NESDB ECONOMIC REPORT

Thai Economic Performance in Q4 and 2017 and Outlook for 2018

Macroeconomic Strategy and Planning Office

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Economic Projection of 2018

(%YoY)	2016	2017			Projection
	Year	Year	Q3	Q4	2018
GDP (CVM)	3.3	3.9	4.3	4.0	3.6-4.6
Total Investment	2.8	0.9	1.2	0.3	5.5
Private	0.5	1.7	2.5	2.4	3.7
Public	9.5	-1.2	-1.6	-6.0	10.0
Private Consumption	3.0	3.2	3.4	3.5	3.2
Government Consumption	2.2	0.5	1.8	0.2	3.2
Export of Goods[1]	0.1	9.7	12.5	11.6	6.8
Volume[1]	0.5	5.9	8.7	7.0	4.8
Import of Goods[1]	-5.1	14.4	13.0	14.6	9.5
Volume[1]	-2.5	8.4	8.8	8.3	6.5
Current Account to GDP (%)	11.7	10.8	11.9	10.4	7.8
Inflation	0.2	0.7	0.4	0.9	0.9-1.9

Note: [1] base on the Bank of Thailand's data

- **The Thai economy in the fourth quarter of 2017** expanded by 4.0 percent, continuing from 4.3 percent growth in the previous quarter. After seasonally adjusted, the Thai economy in the fourth quarter expanded by 0.5 percent (%QoQ sa).
- **On the expenditure side,** the expansion was supported by the acceleration of private consumption, robust export growth, and continual expansion of private investment while public investment declined. **On the production side,** hotel and restaurant, wholesale & retail trade, transportation, and electricity, gas & water supply sectors expanded at an accelerated rate. The manufacturing sector continued to grow well, while the agricultural and construction sectors experienced contraction.
- **In 2017, the Thai economy expanded by 3.9 percent,** improving from 3.3 percent in 2016. Export value grew by 9.7 percent while private consumption and total investment increased by 3.2 and 0.9 percent respectively. The headline inflation averaged 0.7 percent and the current account remained in a surplus of 10.8 percent to GDP.
- **The Thai economy in 2018:** it is expected that the economy will expand in the range of 3.6 – 4.6 percent, supported mainly by (i) the acceleration of the world economic growth, (ii) the expansion of government expenditure and the acceleration of public investment as a result of rising capital budget framework and the progress of key infrastructure projects, (iii) the clearer private investment recovery, (iv) the continual expansion of key economic sectors, and (v) the improvement of employment and household income conditions. In all, it is expected that export value of goods will expand by 6.8 percent. Private consumption and total investment will grow by 3.2 and 5.5 percent respectively. The headline inflation is forecasted to be in the range of 0.9 - 1.9 percent and the current account will register a surplus of 7.8 percent of GDP.
- **Economic management for the year 2018** should focus on **(1) Promoting non-agricultural sectors** to offset the declining growth contribution from the agricultural production by: (i) fostering export sectors to its full potential as it helps contribute to the growth of manufacturing sector and encourage new private investments; (ii) building up confidence and conducting measures to bolster private investment by focusing on supporting key investment projects both infrastructure and economic area development projects, upgrading economic competitiveness, encouraging private sector to invest in the country's strategic sector, and ensuring investors that the important policies and projects are mandated to continue implementation after the general election; and (iii) supporting the expansion of tourism sector by maintaining security and improving facilities in the airports and tourist attractions, strategizing on high-income and long distance travel segments, together with distributing tourism revenues to local communities. **(2) Expediting the public investment** to achieve the target growth by (i) expediting procurement processes of the key infrastructure projects and speeding up the capital budget disbursement for the rest of the year, coupled with improving the efficacy of the government's and state-owned enterprises' capital budget disbursement to be not less than 72 and 77 percent of total capital budget, respectively; (ii) continually driving key mega infrastructure projects; (iii) developing targeted special economic areas including Eastern Economic Corridor (EEC) and Special Economic Zones (SEZ); and (iv) progressing plan and key transportation and logistics infrastructure projects as well as developing key urban and economic areas at regional and provincial levels. **(3) Supporting small farmers and low income groups as well as strengthening the SMEs and local economies** by focusing on (i) strengthening agricultural production and farm income as well as preparing measures to protect and minimize the impacts from La Niña; (ii) the financial and fiscal measures which aiming at the social welfare smart card project and ensuring sufficient credit provision and funds that can reach target groups; and (iii) assisting and developing SMEs affected by changing business patterns as well as Baht appreciation trend. **(4) Arranging labor force** both in terms of quantity and quality of labor to facilitate expansion of economic and investment activities.

1. The Thai Economy in Q4/2017

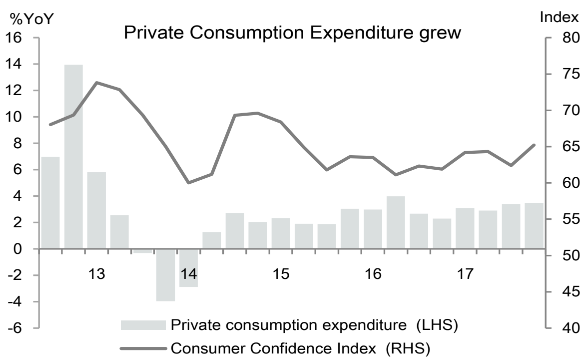
Expenditure side:

In the fourth quarter of 2017, private consumption expenditure grew at a favorable pace, export of goods & services accelerated, and private investment expanded for three consecutive quarters.

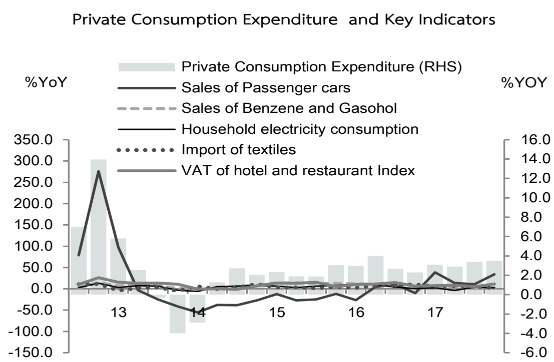
Private consumption expenditure expanded at a favorable pace by 3.5 percent, in line with the improvement of the overall income condition, consistently low inflation and interest rates, and rising consumer confidence.

Private consumption expenditure favorably expanded due to an increase of expenditures on durable goods and services, in line with the improvement of the overall economy, household credits, and consumer confidence. In the fourth quarter of 2017, private consumption expenditure continually grew by 3.5 percent, accelerated from 3.4 percent in the previous quarter. The continuous growth of private consumption expenditure aligned with high expansion of sales of passenger cars of 33.9 percent. The VAT of hotel and restaurant index (at 2010 price) grew by 11.5 percent. Spending on other products such as sales of benzene and gasohol, and diesel increased by 2.5 and 2.5 percent, respectively. The expansion of private consumption expenditure in this quarter was supported by (i) the continual improvement of the overall income condition, particularly in tourism and manufacturing sectors, (ii) consistently low inflation rate, (iii) the expansion of household loans under low interest rate, and (iv) the improvement of consumer confidence. Consumer Confidence Index pertaining the overall economic situation stood at 65.2, the highest level in 11 quarters.

In 2017, private consumption expenditure expanded by 3.2 percent, compared with 3.0 percent growth in 2016.



Source: NESDB, University of the Thai Chamber of Commerce

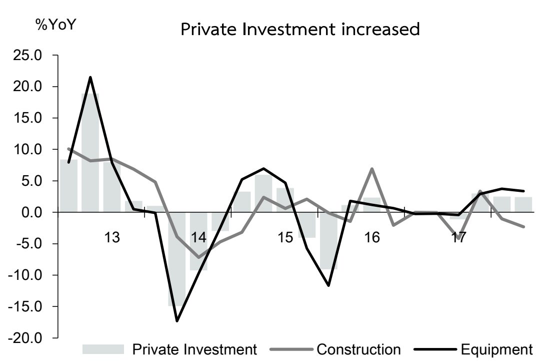


Source: NESDB, BOT, Department of Energy Business

Private investment expanded, for three consecutive quarters, by 2.4 percent, supported by the expansion of investment in machinery & equipment, in line with the continual improvement of exports, while investment in construction decreased.

Private investment continually expanded, supported by the expansion of investment in machinery and equipment. In the fourth quarter of 2017, private investment expanded by 2.4 percent. **The investment in machinery and equipment** grew by 3.4 percent. This was consistent with 4.2, 9.5, and 0.5 percent growth of the import of capital goods, domestic commercial car sales, and domestic machinery sales, respectively. **The investment in construction** contracted by 2.3 percent, in line with the reduction in domestic sales of cement, concrete, and tile as well as a decline in the number of permitted construction areas in municipal zone. **The total value of projects applied** for the investment promotion made to Board of Investment (BOI) increased by 57.5 percent. **The total value of promotion certificate issued by BOI** rose by 63.4 percent and well improved from 22.1 percent expansion in the previous quarter. The Business Sentiment Index (BSI) stood at 50.7.

In 2017, private investment expanded by 1.7 percent, where investment in machinery and equipment expanded by 2.4 percent, and investment in construction contracted by 1.0 percent.

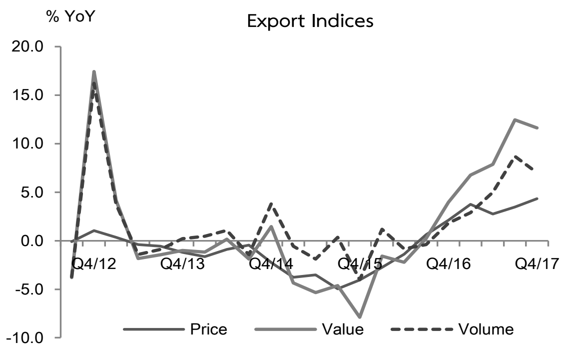


Source: NESDB

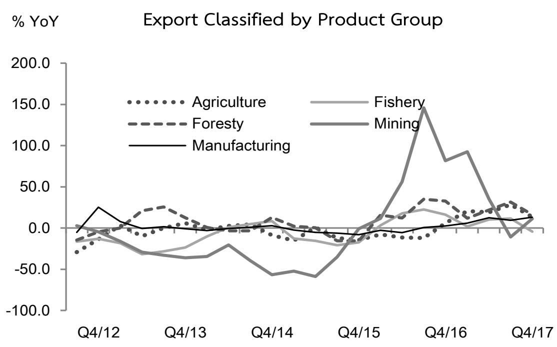
Exports in US dollar term continued to grow at high growth rate, in accordance with the accelerated economic expansion of key trading partners and the increased commodity prices in world market. Export value in the fourth quarter of 2017 was recorded at 61.2 billion US dollars, representing by an 11.6 percent growth (continually expanded for 6 consecutive quarters). The export quantity increased by 7.0 percent, due to the increase in most of the export categories, particularly manufacturing products (9.2 percent) and agricultural products (0.9 percent). Export price increased by 4.3 percent, mostly reflected the increase in price of crude oil, refined fuel, chemicals, plastic resin, and rubber products. Excluding unwrought gold, export value grew by 12.8 percent. **In baht term,** export value increased by 3.9 percent.

In 2017, export value increased by 9.7 percent, improved from a 0.1 percent growth in 2016. In baht term, export value increased by 5.4 percent.

Export in US dollar term maintained its high growth rate of 11.6 percent. Export value excluding unwrought gold increased by 12.8 percent. Export quantity increased by 7.0 percent and export price increased by 4.3 percent. In baht term, export value increased by 3.9 percent, which was in accordance with the movements in exchange rate.



Source: Bank of Thailand



Source: Bank of Thailand

Export value of agricultural commodities continually expanded for 5 consecutive quarters by 13.6 percent. **Export value of manufacturing products** expanded with the highest growth in 20 quarters by 13.1 percent, driven by the expansion of global demand for manufacturing products following the improvement of global economy. **Export value of fishery products and other products** declined by 4.1 and 43.1 percent, respectively. **Export items with increased value** included rice, rubber, tapioca, rubber products, telecommunication equipment, vehicle parts & accessories, passenger cars, pick up & trucks, and machinery & equipment. On the other hand, **export items with decreased value** included sugar, optical appliance & instruments, and refrigerators.

Export value of agricultural commodities continued to expand at a favorable pace, but decelerated from the previous quarter. Export value of manufacturing products accelerated both in quantity and price, in accordance with the improvement of trading partners' economies and the increased commodity prices in the world market. Meanwhile, export value of fishery products and other products declined.

Export Value of Major Product in US Dollar Term

%YoY	2016					2017					Share
	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Q4/17 (%)
Agriculture	**-6.2**	**-7.5**	**-11.5**	**-11.9**	**6.1**	**20.0**	**20.5**	**19.2**	**28.4**	**13.6**	**7.8**
Rice	-4.4	12.1	-12.9	-12.4	-4.8	17.2	-7.2	19.3	43.9	20.5	2.6
Rubber	-12.1	-22.1	-8.4	-27.3	15.0	35.7	78.3	37.9	22.9	11.7	2.4
Tapioca	-19.0	-16.4	-37.0	-11.3	-3.9	-7.0	-18.5	-13.7	5.8	2.7	1.0
Manufacturing	**-1.2**	**-2.7**	**-5.5**	**0.8**	**2.6**	**10.3**	**5.9**	**12.5**	**9.6**	**13.1**	**88.9**
Sugar	-8.6	39.1	-4.2	-33.2	-23.4	7.0	-19.3	32.0	26.0	-9.5	0.7
Crustaceans canned, prepared, or preserved	-3.9	-17.5	1.3	-4.2	2.8	6.2	21.7	11.6	4.7	-5.8	0.5
Rubber products	8.1	0.9	0.5	23.4	9.5	41.2	51.5	32.4	37.1	44.3	2.5
Apparels and Textile Materials	-5.5	-6.7	-6.0	-5.2	-3.9	3.9	3.2	1.1	3.9	7.4	2.9
Electronics	-2.8	-5.5	-7.6	0.6	0.7	14.2	10.3	16.5	11.3	18.4	16.1
- Computer parts & accessories	-8.6	-7.5	-12.7	-4.1	-10.2	5.8	-0.8	4.4	2.5	16.6	6.6
- Integrated circuits & parts	-0.1	-3.4	-0.4	0.7	2.0	7.1	11.7	11.1	3.4	3.6	3.5
- Printed circuits	-6.9	-12.7	-9.3	-1.9	-4.1	10.5	13.9	9.7	4.0	15.9	0.6
- Telecommunication equipment	1.5	-2.5	-9.8	2.9	15.0	51.1	21.6	71.6	49.6	60.4	2.7
Electrical appliances	3.5	-2.7	5.5	8.5	3.3	6.2	9.5	4.1	3.1	8.5	5.2
Metal & steel	-0.2	-10.7	-1.2	9.1	2.2	14.8	17.3	16.1	8.6	17.9	4.5
Automotive	3.2	-1.5	8.1	4.9	1.9	6.3	2.6	2.3	2.6	18.1	15.8
- Passenger car	22.8	74.8	59.1	4.3	-9.5	-7.1	-19.1	-9.8	-10.8	13.5	5.0
- Pick up and trucks	-20.9	-42.5	-24.0	1.7	-3.5	11.8	15.8	4.3	-1.8	30.2	3.4
- Vehicle parts & accessories	5.2	-1.6	2.3	6.9	13.8	13.6	13.4	9.7	14.4	16.9	6.6
Machinery & equipment	-0.3	-0.9	-9.3	2.5	6.8	7.3	4.2	11.5	13.2	0.9	8.5
Chemicals	-5.0	-15.7	-10.4	-1.0	9.5	20.8	23.1	14.4	24.8	21.4	3.1
Petro-chemical products	-3.7	-5.6	-7.7	-5.9	4.8	11.2	7.3	16.1	10.9	10.7	5.3
Petroleum products	-30.9	-43.6	-43.7	-29.2	-4.8	32.6	43.0	36.7	29.7	26.0	3.7
Fishery	**15.1**	**3.3**	**17.8**	**22.7**	**16.3**	**4.8**	**2.1**	**10.4**	**11.5**	**-4.1**	**0.9**
Crustaceans	38.5	22.3	64.2	50.7	23.5	7.2	-4.8	8.4	17.8	4.2	0.5
Other Exports	**75.5**	**193.5**	**82.9**	**17.5**	**33.4**	**-19.6**	**-35.0**	**-44.3**	**49.8**	**-43.1**	**1.1**
Non-monetary gold (excl. articles of goldsmiths)	89.8	230.7	110.9	20.7	38.0	-20.7	-37.5	-45.4	52.7	-46.6	1.0
Total Exports (Customs basis)	**0.5**	**1.0**	**-3.8**	**1.0**	**3.8**	**9.9**	**4.9**	**10.9**	**12.0**	**11.7**	**100.0**
Exports, f.o.b. (BOP basis)	**0.1**	**-1.6**	**-2.2**	**0.3**	**4.0**	**9.7**	**6.8**	**7.9**	**12.5**	**11.6**	**99.8**
Export Value (exclude gold)	**-1.6**	**-5.3**	**-4.1**	**-0.3**	**3.5**	**10.8**	**9.2**	**9.8**	**11.2**	**12.8**	**98.9**

Source: Bank of Thailand

Export markets: exports to major markets expanded favorably. Exports to the US, EU (15), China, and Japan increased by 10.7, 11.4, 14.2, and 9.3 percent, respectively, which was in line with the continued improvement of the US, EU, China, and Japan economies. Exports to ASEAN (9) expanded by 11.7 percent, due to the expansion of export to ASEAN (5) of 13.1 percent and CLMV countries of 9.9 percent. Exports to the Middle East (15) continued to expand by 6.4 percent, due to the increase in cars, parts & accessories and telephone sets & parts export. Meanwhile, exports to Australia turned to expand for the first time in 5 quarters, due to the expansion in cars, parts & accessories, air conditioning machines, and plastic export.

Exports to the US, EU (15), China, Japan, ASEAN (9), and the Middle East (15) expanded favorably. Meanwhile, exports to Australia increased for the first time in 5 quarters.

Export Value to Key Markets in US Dollar Term

%YOY	2016					2017					Share
	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Q4/17 (%)
Total Exports (Mil US$) (Customs basis)	215,388	53,844	51,458	55,247	54,838	236,694	56,456	57,090	61,888	61,259	100.00
(%YoY)	0.5	1.0	-3.8	1.0	3.8	9.9	4.9	10.9	12.0	11.7	
United States	1.8	-3.2	0.7	7.0	2.7	8.3	7.4	7.0	8.1	10.7	11.2
Japan	2.1	5.5	-8.4	0.5	11.4	8.9	-2.5	20.1	10.4	9.3	9.6
EU (15)	1.0	-1.0	-0.3	2.7	2.5	7.6	9.2	5.5	4.5	11.4	9.2
China	0.3	-6.1	-10.3	-0.3	17.1	23.7	36.5	26.0	21.7	14.2	13.2
ASEAN (9)	-0.7	4.3	-9.7	-0.4	3.6	8.9	0.0	15.0	9.6	11.7	26.0
- ASEAN (5)*	-1.1	9.6	-13.7	0.5	0.1	6.0	-8.9	17.2	5.3	13.1	14.4
- CLMV**	-0.0	-3.8	-3.2	-1.9	8.1	13.1	15.3	11.8	16.2	9.9	11.6
Middle East (15)	-15.1	-11.1	-7.8	-16.5	-24.5	-5.1	-23.1	-0.4	0.7	6.4	3.5
Australia	5.5	6.9	13.9	10.6	-8.4	1.9	-3.0	-4.8	-0.1	17.2	4.4
Hong Kong	-3.0	0.6	-8.1	-4.5	-0.3	7.3	6.3	13.0	7.7	2.8	4.8
India	-2.6	-9.1	-2.4	-1.9	4.1	25.8	18.3	13.3	27.3	46.3	2.9
South Korea	-0.7	-8.4	-6.9	1.1	12.1	14.6	24.2	24.2	11.3	0.8	1.8
Taiwan	-4.5	-17.8	-0.5	-2.8	4.5	18.2	15.9	22.1	23.3	11.3	1.6

Note: * ASEAN (5) consist of Brunei, Indonesia, Malaysia, Philippines, and Singapore
** CLMV consist of Cambodia, Laos, Myanmar, and Vietnam
Source: Bank of Thailand

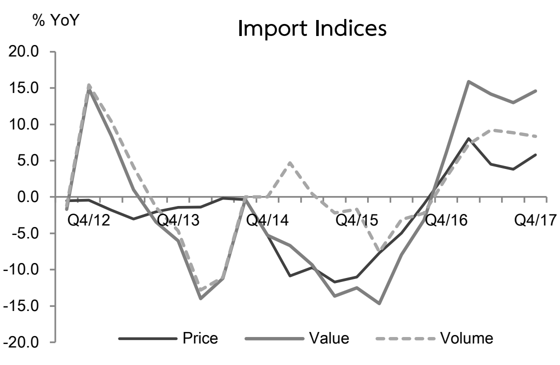
Import value in US dollar term accelerated, attributed to the improvement of domestic demand, private investment, exports, and higher import price. In the fourth quarter of 2017, the value of import was recorded at 54.6 billion US dollars, grew by 14.6 percent. Import price and quantity increased by 5.8 percent and 8.3 percent, respectively. The import volume of raw materials & intermediate goods, capital goods, and consumer goods increased, associated with the expansion of exports, manufacturing production, and domestic demand. Import value excluding unwrought gold expanded by 13.2 percent. **In Thai baht term,** the import value increased by 6.7 percent.

In 2017, import value increased by 14.4 percent, compared with a 5.1 percent contraction in 2016. In Thai baht term, import value increased by 9.8 percent, compared with a 2.1 percent contraction in 2016.

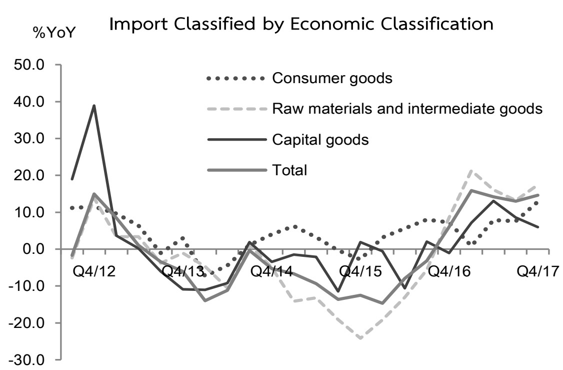
Import value in US dollar term expanded by 14.6 percent due to the increase of both quantity and price of 8.3 and 5.8 percent, respectively.

Import quantity of raw materials & intermediate goods accelerated in line with the expansion of the export of manufacturing production.

Import quantity of consumer goods accelerated in accordance with the improvement of private consumption expenditure.



Source: Bank of Thailand



Source: Bank of Thailand

Overall, import value of all categories increased. Import value of raw materials and intermediate goods grew by 17.4 percent, accelerated from the previous quarter, in line with the expansion of the export sector and the improvement in manufacturing sector. Import of capital goods continued to expand by 6.0 percent, driven by the continuous improvement in private investment. Import value of consumer goods continually increased by 12.9 percent, in accordance with the improvement of private consumption expenditure. Meanwhile, other imports expanded by 23.3 percent. Import items with increased value were crude oil, petroleum products, chemicals, materials of base metal, telecommunication equipment, other machinery & mechanical appliances & parts, food, beverage, & dairy products, animal & fishery products, and non-monetary gold.

Import Value of Major Product in US Dollar Term

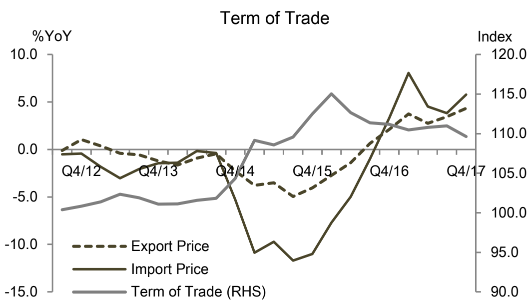
%YoY	2016					2017					Share
	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Q4/17 (%)
Consumer goods	6.0	3.1	5.6	8.0	7.2	7.3	0.8	7.8	7.6	12.9	10.3
Raw materials and intermediate goods	-8.0	-19.2	-13.1	-5.6	8.6	16.9	21.2	16.1	13.2	17.4	52.4
Capital goods	-2.6	-0.5	-10.6	2.0	-1.1	8.6	7.2	13.0	8.6	6.0	24.6
Other Imports	3.0	-15.0	17.0	0.6	13.1	28.0	19.1	24.8	46.8	23.3	12.7
Total Imports (Customs basis)	-4.2	-12.0	-8.5	-1.7	6.2	14.7	14.8	15.2	14.3	14.6	100.0
Imports, f.o.b. (BOP basis)	-5.1	-14.7	-7.9	-3.2	6.1	14.4	15.9	14.2	13.0	14.6	91.8

Source: Bank of Thailand

Term of trade decreased, compared with the same period last year.

Term of trade decreased from the same period last year, as export price increased by 4.3 percent, slower than the increase in import price of 5.8 percent. Thus, the term of trade decreased from 111.2 in the same quarter last year to 109.7 in the fourth quarter of 2017.

In 2017, term of trade stood at 110.5, decreased from 112.5 in the previous year. Export price increased by 3.6 percent, slower than the increase in import price of 5.5 percent.



Source: Bank of Thailand

Trade surplus was lower than that of the same period last year, but current account surplus increased.

Trade balance recorded a surplus of 6.5 billion US dollars (equivalent to 214.3 billion baht), compared with a surplus of 7.1 billion US dollars (equivalent to 215.2 billion baht) in the same quarter of last year.

In 2017, trade balance stood at 31.9 billion US dollars (equivalent to 1,080.1 billion baht), lower than a surplus of 36.5 billion US dollars (equivalent to 1,289.5 billion baht) in 2016.

Production side:

Hotels and restaurants sector, Wholesale and retail trade sector, Transport, storage and communication sector, and Electricity, gas and water supply sector accelerated, while manufacturing sector favorably expanded, in tandem with the export expansion. Meanwhile, Agricultural and Construction sector declined.

Agricultural sector was affected by flood and unfavorable weather condition in various areas which resulted in a slight decline of the agricultural production. In the fourth quarter of 2017, agricultural sector decreased by 1.3 percent, compared with 9.7 percent growth in the previous quarter, due to 1.2 percent decline in agriculture and 2.4 percent decline in fishery. The decline was caused by the negative impacts from flood and unfavorable weather conditions in various areas, especially impacts from flood and heavy rain in the northeast during July - August 2017, as well as in the south during the last quarter 2017, along with the whole country's average temperature lower than in the same quarter last year. Agricultural Product Index decreased by 0.9 percent. In particular, categories that showed negative growth included; (i) paddy (-8.9 percent), especially in-season rice caused by impacts from flood during July - August 2017, (ii) white shrimp (-11.6 percent) affected by unfavorable cold weather for shrimp farming, and (iii) cassava (-10.1 percent) due to a decline in planting areas. Nonetheless, livestock products favorably expanded and there were also positive growth in **Agricultural Product Index** for some categories, including sugarcane (64.3 percent), oil palm (29.6 percent), chicken (7.4 percent), fruit (2.4 percent), swine (4.8 percent), rubber (1.8 percent), egg (6.0 percent), and maize (3.5 percent).

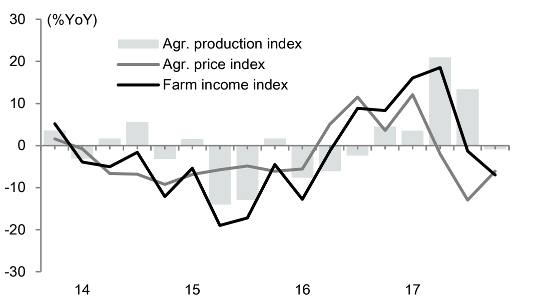
Agricultural sector decreased by 1.3 percent, caused by flood and unfavorable weather condition in various areas.

Agricultural Price Index declined due to the high base and higher supply of some products in market.

Agricultural Price Index decreased by 6.1 percent, attributed by (i) a decrease in rubber price due to a deceleration in foreign demand (ii) a decrease in oil palm price owing to high volume released to markets and high stock, and (iii) a decrease in swine price, owing to favorable weather which led to a higher supply. However, the price index of cassava, paddy, chicken, and maize increased by 30.8, 4.8, 2.0, and 3.7 percent, respectively. The reduction in both Agricultural Product Index and Agricultural Price Index led to a 7.0 percent decrease in **Farm Income Index.**

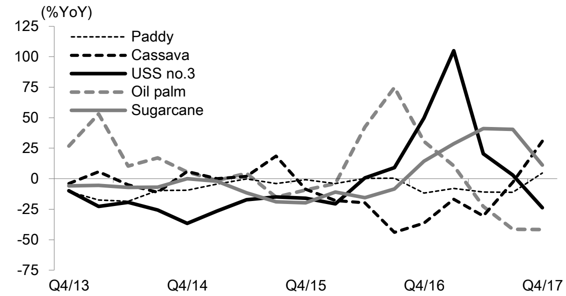
In 2017, Agricultural sector increased by 6.2 percent. Agricultural Product Index increased by 6.7 percent while Agricultural Price Index decreased by 2.7 percent. As a result, Farm Income Index increased by 3.9 percent, respectively.

Farm Income Index decreased by 7.0 percent reflecting the reduction in agricultural product and prices



Source: Office of Agricultural Economics

The prices of paddy, cassava and sugarcane increased while prices of rubber and oil palm declined.



Source: Office of Agricultural Economics

Manufacturing sector favorably expanded by 3.0 percent, following the strong improvement in export-oriented industries.

Manufacturing Production Index of the industries with export share of 30-60 percent to total production expanded by 4.0 percent.

Manufacturing Production Index of the industries with export share of more than 60 percent to total production increased by 3.1 percent.

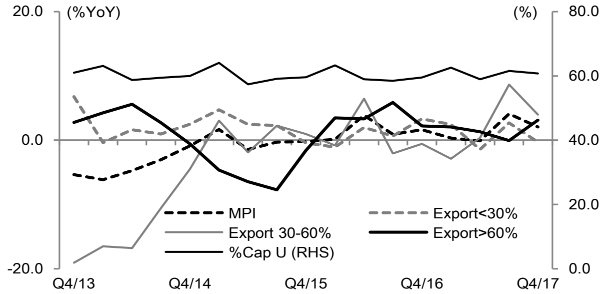
Manufacturing sector favorably expanded in line with the acceleration of the export-oriented industries. In the fourth quarter of 2017, manufacturing sector expanded by 3.0 percent, along with the 2.1 percent expansion of Manufacturing Production Index. **Manufacturing Production Index of the export-oriented industries (with export share of more than 60 percent to total production)** increased by 3.1 percent improved from 0.1 percent decrease in the previous quarter, in tandem with the acceleration of 31.8 percent and 5.6 percent growth in rubber and furniture production. **Manufacturing Production Index of the industries with 30-60 percent export share to total production** grew by 4.0 percent, owing to growth in major industries such as 14.2 percent growth of automotive parts and engine and 6.9 percent growth of vehicle. Meanwhile, production in aquatic animal processing, preservation, and related products decreased by 8.9 percent, due to a decline in fishery production from unfavorable weather condition. **Manufacturing Production Index of the domestic-oriented industry (with export share of less than 30 percent to total production)** declined by 0.3 percent, due to a 14.4 percent and 19.7 percent decline in production of metal products and textile fibers preparation and spinning product. Meanwhile, production of refined petroleum products, meat products, and non-alcohol beverage product continually grew by 6.9 percent, 2.4 percent, and 2.9 percent, respectively. **The average capacity utilization** rate stood at 60.8 percent, improved from 59.5 percent in the same quarter last year, attributed by (i) **60-70 percent average capacity utilization industries** included the production of rubber and related products (61.0 percent), rubber tyres and tubes, retreading and rebuilding of rubber tyres (61.1 percent), electronic tube and integrated circuit (IC) (62.8 percent), (ii) **71-80 percent average capacity utilization industries** included the production of pulp, paper and paperboard (70.4 percent), office machinery and hard disk drive (HDD) (70.6 percent), vehicles (77.1 percent), and (iii) **more than 80 percent average capacity utilization industries** included the production of automobile parts and engine (85.3 percent), meat and meat products (87.2 percent), and refined petroleum products (89.6 percent).

Manufacturing Production Index with positive growth included other rubber products (31.8 percent), automobile parts and engine (14.2 percent), vehicles (6.9 percent), refined petroleum products (6.9 percent), furniture (5.6 percent), etc.

Manufacturing Production Index with negative growth included metal and metal products (-14.4 percent), textile fibers preparation and spinning product (-19.7 percent), aquatic animal processing, preservation, and related products (-8.9 percent), machinery for general purpose (-10.4 percent), concrete, cement, and plaster products (-3.6 percent), etc.

In 2017, Manufacturing sector expanded by 2.5 percent, Manufacturing Production Index increased by 1.6 percent, and the average capacity utilization rate stood at 61.0 percent.

Manufacturing Production Index increased by 2.1 percent and the capacity utilization rate averaged at 60.8 percent.



Source : Office of Industrial Economics (OIE)

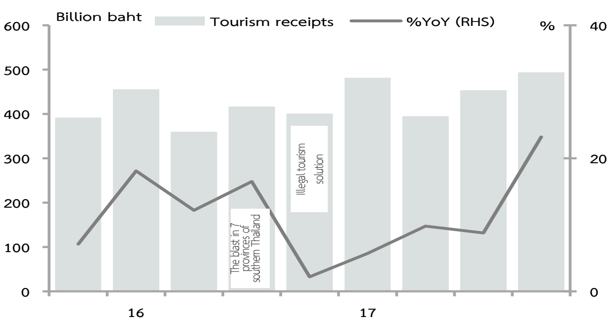
Hotels and restaurants sector accelerated in line with the strong increase in the number of tourists and receipts. In the fourth quarter of 2017, hotels and restaurants sector expanded by 15.3 percent, accelerated from an increase of 6.9 percent in the previous quarter. The total number of foreign tourists was at 9.28 million persons, increased by 19.5 percent, compared to a 6.4 percent increase in the previous quarter, mainly attributed by number of tourist from China (67.2 percent), Russia (21.0 percent), South Korea (21.6 percent), and India (23.6 percent). The total tourism receipt was at 729.0 billion baht, expanded by 15.9 percent, compared to a 9.8 percent increase in the previous quarter, attributed by **(i) foreign tourism receipts** which were at 494.0 billion baht, grew by 23.2 percent, mainly contributed by receipts from Chinese, Russian, South Korean, Indian, and Cambodian tourists; and **(ii) Thai tourism receipts**, which were at 235.0 billion baht, increased by 3.1 percent. **The average occupancy rate** was at 69.44 percent, increased from 63.71 percent in the previous quarter and 66.97 percent in the same quarter last year.

Hotels and restaurants sector expanded by 15.3 percent, with the strong expansion in the number of foreign tourists.

Average occupancy rate was at 69.44 percent, improved from 66.97 percent in the same quarter last year.

In 2017, hotels and restaurants sector expanded by 8.5 percent, total tourism receipts were at 2,754.0 billion baht (increased by 9.5 percent). Receipts from foreign tourists were at 1,824.0 billion baht (increased by 11.7 percent). Receipts from Thai tourists were at 930.0 billion baht (increased by 5.4 percent). Number of foreign tourists was at 35.38 million persons (increased by 8.8 percent). The average occupancy rate was at 68.49 percent.

Income from foreign tourists for Q4/2017 stood at 494.0 billion baht or grew by 23.2 percent



Source: Ministry of Tourism and Sports

Wholesale and retail trade sector accelerated in line with the improvement of household consumption, exports and the acceleration of the number of foreign tourists. In the fourth quarter of 2017, wholesale and retail trade sector expanded by 6.9 percent, improving from 6.4 percent growth in the previous quarter. **Retail Sales Index** grew by 6.6 percent, owing to the increase in almost all categories, including (i) 2.5 percent growth in durable goods, (ii) 7.1 percent growth in department stores and retail shops (such as restaurants and beverage and tobacco shops), (iii) 8.5 percent growth in trading of motor vehicles sale, motor repairing service, and automotive fuel sector, and (iv) 8.8 percent growth in other retailing sector. Meanwhile, non-durable goods (such as beverages and tobacco products in retail stores) declined by 0.2 percent. For **Wholesales Index**, non-durable goods (such as food, pharmaceutical and medical goods, cosmetic and toilet preparations) grew by 0.9 percent due to expansion in wholesale-volume, and intermediate goods favorably expanded by 10.6 percent.

Wholesale and retail trade sector accelerated with 6.9 percent growth, following the favorable expansion of household consumption, and the acceleration in number of foreign tourists.

In 2017, wholesale and retail trade sector expanded by 6.3 percent, accelerated from 5.3 percent in 2016.

Transport, storage and communication sector expanded at a stronger pace in line with the robust growth of tourists number and exports, as well as favorable expansion in manufacturing production activities. In the fourth quarter of 2017, transport, storage and communication sector grew by 8.9 percent, compared to 7.4 percent growth in the previous quarter. Transport service grew by 9.1 percent, comparing with 7.0 percent growth in the previous quarter, attributed by (i) 7.3 percent growth in land transport, (ii) 18.5 percent growth in air transport, and (iii) 7.4 percent growth in water transport. In addition, telecommunication service expanded by 8.5 percent, comparing with 8.6 percent growth in the previous quarter, in accordance with the better earnings performance of telecommunication service providers.

Transport, storage and communication sector expanded by 8.9 percent, in accordance with the strong performance of the tourism sector, manufacturing production, and international trading activities.

The transport service and telecommunication service expanded by 9.1 and 8.5 percent, respectively.

In 2017, transport, storage and communication sector expanded by 7.3 percent, improved from a 4.1 percent in 2016.

Electricity, gas and water supply sector continually increased. In the fourth quarter of 2017, electricity, gas and water supply sector increased by 3.4 percent, improved from 3.1 percent growth in the previous quarter. In addition, **water supply production and distribution** increased by 5.8 percent, improved from 2.0 percent growth in the previous quarter, in tandem with increased consumption in business sector, especially in hotel and restaurants sector. **Gas separation** increased by 1.6 percent, improved from a 7.4 percent decline in the previous quarter, following an increase in gas volume delivered to gas separation plants. Meanwhile, **production and sale of electricity generation** increased by 3.5 percent, decelerated from a 4.3 percent increase in the previous quarter, in line with the average temperature which lowered in the country.

Electricity, gas and water supply sector accelerated. Meanwhile, production and sale of electricity generation decelerated.

In 2017, electricity, gas and water supply sector increased by 1.7 percent compared to 4.3 percent in 2016.

Construction sector declined. In the fourth quarter of 2017, construction sector declined by 5.3 percent compared to a 1.6 percent decline in the previous quarter. **The public construction** decreased by 7.1 percent, compared to a 1.8 percent reduction in the previous quarter, owing to a decline in government construction, in tandem with a decline in the disbursement of government investment budget. Meanwhile, state-owned enterprise construction expanded by 8.6 percent compared to 2.5 percent reduction in the previous quarter. **The private construction** decreased by 2.3 percent, compared with 1.0 percent decline in the previous quarter. **Construction Materials Price Index** increased by 3.6 percent following an expansion in prices of wood and wood product as well as others construction materials, especially metal and metal products which grew by 14.4 percent.

Construction sector declined, by 5.3 percent.

Public construction declined by 7.1 percent due to the reduction in government construction, but state-owned enterprise construction expanded by 8.6 percent.

In 2017, construction sector declined by 2.3 percent, public and private construction decreased by 3.0 percent and 1.0 percent, respectively.

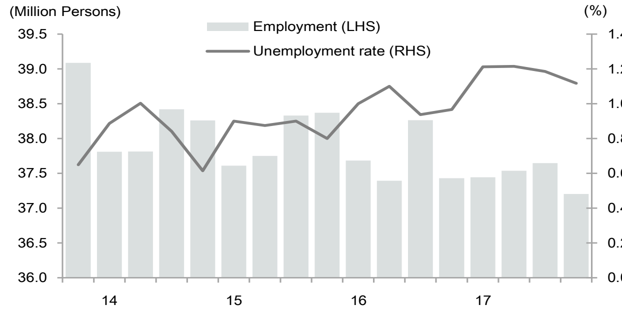
Employment: non-agricultural employment improved and thus brought down unemployment rate. In the fourth quarter of 2017, employment slightly decreased by 0.6 percent, improved from a 1.6 percent decline in the previous quarter. This was in tandem with an expansion of 0.1 percent in non-agricultural employment (67.9 percent of all employment), compared to 1.8 percent decline in the previous quarter. Employment in hotels and restaurants increased by 6.8 percent, and was in line with the strong expansion in the number of foreign tourists. Employment in manufacturing sector grew for two consecutive months, during November and December in tandem with the improvement in manufacturing production and export sector. However, employment in construction sector continually declined. The agricultural employment (32.1 percent of all employment) declined by 2.0 percent following the decline in agricultural production particularly in rice, cassava, as well as fishery production. Unemployment was recorded at 420,000 persons. Average unemployment rate was at 1.1 percent, declined from 1.2 percent in the previous quarter.

Employment decreased by 0.6 percent, following a decline in agricultural employment, in tandem with a decrease in major agricultural productions.

However, non-agricultural employment started to expand for the first time in five quarters and brought down the unemployment rate to 1.1 percent.

In an average of 2017, unemployment was registered at 450,000 persons and unemployment rate was at 1.2 percent.

Employment declined by 0.6 percent following the contracted employment in agricultural sector. Unemployment rate was low at 1.1 percent.



Source: National Statistics Office (NSO)

Employed Persons by Industry

%YOY	Shared	2016					2017							
	Q4/17	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Oct.	Nov.	Dec.
Employed	100.0	-0.9	0.2	-0.9	-0.2	-2.5	-0.6	-0.6	0.4	-1.6	-0.6	-1.3	0.2	-0.5
- Agricultural	32.1	-4.3	-2.7	-6.2	-2.3	-6.0	0.3	-1.4	6.3	-1.2	-2.0	-1.5	-2.9	-2.4
- Non-Agricultural	67.9	0.8	1.5	1.4	0.9	-0.7	-1.0	-0.3	-2.1	-1.8	0.1	-1.2	1.7	0.5
Manufacturing	16.2	-2.6	-2.2	-1.7	-1.9	-4.4	-2.9	-1.5	-4.2	-4.0	-1.8	-8.4	2.5	1.7
Construction	5.3	3.1	5.8	5.4	0.1	0.2	-8.2	-8.7	-11.8	-6.8	-4.3	-8.8	-3.2	-0.4
Wholesale and retail trade; repair of motor vehicles and motorcycles	16.7	2.5	2.9	1.4	3.9	1.9	-0.2	0.9	1.0	-2.6	0.02	2.8	-0.8	-1.4
Accommodation and food service activities	7.7	3.2	2.9	4.0	6.1	0.1	1.8	4.2	-2.7	-1.0	6.8	7.3	7.0	2.7
Unemployment (Hundred thousand persons)		3.8	3.7	4.1	3.6	3.7	4.5	4.6	4.6	4.5	4.2	4.8	4.4	3.6
Unemployment Rate (%)		1.0	1.0	1.1	0.9	1.0	1.2	1.2	1.2	1.2	1.1	1.3	1.1	1.0

Source: NSO

Fiscal Conditions:

On the revenue side, in the first quarter of the fiscal year 2018 (October - December 2017) the net government revenue collection stood at 547.7 billion baht, decreased by 0.1 percent from the same period last year but higher than the target by 4.5 percent. This was partly due to the decrease in revenue collected from excise tax on fuel, beer, and tobacco as the Excise Tax Act, B.E. 2560 (2017), which has been effective since 16 September 2017, stipulated new tax payment due dates on these products. However, the revenue collection from excise tax on vehicle increased due to expansion of car sales and production. In addition, VAT increased due to rises of import prices especially oil price and expansion of wholesale and retailing trade.

The net government revenue collection decreased by 0.1 percent but was higher than the target by 4.5 percent.

Government Revenue

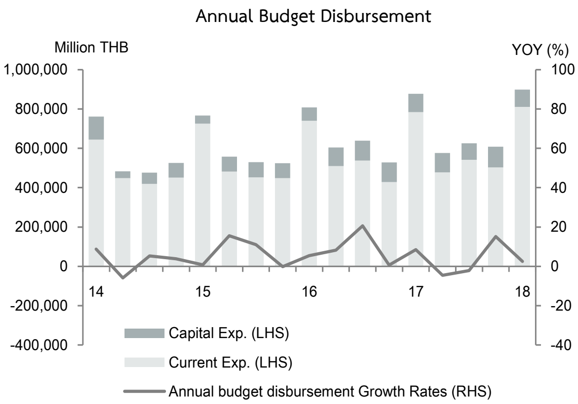
Fiscal Year (Billion Baht)	2016					2017					2018
	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Q1
Net Government Revenue	2,394.6	586.0	492.6	717.3	598.8	2,355.0	548.2	500.1	689.9	616.9	547.7
Compared with the target (%)	0.4	13.4	-0.6	2.1	-10.8	0.5	4.4	-1.5	-1.4	1.1	4.5
YOY (%)	8.2	15.5	4.8	9.9	2.6	-1.7	-6.5	1.5	-3.8	3.0	-0.1

Source: Ministry of Finance

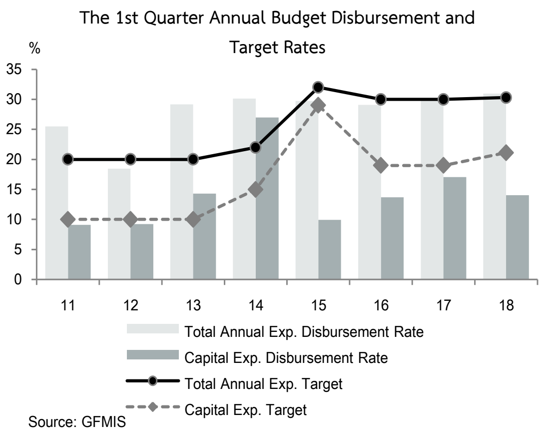
On the expenditure side, the total budget disbursement in the first quarter of the fiscal year 2018 was at 1,067.1 billion baht, increased by 0.7 percent from the same period last year. Classified by its source of funds, the government disbursements were as follows: **(i) the 2018 annual budget disbursement in this quarter** was at 897.9 billion baht increased by 2.4 percent from the same period of last year (equivalent to 31.0 percent of the annual budget). The current expenditure disbursement increased by 3.4 percent from the same period of last year (equivalent to 35.6 percent of the current expenditure budget) and the capital expenditure disbursement decreased by 5.5 percent from the same period of last year (equivalent to 14.0

The current expenditure disbursement increased but capital expenditure disbursement decreased.

percent of the capital expenditure budget) due to front-load budget spending measures in the same period of last year. **(ii) the carry-over budget disbursement** was at 69.7 billion baht, decreased by 25.1 percent from the same period last year; **(iii) state-owned enterprises' capital expenditure budget** was expected to disburse at 101.6 billion baht in this quarter (including the disbursement of capital expenditure of 3.1 billion baht of annual budget) increased by 13.5 percent, comparing with the same period of last year; and **(iv) the off-budget loans** were disbursed at 992.6 million baht from the Loans for Water Resource Management and Road Transport System Projects and, the Development Policy Loan (DPL).



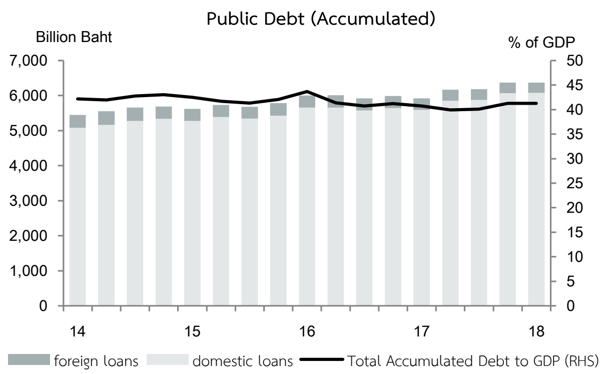
Source: GFMIS



Source: GFMIS

Public Debt at the end of December 2017 was accumulated at 6.4 trillion baht or equivalent to 41.2 percent of GDP. The public debt was comprised of domestic loans of 6.1 trillion baht (39.3 percent of GDP) and foreign loans of 295.4 billion baht (1.9 percent of GDP).

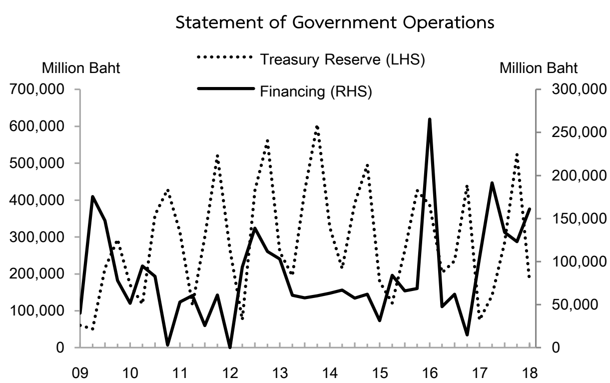
The public debt remained under the fiscal prudential framework at 41.2 percent of GDP.



Source: PDMO and NESDB

Fiscal Balance: in the first quarter of fiscal year 2018, the budgetary balance recorded a deficit of 416.1 billion baht, while the non-budgetary balance recorded a deficit of 87.8 billion baht. The government conducted a cash balance management through borrowing total of 161.1 billion baht. Therefore, the cash balance after debt financing recorded a net deficit of 342.8 billion baht, and the treasury reserve at the end of the first quarter of fiscal year 2018 stood at 180.9 billion baht.

At the end of the first quarter of fiscal year 2018, the treasury reserve stood at 180.9 billion baht.



Source: MOF

Financial Conditions:

Policy interest rate kept on hold, while global monetary policy direction tended to be more normalized.

The policy rate remained at 1.50 percent over the fourth quarter.

At its meeting on November 8 and December 26, the Monetary Policy Committee (MPC) decided to keep the policy rate on hold at 1.50 percent, maintaining the accommodative policy stance that thereby supports the gradual uptick in inflation whereas demand-pull pressure remained low. Nonetheless, many central banks in major advanced economies step up the pace of monetary policy normalization from both policy interest rate hike and balance sheet reduction. On 13-14 December, Fed raised policy rate by 25 basis points, to a range of 1.25 - 1.50 percent. Fed also increased a pace of balance sheet normalization, starting from January 2018. On November, Bank of England also raised interest rates by 0.25 percent to 0.50 percent to curb a rising inflationary pressure. Likewise, Bank of Korea increased policy rate for the first time in six years, by 0.25 percent to 1.50 percent in November, to pre-empt inflation. Besides, PBOC increased rates on 28-day reverse repurchase agreements and its one-year medium-term lending facility (MLF) on December.

For 2017, the policy rate was at the 1.50 percent throughout the year, the same rate seen in the fourth quarter of 2016.

In January 2018, most central banks in advanced economies kept their monetary policy directions unchanged. However, Bank of Canada and Central Bank of Malaysia raised interest rates to 1.25 percent and 3.25 percent, respectively.

Policy Interest Rate

(%) At the end of period	2016					2017					2018
	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Jan
USA	0.50-0.75	0.25-0.50	0.25-0.50	0.25-0.50	0.50-0.75	1.25-1.50	0.75-1.00	1.00-1.25	1.00-1.25	1.25-1.50	1.25-1.50
EU	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
England	0.25	0.50	0.50	0.25	0.25	0.50	0.25	0.25	0.25	0.50	0.50
Japan	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
Australia	1.50	2.00	1.75	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
New Zealand	2.00	2.25	2.25	2.00	2.00	1.75	1.75	1.75	1.75	1.75	1.75
Russia	10.00	11.00	10.50	10.00	10.00	7.75	9.75	9.00	8.50	7.75	7.75
China	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35
Taiwan	1.375	1.50	1.50	1.375	1.375	1.375	1.375	1.375	1.375	1.375	1.375
Korea, South	1.25	1.50	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.50	1.50
India	6.50	6.75	6.50	6.50	6.50	6.00	6.25	6.25	6.00	6.00	6.00
Indonesia (BI Rate)	6.50	6.75	6.50	-	-	-	-	-	-	-	-
Indonesia* BI 7-Day RR Rate)	4.75	-	5.25	5.00	4.75	4.25	4.75	4.75	4.25	4.25	4.25
Thailand	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50

Source: Collected by NESDB

Remark: In August 2016, Indonesia introduced a new policy rate known as the BI 7-Day (Reverse) Repo Rate in order to replace the former reference rate – BI Rate. The new policy rate was retroactive since April 2016.

Interest rate remained stable but real interest rate declined, following a pickup in inflation.

All commercial banks and Specialized Financial Institutions (SFIs) kept their 12-month deposit rates at the same level as in the previous quarter, while the lending rates of commercial banks slightly edged up due to a completion of retail loan transfer after the acquisition of one commercial bank. Yet, other commercial banks and specialized financial institutions mostly maintained their lending rates at the same level as the previous month. Nonetheless, real deposit and lending rates decreased due to a pick up in headline inflation.

For the year 2017, the average deposit rates of Thai commercial banks and specialized financial institutions were unchanged. The MLR rate, however, slightly decreased in the second quarter of 2017, when large commercial banks intended to reduce the borrowing cost for retail customers and SMEs.

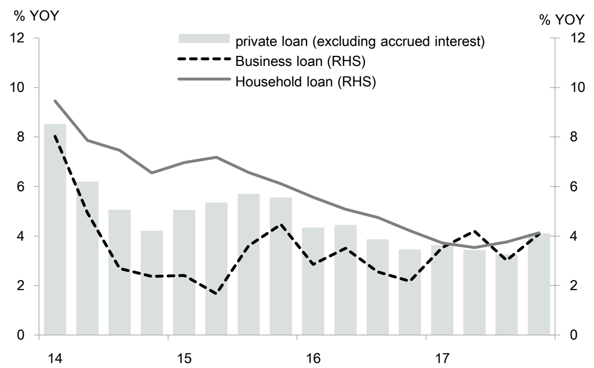
In January 2018, deposit and lending rates of other commercial banks and SFIs stayed at the same rate as seen at the end of the fourth quarter of 2016.

Private loan (excluding accrued interest) of Depository Corporations accelerated, in line with the improving economic condition.

Private loan (excluding accrued interest) of Depository Corporations accelerated in line with the improvement of economic performance. At the end of the fourth quarter of 2017, private loan of depository corporations grew by 4.1 percent, accelerated from a 3.3-percent growth in the previous quarter. The loan expansion was supported by the growth of both business and household loan. In particular, the expansion of business loan was mainly supported by the growth of loan of financial and insurance activities, wholesale & retail and repair of motor vehicles & motorcycles. Meanwhile, household loan continuously expanded from commercial banks and Specialized Financial Institutions (SFIs) in credit card loan, hire purchase loan. In the fourth quarter of 2017, loan's quality was improved from the third quarter, as non-performing loan to total outstanding loan ratio slightly decreased from 2.98 to 2.92 in this quarter.

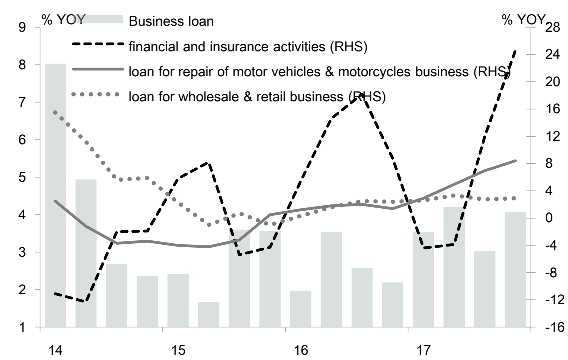
In 2017, Private loan of Depository Corporations grew by 4.1 percent, accelerating from the expansion of 3.5 percent in 2016. The loan expansion was mainly supported by the growth of business loan, especially the growth of loan for financial and insurance activities, loan for manufacturing, and real estate business. Nonetheless, household loan slightly decelerated, especially the slowdown in housing loan and real estate business due to high base effect from the previous year.

Private loan of Depository Corporations accelerated



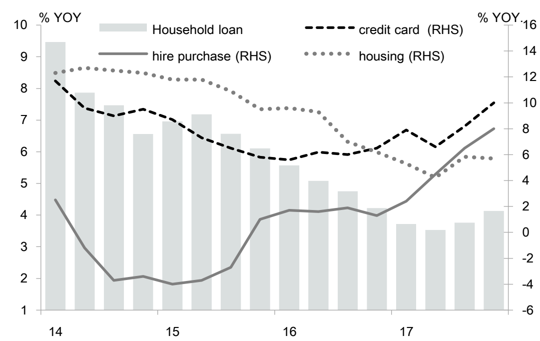
Source: Bank of Thailand

Business loan accelerated



Source: Bank of Thailand

Household loan expanded from the acceleration of credit card loan and hire purchase loan



Source: Bank of Thailand

Thai baht appreciated against US dollar, supported by current account surplus and net capital inflow in bond market.

Thai Baht against US Dollar appreciated. During the fourth quarter of 2017, an average exchange rate was at 32.95 baht per US dollar, appreciating 1.3 percent relatively to the previous quarter. The appreciation was mainly caused by soften US dollar, which was the result of (i) uncertainty of passing US Tax Cuts and Jobs Act (Tax Overhaul Plan), (ii) expected slow pace of Fed's policy tightening, and (iii) the appreciation of Euro after key economic indicators in the Eurozone showed a favorable sign of recovery. Meanwhile, Thai baht was also supported by current account surplus and a net capital inflow in Thai bond market. Similarly, an average Thai baht against trading partners (NEER)[1] appreciated by 1.5 percent, in line with a 1.6 percent appreciation of the real effective exchange rate (REER).

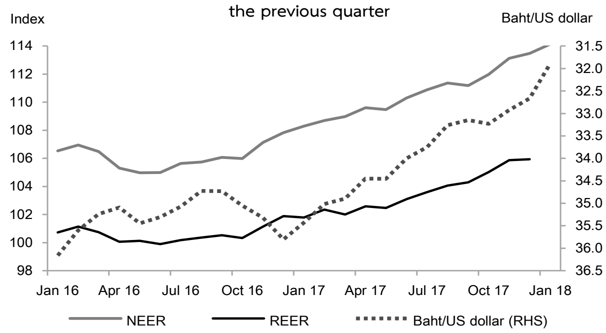
In 2017, the average exchange rate was at 33.93 baht per US dollar, appreciating by 3.9 percent from 2016. This was the result of investors' concern over the slow progress of implementing US economic stimulus package as well as the concern over the pace of Fed's interest rate raise. Those pressured US

[1] The BOT began using the new NEER and REER in March 2014. The base year would also be changed to 2012, that the indicators could capture the true structure of trade in line with changing international dynamics.

dollar to be depreciated. Meanwhile, Thai baht was also supported by the current account surplus and a net capital inflow to Thai Bond market, which led Thai baht to appreciate against major trading partners. This was in line with the increase of Nominal Effective Exchange Rate (NEER) and Real Effective Exchange Rate (REER) by 4.2 percent and 3.0 percent, respectively.

In January 2018, Thai baht appreciation speeded up in line with the depreciation of US dollar. This was caused by concerns over US fiscal condition, US-China trade tension, and government shutdown. In addition, a steady improvement of various world economic indicators induced investors to hold more risky assets. As a result, average exchange rate in January 2018 was at 31.89 baht per US dollar, appreciating by 2.4 percent and 10.0 percent from last month and the same period of last year, respectively.

Thai Baht appreciated against US dollar from the previous quarter



Source : CEIC, Bank of Thailand

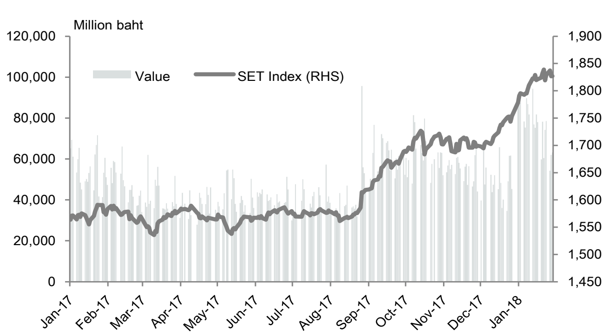
SET Index rose with buying force of local institutional investors at the end of the year.

SET index continued to rise. Following an upward trend from the previous quarter, the index became volatile within a narrow range from the second half of October to the end of November as global investors registered a net selling position over this period. Foreign capital flew out during the monetary policy decision announcement in major economies in the second half of October. The global market sentiment had became subdued in November as investors were concerned over the US overhaul tax plan legislation process. Yet it rebounded once the market perceived the positive sign. SET index rose again in December, supported by a high net buying position of local institutional investors for window dressing purpose. At the end of the year, SET Index closed at 1,753.71.

For 2017, SET Index grew by 12.2 percent, contributed by internal and external factors. For domestic factors, SET Index has surged in August, attributed to favorable conditions of economic recovery and easing political situation. For external factors, an upward trend was driven by capital inflows to the region, and was in line with the growing trends of neighboring financial markets which have risen since the beginning of the year. In 2017, the daily average trading volume was 47.7 billion baht and the market capitalization at the end of the year registered at 17.6 trillion baht, increased by 16.6 percent from the end of 2016.

In January 2018, SET Index grew in line with neighboring financial market indices and reached the level of 1,800 for the first time due to buying force from local institutional investors in the first half of the month before re-balancing their portfolio to be net selling position afterward. As a result, the index closed at the new high at 1,838.96 on 24 January 2018 before slightly decline at the end of the month to 1,826.86.

SET Index surged in the later half of the year



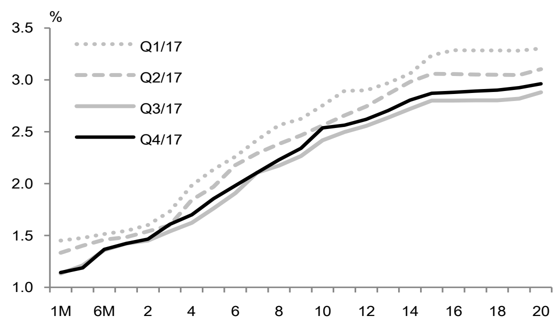
Source: CEIC

The government yield curve shifted upwardly in the fourth quarter following the upward trend of the developed countries' government yield. On the long end of the curve, the yield adjusted upwardly in most maturities. In detail, the curve became steeper from the maturities of 7 years onward, comparing with the previous quarter, reflecting more positive economic outlook. However, the Thai 10-year government bond yield rose at a slower pace than the US 10-year treasury yield, resulting in narrower spread between two debt instruments. At the end of 2017, the Thai 10-year government bond yield was at 2.54 percent per annum, increased from 2.42 percent per annum at the end of previous quarter. On the short end, the yields of Thai short-term government bond maturities of 1 month, 3 months, 6 months and 1 year were at 1.15 percent, 1.19 percent, 1.37 percent and 1.42 percent per annum respectively at the end of 2017, lower than the current monetary policy rate.

Government yields increased following the revision of monetary policy stances of major economies.

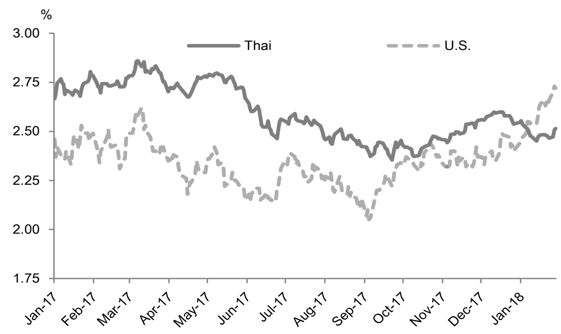
In January 2018, The Thai government bond yield curve adjusted gradually downward from the end of 2017, led by buying force of global investors in the first half of the month. As a result, The Thai 10-year government yield have become lower than the US 10-year treasury yield which has increased with rapid pace since September 2017. At the end of the month, the Thai 10-year government yield was at 2.52 percent per annum, while the US treasury yield was at 2.72 percent per annum.

Government bond yield curve shifted upward



Source: ThaiBMA

The 10-year Thai and U.S. government bond yield converged toward each other



Source: ThaiBMA and CEIC

Capital and financial account recorded a net outflow of 7.1 billion dollars in the fourth quarter of 2017, compared with a net inflow of 0.7 billion dollars in the previous quarter. The net outflow was mainly due to an outflow from Thai investors in terms of both direct and portfolio investment.

Capital and financial account recorded a net outflow, which was caused by an outflow of Thai investors in forms of both direct and portfolio investment.

In 2017, capital and financial account recorded a net outflow of 19.1 billion dollars, which mainly driven by an increase of outwards investment including direct and portfolio investment from Thai investors. This massive outflow was partly explained by Bank of Thailand's relaxation of foreign exchange rate regulation in order to accommodate capital outflow. On the other hand, there was a continued net inflow from foreign investors, especially in the Thai Bond market.

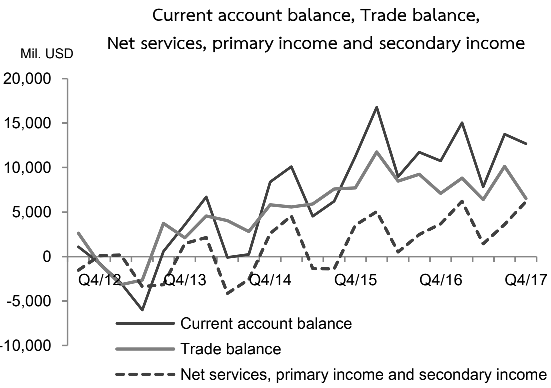
Capital Flow

(Billion USD)	2016					2017						
	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Nov	Dec
Categorized by economic sectors												
Government	**0.8**	-0.7	1.3	1.1	-0.9	**2.9**	0.8	1.8	0.9	-0.6	-0.3	-0.1
Monetary Authorities	**1.1**	2.6	-0.1	0.8	-2.3	**3.2**	0.4	-0.4	1.8	1.3	1.6	0.5
Bank	**-0.7**	-0.9	3.0	-0.2	-2.6	**4.1**	-0.1	-1.1	3.2	2.1	1.8	0.9
Others	**-22.2**	-0.9	-5.5	-9.5	-6.4	**-29.2**	-8.1	-6.0	-5.2	-9.9	-4.5	-5.3
Capital and financial account	-21.0	0.2	-1.3	-7.8	-12.1	-19.1	-7.0	-5.7	0.7	-7.2	-1.5	-4.0
Categorized by financial transactions												
- Direct Investment	**-10.3**	**-1.2**	**-1.8**	**-7.4**	**0.1**	**-11.1**	**-1.0**	**-4.0**	**-1.9**	**-4.2**	**-1.2**	**-3.0**
Thai investor	**-13.4**	-4.7	-3.2	-3.3	-2.3	**-19.1**	-3.5	-5.5	-4.2	-6.0	-1.6	-3.8
Foreign investor	**3.1**	3.5	1.3	-4.1	2.3	**8.0**	2.5	1.5	2.2	1.8	0.4	0.8
- Portfolio Investments	**-2.8**	**1.7**	**0.9**	**2.8**	**-8.2**	**-3.2**	**-1.4**	**-1.3**	**2.4**	**-3.0**	**-1.5**	**-0.2**
Thai investor	**-4.3**	-0.8	1.3	-2.8	-2.0	**-12.6**	-3.7	-2.7	-2.9	-3.3	-2.4	-0.5
Foreign investor	**1.5**	2.6	-0.4	5.5	-6.2	**9.4**	2.3	1.5	5.3	0.3	0.9	0.3
Others	**-7.9**	**-0.4**	**-0.4**	**-3.1**	**-4.0**	**-4.8**	**-4.6**	**-0.5**	**0.2**	**0.1**	**1.2**	**-0.8**
Deposits	**-9.4**	-0.1	-4.8	-1.3	-3.2	**-1.0**	-1.6	-3.6	1.7	2.5	1.3	-1.1
Loans	**1.4**	-0.7	3.6	-1.3	-0.2	**3.4**	-0.7	1.6	1.9	0.6	1.4	1.3
Trade Credits	**-0.1**	0.2	1.1	-0.4	-1.0	**-6.9**	-1.7	0.8	-2.7	-3.3	-1.4	-1.1
Capital and financial account	-21.0	0.2	-1.3	-7.8	-12.1	-19.1	-7.0	-5.7	0.7	7.2	-1.5	-4.0

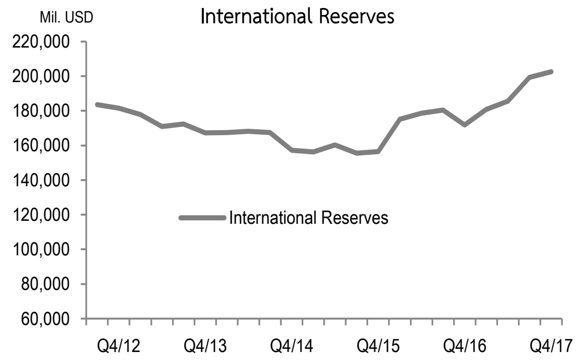
Source: BOT

Current account registered a surplus of 12.7 billion US dollars (equivalent to 417.5 billion baht). This was a result of a trade surplus of 6.5 billion US dollars and a surplus in services, and primary and secondary income of 6.2 billion US dollars.

In 2017, current account registered a surplus of 49.3 billion US dollars (equivalent to 1,671.2 billion baht), compared with a surplus of 48.2 billion US dollars (equivalent to 1,704.1 billion baht) in 2016.



Source: Bank of Thailand



Source: Bank of Thailand

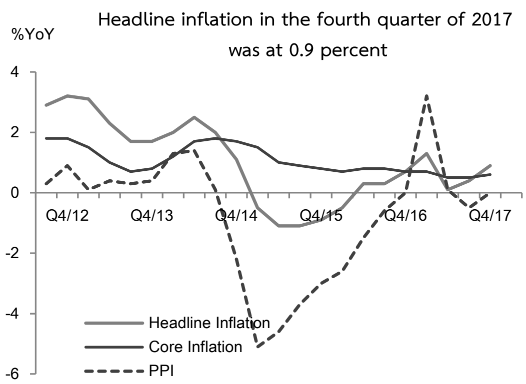
International reserve at the end of December 2017 stood at 202.6 billion US dollars (excluding net forward position of 36.7 billion US dollars), which was equivalent to 3.3 times of short-term foreign debt, or to an import value of 11.1 months (the average of import value in the fourth quarter of 2017).

International reserve at the end of December 2017 stood at 202.6 billion US dollars.

Headline inflation: In the fourth quarter of 2017, headline inflation was average at 0.9 percent. **Food-and-Beverage** price index increased by 0.2 percent, due to an increase in price of vegetables and fruits, and fish and aquatic animals. **Non-Food and Beverage** price index increased by 1.3 percent, as the domestic retail fuel price increased, which made energy index increased by 5.2 percent. Core inflation stood at 0.6 percent.[2]

In 2017, headline inflation stood at 0.7 percent. Core inflation was at 0.6 percent.

Headline inflation was at 0.9 percent, accelerated from the previous quarter. Both Non-Food and Beverage price index and Food-and-Beverage price index increased.



Source: Ministry of Commerce

Producer Price Index (PPI): In the fourth quarter of 2017, Producer Price Index represented a 0.0 percent growth. **The price of agriculture products** decreased by 3.3 percent as price of crops, and live-stocks decreased. Meanwhile, **the price of mining products** increased by 5.2 percent due to price of lignite, petroleum, & natural gas increased. **The price of manufactured products** increased by 0.3 percent due to price of petroleum products increased.[3]

In 2017, Producer Price Index increased by 0.7 percent.

Producer Price Index (PPI) was flat as the price of agriculture products decreased, although the price of mining products and manufactured products increased.

[2] In January 2018, headline inflation was at 0.7 percent. Core inflation was at 0.6 percent.

[3] In January 2018, Producer Price Index decreased by 0.8 percent.

2. Crude Oil price in Q4 of 2017

The crude oil price in the global market increased. In the fourth quarter of 2017, the average crude oil price in the 4 major markets (Dubai, Oman, Brent, and WTI) stood at 58.84 USD per barrel, increased from the same period last year by 19.3 percent, and from the previous quarter by 16.9 percent.

The major factors contributed to the increase of global crude oil price included (i) the improvement of the global economy that raised demand for crude oil, especially in the US, Europe, and China. (ii) The 9-month extension of oil production cut of OPEC and Non-OPEC (until December 2018).

In 2017, the average crude oil price in the 4 major markets stood at 53.01 USD per barrel, or an increase of 23.8 percent, higher than 42.81 USD per barrel in 2016.

The crude oil price increased due to the improvement of the global economy, and OPEC and Non-OPEC output cut.

Crude oil price

Year		USD per Barrel					(%YoY)				
		OMAN	DUBAI	BRENT	WTI	Average	OMAN	DUBAI	BRENT	WTI	Average
2014	Year	96.82	96.48	99.49	92.71	96.38	-8.2	-8.5	-8.6	-5.6	-7.7
2015	Year	51.17	50.87	53.61	48.84	51.12	-47.1	-47.3	-46.1	-47.3	-47.0
2016	Q1	31.20	31.30	35.09	32.46	32.51	-40.9	-39.8	-36.2	-33.3	-37.6
	Q2	43.30	43.03	46.96	45.61	44.72	-29.4	-29.6	-26.1	-21.3	-26.7
	Q3	43.66	43.10	46.99	45.01	44.69	-12.5	-13.3	-8.4	-3.4	-9.5
	Q4	48.68	48.19	51.12	49.32	49.32	19.6	18.6	14.6	17.0	17.4
	Year	41.71	41.40	45.04	43.10	42.81	-18.5	-18.6	-16.0	-11.7	-16.3
2017	Q1	53.44	53.00	54.60	51.90	53.24	71.3	69.4	55.6	59.9	63.7
	Q2	49.80	49.55	50.92	48.31	49.65	15.0	15.1	8.4	5.9	11.0
	Q3	50.55	50.34	52.22	48.20	50.33	15.8	16.8	11.1	7.1	12.6
	Q4	59.20	59.18	61.55	55.42	58.84	21.6	22.8	20.4	12.4	19.3
	Year	53.24	53.02	54.82	50.96	53.01	27.7	28.1	21.7	18.2	23.8
	Oct.	55.50	55.46	57.68	51.62	55.07	13.1	13.6	12.3	3.5	10.6
	Nov.	60.65	60.68	62.87	56.72	60.23	36.7	38.8	33.5	23.7	33.1
	Dec.	61.45	61.40	64.10	57.90	61.21	16.8	18.1	16.7	10.9	15.7
2018	Jan.	66.18	66.05	69.09	63.70	66.25	22.9	23.2	24.6	21.1	23.0

Source: Thaioil Plc and EPPO.

3. The World Economy in Q4 of 2017

The world economy in Q4/2017 continually improved, supported mainly by stronger economic activities in major advanced countries led by the US, Eurozone, and China which in turn contributed to improved expansions in other developing countries. In addition, some major countries started to signal monetary policy normalization due to the upsurge of inflationary pressures.

In the fourth quarter of 2017, the global economy continually improved, led by the acceleration of the US economy, the constantly expanding economies of the Eurozone and Japan, stronger and exceeding target of the Chinese economy, as well as the solid growth and higher-than-expected expansion in many developing countries. Combined with strong economic activities across major advanced countries during the first three quarters, the world economy for the whole year 2017 expanded by 3.7 percent, accelerating from 3.2 percent in 2016. The broad-based uptick of the world economy was contributed mainly by a notable economic acceleration among developed countries, developing, and emerging countries, and was remarked as the first acceleration in 3 years.

As a result of the continual growth, the output gap of developed countries has closed and turned into a period of above-potential growth particularly the US and Canada. Meanwhile, the output gap of several developing economies began to narrow down due to accelerated economic growth. These conditions brought about significantly lower unemployment rate in many countries. At the same time, inflationary pressures have gradually increased which made the US's Federal Reserve (Fed) and the Bank of Canada (BoC) continually normalized their monetary policy stances. The ECB announced monetary policy normalization plan, while several central banks in Asia, such as South Korea and Malaysia, began to raise policy rate for the first time since 2016.

The US economy expanded by 2.5 percent, the highest rate in 10 quarters. The growth was supported mainly by the acceleration of private consumption expenditures in line with the improvement of labor market.

US economy expanded by 2.5 percent (Advance Estimate), accelerating from 2.3 percent in the preceding quarter, remarked as the highest rate in 10 quarters. The growth was driven mainly by private consumption benefited from strengthening labor market, reflecting by the lowest rate of unemployment in 17 years at 4.1 percent, as well as historical high asset prices. This continuing growth brought inflation rate (PCE Price Index) to reach 1.7 percent, accelerating from 1.5 percent in the previous quarter. Upward inflationary pressure from increasing wage growth has become more pronounced, though remaining below the Fed's target of 2 percent. Under the economic recovery with a gradual inflation dynamic, therefore, the FOMC continued to implement its policy normalization program by implementing its balance sheet reduction since October 2017 and raised its policy rate in the meeting on 12 - 13th December 2017 by 0.25 percent to the range of 1.25 - 1.50 percent. **For the whole year 2017, the US economy expanded by 2.3 percent, accelerating from 1.5 percent in 2016.**

The Eurozone economy expanded by 2.7 percent, following the growth of manufacturing and service sectors. Likewise, private consumption has improved. While, inflation remained below target, the ECB kept its policy rate unchanged and starts tapering the asset purchases to 30 billion euro from January to September 2018.

Eurozone economy grew by 2.7 percent, similar to 2.8 percent in the previous quarter. Higher growth was observed in major economies particularly France and Germany. Meanwhile, the Latvian and Lithuanian economies have slowed down from the previous quarter. The economic expansion was supported by continual improvement in manufacturing and service sectors, which made the unemployment rate dropped to 8.7 percent, the lowest rate in 9 years. Furthermore, private consumption expenditure continued to expand, in line with the improvement of consumer confidence index (CCI), reaching to the highest level in 17 years. However, inflation (HICP) remained at 1.4 percent, equivalent to the previous quarter and remained below the monetary policy target. Amid a strong improvement of the economy while remaining lower-than-target inflation rates, the ECB decided to keep its policy rate unchanged and maintain the same net asset purchases. Nevertheless, in the 25th January 2018 meeting, the ECB stated to start tapering its monthly asset purchases to 30 billion euro from January to September 2018. **For the whole year 2017, the Eurozone economy expanded by 2.5 percent, higher than 1.8 percent in 2016.**

The Japanese economy expanded at 1.5 percent, decelerated from the previous quarter, due to the slowdown of exports, private investment, and government consumption. Inflation remained below the monetary policy target which thus made the BOJ keep its monetary policy unchanged.

Japanese economy expanded by 1.5 percent, slowing from 1.9 percent growth in the previous quarter, as a result of the deceleration of export of goods and services, private investment, and government consumption. However, private consumption accelerated, in line with the expansion of manufacturing sector reflected by higher purchasing managers index (PMI), marked as highest rate within 15 quarters. Meanwhile, the inflation rate is the same as previous quarter at 0.6 percent and the rate remained below the monetary policy target. Hence, the Bank of Japan (BOJ) still maintained the policy rate and kept the same level of quantitative easing. Simultaneously, the government proceeded 660-billion-yen economic stimulus package for fiscal 2017 - 2020, especially in human resource development revolution and productivity enhancement. **For the whole year 2017, the Japanese economy grew by 1.6 percent, accelerating from 0.9 percent in 2016.**

Chinese economy expanded by 6.8 percent, equivalent to the previous quarter. The main drivers for the growth in this quarter were the strong improvement in manufacturing and service sectors as well as the acceleration of export which marked as the highest expansion in 13 quarters. Meanwhile, private consumption and investment have gradually slowed down as a result of the deleveraging reform aiming at reducing financial risks and corporate debt levels. The Yuan appreciated slightly due to more stable capital flows as well as higher foreign exchange reserves. At the end of 2017, foreign reserve increased to 3,140.0 billion US dollars compared with 3,108.0 billion US dollars at the end of the third quarter. **The Chinese economy in 2017 expanded by 6.9 percent, increasing from 6.7 percent in 2016, and remarked as the first acceleration in 7 years since 2010.**

NIEs economies mostly slowed down from the previous quarter due to softened growth of exports and manufacturing production. The Singapore and South Korea economies grew by 3.6 percent and 3.0 percent, decelerating from 5.5 percent and 3.8 percent in the previous quarter, respectively. There was only Taiwan's economic growth that experienced acceleration with growth rate of 3.3 percent, higher than 3.2 percent-growth in the previous quarter, due mainly to stronger private consumption expenditure. **ASEAN economies** mostly continued to expand driven by the upsurge of export, household consumption, and public investment. In the fourth quarter, the economies of Vietnam and Indonesia grew by 7.7 and 5.2 percent, accelerating from 7.5 and 5.1 percent in the previous quarter, respectively. Meanwhile, the Philippines and Malaysia grew by 6.6 and 5.9 percent, slowing down from 7.0 and 6.2 percent in the third quarter, respectively.

The Chinese economy expanded by 6.8 percent, mainly supported by stronger manufacturing production, service sectors, and exports. Meanwhile, investment decelerated as a result of deleveraging campaign.

Most of NIEs economies slowed down due to softened growth of export and manufacturing production. The ASEAN economies favorably expanded driven by the upsurge of exports, household consumption, and public investment.

GDP growth, Inflation and Export growth in several key economies

	Export (%YoY)				GDP (%YoY)				Inflation (%YoY)			
	2016	2017			2016	2017			2016	2017		
	Year	Year	Q3	Q4	Year	Year	Q3	Q4	Year	Year	Q3	Q4
USA	-3.6	6.6	5.0	7.9	1.5	2.3	2.3	2.5	1.3	2.1	2.0	2.1
EU	0.0	9.4	11.6	16.0	1.8	2.5	2.8	2.7	0.2	1.5	1.4	1.4
Japan	3.2	8.3	6.2	9.6	0.9	1.6	1.9	1.5	-0.1	0.5	0.6	0.6
China	-7.7	7.9	6.4	9.7	6.7	6.9	6.8	6.8	2.0	1.6	1.6	1.8
Hong Kong	-0.6	7.6	7.2	6.1	2.0	-	3.6	-	2.4	1.5	1.8	1.6
India	-1.3	13.0	12.4	12.7	7.9	-	6.3	-	5.0	3.3	3.0	4.6
Indonesia	-3.4	16.3	24.1	13.4	5.0	5.1	5.1	5.2	3.5	3.8	3.8	3.5
South Korea	-5.9	15.8	24.0	8.4	2.8	3.1	3.8	3.0	1.0	1.9	2.3	1.5
Malaysia	-4.6	14.7	16.0	16.8	4.2	5.9	6.2	5.9	2.1	3.8	3.6	3.6
Philippines	-2.4	9.5	8.4	1.6	6.9	6.7	7.0	6.6	1.8	3.2	3.1	3.3
Singapore	-5.5	10.4	9.5	11.2	2.2	3.6	5.5	3.6	-0.5	0.6	0.4	0.5
Taiwan	-1.8	13.2	17.5	10.5	1.4	2.8	3.2	3.3	1.4	0.6	0.7	0.4
Thailand	0.1	9.7	12.5	11.6	3.3	3.9	4.3	4.0	0.2	0.7	0.4	0.9
Vietnam	9.0	21.4	22.6	24.8	6.2	6.8	7.5	7.7	2.7	3.5	3.1	2.7

Source: CEIC, Collected by NESDB

4. The World Economic Outlook for 2018

The world economy in 2018 tends to accelerate and reach the strongest expansion in 7 years with 3.8 percent growth. This mainly stems from the improvement of fundamental economic factors as well as additional fiscal stimulus from the new tax cuts and employment promotion in the US. Meanwhile, the Eurozone economy will continue to expand with a similar pace as in the previous year, and will slowly enter a full expansion stage of its business cycle. Likewise, the Japanese economy is expected to continue its expansion, supported by remaining accommodative monetary stance, the improvement of trading partners' economies, and rising expenditure for the 2020 Tokyo Olympic Games preparation. The Chinese economy also tends to continue growing firmly, albeit some slowdowns from the economic and financial restructuring.

The improvement of the US and other major economies, together with increases in global trade volume and commodity prices are expected to be the key engines for the economic expansion in developing and other emerging economies, particularly India, Brazil, and the Middle East economies which are expected to grow by 7.2 percent, 1.9 percent, and 3.6 percent, improving from 6.7 percent, 1.1 percent, and 2.5 percent in 2017, respectively. Additionally, this synchronized growth will close the output gap of the world economy for the first time since the US financial crisis in 2008-2009. While the developed economies is likely to gradually expand higher than their economic potential after the output gap was closed in 2017, the developing and emerging economies also tend to move closer to their potential growth and is expected that the output gap to be closed in the latter half of the year. Under these conditions, inflationary pressure in major countries is expected to rise more clearly. It is also likely that interest rate cycle in the world market will gradually pick up including both short-term interest rate, in response to policy rate hike in major economies, as well as long-term bond yield rate, following the global economic growth and inflation expectation, and the rise of bond supply in the world market as a result of larger US fiscal deficit, the balance sheet reduction, and QE tapering in major countries.

Under the baseline scenario, **the US economy** is projected to expand by 2.5 percent, accelerating from 2.3 percent in 2017. The growth will be underpinned by the improvement of fundamental economic determinants in the previous period, specifically a decrease in unemployment rate and higher asset prices which will support continual growth of household spending. Private investment also tends to accelerate, following the expansion of corporate profits, rising oil prices, and better business confidence. In addition, with the result from the tax reform policy and job creation promoting, it is anticipated that these measures will boost up the US economic growth by 0.4 percentage points, and reduce the unemployment rate to stay below 4.0 percent. This above-potential growth tends to put upward pressure on wage and inflation rates. Thus, in the baseline scenario, it is expected that the FOMC is likely to hike its policy rate 3 times in 2018, together with decreasing its principal payments reinvestment and mortgage-backed securities holdings. There will also be a possibility of additional policy rate hike in the case of a significant increase in inflationary pressure.

The Eurozone economy is estimated to grow by 2.4 percent, close to 2.5-percent growth in 2017. The growth momentum in this year is expected to be contributed mainly by strong domestic demand following an increase in market sentiment after the relaxation of political conditions in several countries and lower rate of unemployment at 8.7 percent in the fourth quarter of 2017, the lowest level in 9 years. In addition, the broad-based economic recovery in post-crisis economies (PIIGS) will strengthen trade, manufacturing production, and service sector across the region. Nevertheless, a gradual increase in inflationary pressure, amid the appreciation of Euro, will make the ECB decide to keep its policy rate unchanged for at least in the first half of the year, together with tapering its monthly asset purchases to 30 billion euro per month from January to September 2018. Meanwhile, the ECB might consider a faster pace of normalization if inflationary pressures significantly increase.

The Japanese economy is estimated to expand by 1.2 percent, decelerating from 1.6 percent in 2017. The growth will remain on a gradual pace of expansion, mainly supported by favorable liquidity conditions, an increase in exports, and manufacturing production following the improvement of trading partners and the Yen depreciation. In addition, key supporting factors include easing political stability after the successful establishment of coalition government and the tax reform measures. Key growth engines will also be contributed by expansion of public and private investment due to the 2020 Tokyo Olympic Games preparation. Nevertheless, as inflation rates remain subdued and lower than the monetary target, BOJ is likely to hold its key policy rate and continually maintain asset purchases at 80-trillion-yen.

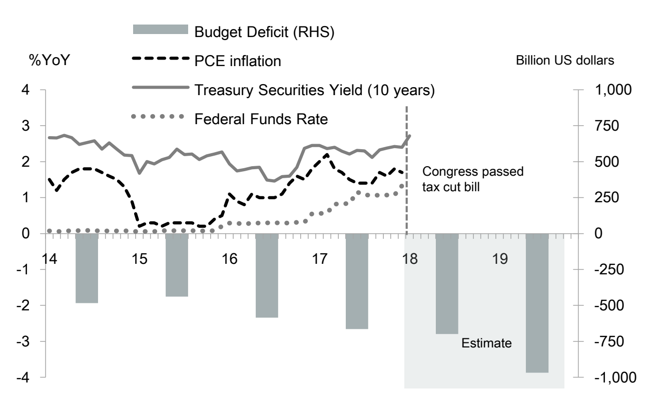
The Chinese economy is anticipated to grow by 6.7 percent in 2018, decelerating from 6.9 percent in 2017. The growth will continue to be driven by remained strong private consumption and exports in line with the improvement of manufacturing sector and fiscal stimulus packages through infrastructure investment. However, some key factors will soften the pace of economic expansion including the result of tighter restrictions to curb real estate speculation and ongoing deleveraging process in order to reduce debt level and restore financial stability. **The NIEs** is anticipated to expand at a favorable pace, despite a gradual slowdown as growth returns to be normalized. The Hong Kong, Taiwan, and Singapore economies are estimated to grow by 3.1, 2.7, and 3.2 percent, compared to 3.7, 2.8, and 3.6 percent in 2017, respectively. Meanwhile, the South Korea economy is likely to grow by 3.1 percent, the same rate with the previous year. Likewise, **the ASEAN Economies** are forecasted to grow continuously due to strong exports and the improvement of domestic demand, particularly government consumption expenditure and public investment which will further support the expansion of manufacturing sector. It is expected that Malaysia, Indonesia, Philippines, and Vietnam will grow by 5.9, 5.6, 6.8, and 6.8 percent in 2018, compared with the growth of 5.9, 5.1, 6.7, and 6.8 percent in 2017, respectively.

Overall, the global economy in 2018 tends to exhibit accelerated growth and shifts towards upward pressures on inflation and interest rate in the world market. Nevertheless, there are some possible uncertainties regarding the volatility of the world economic and financial system which need to be closely monitored and assessed. The key risks appear as follow: (i) the normalization of monetary policy in major economies which will lead to higher interest rate and lower global liquidity compared to economic fundamental and thus will affect the economic growth, particularly the US, (ii) change in investors' expectation during the economic transition in term of both accelerated economic growth and upward inflationary and interest rates in the world market, which tend to create volatility among capital flows, main currencies' exchange rates, interest rates, primary commodity prices, and stock market prices in key economies, (iii) the US trade directions, specifically trade policy with China and the outturn of NAFTA renegotiation, (iv) the direction and result of Brexit negotiation, (v) the political condition in major countries, such as the general election in Italy and the possible act of Catalonia gaining independence from Spain (Catalexit), and (vi) the geopolitical conflicts in the Korean peninsula and the Middle East.

The effect of US Tax Reform

On December 23, President Trump signed the Tax Cuts and Jobs Act, after the Congress had approved the draft law. It then came into effect on 1 January 2018. The major legal principles are composed of (i) the reduction of corporate income tax by slashing the rate to 21.0 percent, the lowest rate since 1939, from 35.0 percent previously, and (2) the top individual tax rate of personal income tax has been reduced to 37.0 percent from the previous rate of 39.6 percent. However, the existing seven income tax brackets have remained with the rates of 10.0, 12.0, 22.0, 24.0, 32.0, 35.0 and 37.0 percent respectively. In addition, there are also other tax conditions that were improved to support American manufacturing, and thus create more domestic employment. The IMF estimated that the tax overhaul policy would support the US economy to grow by 0.4, 0.6, and then 0.2 percent in 2018, 2019, and 2020 consecutively. However, the accumulating budget deficit and the expiration of some tax measures could slow down the US economy after 2022.

Meanwhile, the Congressional Budget Office (CBO) and the Joint Committee on Taxation (JCT) have analyzed the effects of this tax reform and indicated that the tax provisions assumed to improve the labour market and therefore increase employment by 0.6 percent. Nonetheless, the growth effects is estimated to make additional budget deficit by 1.5 trillion US dollars during the 2018 - 2027 budget period (excluding other macroeconomic effects), from a deficit of 665.4 billion US dollars in 2017. In addition, the mounting debt service would raise the deficit by more than 1.8 trillion US dollars over the next 10 years budget framework period under the tax reform policy. It would also drive outstanding debt held by public to reach 97.5 percent to GDP, up from a 91.2 percent to GDP in June 2017 baseline.



Source: Fed, Office of Management and Budget, and CBO

Notably, the achievement of passing tax reform bill from both the House of Representative and Senate pushed the US treasury yield curve upward and expected to continue rising. The yield rose from a 2.4 percent in December 2017 to a 2.7 percent in January 2018, the highest in the last four years since 2014, reflecting greater investor confidence. It is expected that tax reform could reduce corporate financial cost and thereby support further growth of the US economy. However, the declining revenue from tax reduction and the greater expense for Federal budget plan over next two fiscal year (2018 - 2019) that would increase by 300 billion US dollars, are likely to widen the budget deficit and hence push more inflationary pressure on Fed monetary policy to be more tightening. In the meantime, higher borrowing to offset the budget deficit caused by tax reduction and heavy financing infrastructure investment, combining with Fed balance sheet reduction, would generate more issuance of treasury bonds. It would consequently push up the US bond yields further and evidently raise the global interest rate afterwards. Although the interest rate hike for Fed's policy rate and those of global economy are more likely on the gradual pace as assumed in the base case scenario, the change in both investors' expectation as well as monetary policy direction in some countries could be additional factors to influence the normalization process to move faster than macroeconomic fundamental and thus impact the expansion of the global economy.

5. Thai Economic Outlook for 2018

The Thai economy in 2018 tends to grow well at a faster pace than 2017, supported by: (i) the acceleration of the global economic growth which will accelerate the manufacturing production to increasingly contribute to the overall economic expansion; (ii) the improvement of government expenditure and the acceleration of public investment; (iii) the more pronounced recovery of private investment; (iv) the remained favorable expansion of key growth-contributing sectors in 2017; and (v) the improvement in employment and household income condition.

Nevertheless, the growth contribution from the agriculture sector tends to soften, while there remain some risks from volatility of the global economy and the financial system that could be generated by (i) the possibility that major countries might consider normalizing their monetary policy faster and stronger compared to their economic fundamental; (ii) changes in investors' expectation towards the upturn adjustment of commodity price cycle and rising global interest rate; and (iii) the US trade policy direction, political conditions in European, and geopolitical tensions in the Korean peninsula and the Middle East.

Supporting factors for the economic growth:

1) **The acceleration of the global economic growth will sustain the continual robust growth of exports, and consequently stimulate the manufacturing sector that thus thereafter continually support a more broad-based overall economic expansion.** The global economic upturn has resulted in a pickup in exports in the second half of 2016 and continued to expand at a faster pace in 2017. This has supported manufacturing sector, accounted for 27.2 percent of GDP, to evidently speed up with 4.2 and 3.0 percent growth rates in the third and fourth quarter respectively, higher than an average of 1.5 percent over the first half of 2017. This expansion was a key driven factor for the overall economy in the fourth quarter, which was affected by a reduction in agricultural production. Under the baseline scenario, the global economy is expected to grow by 3.8 percent, continuing its accelerated pace for the second year and will be the highest growth over the last seven year. Base on this tendency, it is expected that the exports as well as tourism and related service sectors will favorably expand and consequently support the faster growing in manufacturing sector and thus contribute more to the overall economic expansion.

Capacity Utilization Rate

In 2016, investment in machinery and equipment was accounted for 83.0 percent of private investment, and most of them are investment in export-oriented industries. Therefore, the average contractions of export value in the years 2013 - 2016 by 0.2 percent, amidst the global economic slowdown in the period of 2014 - 2016, brought about higher excess capacity and as a result hindered the expansion of private investment. However, the continual improvement of exports in 2017 started to fuel the manufacturing production growth and became more pronounced in the second half of 2017. Meanwhile, the capacity utilization of the key export industries improved, in line with the improvement of private investment in machinery and equipment, which grew by 3.5 percent in the second half of 2017, compared to 1.2 percent in the first half of 2017. Furthermore, in the second half of 2017, the capacity utilization in many industries increased to a higher rate and, thus, is expected to become stimulating factors for investment expansion to increase their production capacity. As a result, private investment in 2018 tends to show an improvement which is also associated with the increase in the total value of projects applied for the BOI's investment promotion by 22.4 percent in 2017.

Product	2016	2017	2017			
			Q1	Q2	Q3	Q4
1. Industries reached capacity utilization rate of 60 - 70 percent						
Manufacture of Other Rubber Products	51.0	54.9	57.4	47.9	53.2	61.0
Manufacture of Rubber Tyres and Tubes; Retreading and Rebuilding of Rubber Tyres	62.2	62.7	63.6	62.7	63.4	61.1
Manufacture of Electronic Valves and Tubes and Other Electronic Components	58.9	63.9	64.6	63.3	65.0	62.8
2. Industries reached capacity utilization rate of 71 - 80 percent						
Manufacture of Pulp, Paper and Paperboard	66.6	69.5	67.7	70.4	69.4	70.4
Manufacture of Office, Accounting and Computing Machinery	53.5	61.7	57.5	55.5	63.3	70.6
Manufacture of motor vehicles	75.1	75.6	74.1	71.3	79.8	77.1
3. Industries remained over 80 percent of capacity utilization rate						
Manufacture of parts and accessories for motor vehicles and their engines	81.5	86.5	87.9	80.5	92.4	85.3
Production, Processing and Preserving of Meat and Meat Products (HDD)	78.7	82.3	79.2	77.7	85.3	87.2
Manufacture of Refined Petroleum Products	81.4	84.3	77.9	80.2	89.7	89.6

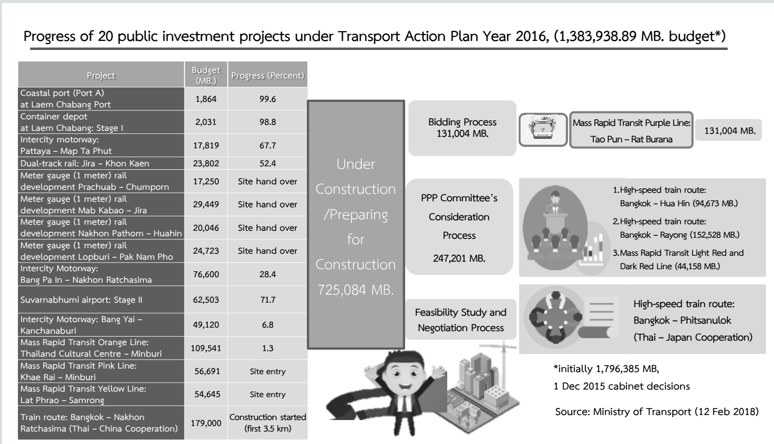
Source : Office of Industrial Economics

2) **The driven force from government consumption expenditure likely remains key momentum, whereas public investment is expected to speed up.** The supporting factors would be (i) the FY2018 supplementary budget, worth 150 billion baht, which comprises of the budget for local community development, worth 35,000 million baht; the budget for spatial development through civil society process, worth 35,358 million baht and the budget for agricultural reform, worth 30,000 million baht; (ii) the increase in capital budget framework under the 2018 annual budget and capital budget framework under state-owned enterprise, seen by the growth of 14.7 and 45.7 percent respectively, comparing with those of 2.8 and -2.1 percent in 2017; and (iii) the further progress of key infrastructure projects that would be more projects move forward to construction phase, and then speed up the disbursement later. In particular, the projects under the 2016 Transportation Action Plan, worth 1,383,938.9 million baht, of which 15 underlying projects have been under construction, accounted for 725,084 million baht. For the projects under the 2017 Transportation Action Plan with 895,757.55 million baht worth, there have been 4 projects under construction, worth 8,088.43 million baht. Furthermore, the projects under the Eastern Economic Corridor (EEC) Development Plan are expected to push forward after the National Legislative Assembly under the Eastern Special Administrative Region Act BE .... is enacted. At this stage, the National Legislative Assembly has already passed it on 8 February 2018, and now on the process of proposing to royal certification.

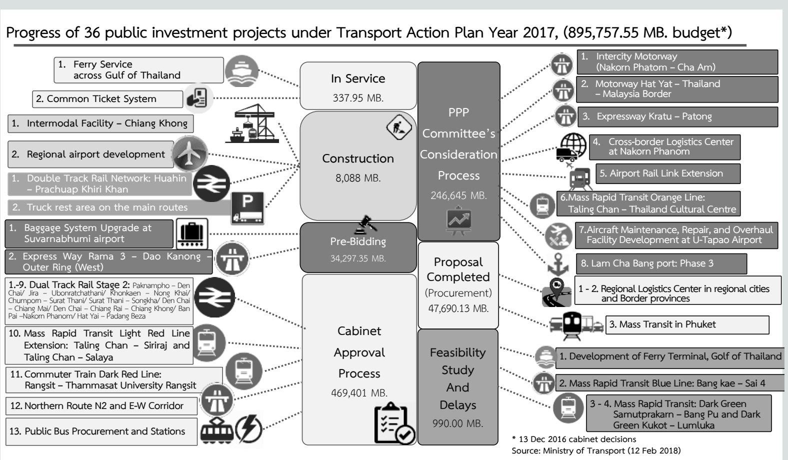
Progress of Major Public Investment Projects

In 2017, public investment contracted by 1.2 percent, after expanded strongly by 28.4 and 9.5 percent in 2015 and 2016, respectively. This is a consequence of (i) a decline from its high base in both 2015 and 2016 which employed small government investment projects stimulating measures and the finishing of water source and road urgent development projects, (ii) capital budget under annual budget of fiscal year 2017, which increased only slightly by 2.8 percent causing the expansion of public investment to have to rely on increase in disbursement, and (iii) capital budget disbursement was obstructed due to flood in several areas, including the northeast in the third quarter and the south in the last quarter, and the change in public procurement regulations which required time for adaptation. In addition, the major infrastructure projects are mostly in their initial stages, which some expenditure such as land appropriation is not counted as investment under the national accounts' definition. However, public investment in 2018 is expected to accelerate following the increase in both annual government and state-owned enterprise capital budgets, by 14.7 and 45.7 percent respectively and the acceleration of investment in infrastructure projects.

As of February 12, 2018, projects under the 2016 Transport Action Plan (20 projects in total), and 2017 Transport Action Plan (36 projects in total) have proceeded to construction for 19 projects in total with 733 billion baht budget. Of these, 15 projects are under the 2016 plan (725 billion baht budget) and 4 projects are under the 2017 plan (8.1 billion baht budget).



Project	Budget (MB.)	Progress (Percent)
Coastal port (Port A) at Laem Chabang Port	1,864	99.6
Container depot at Laem Chabang: Stage I	2,031	98.8
Intercity motorway: Pattaya – Map Ta Phut	17,819	67.7
Dual-track rail: Jira – Khon Kaen	23,802	52.4
Meter gauge (1 meter) rail development Prachuab – Chumporn	17,250	Site hand over
Meter gauge (1 meter) rail development Mab Kabao – Jira	29,449	Site hand over
Meter gauge (1 meter) rail development Nakhon Pathom – Huahin	20,046	Site hand over
Meter gauge (1 meter) rail development Lopburi – Pak Nam Pho	24,723	Site hand over
Intercity Motorway: Bang Pa In – Nakhon Ratchasima	76,600	28.4
Suvarnabhumi airport: Stage II	62,503	71.7
Intercity Motorway: Bang Yai – Kanchanaburi	49,120	6.8
Mass Rapid Transit Orange Line: Thailand Cultural Centre – Minburi	109,541	1.3
Mass Rapid Transit Pink Line: Khae Rai – Minburi	56,691	Site entry
Mass Rapid Transit Yellow Line: Lat Phrao – Samrong	54,645	Site entry
Train route: Bangkok – Nakhon Ratchasima (Thai – China Cooperation)	179,000	Construction started (first 3.5 km)



Source: Ministry of Transport, evaluated by NESDB

3) **More pronounced recovery of private investment.** Private investment in the second half of 2017 improved. In particular, those in machinery and equipment expanded by 2.9, 3.7, and 3.4 percent in the last 3 quarters, respectively, after declining by 0.4 percent in the first quarter of 2017. This corresponds to the continued favorable growth in exports and accelerated growth in manufacturing production. It is expected that private investment in 2018 will accelerate more noticeably with the following supporting factors: (i) upward trend of investment in machinery and equipment following a continual pick up in exports which have raised capacity utilization rate of key industries toward the stage of new investment for production capacity expansion; (ii) gradual improvement of private investment in construction in line with the progresses of key public investment projects, especially transport infrastructure investment projects such as Mass Rapid Transit (MRT) yellow, pink, and orange line, Bangkok - Nakhon Ratchasima high speed rail development project, and northern express way route N2 and E-W corridor, as well as development projects under the Eastern Economic Corridor (EEC); and (iii) the improvement of business sentiment and investors' confidence as reflected by the total value of project application for the investment promotion made to the Board of Investment (BOI) of 642 billion baht in 2017 or a 22.4 percent growth, and the latest Business Sentiment Index (BSI) in January 2018 which stood at 52.5, highest level in 10 months.

4) **Major economic sectors as key growth engines in 2017 are likely to favorably expand further** including: (i) **the tourism sector,** which gained from the global economic recovery, not only from major advanced economies but also from other key economies, which would in turn support further expansion of long distance and other regional tourists, including those from Russia, India, and Middle East economies which clearly tend to experience accelerated growth; (ii) **the export sector,** which the export value is expected to continue to grow well aligning with the accelerated growth of the global economy and the increased commodity price especially manufacturing exports, despite the decelerated trend of the agricultural commodities exports due to its high base; (iii) **the transport and communication sector,** which is expected to grow favorably, following the expansion of tourism activities, agricultural and industrial production, and imports and exports. In addition, the success of Thai government in resolving the Significant Safety Concerns (SSC) of the International Civil Aviation Organization (ICAO) will allow Thai airlines to launch new international routes; and (iv) **the wholesale and retail trade sector,** which tends to expand at favorable rates, following the improvement of household demand, increased number of tourists, and expansion of production and export-related activities. Moreover, there are supporting factors driving domestic demand from the new car launches and the end of five-year continuous single-ownership condition of first-car buyer scheme.

5) **The improvement in employment and household income base.** Despite the 0.6 percent decline in total employment in 2017 and the increase in average unemployment rate from 1.0 in 2016 to 1.2 percent in 2017, the employment condition in the last quarter of 2017 improved, especially employment in non-agricultural sector (67.9 percent share of total employment) which grew in November and December 2017 by 1.7 and 0.5 percent, respectively. In 2018, employment tends to continually improve, supported by: (i) improved employment in agricultural sector, following the expected expansion in farm production which assisted by the level of water in the major dams being higher than the 30-year average level; (ii) the more evident recovery of manufacturing production (16.2 percent share of total employment), which will contribute to higher investments by some industries to expand production capacity and consequently absorb more labor force; and (iii) the continual expansion of key service sectors.

Limitation and Risk Factors:

1) **The decline in growth contribution from agricultural sector.** In 2017, the agricultural production robustly expanded with the average growth of 6.2 percent, recovered from the contraction of 2.5 percent in 2016, and essentially contributed to economic growth in 2017 by 0.5 percent. The high growth of the agricultural production was partly supported by the unusually low base from the prolonged drought over 2015 and 2016, resulting in a lower agricultural production than those figures in 2014. However, the drought had eventually ended and thereafter brought the agricultural production back to the normal level observed in 2014 for the first time in the fourth quarter of 2016. The normalizing adjustment would result in an expected slower growth of agricultural production in 2018. The growth of agricultural production will thus become less supportive to economic growth and might decline faster than expected with possible impacts from the La Niña.

2) **Commodity prices, inflation, and interest rates in the world markets tend to gradually increase.** The continued global economic recovery in 2018 will close the output gap of the global economy and raise inflationary pressures which will induce more countries to start the monetary policy normalization, following the advance countries, and eventually result in higher interest rates in the global market. Although the inflation and interest rates adjustment is likely to be on gradual pace and will not yet impede Thailand's economic growth in 2018, it will increasingly affect the purchasing power of households and some businesses over the near term, particularly those sensitive to change in commodity prices and interest rates. Furthermore, the risk from the normalizing monetary policy in major advanced economies will reduce the global liquidity and raise the interest rates at a faster pace than economic fundamentals and derail the economic recovery in advanced countries.

3) **Risks from fluctuation in global economy,** which might be caused by: (i) changes in the investors' expectation during the crucial transition of the global economic upturn and rising inflationary pressures and interest rates in the global market which may generate volatility in the global economic and financial system. Moreover, there might be some adjustment of investors' expectation about fiscal position and the US economy in the longer term which could lead to the depreciation of the US dollar and put pressure on continuing baht appreciation; and (ii) policy directions and political conditions in advanced countries including the direction of trade protection policy and investment between the US and its major trading partners, the results of NAFTA and Brexit negotiations, the election results in Italy, political situation in Spain, and political conflicts on the Korea Peninsula and the Middle East countries.

Key assumptions for 2018 economic projection:

World Economic Projection

	Actual Data		Projection for 2018	
	2016	2017	Nov 20, 2017	Feb 19, 2018
World Economic Growth (%)	3.2	3.7	3.6	3.8
USA	1.5	2.3	2.3	2.5
EU	1.8	2.5	2.0	2.4
Japan	0.9	1.6	1.2	1.2
China	6.7	6.9	6.6	6.7
World Trade Volume (%)	2.6	4.5	4.0	4.2
Exchange Rate (Baht/US dollar)	35.29	33.93	34.0 - 35.0	31.5 - 32.5
Dubai Crude Oil (US Dollar/Barrel)	41.4	53.0	50.0 - 60.0	55.0 – 65.0
Export Price (US Dollar) (%)	-0.4	3.6	0.5 - 1.5	1.5 – 2.5
Import Price (US Dollar) (%)	-2.7	5.5	1.0 - 2.0	2.5 – 3.5
Income from Tourisim (Trillion baht)	1.72	1.95	2.21	2.18

Source: NESDB

1) **The world economy and the world trade volume in 2018, are expected to grow by 3.8 and 4.2 percent, revised upwardly from the previous forecast of 3.6 and 4.0 percent, respectively.** The growth is led by the accelerating trend of US economic expansion, supported by expected positive impacts from fiscal stimulus packages under the Tax Cuts and Jobs Act. The growth of Eurozone is expected to be at the same pace as last year, gradually reaching the peak of its business cycle. Similarly, the Japanese economy is projected to be on a favorable trend. The expansion of these key

economies together with increasing trends of world trade volumes and commodity prices is expected to bolster economic expansion of developing and emerging economies, resulting in accelerating the global economic expansion.

2) **The average value of Thai baht in 2018 is expected to be in the range of 31.5 - 32.5 baht per US dollar, revised downwardly from the range of 34.0 - 35.0 baht per US dollar in the previous forecast.** This is in line with the Thai baht value in January 2018 which was at 31.89 baht per US dollar, appreciated by 2.4 percent from the end of 2017 and by 10.0 percent from the same period last year. Over the remaining year, the Fed rate hikes, reduction of its balance sheet, and increasing Treasury yields could put pressure on the US dollar appreciation and thus the Thai baht depreciation, while on the contrary, widening budget deficit and rising inflation rates of the US economy together with the ongoing surplus of Thai current account would result in appreciating trend of Thai baht against the US dollar.

3) **The average Dubai crude oil price in 2018 is expected to be in the range of 55.0 - 65.0 US dollar per barrel, a gradual rise from 53.0 US dollar per barrel in 2017.** It was revised upwardly from the previous forecast of 50.0 - 60.0 US dollar per barrel. The factors that will support the rise include: (i) increasing oil demand as a result of a more pronounced recovery of the key major economies including the US, the EU and China; (ii) extension of oil production reduction between OPEC and non-OPEC countries until the end of 2018; and (iii) the persistent geopolitical tensions which could affect production including the conflict among Middle East countries and over the Korean peninsula. However, rises in oil production of non-OPEC countries, especially the US and Canada after the breakeven point of 50 US dollar, remain the downside risks that would slow down the pace of oil price increase.

4) **The export and import price in US dollar term are expected to increase by 1.5 - 2.5 and 2.5 - 3.5 percent respectively,** decelerated from a 3.6-percent and 5.5-percent growth in 2017 respectively. The export and import price assumptions are adjusted upward from the previous forecast of 0.5 - 1.5 and 1.0 - 2.0 percent respectively due to an upward revision of crude oil price assumption.

5) **Revenue from foreign tourists is likely to be 2.18 trillion baht, increasing by 11.6 percent from 1.95 trillion baht in 2017.** It is a downward revision from the previous assumption of 2.21 trillion baht following the Bank of Thailand's revision of 2016 data of the travel receipts in the services receipts, balance of payment. Key supporting factors for increasing tourism revenues are: (i) the pickup of the world economy, including advanced countries, and major economies in Asia which will support a continuous positive growth of long-distance tourists and tourists within the region particularly those from China, Russia, India, and the Middle East countries; (ii) ongoing government's measures to stimulate the tourism sector and the continual improvement of domestic political condition; (iii) Thailand is regarded as one of the world's important tourism destination; (iv) the expansion of short-haul international operations by low cost airlines; and (v) the capacity extension of major airports to accommodate increasing number of aircrafts and tourists.

6) **Government budget disbursements are expected to be as follows:** (i) the FY2018 annual budget disbursement rate of 93.0 percent of overall budget. In detail, the current and capital budget are expected to be disbursed at 98.5 and 73.0 percent respectively, adjusted from the previous assumptions of 97.0 and 75.0 percent; (ii) the FY2018 supplementary budget disbursement rate of 69.0 percent (75.0 percent for current budget and 30.0 percent for capital budget); (iii) the state-owned enterprise's capital budget disbursement of 77.0 percent; (iv) the carry-over budget disbursement of 73.0 percent; (v) the off-budget loans including water resources management and road transport system projects of approximately 3,878.8 million baht, reduced from 9,398.4 million baht in FY2017, and (vi) the annual budget disbursement in the first quarter of FY2019 (October - December 2018) of 30.0 percent of overall budget.

Economic Projection for 2018:

The Thai economy in 2018 is projected to expand in the range of 3.6 - 4.6 percent (with the midpoint of 4.1 percent), improving from 3.9 and 3.3 percent of growth in 2016 and 2015, respectively. The headline inflation is estimated to be in the range of 0.9 - 1.9 percent and the current account balance is forecasted to register a surplus of 7.8 percent of GDP.

In the press release dated on 19th February 2018, NESDB forecasts that the Thai economy will expand in the range of 3.6 - 4.6 percent, with the midpoint of 4.1 percent, equivalent to the forecast in a press release dated on 20th November 2017. There were revisions on some growth components to be consistent with the revisions in the key assumptions.

Key components of the economic growth :

1) **Consumption: Private consumption expenditure** is estimated to grow by 3.2 percent, equivalent to the growth in 2017, upwardly revised from 3.1 percent in the previous projection. The upward revision is owing to an improvement of employment and income condition, following (i) improving employment of non-agricultural sector as seen in the fourth quarter of 2017 and the expected better employment condition in agricultural sector, (ii) low interest rate and inflation rate, (iii) the end of five-year continuous single-ownership condition of first-car buyer scheme and new cars launches, and (iv) government measures to foster low income people and local economies. Meanwhile, **government consumption expenditure** is anticipated to expand by 3.2 percent, accelerating from 0.5 percent in 2017, upwardly revised from the growth of 2.7 percent in the previous forecast as the budget framework under supplementary budget FY2018 increased.

2) **Total investment** is projected to expand by 5.5 percent, accelerating from 0.9 percent in 2017, remains unchanged from the previous estimation. **Public investment** is expected to grow by 10.0 percent, increasing from a decrease of 1.2 percent in 2017. The growth is mainly a result of a high growth of capital budget framework under the annual budget and the state-owned enterprise's capital budget of 14.7 and 45.7 percent, compared with the growth of 2.8 percent and a decrease of 2.1 percent in 2017, respectively. This is consistent with a more significant progress of key infrastructure projects. However, the growth of public investment is revised downwardly from 11.8 percent in the previous estimate in line with the lower-than-expected actual data of disbursement rate in the first quarter of FY2018. **Private investment** is forecasted to grow by 3.7 percent, increasing from the expansion of 1.7 percent in 2017, and remain at the same rate as the preceding projection. This is mainly due to (i) increasing capacity utilization trend due to favorable export growths which will stimulate new investment for expanding production capacity, particularly in the industrial sectors with the current capacity utilization rate of higher than 75 percent, and (ii) the improvement of investors' sentiment towards the economic recovery and improving domestic political conditions, and a further progress of public investment as well as the total value of projects applied for BOI's investment promotion in 2017 which increased by 22.4 percent.

3) **Export value of goods in US dollar term** is expected to grow by 6.8 percent, compared to 9.7 percent growth in 2017, and upwardly revised from 5.0 percent in the previous projection in both export quantity and export value. In quantity term, the export of goods is projected to grow by 4.8 percent, revised upwardly from 4.0 percent in the prior projection. This is in line with the upward revision of the world economy and the world trade volume assumptions. Likewise, export prices are also projected to grow in the range of 1.5 - 2.5 percent, upwardly adjusted from the range of 0.5 - 1.5 percent, in line with an increase in the global crude oil price assumption. Together with continuous expansion of export of services and number of foreign tourists, the export quantity of goods and services is projected to grow by 6.0 percent, compared to its growth of 5.3 percent in the previous estimation.

4) **Import value of goods in US dollar term** is anticipated to grow by 9.5 percent, compared to a 14.4 percent growth in 2017, and upwardly adjusted from a 7.0 percent growth in the previous forecast. The revision is a result of improved estimates of the import volume from 5.5 percent to 6.5 percent growth in line with the upward revision of export volume and the expansion of household consumption expenditure which will induce higher demand for imported goods. Furthermore, the assumption on price of imported goods has been adjusted upwardly from 1.0 - 2.0 percent in the previous projection to 2.5 - 3.5 percent due to the revision of crude oil price assumptions which will result in higher import prices of raw materials and fuel. When combined with import of service, it is expected that the import volumes of goods and services will grow by 6.5 percent, increasing from 5.6 percent in the previous forecast.

5) **Trade balance** is estimated to register a surplus of 28.5 billion US dollars, lower than a surplus of 31.9 billion US dollars in 2017. A smaller surplus is due to the fact that the import value is projected to increase faster than the export value. After combining with the service account surplus, the current account is projected to register a surplus of approximately 40.0 billion US dollars, an equivalent of 7.8 percent of GDP.

6) **Economic stability** remains sound. The headline inflation rate in 2018 is projected to be in a range of 0.9 - 1.9 percent, compared to 0.7 percent in 2017.

6. Economic Management for the year 2018

Evident recovery of the global economy and the government measures have been key supporting factors associated with the improvement of Thai economy in 2017 both in terms of economic growth, fundamental factors, economic stability, and more broad-based production expansion. The Thai economy in 2018 tends to continually improve as a result of improving global economy which contributes to an expansion of exports, tourism, and those related service sectors. In addition, the improvement will be underpinned by an acceleration of public investment in line with increased capital budget framework and a significant progress of key public infrastructure projects. Nevertheless, the growth contribution from the agriculture sector tends to soften as the production has become normalized. The global economy and financial system are still prone to volatility amid the gradual uptrends of commodity prices and interest rate as well as changing investors' expectation. Under such conditions, the macroeconomic policy management should be given to following guidelines:

1) **Promoting non-agricultural sectors to offset the declining growth contribution from the agricultural production** by: (i) fostering export sector to its full potential as it helps contribute to the growth of manufacturing sector, minimizes excess capacity, and leads to new investment for production expansion; (ii) building up confidence and conducting measures to bolster private investment by focusing on supporting key investment projects including both infrastructure and economic area development projects, encouraging private sector to invest in the country's strategic sector, upgrading economic competitiveness and ensuring investors that the important policies and development projects are mandate to continue implementation after the general election, through the process as legislatively stipulated in the making of National Strategy and National Reform Plan and Process acts; and (iii) supporting the expansion of tourism sector by maintaining security and improving facilities in the airports and tourist attractions, strategizing on high-income and long distance travel segments, together with managing airport capacity and emphasizing on income distribution from tourist sector to local communities.

2) **Expediting the public investment to continue its expansion and reach the target** in order to build up investor confidence, maintain economic momentum, distribute economic activities, and, ultimately, ensure sufficient investment expansion to achieve the long-term economic growth target as stipulated in the 20-year National Strategy. For achieving these targets, the emphases shall be placed on: (i) expediting procurement processes of the key infrastructure projects and speeding up the capital budget disbursement for the rest of the year, coupled with improving the efficacy of the government's and state-owned enterprises' capital budget disbursement to reach the disbursement rate of not less than 72.0 and 77.0 percent of total capital budget, respectively; (ii) driving infrastructure projects under the 2016 - 2017 Transportation Action Plan to continually enter construction phase; (iii) developing targeted special economic areas including Eastern Economic Corridor (EEC) and Special Economic Zones (SEZ), coupled with conducting measures to promote investment in those strategic development areas; and (iv) progressing key transportation and logistics infrastructure projects as well as developing key urban and economic areas at regional and provincial levels in order to bolster economic expansions and to distribute economic activities.

3) **Supporting small farmers and low income groups and strengthening the SMEs and local economies: On agricultural production and farm income,** the emphases shall be on (i) preparing for changing climate, particularly the impact from La Niña, which could hinder the agricultural production; bolstering export of agricultural product to continue its expansion from 2017 in order to support domestic price especially during the appreciation trend of Thai Baht; (ii) supporting a large-scale farming in order to minimize cost, increase output, empower bargaining power, and raise benefit sharing of farmers in sale price; and (iii) adopting proper crop plantation and production methods suitable for each particular area, as well as shifting to grow higher-market-value crop and adopting more advanced technology in production, marketing and management processes. On financial and fiscal measures, the measures shall aim at (i) resolving and mitigating the impacts of climate changes; (ii) continuation of social welfare smart card project, ensuring sufficient funds for credit provision measure that aim to support small farmers, low income people, local enterprises, and SMEs, particularly those vulnerable to the rise in commodity prices, cost of productions, and interest

rates; and (iii) prioritizing SMEs that are affected by changing business patterns, shifting consumer preference, rising minimum wage, and Baht appreciation trend. Measures should include encouraging SMEs to participate in government's mitigating measures on impact of currency appreciation and wage increase, adjusting processes of production towards higher technology, changing pattern of goods and services to match with new market demand, establishing production linkages with larger-scale businesses and manufacturers, encouraging to deploy tax privileges and foreign workers in special economic areas, as well as supporting business sector to participate in the dual education system for alleviating labor shortage.

4) **Preparing labor force both in terms of quantity and quality of labor to facilitate an expansion of economic and investment activities** covering high- and semi-skilled labors as well as expatriate workers, the measures should aim at: (i) training fresh graduates who started entering into the labor market; (ii) developing skillsets for adaptation to disruptive technology; (iii) promoting the use of electronic media in job search; (iv) integrating job market platform where job seekers, academic institutes, and employers are met in order to facilitate and minimize transaction costs of job seeking; and (v) developing specialized labor training institutes preparing for future industries.

Projection for 2018 [1]

	Actual Data		Projection for 2018	
	2016	2017	Nov 20, 2017	Feb 19, 2018
GDP (at current prices: Bil. Bht)	14,533.5	15,450.1	16,264.3	16,469.8
GDP per capita (Bht per year)	215,454.6	228,371.0	239,776.0	242,806.3
GDP (at current prices: Bil. USD)	411.8	455.4	471.4	514.7
GDP per capita (USD per year)	6,103.9	6,729.0	6,950.0	7,587.7
GDP Growth (CVM, %)	3.3	3.9	3.6 - 4.6	3.6 - 4.6
Investment (CVM, %)	2.8	0.9	5.5	5.5
Private (CVM, %)	0.5	1.7	3.7	3.7
Public (CVM, %)	9.5	-1.2	11.8	10.0
Private Consumption (CVM, %)	3.0	3.2	3.1	3.2
Government Consumption (CVM, %)	2.2	0.5	2.7	3.2
Export volume of goods & services (%)	2.8	5.5	5.3	6.0
Export value of goods (Bil. USD)	214.3	235.1	244.3	251.1
Growth rate (%)[2/]	0.1	9.7	5.0	6.8
Growth rate (Volume, %)[2/]	0.5	5.9	4.0	4.8
Import volume of goods & services (%)	-1.0	6.8	5.6	6.5
Import value of goods (Bil. USD)	177.7	203.2	214.9	222.5
Growth rate (%)[2/]	-5.1	14.4	7.0	9.5
Growth rate (Volume, %)[2/]	-2.5	8.4	5.5	6.5
Trade balance (Bil. USD)	36.5	31.9	29.4	28.5
Current account balance (Bil. USD)	48.2	49.3	38.1	40.0
Current account to GDP (%)	11.7	10.8	8.1	7.8
Inflation (%)				
CPI	0.2	0.7	0.9 - 1.9	0.9 - 1.9
GDP Deflator	2.4	2.3	2.0 - 3.0	2.0 - 3.0

Source: Office of the National Economic and Social Development Board, 19th February 2018

Note: [1/] Data was calculated based on new National Accounts Office's Series, published on www.nesdb.go.th

[2/] Export and import base on the Bank of Thailand's data.