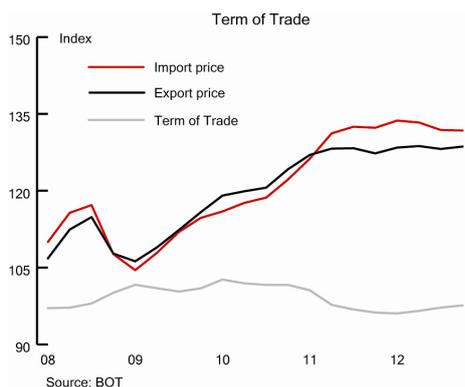
The improvement in import value of electronic and electrical appliance parts as well as construction materials accelerated, reflecting the improvement of global economic condition and the post-flood recovery of the domestic capacity utilization. The import value of **capital goods** expanded by 44.7 percent, accelerating from 19.3 percent in the preceding quarter. The capital goods with an increase in import value include aircrafts, locomotive, machinery and equipment. The import value of **consumer goods** expanded by 14.1 percent, increased from 11.1 percent growth in the preceding quarter. This is in line with a strong increase of private consumption expenditure. Consumer goods with a high rate of expansion include household electrical appliances, furniture and parts, and clocks and watches.

In 2012, the value, volume and price of imports rose by 7.8, 6.1, and 1.6 percent, respectively, decelerating from an expansion in 2011 of 24.8, 13.4, and 10.1 percent, respectively.



Term of trade improved from the previous quarter. Export price increased by 1.0 percent, while import price decreased by 0.4 percent. Consequently, the term of trade in the fourth quarter of 2012 was at 97.6, compared to 97.2 in the previous quarter.

In 2012, term of trade was at 96.9, decreased from 97.8 in the previous year. Export price increased by 0.6 percent while import price increased by 1.6 percent.



Import value in US dollar term expanded by 14.9 percent from the previous quarter. All import categories expanded at an accelerated pace.

Term of trade improved from the previous quarter.

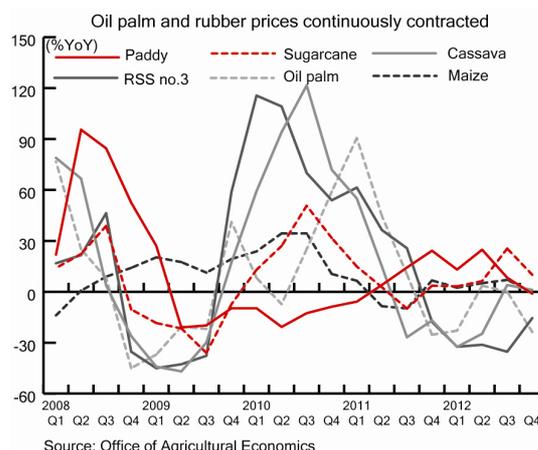
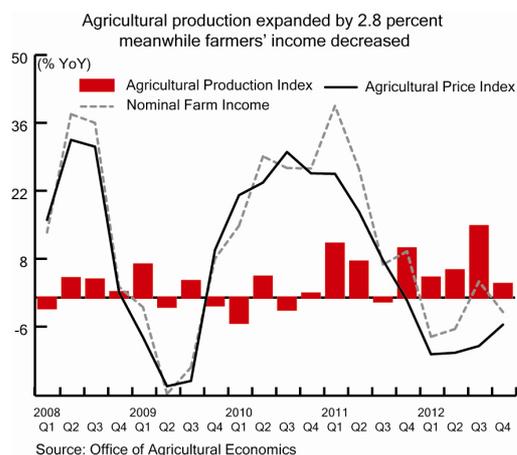
Trade balance recorded a surplus of 765 million US dollars (equivalent to 23.4 billion baht), *Trade balance recorded a slowdown on surplus.* which is lower than a surplus of 5.0 billion US dollars (equivalent to 156.2 billion baht) in the previous quarter.

In 2012, trade balance registered a surplus of 8.3 billion US dollars (equivalent to 260.7 billion baht) lower than a surplus of 17.0 billion US dollars (equivalent to 514.8 billion baht) in 2011.

Production side:

Agricultural sector expanded by 0.8 percent, decelerated from 8.3 percent in the third quarter due to the slowdown of in-season rice production. On the other hand, others production continued to expand at the satisfactory rate which include rubber, sugar cane and livestock. This was due to (i) an increase of rubber tapping area in the eastern and north-eastern regions, (ii) an increase of sugar cane plantation area as a result of rising sugar price, (iii) an expansion of swine production in large-scale enterprises to cope with greater export demand, and (iv) an increase of broiler export volume following a termination of EU's import prohibition on frozen broiler since July 2012. However, agricultural product price declined, especially oil palm price and rubber price which contracted by 23.7 and 15.5 percent respectively. These contractions were mainly caused by high volume of inventories and the unfavorable world market condition, which in turn resulted in lower farm income by 3.0 percent.

In 2012, agricultural sector expanded by 3.1 percent.

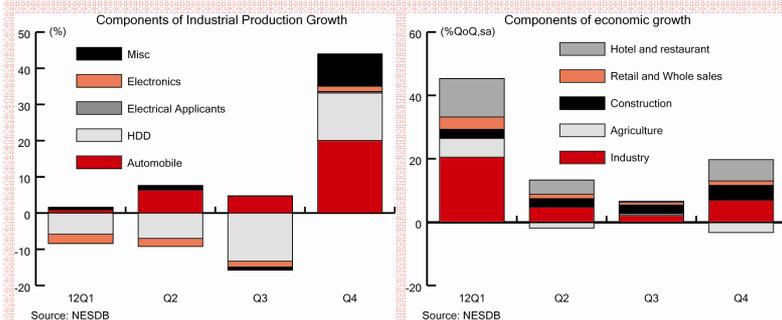


Agricultural sector decelerated to 0.8 percent due to a slowdown in production of in-season rice.

Industrial sector, after seasonal adjustment, expanded from previous quarter by 6.9 percent, indicating a remarkable recovery of global economy and the resumption of electronic production. Together with the low base effect, industrial sector expanded by 37.4 percent from the fourth quarter of 2011. This expansion was in line with a strong expansion of Manufacturing Product Index (MPI) of 44.0 percent, reflecting (i) a strong expansion of automobile industries by 312.2 percent that was supported by the first time car buyer scheme and (ii) a recovery of flood affected manufacturing production particularly electronic devices, hard disk drives, electronic parts and integrated circuit industries. The recovery of manufacturing production was reflected in an increased of capacity utilization from 66.1 percent in the previous quarter to 67.0 percent. Moreover, the recovery of global economy during the third quarter also plays part in the improvement of MPI. The improvements were seen in

Impacts of the first time car buyer scheme

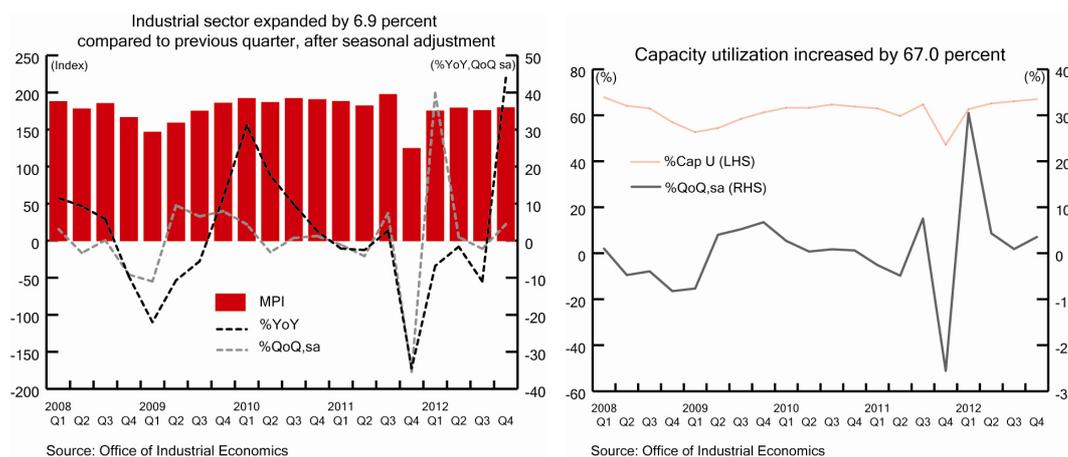
The first-time-car-buyer scheme was carried out from September 16th2011 to December 31st 2012, with the target of 500,000 participants. In the first 12 months, the scheme did not attract much attention, with only 250,744 applicants registered at the end of September 2012. However, the number of applicants increased sharply by 1,006,272 in the last quarter of 2012. In sum, the total number of applicants was 1,257,016 (as of January 29th 2013). As a result, car production grew rapidly and drove manufacturing GDP and overall GDP in the fourth quarter to be higher than forecasted.



all major component of MPI (seasonal adjusted) including electronic devices, hard disk drives, electronic parts and integrated circuit industries which grew by 16.7, 6.3, 10.5, and 16.6 percent from previous quarter, compared to a trivial growth in electronic devices and a contraction for the rest in the past two quarters.

Even though the industrial sector get a support from a low base effect, however, labor-intensive industries, especially clothing and furniture, continue to contract by 5.2 and 6.5 percent, respectively. This reflects the loss of competitiveness in labor-intensive industries which is exacerbated further by the slowdown in EU economy, minimum wage rise, and appreciation of Thai baht.

In 2012 industrial sector expanded by 7.0 percent.



Construction sector increased by 14.1 percent, accelerating from 9.8 percent in the previous quarter. In details, private construction expanded by 10.6 percent due to an expansion of commercial and residential housing construction. While, public construction increased by 27.1 percent owing to a higher disbursement in capital budget compared to the lagged disbursement caused by the flood incidence in the fourth quarter of 2011. Such increase was in line with higher sale volumes of cement and steel products, along with an increasing approval for construction areas which grew by 20.6, 49.5, and 16.4 percent, respectively. In particular, steel products expanded for the first time in four quarters. However, price index for construction materials increased by 1.4 percent following the increase in production cost.

In 2012 construction sector increased by 7.8 percent.

Real estate sector expanded by 8.0 percent, accelerating from 5.1 percent in the previous quarter. **On demand side**, demands for housing remained ample as indicated by the expansion of the personal housing loan which grew by 11.6 percent compared to 9.8 percent in the third quarter. Moreover, ownership transfers for housing within Bangkok and vicinities increased by 58.2 percent. **On supply side**, registered residences in Bangkok and vicinities increased from the fourth quarter of 2011 by 138.1 percent, compared to the same period last year, along with an increase of 11.8 percent in real estate development credit. The expansion of real estate sector was in line with the housing developers sentiment index (HDSI) which recorded its 3-years high. Likewise, **on price level**, land and townhouse with land increased from the same period last year by 5.2 and 2.7 percent, respectively.

In 2012 real estate sector expanded by 3.9 percent

Hotel and restaurants sector grew by 25.4 percent, picked up from 7.0 percent growth in the previous quarter. The strong expansion was supported by a record high of numbers of foreign tourists which register at 6.3 million persons or grew by 39.3 percent from the same period of 2011. The total tourism revenue was 304,505 million baht, increased by 45.0 percent. Likewise,

Industrial sector expanded by 6.9 percent (%QoQ, sa) following high growth in automobiles and the return of capacity utilization in flood-affected manufacturers

Construction sector increased by 14.1 percent owing to private and public construction which increased by 10.6 and 27.1 percent, respectively.

Real estate sector increased by 8.0 percent, both from demand and supply side.

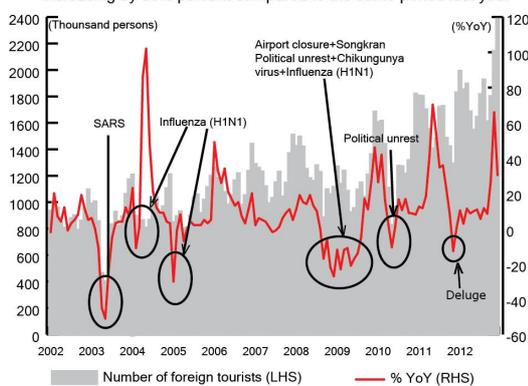
Hotel and restaurants shifted by 25.4 percent with a record high amount of foreign tourist

an average occupancy rate advanced to 64.9 percent compared to 56.0 percent in the same period of last year. The supporting factors for remarkable expansion were (i) the diversion of Chinese and Japanese inter-tourism to Thailand (ii) the influence of the movie “Lost in Thailand”, and (iii) the improvement of global economic condition.

In the fourth quarter, the number foreign visitors grew dramatically especially the number of tourists from China, Malaysia, and Japan, which grew by 525,460 persons (162.9 percent), 171,135 persons (28.6 percent) and 154,424 persons (70.6 percent), respectively. This was in line with the increase in the number of low-cost airlines’ flights and passengers of 11.1 and 28.7 percent, respectively.

In 2012, hotel and restaurants sector expanded by 11.5 percent. The total number of foreign tourists was 22.3 million persons or rose by 16.0 percent. Top five nationalities of foreign visitors were Chinese, Malaysian, Japanese, Russian and South Korean.

a record high numbers of foreign tourists at 6.3 million persons in Q4/2012 increasing by 39.3 percent compared to the same period last year



Source: Department of Tourism

Number and Growth of Tourists Classified by Nationality

Thousand Persons	2010	2011					2012				
	Year	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4
China	1,122	1,721	475	397	526	323	2,789	580	588	773	848
Malaysia	2,059	2,500	574	645	683	597	2,561	616	557	620	769
Japan	994	1,128	317	248	344	219	1,371	334	289	375	373
Russia	645	1,054	398	168	129	360	1,317	464	207	161	486
Korea	805	1,006	289	227	282	209	1,169	293	241	310	326
India	760	915	207	267	232	209	1,016	211	300	244	260
Australia	698	830	186	204	226	214	931	213	229	244	245
United Kingdom	811	845	228	200	198	219	870	240	195	193	243
USA	612	682	189	160	153	180	767	210	177	158	222
Vietnam	380	497	107	140	156	94	618	132	173	179	134
% YOY											
China	44.3	53.4	62.1	42.2	188.4	67.4	-4.0	22.2	47.9	46.9	162.9
Malaysia	17.1	21.4	2.4	11.9	45.6	32.1	2.1	7.2	-13.7	-9.3	28.6
Japan	-1.1	13.5	21.6	3.7	46.1	35.5	-17.3	5.4	16.4	9.0	70.6
Russia	91.3	63.5	25.0	82.8	90.6	97.0	31.4	16.7	23.5	24.2	35.1
Korea	30.3	24.9	16.2	19.5	60.9	46.8	-9.6	1.3	6.4	9.7	56.0
India	23.7	20.3	11.0	22.6	52.7	23.9	-9.0	1.7	12.2	5.5	24.9
Australia	7.9	18.9	12.1	5.5	35.6	27.4	10.2	14.7	12.4	7.7	14.4
United Kingdom	-3.6	4.2	3.0	-8.0	20.0	11.4	0.2	5.5	-2.7	-2.7	10.7
USA	-2.4	11.4	12.6	0.6	30.6	22.3	2.0	11.2	10.2	3.7	23.7
Vietnam	4.8	30.6	24.4	13.8	65.1	52.0	-5.2	23.8	23.2	14.9	42.5

Source: Department of Tourism

Wholesale and retail trades increased by 7.6 percent, accelerating from 4.0 percent in the previous quarter. Such improvement was contributed by low base effect from the 2011 flood incidence, along with a solid expansion of household consumption. In details, all major trade sectors grew, particularly automobiles, constructions, foods, and fuel, owing to (i) improvement of consumer confidence, (ii) low and supportive interest rate, (iii) favorable labor market condition, (iv) increase in minimum wage, and (v) contribution from the first time car buyer scheme.

Wholesale and retail trades increased by 7.6 percent contributed by low base effect last year and other supporting factors

In 2012 wholesale and retail trades increased by 5.2 percent.

Wholesales and retail sales index

% YOY	2010	2011						2012						
	Year	Year	Q1	Q2	Q3	Q4	11M	Q1	Q2	Q3	Sep.	Oct.	Nov.	11M
Retail sales index	17.0	11.1	11.1	6.3	10.9	-10.1	5.0	8.0	16.7	14.3	13.4	39.2	54.9	15.3
Food and beverages	-26.0	-13.1	41.3	45.2	-11.0	-62.2	-1.2	-50.2	-20.6	-9.6	49.5	24.2	53.5	-21.4
Motor vehicles and fuel	25.7	1.2	14.1	2.3	9.1	-19.0	2.6	10.4	27.4	23.1	23.3	61.7	98.3	28.3
Department stores and supermarket	9.6	6.8	6.8	7.3	11.7	2.2	7.2	7.5	8.5	9.5	5.4	4.4	22.7	9.3
Wholesales index	11.0	17.3	16.6	15.7	36.9	5.8	-17.4	19.4	22.6	7.9	4.2	38.5	43.3	73.1
Agricultural raw material and live animals	8.4	11.6	19.0	25.3	23.5	-10.1	-6.3	-18.7	-16.6	-15.7	-11.1	-3.1	6.7	16.7
Fuel	2.0	9.7	9.9	17.2	15.4	-2.0	12.2	16.3	7.4	16.6	17.1	38.2	30.8	16.0
Machinery and equipment	14.5	6.3	19.5	6.7	16.9	-15.4	-5.4	5.7	20.8	10.7	20.1	68.0	50.6	36.1

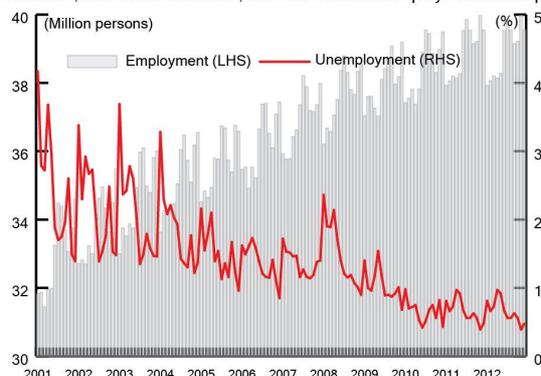
Source: Bank of Thailand

Employment in the fourth quarter stood at 39.58 million persons, increased by 1.7 percent and accelerated from 0.7 percent in the previous quarter. The improvement were seen in (i) **agricultural sector** increased by 3.0 percent, owing to the government agricultural price upgrade scheme and favorable weather for cultivation (ii) **construction sector** expanded by 13.2 percent, mainly due to growth in public and private construction and (iii) **industrial sector** rose by 4.6 percent due to growth in manufacturing production, electronics and automobile and parts in particular. The average unemployment rate in this quarter recorded a low rate at 0.5 percent (190,233 persons), compared to 0.6 percent in the same period of 2011. Labor market condition remained tight for 12 consecutive quarters as the job vacancies – to-new registered applications ratio fell from 1.4 percent in the third quarter to 0.9 percent in the fourth quarter.

Employment increased by 1.7 percent accelerated from 0.7 percent in the previous quarter owing to the employment in agricultural, construction, and industrial sector, with low rate of unemployment at 0.5 percent, while labor market condition remained tight

In 2012 the unemployment rate was at 0.7 percent and employment increased by 1.3 percent.

Employment increased by 1.7 percent owing to the employment in agricultural, construction, and industrial sector, with low rate of unemployment at 0.5 percent



Source: National Statistical Office

Employed Persons by Industry

%YOY	2010	2011					2012				
	Year	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4
Employed (100%)	1.0	1.2	0.6	1.4	1.6	0.9	1.3	1.0	1.5	0.7	1.7
- Agricultural (38.7%)	0.5	2.4	2.1	6.4	2.3	-1.0	3.6	2.3	5.2	3.4	3.0
- Non-Agricultural (61.3%)	1.3	0.4	-0.3	-1.5	1.1	2.3	-0.1	2.4	1.8	-1.2	0.8
- Manufacturing (13.8%)	-1.3	1.9	1.3	1.2	4.2	3.4	4.6	1.0	0.1	1.0	4.6
- Construction (6.2%)	2.2	0.0	4.0	-6.5	4.3	2.6	3.6	-10.5	-14.3	7.7	13.2
- Hotel and Restaurant (6.6%)	1.3	-3.2	-10.0	-2.3	2.3	-5.8	-9.6	-0.9	0.6	-11.4	-1.3
- Wholesale (15.7%)	3.0	-3.6	-2.9	-6.8	-3.4	0.4	-0.9	1.0	1.5	-1.6	-1.1
Unemployment (Hundred thousand persons)	4.0	2.6	3.2	2.3	2.6	2.5	2.6	2.8	3.4	2.3	1.9
Unemployment Rate	1.0	0.7	0.8	0.6	0.7	0.6	0.7	0.7	0.9	0.6	0.5

Source: National Statistical Office

□ Fiscal condition

On the revenue side, in the first quarter of fiscal year 2013 (October – December 2012) net government revenue collection stood at 504,582.4 million baht, higher than the target by 66,912.5 million baht (or 15.3 percent), particularly on the revenue collection from excise tax on automobile and value added tax that exceed the target by 16,615.6 million baht (53.5 percent) and 10,407.9 million baht (6.2 percent) respectively. The advancement in collection was the result of an improvement in economic condition and government stimulus measures, particularly the first-time car buyer scheme. Likewise, remittance from other government departments also exceed the target by 152.5 percent, mainly from the remittance of the 3G Licensing fee in the amount of 20,843.0 million baht by the Office of National Broadcasting and Telecommunications Commission (NBTC).

Moreover, most of the other major government revenue collection remained positive and exceed the target, including (i) personal income tax exceed the target by 10.4 percent following an improvement in citizen income, (ii) corporate income tax collection was recorded at 6.1 percent higher than the target as a result of post flood recovery of business sector revenue, and (iii) import tax collection was higher than the target by 1.9 percent which mainly from the import of automobile parts as a result of the first time car buyer scheme. Nevertheless, remittance collection from state-owned-enterprise slightly off target by 14.7 percent.

Comparing to the same period last year, the revenue collection increased by 26.7 percent or 106,192.3 million baht. In detail, remittance from other government departments, value added tax, excise tax on automobile and personal income tax increased by 33,141.8 million baht, 32,183.8 million baht, 30,676.4 million baht, and 22,123.8 million baht, or equivalent to the increase of 124.7, 22.1, 180.3, and 32.2 percent respectively.

On the expenditure side, the total budget disbursement in the first quarter of fiscal year 2013 was at 982,403.0 million baht, increased by 78.1 percent comparing to the same period of last fiscal year. The total budget disbursement comprised of (i) The 2013 annual budget disbursement of 699,789.6 million baht, or equivalent to 29.2 percent disbursement (compared to the target of 20.0 percent) as a result of speed up of the disbursement process during the beginning of the fiscal year and a low base effect. In detail, current budget recorded a disbursement of 641,372.0 million baht and capital budget disbursement of 58,417.6 million baht equivalent to 14.6 percent (compared to the target of 10.0 percent) increase from the same period of last year by 59.9 and 53.2 percent respectively. (ii) Carry-over budget disbursement of 86,182.6 million baht or 28.8 percent of total carry-over budget (iii) State-owned-enterprise's budget disbursement of 191,157.3 million baht. (iv) The disbursement of Development Policy Loan (DPL) of 3,837.9 million baht (2,490.5 million baht for DPL under the second stimulus

Net government revenue collection exceeded the target by 15.3 percent as a result of an improvement in economic condition and government stimulus measures.

Budget disbursement increased by 78.1 percent comparing to the same period of the previous fiscal year due to acceleration in budget disbursement and low base effect.

package and 1,347.4 million baht for other DPL). The accumulated disbursement of DPL at the end of December 2012 amounted to 11,505.8 million baht or 33.6 percent of the approved budget. And (v) The disbursement of 4,545.2 million baht from Royal Decree on Investment Loan for Water Resource Management and Future Development (total of 350,000 million baht) or equivalent to 20.1 percent of total allocated budget of 22,642.3 million baht.

Fiscal balance. In the first quarter of fiscal year 2013, the cash balance before financing recorded a deficit of 404,136.0 million baht with deficit in budget balance and non-budgetary balance of 286,711 and 117,425.0 million baht respectively. As a result, the government conducted a cash balance management through borrowing in the amount of 102,936.0 million baht. Thus, the treasury reserve at the end of December 2012 recorded at 259,136 million baht decreased by 5,541.0 million baht (or a reduction of 2.1 percent) compared to the previous fiscal year.

Treasury reserve stood at 259,136 million baht declined from the end of December 2011 by 2.1 percent.

Fiscal Balance

Unit: Billion Baht

Fiscal Year	2011					2012					2013
	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Q1
Government Revenue	1,891.0	395.6	393.8	597.5	504.2	1,977.5	398.4	412.9	620.5	545.7	504.6
Compared with the target (%)	14.6	12.5	16.9	15.6	13.4	-0.1	4.2	4.1	-3.3	-2.4	15.3
Compared with prior year (%)	10.9	13.4	17.0	8.8	7.3	4.6	0.7	4.8	3.9	8.2	26.7
Budget Disbursement	2,050.5	553.8	516.9	521.9	458.0	2,148.4	439.2	732.9	435.5	540.9	699.8
Percent of annual budget (%)	94.5	25.5	23.8	24.1	21.1	90.3	18.5	30.8	18.3	22.7	59.3
Higher / Lower the target (%)	1.5	5.5	-0.2	0.1	-3.9	-5.4	1.2	10.1	-6.2	0.5	29.2

Source: FPO & GFMS

Public debt at the end of November 2012 amounted to 4,875,532.2 million baht, equivalent to 43.3 percent of GDP, increased from previous month and at the end of fiscal year 2011 by 48,206.4 and 61,706.1 million baht respectively. The public debt consists of government debt at 3,459,510.8 million baht (71.0 percent of the public debt), non-financial institution SOE debt at 1,043,961.1 million baht (21.4 percent of the public debt), and financial institution SOE debt (government guarantee) at 364,796.4 million baht (7.5 percent of the public debt).

The ratio of public debt to GDP stood at 43.3 percent at the end of November.

Public Debt

Unit: Billion Baht

Public Debt End of Period (Fiscal Year)	2010	2011	2012				2013
			Q1	Q2	Q3	Q4	Q1 (End of Nov.)
Public Debt End of period	4,230.7	4,448.3	4,298.0	4,473.1	4,810.0	4,937.2	4,875.5
Public Debt to GDP (%)	41.9	42.2	40.3	41.4	43.7	44.5	43.3
Direct Government	2,907.5	3,181.2	3,088.5	3,268.4	3,506.3	3,515.0	3,459.5
Non-Financial State Enterprises Debt	1,084.0	1,079.7	1,061.1	1,035.9	1,047.2	1,064.3	1,044.0
Special Financial Institutions Guaranteed Debt	177.2	156.9	148.4	162.5	246.4	352.2	364.8
FIDF Debt (Liability)	62.1	30.4	0.0	0.0	0.0	0.0	0.0
Autonomous Agency Debt (VF & EFPO)	0.0	0.0	0.0	6.2	10.0	5.7	7.3

Source: MOF

□ Financial condition

Policy rate declined. During the fourth quarter of 2012, the Monetary Policy Committee (MPC) decided to lower the policy rate from 3.00 percent per annum to 2.75 percent per annum. The decision was made under the assessment that global economic outlook remained weak and fragile while upside risk to inflation still under controlled. With such an assessment, MPC deemed that monetary policy easing was appropriated to handle with potential negative impact from global economy and to maintain momentum of domestic demand. **During 2012**, the policy rate was cut twice during the first and last quarter of the year. The first reduction of 25 basis points (from 3.25 to 3.00 percent per annum) was made in January when the global economy has tempered with export growth and recovery process of domestic economy from the flood crisis is likely to be slower than expected. Furthermore, the MPC decided to lower the policy rate again by 25 basis points during October causing the policy rate to end the 2012 at 2.75 percent per annum.

In January of 2013, The MPC decided to maintain the policy rate at 2.75 percent per annum under the assessment that the current policy rate was appropriate in supporting domestic demand while inflation forecast remained within target.

Commercial bank's interest rates declined following a reduction in policy interest rate. During the last quarter of 2012, an average 12-month deposit rate and average Minimum Loan Rates (MLR) of four major banks declined from the previous quarter after remain constant for the past three consecutive quarters. These movements of Commercial bank's interest rates were consistence with the policy rate. At the end of the fourth quarter, an average 12-month deposit rate and average MLR declined to 2.46 and 7.00 percent per annum, respectively. Meanwhile, the inflation rate was accelerated, causing the real deposit and lending rate to drop to -1.17 and 3.37 percent per annum, respectively. In January of 2013, the average MLR were kept unchanged at 7.00 percent per annum while an average 12-month deposit rate was slightly decreased to 2.44 percent per annum.

Deposits including Bill of Exchange (B/E) of Depository Corporations expanded at a slower pace with the growth rate of 10.7 percent, decelerated from 12.7 percent in the previous quarter. In the fourth quarter, deposits grew at 28.2 percent slightly drop from 29.6 percent growth in the third quarter. The continual growth in deposit was a result of an increase in Financial Institutions fundraising activities in order to cope with high loan expansion as well as secured their deposit base. Nevertheless, deposit expansion during the last quarter was slightly under pressure as retail depositors has shifted their saving toward others saving vehicle that provide better tax benefit. On the contrary, Bill of Exchange (B/E) continued to contract by 76.9 percent.

Private loans (excluding accrued interest) in the fourth quarter continued to grow at a solid pace of 15.7 percent with the support of household loan. Business loan slightly soften from 12.6 percent in the previous quarter to 10.95 percent, while household loan continue to accelerate from 17.3 percent in the third quarter to 20.3 percent. The acceleration in household loan was fueled by government stimulus measures that induce domestic consumption, especially the first-time car buyer scheme that push up loans for purchase or hire purchase cars and motor-cycle to expanded by 33.9 percent. Number of credit cards and credit outstanding expanded by 14.26 and 9.56 percent from the previous quarter, respectively. The expansion was in line with acceleration of credit card spending following an improvement in consumer confidence. NPLs¹ gradually declined from 1.2 percent in the third quarter to 1.1 percent.

Policy rate declined in order to accommodate domestic demand under the situation where global economy remained weak and fragile.

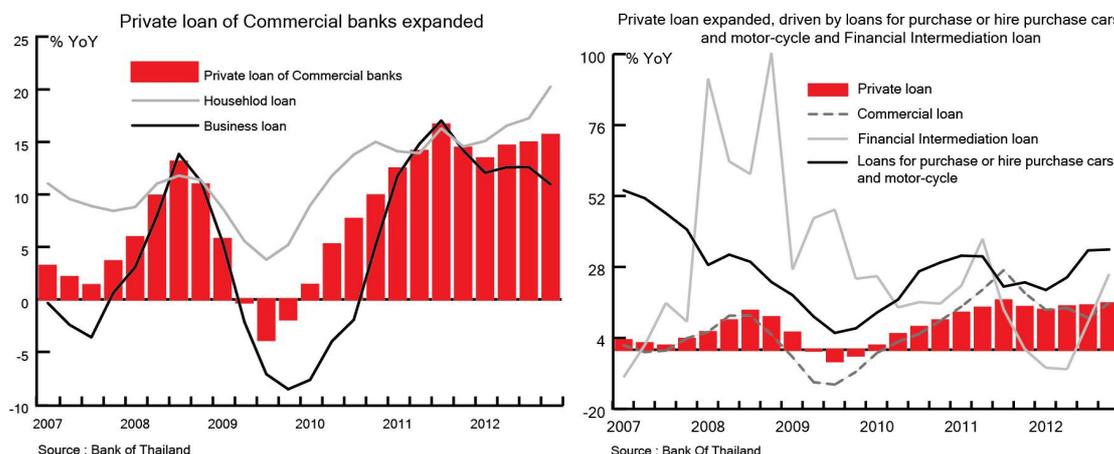
Commercial bank's interest rates declined in consistence with policy interest rate.

Deposits including Bill of Exchange (B/E) of Depository Corporations expand at a slower pace as Bill of Exchange (B/E) continue to contract and deposit slightly soften.

Private loans (excluding accrued interest) continued to grow at a good pace with the support of household loan.

¹ NPLs in financial institutions (excluding BIF and credit fanciers).

In 2012, private loan continued to expand at a satisfactory rate especially in the fourth quarter where financial intermediation loan and personal consumption loan expanded significantly. Likewise, Deposits including Bill of Exchange (B/E) of Depository Corporations accelerated in order to cope with growing loan demand as well as to protect their current deposit base and to maintain their competitiveness in the market. In 2013, fundraising activities by Financial Institutions is expected to be high following a positive outlook in private investment which was partly contributed by government mega-infrastructure project.



Excess liquidity of commercial bank system tightened. Commercial bank's credit (excluding repurchase position: RP) to deposits (including B/E) ratio slightly increased to 97.0 relative to 96.2 in the preceding quarter as loan expands at a faster pace than deposits (including Bill of Exchange). In 2013, excess liquidity is expected to tighten further as demand for private loan is projected to increase in response to the implementation of government mega infrastructure project.

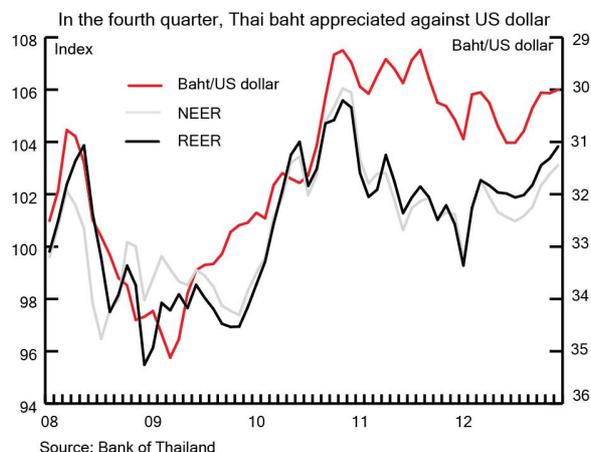
Excess liquidity of commercial bank system tightened as loan expands at a faster pace than deposit (including bill of exchange).

Thai baht appreciated against US dollar. An average exchange rate in the fourth quarter of 2012 was at 30.68 baht per US dollar, appreciated from the previous quarter and the same period of last year by 3.0 and 3.4 percent respectively. Thai baht continually appreciated throughout the quarter especially during December where appreciation accelerated. The appreciation was mainly contributed by the implementation of quantitative easing measures in many countries especially the announcement of US Federal Reserve on the third round of quantitative easing (QE3) in September and the QE4, that design to replace "Operation Twist", in December. Furthermore, the investors expectation toward global economic recovery has far exceed the fundamental economic factors. Thus, the global capital flow has avert itself from the safe haven market towards regional markets. In the fourth quarter, nominal effective exchange rate (NEER) was at 101.72 appreciated by 1.51 and 1.53 percent compared to the previous quarter and to the same period of last year, respectively. Likewise, real effective exchange rate (REER) also appreciated by 1.35 and 2.23 percent compared to the previous quarter and the same period of last year, respectively

Thai baht appreciated under the influence of quantitative easing measures of major countries.

In 2012, Thai baht movement was heavily depended on the global economic environment and investor's expectation. Thai baht appreciated during the first quarter and the latter half of the year while in the second Thai baht depreciated. In conclusion, Thai baht in 2012 fluctuated in the range of 30.25 - 31.91 baht per US dollar with its average of 31.08 baht per US dollar, depreciated from its average value in 2011 by 1.94 percent. Nominal effective exchange rate (NEER) decreased by 0.22 percent and real effective exchange rate (REER) increased by 0.19 percent.

In January 2013, an average exchange rate was at 30.07 baht per US dollar, appreciated from the previous month by 1.86 percent. Furthermore, an average exchange rate over the period of 1st – 15th of February 2013 was at 29.80 baht per US dollar due to the trend of capital inflow to the region



Capital and financial account recorded a net inflow². In the last quarter of 2012, capital and financial account registered a net inflow of 4.02 billion US dollars, continuously recorded an inflow following a net inflow of 4.43 billion US dollars in the previous quarter. The net inflow was mainly contributed by an inflow of short-term liquidity loans for foreign currency transaction and a net inflow of 1.20 billion US dollars in the public sector following foreign investors' net buy position in the government bonds market. The net buy position of foreign investors' was owing to a high return on capital as well as an increase in government bonds supply in the last quarter of 2012. Furthermore, capital inflow also apparent in other sectors particularly foreign direct investment and private capital market.

Capital and financial account recorded a net inflow in the government and banking sectors.

In 2012, Capital and financial account recorded a net inflow of 11.49 billion US dollars, shifted from a net outflow of 5.19 billion US dollars in 2011. The net inflow was mainly contributed by short-term loans and foreign investment in the bond market.

Capital and Financial Account

(Billion US Dollars)	2010	2011					2012				
	Year	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4
Monetary Authorities	2.71	-0.15	1.70	-0.65	0.11	-1.31	1.03	2.96	-1.43	1.13	-1.63
Government	3.56	3.81	1.17	0.34	1.93	0.37	5.81	0.08	1.94	2.58	1.20
ODC	10.32	-8.75	1.53	0.22	-1.87	-8.63	13.72	5.30	3.46	1.47	3.49
Other Sectors	8.22	-0.10	-2.96	0.32	-0.74	3.28	-9.06	-4.73	-4.54	-0.76	0.97
Non-Depository Financial Corporations	2.65	-1.24	0.31	-0.62	0.26	-1.18	na.	-5.89	-2.94	-0.71	na.
Non-Bank	5.57	1.14	-3.25	0.94	-1.02	4.46	na.	1.15	-1.60	-0.05	na.
Total	24.81	-5.19	1.43	0.23	-0.58	-6.28	11.49	3.61	-0.56	4.43	4.02

Source: BOT

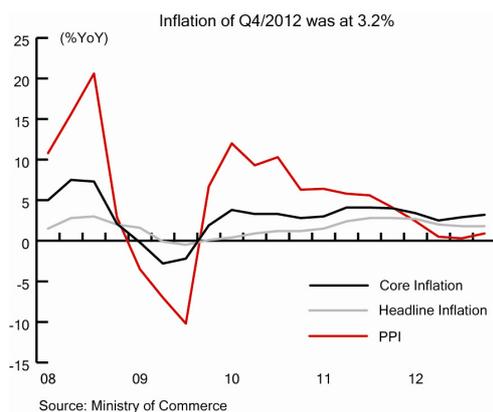
² Capital and Financial account figure at the end of fourth quarter preliminary data from Bank of Thailand, which is subjected to be changed.

Current account registered a surplus of 923 million US dollars (equivalent to 28.3 billion baht), compared to a surplus of 2.7 billion US dollars (equivalent to 85.6 billion baht) in the previous quarter. This was attributed to trade balance surplus of 765 million US dollars and services, primary income and secondary income surplus of 159 million US dollars.

In 2011, current account registered a surplus of 2.7 billion US dollars (equivalent to 85.5 billion baht) lower than a surplus of 5.9 billion US dollars (equivalent to 180.6 billion baht) in 2011.

International reserve at the end of January 2013 stood at 181.71 billion US dollars (excluding net forward position of 23.57 billion US dollars), which was equal to 3.2 times of short-term foreign debt (at the end of the third quarter of 2012) or 3.3 months of import value (at the end of the fourth quarter of 2012).

Headline inflation in the fourth quarter of 2012 was at 3.2 percent, rising from 2.9 percent in the previous quarter. **This is mainly a result of an increase in the price of oil. Non-food and beverage price index increased by 3.3 percent**, which picked up from 2.0 percent in the previous quarter. This increase was attributable to the low base effect caused by the exemption of Oil Fund levy as well as an increase in fuel adjustment tariff (FT) (second round) in rate of 0.18 baht per unit between September and December 2012, and an increase in alcohol and tobacco excise taxes at the end of August 2012. Meanwhile, the **food and beverage price index** expanded by 3.1 percent, slowed down from 4.4 percent in the previous quarter. This is due to an increase in the supply of vegetables, fruits, egg and dairy products in the market. Moreover, the core inflation was at 1.84 percent in the fourth quarter, slightly picked up from 1.82³ percent in the previous quarter.



In 2012 headline inflation was at 3.0 percent, slowed down from 3.8 percent in the previous year, mainly due to a decrease in price of fresh food, especially meat, ducks, chicken and fishery products. Food and beverage price index rose by 4.9 percent whereas non-food and beverage price index increased by 1.9 percent.

Producer Price Index (PPI) in the fourth quarter grew by 0.9 percent, accelerating from 0.3 percent in the previous quarter. Such acceleration was mainly due to an increase in the prices of agricultural products, especially crops and fish and fishery. The prices of agricultural and manufacturing products in the fourth quarter expanded by 3.2 and 0.4 percent, accelerating from 1.2 and 0.1 percent growth in the previous quarter, respectively. On the contrary, the prices of mining products decreased by 1.0 percent, compared to an increase of 1.6 percent in the third quarter. When considering the PPI classified by production process, the pressure on production cost is likely to remain steady at a low level⁴.

In 2012, producer price index stood at 1.0 percent, slowed down from 5.5 percent in 2011. This is mainly due to a decrease in price of manufacturing products, especially the prices of petroleum, and rubber and plastic products.

Current account registered a surplus

International reserve at the end of January 2013 stood at 181.71 billion US dollars.

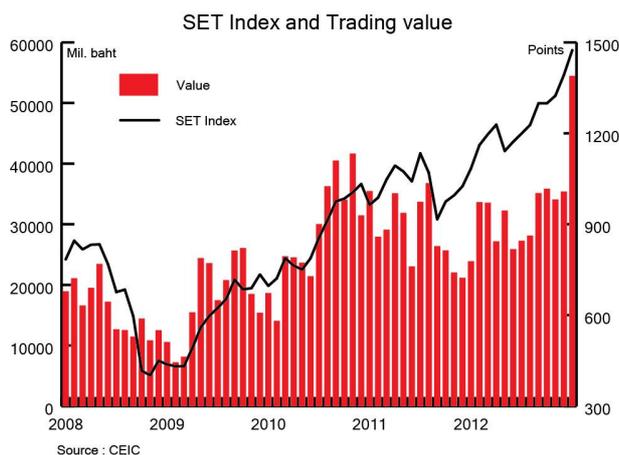
Headline inflation in the fourth quarter of 2012 was at 3.2 percent.

³ In January 2013, headline inflation was at 3.39 percent and core inflation was at 1.59 percent.

⁴ In January 2013, PPI rose by 0.6 percent.

SET index and an average trading value continued to advance in line with regional stock markets. SET index closed at 1,391.9 points, increased by 7.2 percent from the previous quarter. An average trading value was 35.1 billion baht, increased from an average of 30.2 billion baht in the previous quarter. Meanwhile, foreign investors recorded a net buy of 11.4 billion baht. **In 2012**, SET index continuously advanced with support from high excess liquidity in the global financial market, strong domestic economic fundamental, interest rate exploitation where interest rate of most countries remain low, and expectation of further appreciation in regional currencies. Furthermore, the advancement of SET index in 2012 proved to be the highest in the region with an increase of 35.8 percent compared to the end of 2011. Such a significant improvement reflects that foreign capital inflow has a strong influence over the performance of SET index. An average trading value in 2012 increased to 31.1 billion baht with foreign net buy of 76.4 billion baht, reverted from a net sale of 5.1 billion baht in 2011.

In January 2013, SET index continued to improve and closed at 1,474.2 points or 5.9 percent growth from the end of December. This was mainly contributed by the optimistic expectation over the improvement of global economic situation. Thus, average trading value significantly improved to 54.5 billion baht and foreign net buy recorded at 15.0 billion baht. During 1-15 February 2013, SET index continually hiked to 1,521.5 point while foreign investor recorded a net sell position of 13.1 billion baht. This was reflected that foreign investors acquired the profit from SET index which escalated by 9.3 percent since the beginning of 2013.



Bond trading volume and foreign investors' net buy dropped. A daily average outright trading volume in the fourth quarter registered at 74.3 billion baht, declined from 84.5 billion baht in the third quarter. Foreign investors' net buy posted at 140.0 billion baht significantly dropped from 239.6 billion baht in the previous quarter. The government bond yield for short to medium term maturity has shifted downward following the policy rate cut and increased in demand for short term bond. On the contrary, investors' concern towards Fiscal Cliff resolution and increase in bond supply has led to an upward shift in yield for long term maturity. **In 2012**, a daily average outright trading volume improved to 80.7 billion baht, compared to 72.1 billion baht in 2011. Moreover, foreign investors posted a net buy of 890.8 billion baht, significantly increased from 688.8 billion in the previous year or 29.3 percent. These were mainly caused by the substantial increased in global money supply and a continual policy rate cut in most major countries.

In January 2013, a daily average outright trading volume stood at 89.2 billion baht, considerably increased from 68.0 billion baht in December 2012. This was partly caused by a continual increased in short term bonds investment. The higher demand has push yield of short term maturity to shift downward while medium to long term maturity shift upward. Moreover, foreign investors' net buy position recorded at 107.8 billion baht, increased from 47.6 billion baht in December 2012.

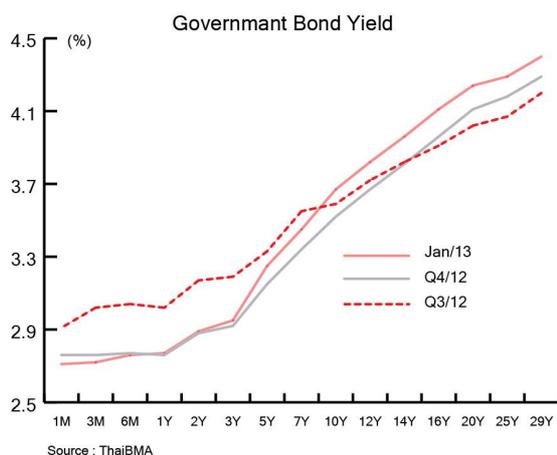
SET index in 2012 proved to the highest in the region with an increase of 35.8 percent which reflected the high influence of foreign capital inflow.

Foreign investors' net buy dropped in the fourth quarter but the total net buy in 2012 increased by 29.3 percent from 2011.

Stock and Bond Market

(Billion Baht)	2010	2011					2012					2013
	Year	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Jan
Stock Market												
SET Index	1,032.8	1,025.3	1,047.5	1,041.5	916.2	1,025.3	1,391.9	1,196.8	1,172.1	1,298.8	1,391.9	1,474.2
Daily average trading (Billion Baht)	28.7	29.0	30.8	30.0	32.3	23.0	31.1	30.5	28.6	30.2	35.1	54.5
Net Trading of Foreign Investors (Billion Baht)	81.7	-5.1	-0.6	-14.1	-20.7	30.2	76.4	82.8	-19.3	1.5	11.4	15.0
Bond Market												
Gross Price Index (Point)	104.9	105.9	104.2	103.3	103.6	105.9	104.6	101.9	104.1	104.3	104.6	103.8
Daily Average Outright Trading Value	68.6	72.1	80.8	77.7	69.8	60.5	80.7	76.1	88.5	84.5	74.3	89.2
Net Trading of Foreign Investors	322.4	688.8	292.7	197.1	171.5	30.5	890.8	298.5	213.7	239.6	140.0	107.8

Source: CEIC and ThaiBMA



Public fundraising declined while corporate fundraising through equity securities notably improved. In the fourth quarter, public fundraising excluded monetary authority bonds totaled at 201.5 billion baht, decreased from 509.5 billion baht in the previous quarter. This was mainly caused by the contraction of treasury bills, promissory notes and state enterprises bonds as demand for capital declined. On the contrary, monetary authority bonds slightly increased from the previous quarter. Private fundraising totaled at 508.2 billion baht, improved in both equity and bond insurances which mainly concentrated in financial intermediation sector, mining and quarrying sector, real estate sector and production sector.

In 2012, public fundraising recorded at 9,101.6 billion baht, declined from the previous year. Private fundraising totaled at 1,627.2 billion baht, increased from 1,289.5 billion baht in 2011. These reflect the perception of an improving economic prospect. Moreover, private fundraising through debt securities remained high throughout the year. Meanwhile, fundraising through equity securities significantly improved from 96 billion baht in 2011 to 247.3 billion baht as stock market condition became more favorable.

Public fundraising declined while corporate fundraising through equity securities notably improved by equity securities as stock market condition became more favorable.

New issuances of securities in Primary Market

(Billion baht)	2010	2011					2012				
	Year	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4
Public securities											
Government bonds	511.5	396.1	84.6	113.8	165.5	32.1	657.1	150.7	162.6	196.4	147.4
Treasury bills /Promissory notes	538.2	301.4	74.4	4.1	133.8	89.1	433.9	143.8	129.2	160.1	36.6
State enterprises bonds	42.8	40.9	6.9	9.3	16.8	10.2	211.4	16.1	37.1	153.0	17.5
Monetary authority bonds & Specialized organization bonds	9,435.3	10,862.7	3,116.8	2,772.6	2,489.1	2,484.2	7,799.3	2,326.5	2,091.0	1,688.7	1,693.0
Total	10,527.8	11,601.1	3,280.4	2,899.8	2,805.2	2,615.6	9,101.6	2,589.1	2,419.9	2,198.2	1,894.6
Private securities											
Equity Securities	96.1	93.4	39.0	37.2	9.3	7.9	247.3	32.7	22.7	23.6	167.5
Debt Securities	969.9	1,196.2	404.4	343.4	221.0	249.1	1,379.9	418.5	282.2	338.4	340.7
Total	1,066.0	1,289.5	443.4	380.5	230.3	257.0	1,627.2	451.2	304.9	362.0	508.2

Source: BOT

2. Crude oil price in Q4 and 2012

The average oil price fell from the previous quarter. In the fourth quarter of 2012, the average crude oil price in the 4 markets (Dubai, Oman, Brent and WTI) stood at 103.19 US dollars per barrel continue to decline from the previous quarter by 0.9 percent. The strong decline of 6.2 percent was seen in WTI oil price, compared to the same period last year, whereas oil prices in other markets remained relatively stable. The drop of WTI oil price was mainly due to sluggish global economic recovery and rising supply in US and Canada.

In 2012, the average crude oil price (Dubai, Oman, Brent and WTI) stood at 105.81 US dollars per barrel, increased by 1.1 percent compared to 32.6 percent increased in 2011.

Crude oil price declined from the previous quarter due to European economic crisis and global economic slowdown.

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
	Q2	106.36	106.30	108.84	93.43	103.74
	Q3	106.52	106.31	109.58	92.33	103.68
	Q4	107.30	107.28	110.04	88.15	103.19
	Year	109.04	108.75	111.49	93.95	105.81
2013	Jan	107.78	107.79	112.27	94.73	105.64
	1-14 Feb	112.03	112.02	117.53	96.76	109.58

Source : Thaioil Plc

3. Global Economic Performance in Q4 and the whole year of 2012

In the last quarter of 2012, global economy has slowly entered the recovery phase after the euro crisis has bottomed out in the third quarter. China and other Asian developing countries show a clear sign of recovery. US economy slowed down comparing to the third quarter due to a reduction in government spending and the effect of Sandy's storm, however, private sector in the US economy displayed a strong recovery. Eurozone and Japan economies remain contract, while starting to stabilize. Eurozone crisis still posed a serious effect towards global economic growth in the second and third quarter, even though, most major economies have implemented various measures to ward off the impact and support the economic recovery. As a result, global economy and trade in 2012 slightly increased by 3.2 and 2.8 percent, compared to expansion of 3.8 and 5.8 percent in 2011 respectively.

Real GDP Growth of Major Economies

%YoY	2010	2011	2012				2013	
	Year	Year	Q1	Q2	Q3	Q4	Year	Year
World	5.3	3.9	-	-	-	-	3.3	3.8
US	2.4	1.8	2.4	2.1	2.6	1.5	2.2	2.3
Eurozone	2.0	1.5	0.1	-0.3	-0.4	-0.6	-0.3	0.0
Japan	4.7	-0.6	3.4	3.8	0.4	0.3	1.9	1.0
China	10.4	9.2	8.1	7.6	7.4	7.9	7.8	8.3
India	8.4	6.5	5.3	5.5	5.3	-	5.3	6.7
S. Korea	6.3	3.6	2.8	1.3	1.5	1.5	2.0	3.4
Taiwan	10.7	4.0	0.2	0.5	1.0	-	1.1	3.8
Hong Kong	7.1	5.0	0.5	1.1	1.3	-	1.5	3.7
Singapore	14.8	4.9	1.6	2.0	1.3	1.1	1.2	2.9
Malaysia	7.2	4.9	4.7	5.4	5.2	-	5.2	4.8
Philippines	7.7	3.9	6.3	6.0	7.2	6.8	6.6	5.0
Vietnam	6.8	5.8	4.6	4.8	5.1	5.4	5.0	5.7
Indonesia	6.2	6.5	6.3	6.4	6.2	6.1	6.1	6.5

Source: Collected by NESDB

4. Global Economic Outlook for 2013

The signs of global economic recovery has become clearer, especially the economic recovery of the U.S., China, and other countries in Asia. However, the economic recovery of Eurozone is likely to be slower than expected because of the fiscal policy tightening by member countries and the negative effects from the quantitative easing of other countries. Likewise, the recovery of Japanese economy has been limited by the Yen appreciation in the past year, as well as by the reduction of reconstruction expenditure. Nevertheless, it is expected that the global economy will accelerate in the second half of 2013 due to the economic improvement in the U.S., China, and the emerging countries in Asia. Meanwhile, the Eurozone economy is likely to bottom out in the first half of 2013. Moreover, the Japanese’s quantitative easing and fiscal stimulus will support economic recovery in the second half of 2013. As a result, it is expected that the global economy will grow by 3.8 percent in 2013.

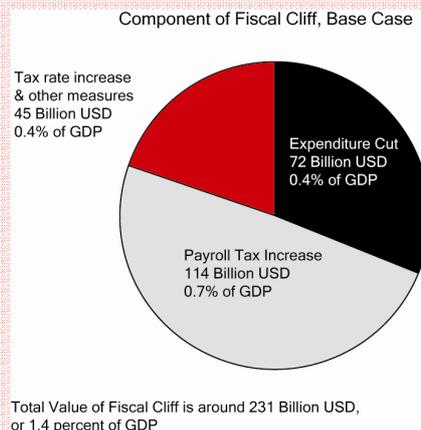
The progress in resolving economic problems in the U.S. and Eurozone, the recovery of the Chinese Economy, as well as the quantitative easing measures in major countries have improved investors’ expectation of the global economic situation. Capitals started to avert from the safe haven markets toward developing countries and raise appreciation pressure on the domestic currencies. Such a pressure could subside in the short term due to concerns over the remaining Fiscal Cliff resolution, the political uncertainty in Europe and its slower-than-expected economic recovery. However, the improvement of the global economy in the second half of this year, the progression of economic resolution measures as well as the unfolding of the elections in Europe will intensify the appreciation pressure further.

The United States economy: the latest economic indicators in January continually show a robust recovery in private sector, especially the ISM Manufacturing Index which increased from 50.2 in December 2012 to 53.1. For the remaining of 2013, the U.S. economy will be supported by i) the recovery of the housing sector, ii) the increase in securities and housing prices, iii) accommodating monetary policy and an open-end quantitative easing measure in the amount of 85 billion US dollars per month, iv) the reduction of household debt service to disposable income ratio which is at the lowest level since 1984, and v) pent-up demand accumulated during the financial crisis, especially in the automobile and housing markets. Nevertheless, the Fiscal Cliff, which is estimated to be around 1.4 percent of GDP in a base case, will remains an obstacle for growth in the first half of the year. However, the strong recovery of private sector will be a main driving force for the economy to achieve a growth rate of higher than 3.0 percent in the latter half of the year. Therefore, it is expected that the U.S. economy will grow by 2.3 percent in 2013. With such scenario, the labor market tends to improve significantly in the latter half of the year and there will be a high possibility that US Federal Reserve will cease quantitative easing measures at some point in time between the fourth quarter of 2013 and the first quarter of 2014, while keeping the low interest -rate policy until the unemployment rate reached 6.5 percent target.

The signs of global economic recovery has become clearer. The global economy tends to accelerate in the second half of 2013 due to the economic improvement in the U.S., China, and the emerging countries in Asia.

Progress of US fiscal cliff resolution

The American Taxpayer Relief Act 2012 (which was approved by the congress on January 2nd 2013) gave a clearer view of the size of Fiscal Cliff in 2013, particularly i) an increase of the personal income tax for high income individuals (with annual income higher than 400,000 US dollars and couples with annual income higher than 450,000 US dollars) which is worth 45 billion US dollars (or 0.3 of GDP), and ii) an increase of payroll tax which is worth 114 billion US dollars (or 0.7 percent of GDP). However, the federal expenditure cut remains unclear and Congress will consider this issue in March. In the base case, the federal expenditure cut will be worth approximately 7.2 billion US dollars (or 0.4 percent of GDP). In sum, the size of fiscal cliff is forecasted to be worth approximately 231 billion US dollars (or 1.4 percent of GDP).



Eurozone economy; the progress of economic crisis resolution, especially the Outright Monetary Transactions (OMT) that was commenced on September 6th 2012, has gradually alleviated the severity of the debt crisis in the Eurozone. Meanwhile, economic indicators have increasingly stabilized as shown in the improvement of Manufacturing Production Index in December for the first time in 5 months and the appreciation of Euro currency by 13 percent from its lowest point in July. The supporting factors for the Euro currency include i) the improvement in economic indicators which reflects the possibility that the Eurozone economy will move out of recession in the first half of 2013, ii) the improvement in economic and investment sentiment owing to the progress of economic crisis resolution, and iii) the debt repayment for the Long-term Refinancing Operation (LTRO) by commercial banks reduced liquidity in the financial system and strengthened Euro currency.

Nevertheless, the unemployment rate of the 9 member countries (out of 17 countries) still high and the overall economy remained in recession throughout 2012. Therefore, the continuation of fiscal tightening in 2013 and the quantitative easing by major countries remain an important negative factor for the recovery of Eurozone economy in 2013. Thus, the recovery of Eurozone economy tends to be slower than previously expected. In addition, there remain downside risks to Eurozone economic recovery in 2013, which include i) the outcome of general election in Italy⁵, ii) general election in Germany on September 22nd 2013, and iii) the delay in economic recovery which will make it more difficult for countries facing severe economic crisis to achieve fiscal reforms.

Despite the strengthening of the Euro currency, the weak economic performance, and the tightened liquidity, on January 10th 2013 the European Central Bank maintained its interest-rate policy at 0.75 percent. Nevertheless, with the relatively low inflation rate of 2.0 percent in January, the European Central Bank could implement additional policy easing if economic condition worsens. Therefore, it is expected that the Euro currency will slightly weaken during the second half of 2013.

Japanese economy; the Yen has been weaken considerably because i) the implementation of an quantitative easing measure around 101 trillion Yen (1 trillion US dollar) in 2013, ii) the capital outflows from Japanese bond market during the global economic recovery, and iii) the announcement of an open-end quantitative easing measure which will be commence in 2014 and the increase of inflation target from 1 percent to 2 percent. On February 14th 2013, the Yen was at 93.48 Yen per US dollar, which is the lowest level since May 2010. The currency depreciation and the fiscal stimulation of 880 billion Yen (9.4 billion US dollar) are expected to support the recovery of Japanese economy in the rest of 2013. Under this circumstance, it is expected that the Japanese economy in 2013 will grow by 1.2 percent.

Chinese economy; the accelerated economic growth rate in the last quarter of 2012 lessened the concerns over economic hard-landing, while the economic indicators in January reflects an on-going economic improvement, especially the import and export values in January which expanded by 22.3 percent and 25.5 percent respectively. For the rest of 2013, the economic recovery will be supported by the lagged effect of aggressive monetary policy easing in 2012 and the 1-trillion Yuan fiscal stimulus measure announced on the September 7th 2012. Therefore, it is expected that the Chinese economy will grow by 8.3 percent. Such recovery tends to lessen the need for additional economic stimulus policies.

Nevertheless, the recovery during the rest of 2013 still faces risks from the depreciation of major currencies, especially the Yen and US dollar. Therefore, Chinese authorities will cautiously carry out exchange rate policy to reduce the pressure on the export sector and allow the Yuan to slowly strengthen once global economic recovery become more apparent.

In the latter half of 2013, the capital flow tends to push a pressure on currencies of developing economies due to the acceleration of global economic recovery, massive excess liquidity in financial market, and the certainty of Eurozone countries.

⁵ Political parties which opposed fiscal austerity plan still have a chance to win the general election. Under such circumstance, the economic climate and the continuity in resolving economic crisis will be uncertain. From the latest survey, the Democratic party and the former government coalition parties that supported Mr. Mario Monti are still likely to achieve victory in the lower chamber, but things are less clear for the upper chamber.

5. Thailand Economic Outlook for 2013

The Thai economy is likely to grow at a satisfactory rate in 2013. The contribution from external demands tends to increase in the present of global economic recovery and play more important roles in driving the economic expansion. In contrast, domestic demand is likely to slow down as the impulse from short-term consumption stimulus measures and reconstruction expenditure fade out. Economic stability remains favorable in term of both internal and external stability. Nevertheless, the appreciation pressure on Thai Baht tends to persist.

In 2012, the contribution from net export was relatively low as industrial production and export was adversely affected by the flood and the unfavorable global economic condition. Meanwhile, import accelerated due to an extra demand for capital goods during the period of post-flood reconstruction. Such situation effectively reduced the contribution of net export towards economic expansion. In contrast, the resumption of industrial production capacity, the global economic recovery, and the reduction in temporary import demand are likely to increase the role of export in driving the Thai economy in 2013.

However, the contribution from domestic demand in 2013 is likely to decline. Domestic demand play a significant role in driving economic growth in 2012, especially the private consumption expansion that was supported by the budget to alleviate flood impacts, as well as the tax rebate for first-time-car-buyer scheme. As the impulse from these measures decline, the household consumption in 2013 tend to decelerate. Likewise, private investment is also likely to slow down as the post-flood reconstruction expenditure fade out.

Nevertheless, domestic demand is likely to expand at a satisfactory rate. The supporting factors include i) an increase in household income supported by minimum wage hike⁶, ii) the favorable labor market condition, with low unemployment rate and rising job opportunity, iii) the improvement of agricultural prices during the period of global economic recovery, iv) the relatively low inflation and interest rate, and v) government measures to decrease cost-of-living and reduce personal income tax. Similarly, private investment expansion will be supported by the strong increase in value of projects that has been granted BOI privileges in the past year and the continual of foreign direct investment.

The economic stability remains sound. Inflation pressure tends to be low in the presence of stable crude oil price. Meanwhile, the unemployment rate tend to be low in the presence of tight labor market condition.

External stability tends to be strong. Though the current account surplus in 2012 declined from 2011, such reduction is due to i) limitations in the industrial production and export which suffered from flood and the global economic slowdown, and ii) an increase in demand for finished goods and capital goods to rehabilitate from the flood and to recover the production capacity. Therefore, the recovery of global economy in 2013, the recovery of the domestic production capacity, and the expansion of the tourism sector is likely to increase the surplus in the trade and current account balance.⁷

Minimum wage uplift and Economic Stability

The minimum wage uplift can be separated in two phases. The first phase took an effect on April 1st 2012, and the second on January 1st 2013, resulting in an average wage increased of 39.36 and 21.3 percent respectively. Although the first phase had an effect on certain industries, the impact on the aggregated economy was not strong. Unemployment rate in April 2012 slightly increased to 0.97 percent, but mostly due to an increase of labor supply, while employment continued to expand at its normal pace. Evidentially, in the later quarter, unemployment returned to its normal rate. On price stability, producer price index in the last three quarters of 2012 increased by 0.5 percent on average, lower than 2.4 percent in the first quarter and an average of 5.5 percent in 2011. This is in line with the facts that i) labor market remained tight and laid-off labors is likely to be offered a new job position in a short period of time, this would resulted in a low and stable unemployment rate, ii) most of manufacturing sector already paid their workers more than the new minimum wage, and iii) there are around 5 million workers under the minimum wage law (or 12.69 percent of the labor force), thus the overall cost of production will not be significantly affected.

Labor Market and Economic Stability Indicator

	2011	2012						2013
	Year	Q1	Apr	May	Jun	Q3	Q4	Jan
Minimum wage (%YoY)	-	-	39.36	-	-	-	-	21.30
Employed (%YoY)	1.12	0.98	2.07	1.19	1.65	0.66	1.68	-
Labor Force (%YoY)	0.72	1.24	2.58	1.68	1.94	0.56	1.21	-
Unemployment rate (%)	0.68	0.72	0.97	0.92	0.67	0.58	0.48	-
Producer Price Index (%YoY)	5.48	2.40	0.79	1.16	-0.43	0.29	0.87	0.58

Source: Ministry of Labor, Ministry of Commerce

⁶ The first round of minimum wage increase on April 1st 2012 and the second round on January 1st 2013 have increased the country-wide minimum wage by 39.36 and 21.30 percent respectively

⁷ The surplus of the trade and current account balance in 2012 reduced from 16,988 and 5,889 million baht in 2011 to 8,337 and 2,727 million baht in 2012 respectively.

The appreciation pressure on Thai Baht tends to persist. From the end of 2012, Thai Baht has strengthened by 2.7 percent due to the excess liquidity in the global financial system created by ongoing quantitative easing measures undertaken by most of the major countries. It is also due to the revised expectation of investors on the global economic prospect, which led investors to reallocate their assets out of safe haven markets to developing countries. The appreciation pressure was particularly strong during the progression of the Fiscal Cliff resolution when Thai Baht strengthened steeply. Although the Thai Baht is likely to be more stable in the rest of the first half of 2013, it is likely that the global economic recovery in the second half of 2013 will cause Thai Baht to further appreciate.

Economic growth in the rest of 2013 will be supported by the recovery of global economy and demand for electronic goods, the low base effect in the first half of the year, as well as the additional public investment budget and the relatively low inflation. Nevertheless, the recovery of labor intensive industry tend to be delayed and drag on the rest of manufacturing expansion. Meanwhile, possibility of severe droughts, pressure from excess liquidity in global economy, and oil price remain important risks for the Thai economy.

□ Supporting factors for economic growth

- 1) **Recovery of the global economy** has increasingly apparent in the first quarter of 2013, including the recovery of private sector in the US, China economic recovery, and the stabilization of Eurozone economic condition. In the second half of the year, the economic recovery tends to strengthen, which will support the expansion of the export volume and raise export price.
- 2) **The recovery of global demand for electronics and computer** has been supported by the launch of the new products during the last quarter of 2012, the decline in price of electronic products especially Hard Disk Drive, as well as the inventory rebuilding in major importing countries after a strong depletion during the period of economic uncertainty in the previous year. Such factors will support the export of electronics and computer in the remaining of 2013.
- 3) **The low base effect in the first half of the year.** In the first half of 2012 manufacturing production was not yet fully recovered to its full capacity, as seen in the low capital utilization of hard disk drive, electrical appliance and electronics industries, and the automotive sector that registered at 68.4, 65.9, and 88.8 percent respectively in the first quarter 2012. However, during the second half of the year the recovery process has quickly pick up, thus, the expansion rate of such industries will be particularly high in the first half of 2013.
- 4) **Domestic demand is expected to grow at a satisfactory rate.** Private consumption is expected to grow satisfactorily, even though the impulse from the first-time-car-buyer scheme receded. The supporting factor for private consumption is the expansion of household income that will be supported by the recovery of agricultural prices, the increase of minimum wage, the favorable labor market condition, and the recovery of the production sector. Meanwhile, the private investment is likely to expand at a satisfactory pace as the value of projects granted BOI incentive in the previous year has increased by 119.9 percent, as well as the low interest rate and the appreciation of exchange rate which is favorable condition for investment expansion.
- 5) **Sufficient Budget framework for the implementation of investment project to support economic expansion.** This consists of i) 2013 annual budget of 2.4 trillion Baht (2.0 trillion Baht from current expenditure, and 400 billion Baht from Capital Expenditure), ii) capital budget expenditure of the state-owned enterprises of 550 billion baht, and iii) additional

Domestic demand remains strong while export enhances from the previous year. Economic stability remains sound though there is an appreciation pressure on Thai baht.

Supporting factors are as follows i) global economic recovery ii) the improvement of electronic market, iii) disbursement of government budget iv) low base effect in the first half, and v) low inflation and interest rate

⁷ The surplus of the trade and current account balance in 2012 reduced from 16,988 and 5,889 million baht in 2011 to 8,337 and 2,727 million baht in 2012 respectively.

government investment budget including the royal decree for water resource management and future development (350 billion baht), and the infrastructure development plan (no greater than 2 trillion baht), which are expected to be disbursed into the economic system in the second half of 2013.

- 6) **The low and stable inflationary pressure** as oil price is likely to gradually increase. This is a favorable condition for the implementation of accommodative monetary policy and support the expansion of both private consumption and investment.

Risks and Limitations

- 1) **The expansion of labor intensive industries** will remain under constraints for a number of reasons, including the increasing labor costs, the weak economic condition in Eurozone which is the key export market for such industries, as well as the appreciation of Thai baht
- 2) **The excess liquidity in the global financial systems** remains a stability risk which can cause Thai baht to appreciate at a faster pace than expected. It is also a risk which can cause a fluctuation in the economic and financial systems, especially in the latter half of the year when the recovery of global economy is strengthen.
- 3) **Drought** remains a downside risk towards the agricultural production. This can affect the farm income, private consumption, and overall economic growth.
- 4) **There remains upside risks for oil price to increase faster than its fundamentals, especially under the strong recovery of global economy** and the high level of excess liquidity in the global financial system. Such an event will create an upward pressure on inflation and will present an obstacle to the implementation of expansionary monetary policy.

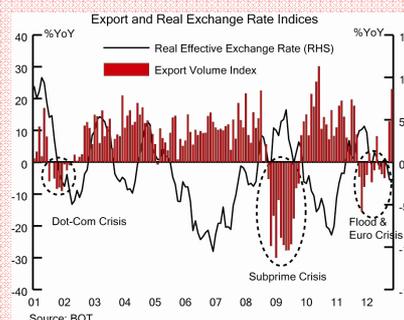
Key Assumption for 2013 Projection

- 1) Global economy and trade volume in 2013 is expected to expand by 3.8 and 4.5 percent respectively, accelerating from 3.2 and 2.8 percent in 2012. This is a downward revision from the assumptions on global economic growth and trade volume of 3.9 and 5.0 percent in the previous projection. The revision is supported by i) the growth of the US economy is revised downward from 2.4 to 2.3 percent due to the delay in resolving the Fiscal Cliff, and ii) the growth of the Eurozone economy is revised downward from 0.2 to 0.0 percent as the quantitative easing measures in the US and Japan is likely to delay the pace of Eurozone economic recovery.
- 2) The average Dubai crude oil price is expected to be in the range of 108 - 113 US dollars per barrel, compared to an average of 108.8 US dollars per barrel in 2012. It is the same as the projection assumption on November 19th 2012. The Dubai crude oil price as of February 14th 2013 was at 113.1 US dollars per barrel.

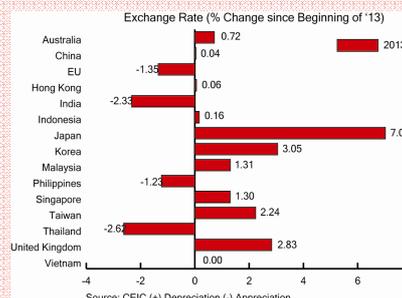
Impact from currency appreciation

(%YoY)	2013
GDP	Negative
Agriculture	Negative
Manufacturing	Negative
Construction	Neutral
Wholesale	Positive
Hotel and Restaurant	Negative
Transportation and Communication	Positive
Banking	Positive
GDE	Negative
Consumption	Positive
Investment	Positive
Export	Negative
Import	Positive

According to NESDB study, the impact of currency appreciation on economic growth is marginal - 10 percent Thai baht appreciation will lower economic growth rate by 0.4 percent (holding other currencies constant). The marginal impact of Thai baht appreciation is due to the fact that its positive contribution to consumption and investment will compensate its negative impact on the export. On the supply side, the appreciation will positively affect the trade sector, transportation sector, communication sector, and financial sector, which will compensate its negative impact on agricultural sector, industrial sector and hotel and restaurants sectors. Moreover, the study empirically shows that the Thai export volume is more sensitive to the global economic expansion (income effect) than the appreciation of Thai baht (price effect)



Nevertheless, the impact of Thai baht appreciation could be stronger than NESDB findings if the currencies of other nations with similar export structure were to depreciate. Moreover, the fluctuation in exchange rate should be monitored closely as it could delay the business and economic decisions.



Key Assumption for Projection

	2011	2012	2013	
			19 Nov. 12	18 Feb. 13
World Economic Expansion (%)	3.8	3.2	3.9	3.8
US	1.8	2.2	2.4	2.3
Eurozone	1.4	-0.4	0.2	0.0
Japan	-0.7	1.9	1.0	1.0
China	9.2	7.8	8.3	8.3
World Trade Volume (%)	5.8	2.8	5.0	4.5
Exchange Rate (THB/USD)	30.5	30.6	30.0 - 31.0	29.0-30.0
Dubai Crude Oil (USD/Barrel)	106.0	108.8	108 - 113	108- 113
Export Price in USD term (%)	5.6	0.6	4.0 - 5.0	4.0
Import Price in USD term (%)	10.1	1.6	3.5 - 4.5	3.5
Tourists (Million Persons)	19.1	22.3	22.5	24.2

- 3) The exchange rate in 2013 is forecasted to be in the range of 29.0 - 30.0 baht per US dollar, compared to the average rate of 30.6 baht per US dollar in 2012. This is a revision from the range of 30.0 - 31.0 baht per US dollar in the assumptions of the previous projection as Thai baht in early 2013 has strengthened faster than previously expected. Thai baht is likely to continue to strengthen in the second half of 2013 as there will be an acceleration of the global economic growth, as well as the progression of major economic resolution will become more apparent and greater clarity of election outcome in Europe.
- 4) The prices of exports and imports in US dollar term are expected to increase by 4.0 and 3.5 percent respectively, compared to the increase of 0.6 and 1.6 percent in 2012. This is a downward revision from the assumption from previous projection of 4.2 and 3.7 percent in terms of exports and imports prices respectively to reflect the revision of the assumption of the global economic growth and trade volume.
- 5) The number of inbound tourists in 2013 is expected to be 24.2 million persons, representing an increase of 8.5 percent. This is an upward revision from the previous projection assumption of 22.5 million persons as the actual number of inbound tourists in 2012 surpassed the target.

□ Economic outlook for 2013

Thai economy in 2013 is projected to grow by 4.5-5.5 percent, compared to the growth rate of 6.4 percent in 2012. The headline inflation rate is projected to be in the range of 2.5 - 3.5 percent, with the current account surplus of 0.9 percent of GDP, increasing from 0.7 percent surplus in 2012.

In the press release on February 18th 2013, the Office of the National Economic and Social Development Board (NESDB) maintained a projection of 4.5-5.5 percent economic growth rate. However, the economic growth components are revised to reflect the changes in projection assumption and the actual data from the last quarter of 2012, especially the growth of domestic demand which expanded at a higher rate than expected.

□ Components of Economic Growth in 2013

- 1) Total consumption is projected to grow by 3.5 percent, slowing down from the growth rate of 6.7 percent in 2012. This is a downward revision from 3.8 percent growth rate in the projection on November 19th 2012 as the private consumption is revised down from 4.0 percent in the previous projection to 3.5 percent in this projection. The primary reason for this revision is the fact that participants in the first-time-car-buyer scheme in the last quarter of 2012 is higher than expected, causing the private consumption in the last quarter of 2012

Key Assumption for 2013 Projection

- 1) Global economy and trade volume in 2013 to expand by 3.8 and 4.5 percent respectively
- 2) Average Dubai crude oil to be in the range of 108 - 113 US dollars per barrel
- 3) exchange rate in 2013 to be in the range of 29.0 - 30.0 baht per US dollar
- 4) prices of exports and imports in US dollar term to increase by 4.0 and 3.5 percent respectively
- 5) number of inbound tourists in 2013 to be 24.2 million

and of the year 2012 to expanded as high as 14.8 and 6.6 percent respectively. The car sales in 2012 expanded strongly by 85.6 percent. This high base will cause private consumption in 2013 to slow down than previously projected. Meanwhile, government consumption expenditure is revised upward to 3.5 percent.

2) Total investment is projected to expand by 8.9 percent, compared to 13.3 percent in 2012. The public and private investments are expected to expand by 12.0 and 8.0 percent respectively, compared to 8.9 and 14.6 percent in 2012.

3) Exports of goods in US dollar term in 2013 is forecasted to increase by 11.0 percent, compared to 3.2 percent in 2012, which is a downward revision from 12.2 percent in the previous projection due to the downward revision of the assumption on global economic growth and trade volume from 3.9 and 5.0 percent to 3.8 and 4.5 percent, as well as the revision of exchange rate assumption from 30.0 - 31.0 baht per US dollar to 29.0 - 30.0 baht per US dollar. The above revision will cause the export volume to expand by 7.0 percent which is lower than 8.0 percent in the previous forecast, as well as the export prices to grow at a slower pace

than previous projection. Nevertheless, the change in the assumption on number of inbound tourists leads to an increase in the growth of export of services to be higher than in previous projection.

4) The imports value in US dollar term is projected to increase by 11.3 percent, compared to an increase of 7.8 percent in 2012. This is a downward revision from 12.4 percent in the previous forecast in line with the downward revision of export and private consumption which lead to a decline in demand for import from the previous projection. It also reflects a downward revision of import price assumption from 3.7 percent in previous projection to 3.5 percent in this projection.

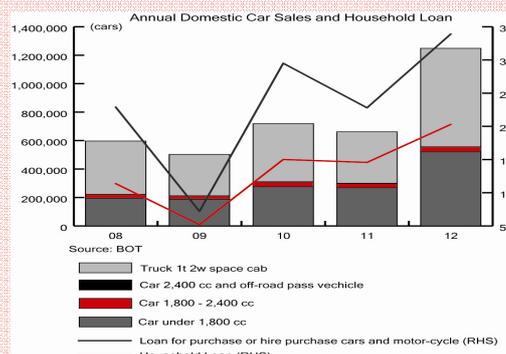
5) Current account is projected to record a surplus of 3.6 billion US dollars, compared to the surplus of 2.7 billion US dollars in 2012. This is a downward revision from a surplus of 3.7 billion US dollars in the previous projection. This is because the decline in the growth of export value is at a faster rate than the decline in the growth of import value, causing the trade balance surplus to reduce from 13.7 billion US dollars to 8.5 billion US dollars. Nevertheless, the revision of the assumption of number of tourist helps service balance to improve from the previous projection.

6) The inflation rate in 2013 is forecasted to be in the range of 2.5 – 3.5 percent, which is close to the rate of 3.0 percent in 2012. This range is the same as what was previously forecast.

Implication of the first time car buyer scheme on consumption outlook in 2013

The first-time-car-buyer scheme drove up domestic car sales to a record high of 1.2 million units in 2012, compared to an average of 620,000 units per annum (during 2008-2011), and it was among the key contributors to economic growth in 2012 to be higher than expected. Thus, if the new demand for car in 2013 (regardless of the backlog of cars under the scheme) does not increase sufficiently, this will create a high possibility of a slowdown in consumption.

On the other hand, the strong car sales in 2012 induced a rapid expansion of household loan. In this regard, household loan in 2013 will slow down in conjunction with the contraction of car sales.



6. Economic management for 2013

The Thai economy in 2013 is likely to return to its normal growth path as the domestic production capacity and the global economy resume to its normal condition. This reduces the needs for short-term demand stimulation. Nevertheless, the excess liquidity in the global economic system tends to put an appreciation pressure on Thai baht, and eventually poses risk to economic stability, especially in the second half of 2013 when the global economy is expected to accelerate and the risks of uncertainty in major economies become unfold. Therefore, economic management for the rest of 2013 should give priority to ensuring that the economy is able to grow at its full capacity, along with economic restructuring to enhance long-term growth potential, as well as to manage the risks to economic stability. Economic management for the rest of 2013 should emphasize on the following issues.

- 1) **Ensuring exchange rate stability while monitoring its movement to be in line with the economic fundamentals and other regional currencies**, especially during the second half of the year when the appreciation pressure intensifies.
- 2) **Managing domestic stability.** The prices of major goods should be well managed to move in line with the movement of exchange rate, particularly energy, construction materials, and raw material in agriculture. This will soften the cost push pressure on the price of goods and ward off fluctuation in major markets that are sensitive to the capital inflow.
- 3) **Maintaining growth momentum to reduce effect from slowdown in consumption as the first time car buyer scheme fade out.** This could be achieved by solving the export obstacles in the major markets, accelerating private investment that has been granted BOI incentive in the past year, and expediting disbursement of government budget especially in the fourth quarter where economy will experience an abnormally high base effect.
- 4) **Expediting relief measures for SMEs** to alleviate the impact from the appreciation of Thai baht, rising labor cost, and a weak demand in Eurozone, as well as strengthening SMEs and the problem-solving mechanism.
- 5) **Expediting public investment** under the Royal decree on investment loan for water resource management and future development, Infrastructure development plan, and accelerating the development of new economic zone in order to enhance the long-term economic potential growth. Moreover, obstacles toward trade and investment must be promptly addressed while enhancing the public sector management in order to improve the efficiency of the overall economic system.

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Nevertheless, the excess liquidity tends to put an appreciation pressure on Thai baht, and eventually poses risk to economic stability.

Therefore, economic management for the rest of 2013 should give priority to ensuring that the economy is able to grow at its full capacity, along with economic restructuring to enhance long-term growth potential, as well as to manage the risks to economic stability.

Economic projection for 2013

	Actual Data		Projection	
	2011	2012	2013	
			Nov 19, 2012	Feb 18, 2013
GDP (at current prices: Bil. Bht)	10,540.1	11,363	12,180	12,295
GDP per capita (Bht per year)	155,926	167,318	178,458	180,137
GDP (at current prices: Bil. USD)	345.6	365	399	417
GDP per capita (USD per year)	5,113.0	5,382	5,851	6,106
GDP Growth (at constant prices, %)	0.1	6.4	4.5-5.5	4.5-5.5
Investment (at constant prices, %)	3.3	13.3	8.1	8.9
Private (at constant prices, %)	7.2	14.6	8.0	8.0
Public (at constant prices, %)	-8.7	8.9	8.5	12.0
Consumption (at constant prices, %)	1.3	6.7	3.8	3.5
Private (at constant prices, %)	1.3	6.6	4.0	3.5
Public (at constant prices, %)	1.1	7.4	2.5	3.5
Export volume of goods & services (%)	9.5	2.9	7.8	7.4
Export value of goods (Bil. USD)	225.4	226.1	260.6	251.1
Growth rate (%) ^{2/}	16.4	3.2	12.2	11.0
Growth rate (Volume, %) ^{2/}	10.2	2.6	8.0	7.0
Import volume of goods & services (%)	13.7	6.2	8.5	7.5
Import value of goods (Bil. USD) ^{1/}	201.9	217.8	246.9	242.5
Growth rate (%) ^{2/}	24.7	7.8	12.4	11.3
Growth rate (Volume, %) ^{2/}	13.3	6.1	8.7	7.8
Trade balance (Bil. USD) ^{1/}	23.5	8.3	13.7	8.6
Current account balance (Bil. USD) ^{1/}	11.9	2.7	3.7	3.6
Current account to GDP (%)	3.4	0.7	1.0	0.9
Inflation (%)				
CPI	3.8	3.0	2.5-3.5	2.5-3.5
GDP Deflator	4.2	1.3	2.5-3.5	2.5-3.5

Source: Office of National Economic and Social Development Board, 18 February 2013

Note: ^{1/} 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>)

^{2/} per BOT basis.

