NESDB ECONOMIC REPORT

Thai Economic Performance in Q3 and Outlook for 2018 - 2019

Macroeconomic Strategy and Planning Office

Press Release 9.30 a.m. Nov 19, 2018

Economic Projection of 2018 - 2019

(%YoY)	2017	2018		Projection	
	Year	Q2	Q3	2018	2019
GDP (CVM)	3.9	4.6	3.3	4.2	3.5-4.5
Investment[1]	0.9	3.7	3.9	3.6	5.1
Private	1.7	3.2	3.9	3.7	4.7
Public	-1.2	4.9	4.2	5.0	6.2
Private Consumption	3.2	4.5	5.0	4.7	4.2
Government Consumption	0.5	2.0	2.1	1.5	2.2
Export of Goods[2]	9.8	12.3	2.6	7.2	4.6
Volume[2]	6.0	7.5	-0.4	3.5	3.1
Import of Goods[2]	13.2	16.8	17.0	16.2	6.5
Volume[2]	7.2	8.9	10.2	9.7	4.5
Current Account to GDP (%)	11.0	5.3	3.4	6.4	5.8
Inflation	0.7	1.3	1.5	1.1	0.7-1.7

Note: [1] Investment means Gross Fixed Capital Formation

[2] based on the Bank of Thailand's data

- **The Thai economy in the third quarter of 2018** expanded by 3.3 percent (%YoY), compared with 4.6 percent in the previous quarter. After seasonally adjusted, the economy plateaued from the second quarter (%QoQ sa). **For the first nine months of 2018**, the Thai economy grew on average by 4.3 percent.
- **On the expenditure side,** the expansion was supported by the speed up in private consumption and private investment, and the continued expansion of government consumption and public investment while export of goods slowed down. **On the production side,** the construction accelerated and the wholesale and retail trade continued to expand well. Nevertheless, the agricultural, manufacturing, hotel and restaurant, and transportation and communication sectors slowed down.
- **The Thai economy in 2018** is expected to grow by 4.2 percent, with 7.2 percent growth of export value, 4.7 percent of private consumption and 3.6 percent of total investment. Headline inflation will be 1.1 percent and the current account will record a surplus of 6.4 percent of GDP.
- **The Thai economy in 2019** is projected to grow in the range of 3.5 – 4.5 percent, supported by (i) a favorable growth momentum of private consumption, (ii) an improvement of total investment attributed by acceleration of public investment and further improvement of private investment, (iii) a recovery of tourism sector, (iv) a moderate pace of global economic expansion which will continue to support Thai export growth, and (v) a clearer direction of global trade, production, and investment. All in all, it is expected that export value will grow by 4.6 percent, and private consumption and total investment will grow by 4.2 and 5.1 percent, respectively. Headline inflation is forecasted to be in the range of 0.7 – 1.7 percent and the current account will record a surplus of 5.8 percent of GDP.
- **Economic management for the remainder of 2018 and the year 2019** should prioritize **(1) Promoting a recovery of tourism sector** by emphasizing the recovery of Chinese tourists to resume to its normal trend within the first quarter of 2019, coupled with restoring tourists' perception on safety standard, promoting tourism packages targeted at high-income and long-distance tourists as well as improving distribution of tourism revenue to secondary cities and local communities. **(2) Fostering export sector to reach the target growth rate** by focusing on (i) leveraging opportunities from the changes in international trade direction; (ii) monitoring key import products affected by the trade tension; (iii) implementing foreign trade policies to abide closely by the world trade rules as well as key trading partners' regulations and guidelines; and (iv) providing mitigating measures to support producers and exporters affected by the trade protectionism measures. **(3) Supporting expansion of private investment** by (i) fostering export growth to propel higher capacity utilization rate; (ii) encouraging investors especially those affected by trade tension to establish production bases in Thailand; (iii) steering public infrastructure projects and special economic development areas to be implemented as planned; and (iv) ensuring investors' confidence regarding the continuity of the government's key policies, and key investment projects during the transition period after the general election. **(4) Supporting small farmers, low income groups, and strengthening the SMEs, local enterprises, and local economies**, by solving problems on agricultural products prices, pursuing the ongoing social welfare smart card project, together with providing financial measures to attenuate their debt burdens and lessen constraints on fund accessibility. **(5) Expediting the public investment** by (i) expediting disbursements of the FY2019 government's capital budget, the state-owned enterprises' capital budget, and the carry-over budget to reach the disbursement rates of no less than 75.0, 80.0 and 75.0 percent, respectively; (ii) driving key infrastructure projects to continually enter into the construction phase; (iii) encouraging investors to investment in the Eastern Economic Corridor (EEC) and Special Economic Zones (SEZs); (iv) formulating and expediting transportation and logistics infrastructure projects as well as urban and special economic areas development plans at regional and provincial levels. **(6) Preparing the labor force, both in terms of quantity and quality,** to adequately support further economic expansion and investment.

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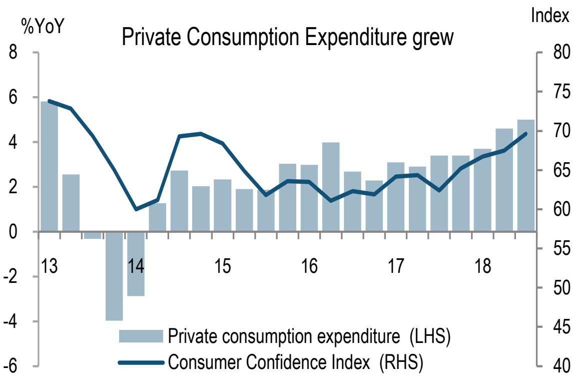
1. The Thai Economy in Q3/2018

Expenditure side:

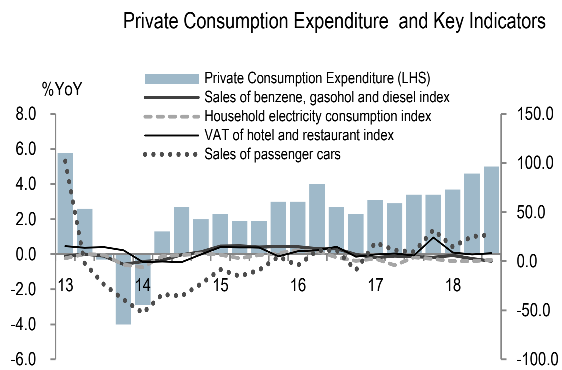
Private consumption expenditure accelerated due to the strong expansion of consumption on durable goods, together with continual increase in demand for semi-durable goods, in line with the expansion of overall income conditions, measures to support low income group, low inflation and interest rates, and rising consumer confidence. In the third quarter of 2018, private consumption expenditure expanded by 5.0 percent, the highest growth in the past 22 quarters, accelerated from 4.5 percent in the previous quarter. The private consumption expenditure of durable goods increased, aligned with the expansion of passenger cars sales by 27.0 percent. Besides, consumption for other consumer goods and services also favorably rose as seen from the VAT of hotel and restaurant index (at 2010 price), the import of textile index, and sales of semi-durables index, which grew by 8.3, 13.4, and 8.3 percent, respectively. The expansion of private consumption expenditure in this quarter was supported by (i) the more broad-based recovery of the overall economic activities and income conditions, particularly of those in agricultural sector and improved labor market conditions (ii) consistently low inflation and interest rates, and (iii) measures to support low income group. Consumer Confidence Index pertaining the overall economic situation stood at 69.6, the highest level in 15 consecutive quarters.

In the third quarter of 2018, private consumption expenditure and private investment accelerated, public investment favorably increased. Meanwhile, export of goods and services decelerated.

Private consumption expenditure grew by 5.0 percent, accelerated from 4.5 percent in the previous quarter, in line with the expansion of overall income conditions, low inflation and interest rates, and measures to support low income group. Consumer Confidence Index stood at 69.6, the highest level in 15 consecutive quarters.



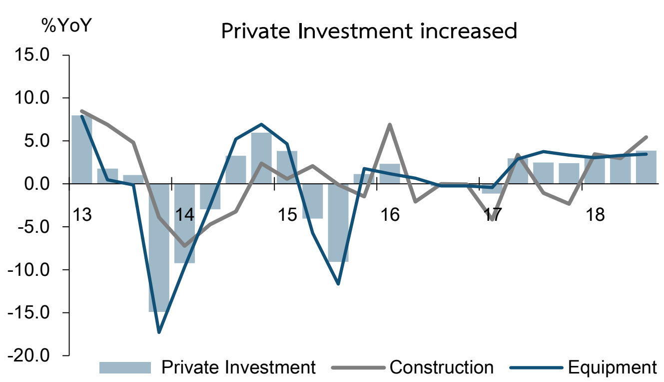
Source: NESDB, University of the Thai Chamber of Commerce



Source: NESDB, BOT, Department of Energy Business

Private investment slightly accelerated, supported by the acceleration of investment in construction, together with the continual expansion of investment in machinery and equipment. In the third quarter of 2018, private investment accelerated by 3.9 percent, compared with a 3.2-percent growth in the previous quarter, a continual expansion seen in 4 consecutive quarters. **The investment in machinery and equipment** grew by 3.4 percent, gradually accelerated from 3.3 percent in the previous quarter. This was consistent with 8.6, and 6.3 percent growth of domestic machinery sales (in 2010 price), and newly registered motor vehicles for investment purposes, respectively. **The investment in construction** grew by 5.4 percent, accelerated from a 3.0-percent growth in the previous quarter, in line with the accelerated sales of 5.0 percent construction materials. The Business Sentiment Index (BSI) stood at 51.6.

Private investment continually expanded by 3.9 percent, supported by the acceleration of investment in construction, together with the continual expansion of investment in machinery and equipment.



Source: NESDB

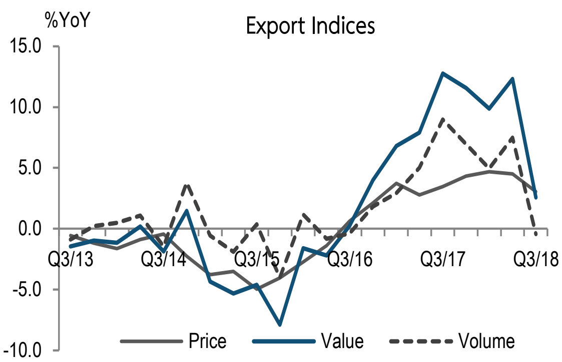
Exports in US dollar terms decelerated from the previous quarter due to the high base effect, the economic slowdown in major trading partners, and the adaptation of foreign entrepreneurs to escalating trade tensions from protectionism measures between the US and China. Export value in the third quarter of 2018 was recorded at 63.4 billion US dollars, expanded by 2.6 percent, decelerating from a growth of 12.3 percent in the previous quarter. The export volume index decreased by 0.4 percent, following (i) the decline in export volume of agricultural commodities by 2.3 percent, due to the high base effect and the pressure from the US-China trade tensions, (ii) the contraction in export quantity of fishery products by 14.3 percent, following the decline in domestic aquaculture production, and (iii) the decelerated growth of manufacturing export volume, which grew by 3.4 percent, in accordance with the economic slowdown in some trading partners, and the tensions from trade protectionism measures. Meanwhile, export price index continued to grow by 3.0 percent, mainly driven by global crude oil price hike and other related products; particularly refined fuel, chemicals, plastic resin and rubber products. Excluding unwrought gold, export value grew by 5.4 percent, compared with 11.9 percent in the previous quarter. **In baht term,** exports value increased by 1.3 percent, decelerating from a 4.6-percent growth in the previous quarter.

Export in US dollar terms expanded by 2.6 percent, decelerating from a 12.3 percent expansion in the previous quarter, due to a high base effect, the economic slowdown in some trading partners, and the tensions on trade protectionism measures.

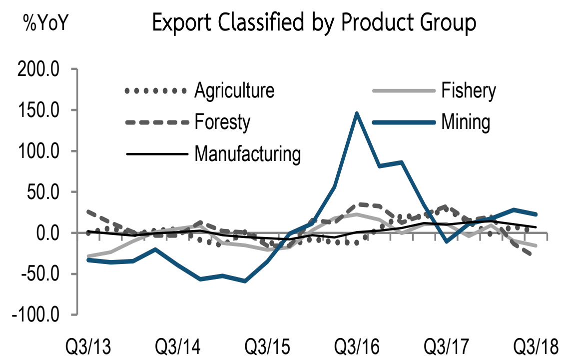
Export value excluding unwrought gold increased by 5.4 percent.

Export quantity decreased by 0.4 percent, while export price increased by 3.0 percent.

In baht term, export value increased by 1.3 percent.



Source: Bank of Thailand



Source: Bank of Thailand

Exports value of agricultural commodities increased by 1.3 percent, decelerating from a 7.8 percent expansion in the previous quarter. This was mainly due to the decrease in the export quantity of main agricultural products, especially rice, rubber, and tapioca. Meanwhile, export price of key agricultural products increased. This decelerating growth was the result of high base effects and the concerns over trade protectionism measures. **Exports value of manufacturing products** continued to expand by 6.7 percent, decelerated from a 10.7-percent growth in the previous quarter, which was in line with the decelerated manufacturing production of export-oriented industries, the economic slowdown in some trading partner countries and the adjustment of global trade system to trade protection measures. **Exports value of fishery products** decreased by 15.4 percent as a result of the reduction in export quantity and price, which was in accordance with the decline in domestic production. **Exports value of other products** decreased by 63.4 percent as a result of the decrease in exports of non-monetary gold.

Export items with increased value included rice (7.6 percent), tapioca (2.3 percent), sugar (2.3 percent), rubber products (2.6 percent), passenger cars (1.5 percent), vehicle parts & accessories (7.8 percent), pick up & trucks (11.7 percent), computer parts & accessories (7.4 percent), and machinery & equipment (4.1 percent). On the other hand, **export items with decreased value** included rubber (-17.0 percent), crustaceans (-20.4 percent) crustaceans canned, prepared, or preserved (-20.1 percent), and non-monetary gold (-65.9 percent).

Export value of agricultural commodities decelerated from the previous quarter, due to a high base effect and the concerns over trade protection measures.

Export value of fishery products declined, in accordance with the domestic production.

Export value of manufacturing products decelerated from the previous quarter, in line with the economic slowdown in some trading partner countries, and the adaptation of foreign entrepreneurs to trade protection measures.

Export Value of Major Product in US Dollar Term

%YoY	2017					2018			Share
	Year	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q3/18 (%)
Agriculture	**20.2**	**20.6**	**19.4**	**28.9**	**13.5**	**-1.6**	**7.8**	**1.3**	**7.0**
Rice	17.6	-7.1	19.6	45.1	20.9	20.9	14.5	7.6	2.2
Rubber	35.5	78.5	38.1	23.0	10.6	-34.9	-13.6	-17.0	1.7
Tapioca	-6.1	-18.1	-11.9	6.6	3.4	28.1	4.7	2.3	0.7
Manufacturing	**10.2**	**5.8**	**12.2**	**9.9**	**12.9**	**14.1**	**10.7**	**6.7**	**89.6**
Sugar	12.5	-7.6	32.8	31.2	-6.5	-13.4	-13.9	2.3	1.1
Crustaceans canned, prepared, or preserved	4.6	13.0	11.6	4.7	-5.8	-6.0	-14.1	-20.1	0.4
Rubber products	41.3	51.6	32.5	37.2	44.3	-2.8	19.3	2.6	2.2
Apparels and Textile Materials	3.9	3.1	1.1	4.0	7.4	8.4	8.4	6.3	2.9
Electronics	14.0	10.0	16.5	11.3	18.2	13.6	11.3	3.6	14.9
- Computer parts & accessories	5.7	-0.8	4.4	2.5	16.4	16.1	16.8	7.4	6.0
- Integrated circuits & parts	7.1	11.8	11.1	3.4	3.6	7.3	6.5	-3.9	3.3
- Printed circuits	10.5	13.9	9.7	4.0	15.9	0.9	2.5	8.2	0.6
- Telecommunication equipment	51.0	21.5	71.7	49.6	60.4	37.9	2.5	-0.4	2.2
Electrical appliances	6.2	9.5	4.1	3.0	8.5	9.6	3.6	-3.4	4.9
Metal & steel	14.3	16.1	15.9	8.6	17.2	18.5	19.0	7.4	4.6
Automotive	6.3	2.5	2.3	2.6	18.1	15.8	14.4	6.2	15.2
- Passenger car	-7.1	-19.1	-9.8	-10.8	13.5	18.5	12.4	1.5	4.6
- Pick up and trucks	11.8	15.8	4.3	-1.8	30.2	1.8	23.9	11.7	3.1
- Vehicle parts & accessories	13.6	13.2	9.6	14.5	16.9	15.6	13.4	7.8	6.9
Machinery & equipment	7.2	3.9	11.5	13.2	0.7	9.7	7.7	4.1	8.9
Chemicals	22.9	23.1	14.5	33.1	21.4	27.9	28.5	12.2	3.5
Petro-chemical products	10.1	7.4	11.2	11.1	10.7	17.6	22.7	16.3	5.7
Petroleum products	32.5	43.0	36.6	29.7	26.0	41.1	31.1	32.5	4.1
Fishery	**4.1**	**-0.6**	**10.4**	**11.2**	**-4.2**	**9.3**	**-9.7**	**-15.4**	**0.8**
Crustaceans	7.0	-4.8	8.4	17.3	4.2	13.6	-12.8	-20.4	0.4
Other Exports	**-19.5**	**-35.0**	**-44.3**	**49.9**	**-43.0**	**-30.7**	**35.9**	**-63.4**	**1.5**
Non-monetary gold (excl. articles of goldsmiths)	-20.7	-37.5	-45.4	52.7	-46.6	-31.5	37.3	-65.9	1.3
Total Exports (Customs basis)	**9.9**	**4.8**	**10.7**	**12.3**	**11.6**	**11.3**	**10.6**	**3.0**	**100.0**
Exports, f.o.b. (BOP basis)	**9.8**	**6.8**	**7.9**	**12.8**	**11.6**	**9.9**	**12.3**	**2.6**	**99.2**
Export Value (exclude gold)	**10.9**	**9.2**	**9.8**	**11.5**	**12.8**	**11.2**	**11.9**	**5.4**	**97.8**

Source: Bank of Thailand

Exports to EU (15), Japan, ASEAN (9), and the Middle East (15) expanded. Meanwhile, exports to the US, China, and Australia declined.

Export markets: exports to EU (15), Japan, ASEAN (9), and the Middle East (15) expanded, while exports to the US, China, and Australia declined. Exports to Japan and EU (15) increased by 8.7 and 2.5 percent, respectively, and exports to ASEAN (9) increased by 22.3 percent, accelerated from 12.4 percent growth in the previous quarter, due to the expansion of exports to CLMV countries by 24.2 percent (continually accelerated for 4 consecutive quarters and expanded with the highest growth in 28 quarters) and exports to ASEAN (5) by 21.0 percent (expanded with the highest growth in 28 quarters). Meanwhile, exports to the Middle East (15) turned to expand by 2.0 percent. However, exports to the US slightly decreased by 0.01 percent due to the contraction in exports of iron & steel & their products, prepared or preserved fish, crustaceans, molluscs in airtight containers, and radio-broadcast receivers, television receiver & parts. Meanwhile, exports to China decreased for the first time in 8 quarters by 2.8 percent, due to the contraction in exports of electronic integrated circuits, woods & wood products and rubber. Similarly, exports to Australia contracted for the first time in 4 quarters by 5.7 percent, mainly due to a contraction in exports of vehicles, parts & accessories.

Export Value to Key Markets in US Dollar Term

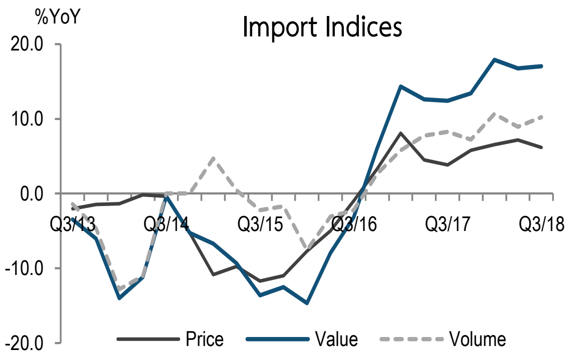
%YOY	2017					2018			Share
	Year	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q3/18 (%)
Total Exports (Mil US$) (Customs basis)	236,635	56,427	56,965	62,065	61,178	62,829	62,982	63,918	100.0
(%YoY)	9.9	4.8	10.7	12.3	11.6	11.3	10.6	3.0	
United States	8.5	7.6	7.2	8.3	10.7	9.0	6.6	-0.01	11.1
Japan	7.7	-3.6	16.4	10.4	9.1	24.8	11.2	8.7	9.4
EU (15)	8.1	8.7	5.5	6.8	11.3	10.5	11.1	2.5	8.8
China	24.0	37.0	26.6	22.0	14.1	0.3	15.1	-2.8	11.4
ASEAN (9)	8.9	0.4	14.9	9.6	11.2	14.8	12.4	22.3	28.5
- ASEAN (5)*	6.1	-8.5	17.1	5.2	13.2	15.2	7.6	21.0	16.4
- CLMV**	12.9	15.6	11.7	16.3	8.9	14.3	19.6	24.2	12.1
Middle East (15)	-5.0	-22.5	-0.3	0.7	6.2	11.4	-5.8	2.0	3.4
Australia	1.9	-3.0	-4.8	-0.1	17.2	14.4	10.2	-5.7	4.2
Hong Kong	7.2	5.9	13.1	7.7	2.8	1.7	9.8	2.7	5.3
India	25.6	17.7	13.0	27.4	46.3	31.6	27.0	13.8	2.9
South Korea	14.4	23.2	24.1	11.8	0.7	5.1	10.7	2.1	1.9
Taiwan	19.0	16.4	22.7	24.9	11.9	11.0	-0.02	-11.2	1.5

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

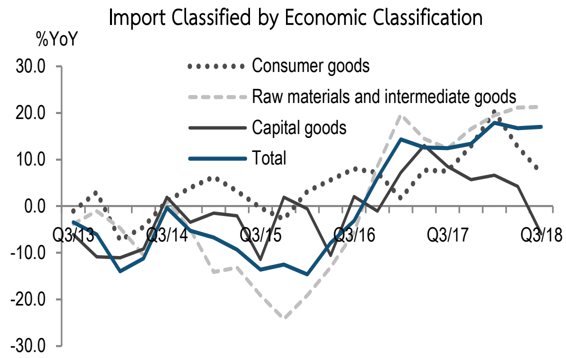
Source: Bank of Thailand

Import value in US dollar term continued to expand as both price and quantity increased. In the third quarter of 2018, the value of import was recorded at 60.0 billion US dollars, and grew by 17.0 percent from a 16.8-percent growth in the previous quarter. Import price and quantity increased by 6.2 percent and 10.2 percent, respectively. The import volume of raw materials & intermediate goods as well as consumer goods increased by 9.3 and 5.3 percent, respectively, associated with the expansion of exports, and domestic demand. Import value excluding unwrought gold expanded by 14.2 percent. **In Thai baht term,** the import value increased by 15.6 percent.

Import value in US dollar terms grew at a high rate of 17.0 percent, aligned with the continual growth of exports and the domestic demand.



Source: Bank of Thailand



Source: Bank of Thailand

Overall, import value of raw materials and intermediate goods, together with consumer goods, and other import goods increased, while those of capital goods declined. **Import value of raw materials and intermediate goods** increased by 21.3 percent, associated with the expansion of manufacturing production. **Import value of capital goods** decreased by 5.9 percent, mainly due to a high base effect from the import of aircrafts that grew by 92.3 percent in the same period last year. Meanwhile, import value of capital goods excluding aircraft, expanded by 1.0 percent. **Import value of consumer goods** increased by 7.1 percent, following the continual strong expansion of household demand. **Import value of other goods** expanded by 35.3 percent as a result of the 66.6 percent increase in the import of non-monetary gold.

Import quantity of consumer goods as well as raw materials & intermediate goods increased, whereas the import of capital goods decreased.

Import items with increased value included crude oil (63.2 percent), petroleum products (34.7 percent), materials of base metal (20.5 percent), power-generating machinery & parts (12.5 percent), telecommunication equipment (1.3 percent), other machinery & mechanical appliances & parts (0.9 percent), automotive (11.2 percent), food, beverage, & dairy products (1.2 percent), animal & fishery products (2.5 percent), and non-monetary gold (66.6 percent). On the other hand, **import items with decreased value** included aircrafts (-82.2 percent) and optical appliance and instruments (-1.4 percent).

Import Value of Major Product in US Dollar Term

%YoY	2017					2018			Share
	Year	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q3/18 (%)
Consumer goods	7.5	1.7	7.7	7.5	12.9	20.3	12.7	7.1	9.6
Raw materials and intermediate goods	15.7	19.7	14.5	12.4	16.6	19.5	21.2	21.3	56.0
Capital goods	8.5	7.2	13.0	8.6	5.7	6.7	4.2	-5.9	21.1
Other Imports	27.9	19.2	24.8	46.5	23.3	25.9	4.3	35.3	13.3
Total Imports (Customs basis)	14.1	14.1	14.3	13.8	14.1	16.9	14.4	14.5	100.0
Imports, f.o.b. (BOP basis)	13.2	14.3	12.6	12.4	13.4	17.9	16.8	17.0	92.9

Source: Bank of Thailand

Term of trade decreased from the same period last year, as export price increased by 3.0 percent, slower than the increase in import price of 6.2 percent. Thus, the term of trade decreased from 111.0 in the same quarter last year to 107.7 in the third quarter of 2018.

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

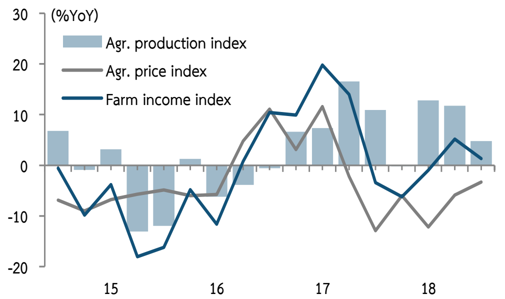
Trade balance recorded a surplus of 3.4 billion US dollars (equivalent to 112.5 billion baht), compared with a surplus of 5.8 billion US dollars (equivalent to 186.8 billion baht) in the previous quarter, and a surplus of 10.6 billion US dollars (equivalent to 351.5 billion baht) in the same quarter of last year.

Trade surplus was lower than that of the previous quarter and the same period last year.

Production side:

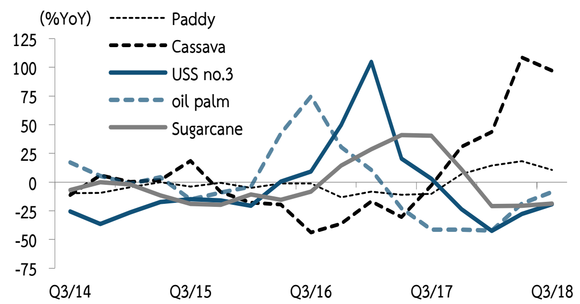
Agriculture sector favorably expanded, albeit at a slower pace than the previous quarter. Meanwhile, farm income continually increased for 2 consecutive quarters, following an expansion of production and an improvement in prices of some key agricultural products. In the third quarter of 2018, agriculture sector expanded by 4.3 percent, slowing from 10.2 percent in the second quarter of 2018. This was associated with a 4.8 percent increase of **Agricultural Production Index,** compared with 11.7 percent growth in the previous quarter. The increase in agricultural production mainly supported by the sufficient irrigation water for crops, which resulted in the rising yield per area and the expansion of planting area for some key crops. Major agricultural products with positive growth included (i) paddy (9.8 percent), (ii) fruits (18.6 percent), (iii) rubber (4.9 percent), and (iv) oil palm (15.7 percent). Meanwhile, major agricultural products with contraction included (i) white shrimp (-12.7 percent) due to the reduction of shrimp farming in response to the decline in price of white shrimp. (ii) swine (-1.2 percent) following a supply reduction in response to lower market demand. (iii) cassava (-0.9 percent) following a decrease in crop areas as farmers have switched to other types of crops, and some areas affected by flood. **Agricultural Price Index** decreased by 3.3 percent, mainly due to (i) lower rubber price according to the level of rubber stock remained high, given outputs continued to rise amid declining global demand, and market concerns over the trade war between the US and China, (ii) lower sugarcane price, owing to a decline in global sugar prices from oversupply in the world market while domestic sugar stock remained at high level, (iii) lower poultry price following the excess supply whilst the slowdown of domestic consumption, and (iv) lower white shrimp price following a decline in white shrimp price in the world market, as a consequence of an increasing production in several countries, especially India and Indonesia. In contrast, major Agricultural Price Index increased such as cassava (97.0 percent), paddy (10.6 percent), and maize (15.6 percent). The increase of agricultural production index and the improvement of major agricultural price index thus led to higher **Farm Income Index**, which increased by 1.3 percent, the continual expansion for two consecutive quarters.

Farm Income Index increased by 1.3 percent due to the increase of agricultural production index and the improvement of major agricultural price index



Source: Office of Agricultural Economics

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



Source: Office of Agricultural Economics

Manufacturing sector slowed down from the previous quarter. In the third quarter of 2018, manufacturing sector grew by 1.6 percent, slowed down from 3.2 percent growth in the previous quarter, alongside with the 1.0 percent increase in Manufacturing Production Index (MPI), decelerated from 3.7 percent increase in the previous quarter. **Manufacturing Production Index of the industries with 30-60 percent export share to total production** grew by 2.3 percent, decelerated from 7.0 percent in the previous quarter. Production of vehicle grew by 2.6 percent, slowed down from 11.5 percent, in tandem with the deceleration of vehicle export value from 16.8 percent growth in the previous quarter to 5.4 percent in recent quarter. Besides, there were also a reduction of animal processing and preservation by 2.9 percent, compared with 3.5 percent expansion in the previous quarter, together with the decline in the production of weaving of textiles as well as rubber tyres and tubes by 13.6 and 1.1 percent, respectively. Nonetheless, production of sugar accelerated by 91.4 percent and production of motorcycles rebounded to a 2.6-percent growth. **Manufacturing Production Index of export-oriented industries (with export share of more than 60 percent to total production)** increased by 1.5 percent, continued from a 1.7-percent growth in the previous quarter, due mainly to the acceleration in major export industries, including production of electronic components together with wearing apparel increased by 11.2 and 9.8 percent, respectively. Moreover, the production of other general-purpose machinery rose by 18.1 percent,

Construction sectors expanded at an accelerated rate, while wholesale and retail trade sector favorably expanded. Agricultural, manufacturing, hotels and restaurants, and transport and communication sectors slowed down.

Agricultural sector continually grew, amid at a slower pace than the previous quarter, mainly due to the increase in fruit production, despite the decline in fishery production. Due to the continual expansion of agricultural production and rising prices of major crops, farm income index thus expanded for two consecutive quarters.

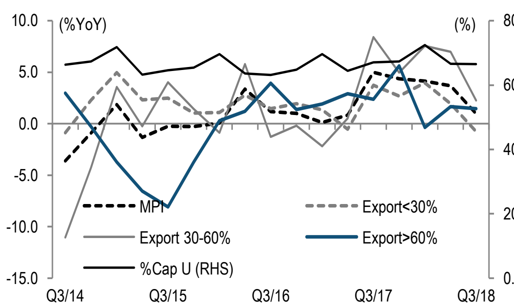
Manufacturing sector expanded with a 1.6 percent growth, slightly slowed down from the previous quarter, mainly due to the deceleration of vehicle production and the decrease in production of some major industries. Manufacturing Production Index of the industries with export share of 30-60 percent to total production slowed down, following decelerated vehicle production. Nonetheless, the key export-oriented products continued to expand with favorable growth pace. The domestic-oriented industries declined due to the deceleration of both tobacco and spirits production. The capacity utilization rate stood 66.5 percent.

the first time in 6 quarters. The production of computers and peripheral equipment grew continually by 4.4 percent, albeit slowing down from the previous quarter. In contrast, production of domestic appliances, other rubber products, and furniture declined by 12.9, 4.5, and 13.6 percent, respectively. **Manufacturing Production Index of the domestic-oriented industries (with export share of less than 30 percent to total production)** decreased by 0.8 percent, compared with 1.9 percent growth in the previous quarter, owing to the decrease in the production of major industries, such as tobacco (32.3 percent) and distilling, rectifying and blending of spirits (19.3 percent). However, production of refined petroleum products increased by 10.0 percent, accelerated from 3.9 percent growth in the previous quarter. The average capacity utilization rate stood at 66.5 percent, declined from 67.1 percent in the same quarter last year. There were clearly seen in (i) **more than 80 percent average capacity utilization industries**, of which 4 sectors of 23 sectors, including the production of plastics and synthetics rubber (97.4 percent), vehicles (90.6 percent), refined petroleum products (85.9 percent), and processing and preserving of meat (81.6 percent), (ii) **70-80 percent average capacity utilization industries,** which included the production of electronic components and boards (78.7 percent), computers and peripheral equipment (78.0 percent) and motorcycles (70.7 percent), and (iii) **60-70 percent average capacity utilization industries,** which included the production of wearing apparel (69.5 percent), rubber tyres and tubes (64.6 percent), plastic products (64.0 percent), and concrete and cement (63.3 percent).

Manufacturing Production Index with positive growth included sugar (91.4 percent), electronic components (11.2 percent), vehicles (2.6 percent), other general-purpose machinery (18.1 percent), refined petroleum products (10.0 percent), wearing apparel (9.8 percent), concrete and cement (6.4 percent), computers and peripheral equipment (4.4 percent), motorcycles (2.6 percent), and basic iron and steel production (1.0 percent), etc.

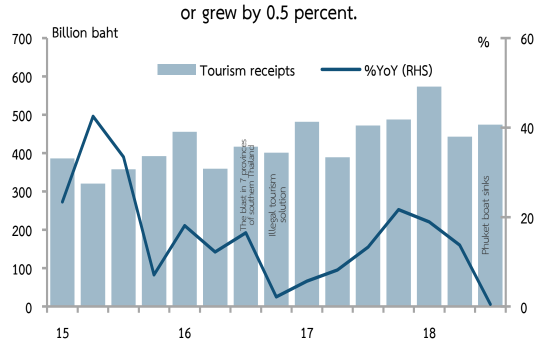
Manufacturing Production Index with negative growth included tobacco (-32.3 percent), domestic appliances (-12.9 percent), other rubber products (-4.5 percent), weaving of textiles (-13.6 percent), furniture (-13.6 percent), distilling, rectifying and blending of spirits (-19.3 percent), soft drinks (-8.7 percent), processing and preserving of fish (-3.3 percent), vegetable and animal oils and fats (-6.6 percent), and animal processing and preservation (-2.9 percent), etc.

Manufacturing Production Index increased by 1.0 percent and the capacity utilization rate averaged at 66.5 percent.



Source : Office of Industrial Economics

Income from foreign tourists for Q3/2018 stood at 474.6 billion baht or grew by 0.5 percent.



Source: Ministry of Tourism and Sports

Hotels and restaurants sector decelerated, in tandem with a slowdown of both the number of tourists and receipts. The number of tourists from China and Russia dropped according to some temporary effects whereas tourists from other countries continued to expand. The average occupancy rate stood at 65.38 percent.

Hotels and restaurants sector slowed down, associated with the downward trend in the number of tourists and tourism receipts. In the third quarter of 2018, hotels and restaurants sectors expanded by 6.5 percent, slowed down from a 9.4 percent increase in the previous quarter. The total number of foreign tourists was at 9.06 million persons, increased by 1.9 percent, decelerated from 8.4 percent in the previous quarter. This was mainly due to the contraction in the number of tourists from China (8.8 percent), affected by the impact of the capsized boat near Phuket island on 5 July 2018, Russia (7.2 percent) as a result of the 21st FIFA World Cup in Russia during 14 June to 15 July 2018, led to a lower in the number of outbound Russia travelers. Likewise, the majority of European tourists switched their destinations toward Russia; reflecting the deceleration in the number of tourists from Europe that contracted by 1.5 percent in the third quarter 2018, and a 1.9 percent contraction in the second quarter 2018. On the other hand, the number of tourists from other countries expanded favorably, mainly attributed by the number of tourists from Malaysia (26.3 percent), Hong Kong (27.5 percent), Japan (8.5 percent), Taiwan (19.9 percent), and Vietnam (10.1 percent). **Foreign tourism receipts stood at 474.6 billion baht which grew by 0.5 percent**, decelerated from a 13.7-percent growth in the previous quarter, mainly contributed by the contraction of travel receipts from Chinese and Russian tourists, together with lower growth rate of travel receipts from European tourists. Nonetheless, the travel receipts from major countries continued to expand favorably, including Malaysian, Hong Kong, Indian, Japanese, and Vietnamese tourists. **The average occupancy rate was at 65.38 percent**, increased from 63.71 percent in the same quarter last year.

Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods sector favorably expanded, aligned with the acceleration of household consumption. In the third quarter of 2018, wholesale, retail trade, and repair of motor vehicles sector grew by 7.2 percent, continually expanded from 7.3 percent growth in the second quarter 2018. This is in accordance with **the Wholesale, Retail Sales, and Repair of Motor Vehicles Index** which grew by 9.7 percent, accelerated from a 6.6 percent in the previous quarter, which consisted of (i) **Wholesale, Retail Sales, and Repair of motor vehicles and motorcycles index** increased by 9.7 percent, accelerated from 9.3 percent in the previous quarter, mainly supported by an 11.1-percent growth of motor vehicles sale and 7.5 percent growth of automotive parts sale, (ii) **Wholesales Index (except motor vehicles and motorcycles)** increased by 3.9 percent, mainly supported by an 18.1-percent growth in wholesales of general goods and 10.3 percent growth in wholesales of other goods (such as industrial chemicals, iron, steel, and other basic non-ferrous metals products), and (iii) **Retail Sales Index (except motor vehicles and motorcycles)** increased by 19.4 percent, accelerated from a 7.8-percent growth in the previous quarter, mainly supported by 42.3 percent growth in retail sales of other goods (such as jewelry and other new goods) and 15.5 percent growth in retail sales of automotive fuel.

Transport and communication sector favorably expanded, albeit slowing down from the previous quarter, following the downward trend of land, water, and air transport, despite the acceleration of telecommunications services. In the third quarter of 2018, transport and communication grew by 6.2 percent, continued to expand from a 6.8-percent growth in the previous quarter. Transport services rose by 5.5 percent, slowed down from 6.7 percent growth in the previous quarter, mainly due to the slowdown of goods and passengers transport services, attributed by (i) a 2.9-percent growth in land transport, (ii) a 6.1-percent growth in water transport, and (iii) an 8.6-percent growth in air transport. In addition, telecommunications services expanded by 12.1 percent, accelerated from a 10.9-percent growth in the previous quarter, in accordance with the better operating profit of telecommunication service providers.

Electricity, gas and water supply sector continuously expanded in line with the increase in both electricity and water supply production. Meanwhile, gas separation declined. In the third quarter of 2018, electricity, gas and water supply sector increased by 1.5 percent, compared to 1.8 percent growth in the previous quarter. In details, (i) production and sale of electricity generation increased by 2.1 percent consistent with the expansion of the demand for electricity used in household sector. Meanwhile, the demand for the electricity used in manufacturing sector declined, in line with the slowdown of manufacturing sector (ii) Water supply production and distribution increased by 0.5 percent due to the higher water demand in household sector. In contrast, (iii) Gas separation decreased by 4.4 percent associated with the decline in gas volume delivered in gas separation plants.

Construction sector accelerated both in private and public construction. In the third quarter of 2018, construction sector increased by 4.7 percent, accelerated from a 2.0-percent growth in the second quarter 2018. The public construction increased by 4.2 percent, improved from a 1.5-percent growth in the previous quarter (13.8 percent growth for state-owned enterprise construction and 0.1 percent decline for government construction). The private construction increased by 5.4 percent, accelerated from a 3.0-percent growth in the previous quarter, in line with the improvement in construction of residential buildings, which increased by 6.1 percent, reflecting the higher in the number of new residential units and residential units registered in Bangkok and perimeters, which grew by 28.5 and 3.3 percent, respectively. Besides, the number of commercial buildings construction increased by 1.6 percent. **Construction Materials Price Index** increased by 3.2 percent, following a rise in prices of steel and steel products (9.1 percent), concrete (2.0 percent), cement (1.7 percent), and wood and wood products (0.2 percent), especially.

Wholesale, retail trade, and repair of motor vehicles, etc. sector grew by 7.2 percent, in line with the favorable expansion of household consumption that showed a continual acceleration.

Transport and communication sector continued to grow by 6.2 percent, despite showing a slowdown pace. Transport services grew by 5.5 percent and telecommunication services expanded by 12.1 percent.

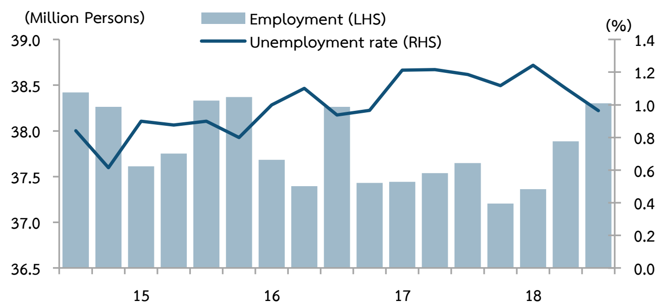
Electricity, gas and water supply sector expanded by 1.5 percent. Production of electricity and water continually increased, in line with rising in residential units. Meanwhile, gas separation slightly declined, following the decrease in gas volume delivered in gas separation plants.

Construction sector expanded by 4.7 percent, in tandem with the continuous growth in both private and public construction. The private construction expanded following the improvement in construction of residential and commercial buildings. Meanwhile, the expansion in construction of public sector, due to the rising of state-owned enterprise construction.

Employment continued to increase for two consecutive quarters. The expansion was seen from both agricultural and non-agricultural employment for the first time in twenty-two quarters and, therefore, unemployment rate declined to the lowest level in 8 consecutive quarters, reflecting a more broad-based economic growth, aligned with the acceleration of household consumption. In the third quarter of 2018, the employment increased by 1.7 percent, accelerated from a 0.9-percent growth in the second quarter 2018. This was mainly due to an expansion of 1.9 percent in agricultural employment, a continuous expansion seen in three consecutive quarters, in tandem with a favorable expansion of major agricultural production, such as paddy and durian, etc. Meanwhile, non-agricultural employment increased by 1.6 percent, which improved from a 0.01 percent decline in the previous quarter, following a 2.8-percent growth in employment of manufacturing sector, which increased continually for two consecutive quarters, in line with the expansion of manufacturing production, together with the increase in employment of transportation and warehouse sector by 10.2 percent, aligned with the favorable expansion in transport and communication sector. The employment of construction sector rebounded with a 2.6-percent growth, the first time in seven quarters, in line with the expansion of construction sector. Besides, there was also a 3.0-percent growth of employment of accommodation and food service sector. **Unemployment rate** in the third quarter was at a 1.0-percent growth, the lowest rate seen in eight quarters and unemployed persons was recorded at 373,500 persons.

Employment rose constantly, in line with the more broad-based economic growth. The employment continued to grow for two consecutive quarters, which mainly supported by the simultaneous rise in both agricultural and non-agricultural employment for the first time in twenty-two quarters. Meanwhile, unemployment rate was at the lowest point in eight quarters.

Employment increased by 1.7 percent, following an expansion of employment in agriculture sector and non - agriculture sector. Unemployment rate was low at 1.0 percent.



Source: National Statistics Office

Employed Persons by Industry

%YOY	Share	2017					2018		
	Q3/18	Year	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Employed	100.0	-0.6	-0.6	0.4	-1.6	-0.6	-0.2	0.9	1.7
- Agricultural	33.4	0.3	-1.4	6.3	-1.2	-2.0	6.0	3.0	1.9
- Non-Agricultural	66.6	-1.0	-0.3	-2.1	-1.8	0.1	-2.8	-0.01	1.6
Manufacturing	16.1	-2.9	-1.5	-4.2	-4.0	-1.8	-0.03	2.6	2.8
Construction	5.4	-8.2	-8.7	-11.8	-6.8	-4.3	-11.8	-2.7	2.6
Wholesale and retail trade; repair of motor vehicles and motorcycles	16.3	-0.2	0.9	1.0	-2.6	0.02	-2.8	-2.2	0.9
Accommodation and food service activities	7.3	1.8	4.2	-2.7	-1.0	6.8	-1.3	5.7	3.0
Total labor force (Million persons)		38.1	38.2	38.3	38.2	37.7	38.1	38.5	38.7
Employed (Million persons)		37.5	37.4	37.5	37.6	37.2	37.4	37.9	38.3
Unemployment (Hundred thousand persons)		4.5	4.6	4.6	4.5	4.2	4.7	4.1	3.7
Unemployment Rate (%)		1.2	1.2	1.2	1.2	1.1	1.2	1.1	1.0

Source: NSO

Fiscal Conditions:

The net government revenue collection increased by 12.5 percent.

On the revenue side, in the fourth quarter of the fiscal year 2018 (July – September 2018) the net government revenue collection stood at 694.4 billion baht, increased by 12.5 percent compared to the same quarter last year. This was mainly due to increases in income and consumption taxes. On income tax base, the corporate income tax grew by 11.4 percent following improvements of operating performance in corporate sector, and petroleum income tax surged by 233.7 percent largely driven by increasing in crude oil price and expansion of production activities. On consumption tax base, the revenue collected from VAT and excise tax rose by 8.6 percent and 13.4 percent, respectively.

For the whole fiscal year 2018, the net government revenue collection stood at 2,528.0 billion baht, increased by 7.3 percent compared to the prior fiscal year, and it was higher than the official target by 1.1 percent.

Government Revenue

Fiscal Year (Billion Baht)	2017					2018				
	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4
Net Government Revenue	2,355.7	548.2	500.1	689.9	617.5	2,528.0	547.5	532.0	754.1	694.4
Compared with the target (%)	0.5	4.4	-1.5	-1.4	1.2	1.1	N/A	N/A	N/A	N/A
YOY (%)	-1.6	-6.5	1.5	-3.8	3.1	7.3	-0.1	6.4	9.3	12.5

Source: Ministry of Finance

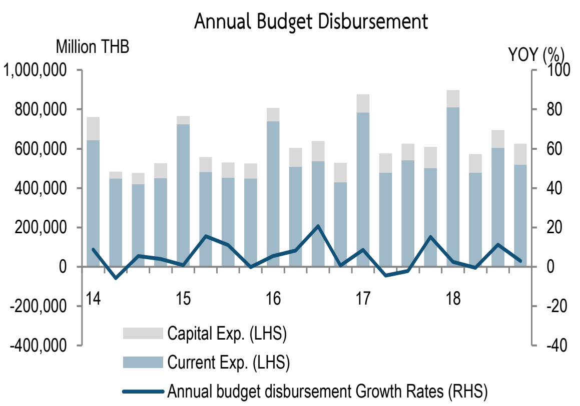
The disbursements of the annual budget, the carry-over budget, and the State-owned enterprises' capital expenditure budget expanded. In contrast, the off-budget loans declined.

On the expenditure side, the total budget disbursement in the fourth quarter of this fiscal year was at 741.2 billion baht[1], increased by 8.6 percent compared to the same quarter of 2017 fiscal year in which current and capital expenditure disbursements increased by 5.6 percent and 17.7 percent, respectively.

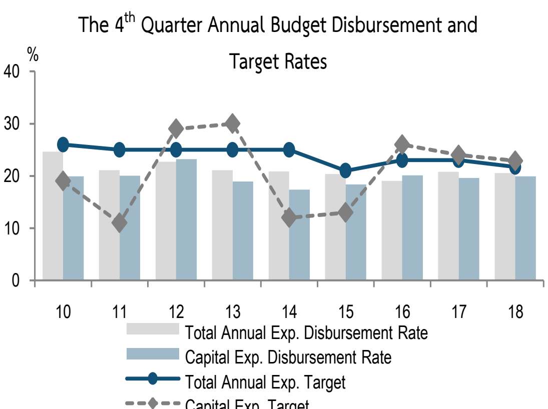
Classified by sources of funds, the government disbursements were as follows: (i) **the 2018 annual budget disbursement** (including supplementary budget) stood at 625.9 billion baht, grew from the same quarter last year by 2.8 percent. The disbursement rate was at 20.5 percent, which was lower than the target of 21.7 percent and the disbursement rate of 20.8 percent in the same quarter last year.

The rate of annual budget disbursement was at 20.5 percent due to increases of the current expenditure disbursement and the capital expenditure disbursement which were at 20.6 percent and 19.9 percent, respectively.

In details, the current expenditure disbursement amounted to 518.3 billion baht, expanded by 3.2 percent from the same quarter of 2017. Its disbursement rate was at 20.6 percent, lower than the target of 21.4 percent and disbursement rate of 21.1 percent in the same period last year. The capital expenditure disbursement marked at 107.6 billion baht, increased from the same quarter last year by 1.3 percent. The rate of disbursement was at 19.9 percent, lower than the target of 22.9 percent but higher than a disbursement rate of 19.6 percent in the same quarter last year.



Source: GFMIS



Source: GFMIS

(ii) **The carry-over budget disbursement** stood at 44.7 billion baht, increased from the fourth quarter of 2017 by 85.8 percent (equivalent to a 13.8 percent of the disbursement rate that was greater than the rate in the same quarter last year of 8.7 percent) (iii) **State-owned enterprises' capital expenditure budget** (excluding PTT) was anticipated to disburse at 76.2 billion baht[2], rose from the same period last year by 41.4 percent and (iv) **The off-budget loans** were disbursed at 817.7 million baht due to a 777.8 million baht disbursement on the Water Resource Management and Road Transport System Project's loans and a 39.9 million baht disbursement on the Development Policy Loan (DPL).

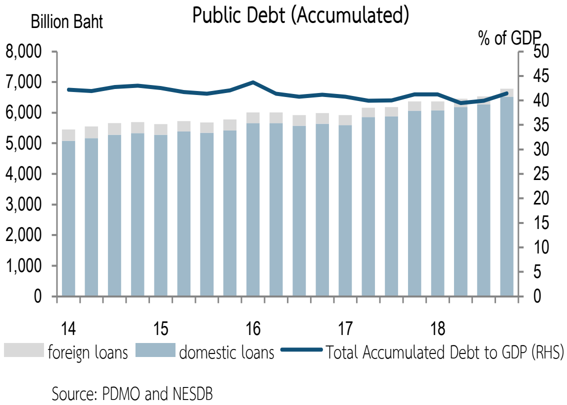
[1] The total budget disbursement means the disbursement of the grand total of annual budget, the carry-over budget, the off-budget loans, and the State-owned enterprises' capital expenditure budget.

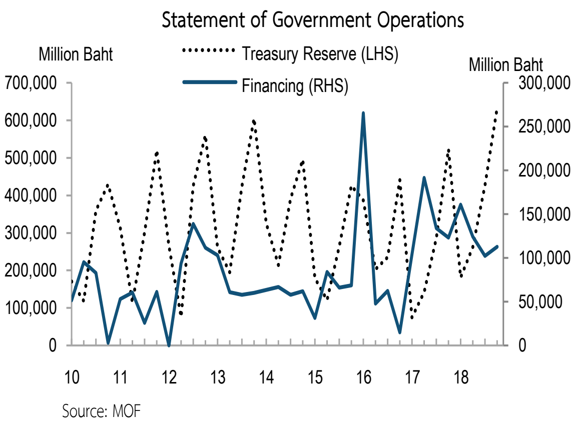
[2] The number was included the 6,357.3 million baht of the capital spending allocated from the annual budget.

For the whole fiscal year 2018, the total budget disbursement was at 3,233.8 billion baht rose from the same period last year by 4.0 percent (the current expenditure disbursement increased by 4.5 percent and the capital expenditure disbursement increased by 2.3 percent). This was due to an increase of 3.9 percent of the 2018 annual budget disbursement. In details, the current expenditure disbursement expanded by 4.6 percent. Its disbursement rate was at 96.1 percent which was lower than the official target at 98.4 percent and the disbursement rate of the last fiscal year at 96.8 percent. Nevertheless, the capital expenditure disbursement declined by 0.1 percent. Its disbursement rate was at 70.5 percent which was lower than the official target at 88.0 percent. The disbursement of the carry-over budget stood at 215.1 billion baht, equivalent to 66.4 percent of the total carry-over budget. State-owned enterprises' capital expenditure budget (excluding PTT) disbursement was expected to disburse at 245.4 billion baht[3], a 9.0 percent increase, and the off-budget loans disbursement amounted to 3.7 billion baht.

The public debt remained under the fiscal prudential framework at 41.5 percent of GDP, compared with a 41.2 percent at the end of September 2017.

Public Debt: at the end of September 2018, it was accumulated at 6.8 trillion baht, equivalent to 41.5 percent of GDP. The public debt was comprised of domestic loans of 6.5 trillion baht (39.9 percent of GDP) and foreign loans of 261.9 billion baht (1.6 percent of GDP)





At the end of the last quarter of fiscal year 2018, the treasury reserve stood at 633.4 billion baht.

Fiscal Balance: in the last quarter of fiscal year 2018, the budgetary balance and non-budgetary balance recorded a surplus of 2.0 billion baht and 91.9 billion baht, respectively. In the meantime, the government conducted a cash balance management through borrowing total of 112.8 billion baht. Therefore, the cash balance after debt financing recorded a net surplus of 206.6 billion baht. At the end of the last quarter of fiscal year 2018, the treasury reserve stood at 633.4 billion baht.

For the whole fiscal year 2018, the budgetary balance recorded a deficit of 624.5 billion baht whereas the non-budgetary balance recorded a surplus of 233.8 billion baht. The government conducted a cash balance management through borrowing total of 500.4 billion baht. Therefore, the cash balance after debt financing recorded a net surplus of 109.7 billion baht.

Financial Conditions:

Thai policy rate remained stable. However, Fed raised its policy rate, while BOJ and PBOC implemented more flexible monetary policy. Nonetheless, India, Indonesia and Philippines increased their policy rates to maintain the stabilities of price and international capital movement.

The policy rate remained unchanged at 1.50 percent per annum throughout the third quarter of 2018.

In both meetings on 8th August and 19th September 2018, the Monetary Policy Committee (MPC) held policy rate at 1.50 percent per annum with the decision based on the assessment that the current policy rate was at an appropriate level to support economic growth and maintain an inflation rate within the target range. Meanwhile, the Federal Reserve (Fed) raised its policy rate to a range of 2.00 – 2.25 percent per annum, which was the third increase in 2018. The decision made under the condition that the US economy continued to expand at stable pace, an inflation rate was consistent with the target rate of 2.00 percent (Core PCE inflation in the third quarter of 2018 was 2.00 percent and the average Core PCE inflation in the first 9 months of 2018 was 1.89 percent), and the unemployment rate was still at low level. Bank of England raised its policy rate from 0.50 percent per annum to 0.75 percent per annum so as to return the inflation rate to the target rate. However, Bank of Japan (BOJ) announced to expand the range

3 The number was included the 22,476.2 million baht of the capital spending allocated from the annual budget.

of 10-year Japanese government bond yields to be more flexible from ±10 bps to ±20 bps. Moreover, People's Bank of China (PBOC) reduced Required Reserve Ratio (RRR) by 1.00 percent to enhance financial market liquidity. Nevertheless, some central banks in the region increased their policy rate in order to control price stabilities and reduce the pressure from capital movement fluctuations. In particular, India, Indonesia and Philippines raised their policy rate by 0.25 percent to 6.50, 5.75 and 4.50 percent per annum, respectively.

In October 2018, Bank of Canada increased its policy rate by 0.25 percent to 1.75 percent per annum to slow down inflation rate, driven by wage inflation.

Policy Interest Rate

(%)	2017					2018						
At the end of period	Year	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Jul	Aug	Sep	Oct
USA	1.25-1.50	0.75-1.00	1.00-1.25	1.00-1.25	1.25-1.50	1.50-1.75	1.75-2.00	2.00-2.25	1.75-2.00	1.75-2.00	2.00-2.25	2.00-2.25
EU	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
England	0.50	0.25	0.25	0.25	0.50	0.50	0.50	0.75	0.50	0.75	0.75	0.75
Japan	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
Canada	1.00	0.50	0.50	1.00	1.00	1.25	1.25	1.50	1.50	1.50	1.50	1.75
Australia	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
New Zealand	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
Russia	7.75	9.75	9.00	8.50	7.75	7.25	7.25	7.50	7.25	7.25	7.50	7.50
China	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35
South Korea	1.50	1.25	1.25	1.25	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
India	6.00	6.25	6.25	6.00	6.00	6.00	6.25	6.50	6.25	6.50	6.50	6.50
Indonesia	4.25	4.75	4.75	4.25	4.25	4.25	5.25	5.75	5.25	5.50	5.75	5.75
Philippines	3.00	3.00	3.00	3.00	3.00	3.00	3.50	4.50	3.50	4.00	4.50	4.50
Malaysia	3.00	3.00	3.00	3.00	3.00	3.25	3.25	3.25	3.25	3.25	3.25	3.25
Thailand	1.50	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

An average deposit and lending rates of commercial banks and SFIs remained stable, while the real deposit and lending rates slightly increased as inflation reduced.

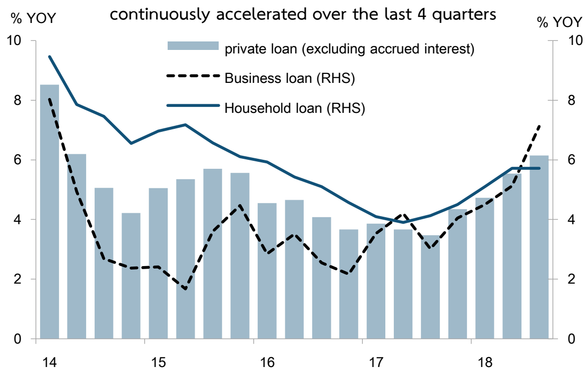
Commercial banks and Specialised Financial Institutions (SFIs) kept their 12-month deposit and lending rates at the same level as in the previous quarter. During the third quarter of 2018, 12-month deposit rate and MLR interest rates remained unchanged at 1.37 and 6.28 percent per annum, respectively. However, the real 12-month deposit and MLR rates slightly increased following a reduction in inflation (headline inflation at the end of the third quarter of 2018 was 1.33 percent declining from 1.38 percent at the end of the second quarter of 2018).

In October 2018, Commercial banks and SFIs' 12-month deposit rates and MLR rates were kept unchanged at the same level as in the third quarter of 2018.

Private loan (excluding accrued interest) of Depository Corporations continuously accelerated over the last 4 quarters.

Private loan (excluding accrued interest) of Depository Corporations continuously accelerated over the last 4 quarters. At the end of the third quarter of 2018, private loan of depository corporations grew by 6.1 percent, accelerated from a 5.5-percent growth in the previous quarter. The loan expansion was mainly driven by the growth of business loan that grew by 7.1 percent, accelerated from a 5.1-percent growth in the previous quarter, especially loan for wholesale & retail and real estate activities. Meanwhile, household loans grew by 5.7 percent, the similar growth rate seen in last quarter. In detail, household loan expanded from housing loan and hire purchase loan. Nevertheless, non-performing loan to total outstanding loan ratio was at 2.95 percent, similar to those in the previous quarter.

Private loan (excluding accrued interest) of Depository Corporations continuously accelerated over the last 4 quarters



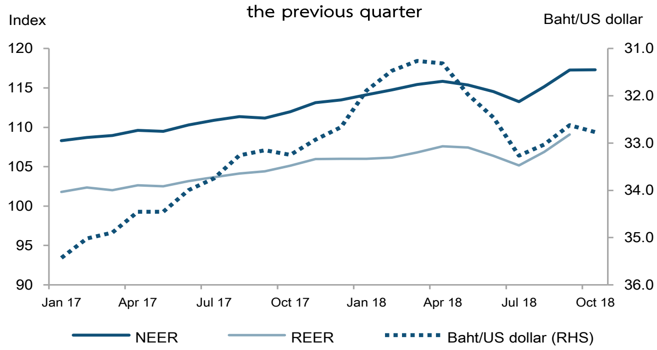
Source: Bank of Thailand

Thai Baht against US Dollar depreciated. During the third quarter of 2018, an average exchange rate was at 32.98 baht per US dollar, depreciating 3.2 percent from the previous quarter. The depreciation was in line with other regional currencies, which partly reflected the concern over the US-China trade tension. As a result, foreign investors reallocated their portfolio investment by selling risky assets in emerging countries and holding safer assets. Another factor pressuring the currency drop was the US dollar appreciation, which was supported by substantially improvement of US economic data. However, during the last two months of the third quarter, Thai Baht rebounded as a result of foreign inflow in Thai bond market, considering Thai bond as a safe haven asset among emerging countries, after a sharp depreciation in Turkish lira. **In the third quarter of 2018, an average Thai baht against trading partners (NEER)**[4] depreciated by 0.02 percent from the previous quarter. This was in line with a 0.07-percent depreciation of the real effective exchange rate (REER).

Thai baht against US dollar depreciated in line with other regional currencies, which had been pressured by the concern over the US-China trade tension.

In October 2018, Thai baht and other regional currencies depreciated due to various risks such as the US-China trade tension and political uncertainty in Europe. These risks were perceived to cause a lower growth of world economy. As a result, investors switched their assets holding back to be safer assets. Therefore, on average, Thai baht in October was at 32.77 baht per US dollar, slightly depreciating 0.4 percent from September average.

Thai Baht depreciated against US dollar from the previous quarter

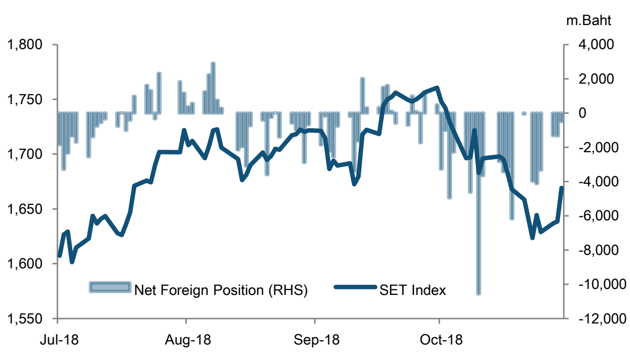


Source : CEIC, Bank of Thailand

SET index improved following the surge of the US index, with fluctuations caused by external factors. In the beginning of the third quarter, SET Index moved upward along with its regional peers. However, a sharp depreciation of Turkish lira and Argentinian peso, together with the escalating tension between the US and China over the trade policy caused risk-off sentiment to global investors in Emerging Market economies (EM), pressuring SET index and other EM indices to move downwardly and become more volatile in August. Nevertheless, SET index rebounded again supported by the improvement of domestic political sentiment in September. At the end of the quarter, SET index closed at 1,756.41 increased by 10.1 percent from 1,595.58 at the end of previous quarter.

SET index became volatile due to external events; however, the index rose at the end of quarter due to domestic factor.

SET Index became more volatile due to global economic and political events



Source: CEIC

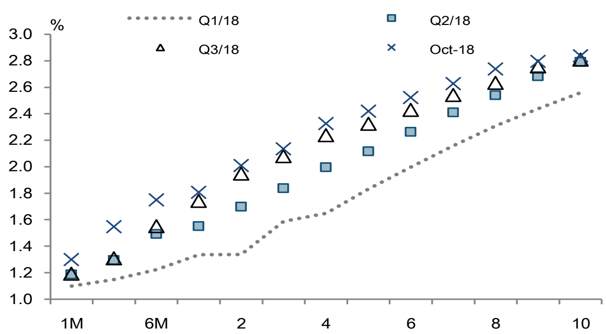
[4] The BOT began using the new NEER and REER in March 2014. The base year would also be changed to 2012, that the indicators could capture the true structure of trade in line with changing international dynamics.

The Thai government bond yields shifted upwardly from the last quarter in almost maturities, especially in medium-term (1–5 years), while the short-term maturities (less than 1 year) were relatively stable. The yields of government bonds rose since the beginning of the quarter followed the movement of the US treasury yields. Moreover, the currency crisis in Turkey and Argentina put upward pressure on the EM government bond yields. In addition, the Thai government bond yields rose further in the early September as global investors reacted to the solid employment conditions of the US economy. Meanwhile, the short-term yields at the end of quarter changed gradually compared to the last quarter. At the end of the quarter, the 2-year and 10-year Thai government bond yield were at 1.95 and 2.81 percent per annum respectively, rose from 1.70 and 2.79 percent per annum at the end of last quarter respectively.

The Thai government bond yield curve shifted upwardly, following the US Treasury yield curve.

In October 2018, SET Index declined caused by investors concerned over the Fed's tightening policy, the slowdown of Chinese economy and the political tension between the US and Saudi Arabia. At the end of the month, SET index closed at 1,669.09. Meanwhile, the government bond yields increased in all maturities especially in short-term yields: the 2-year and 10-year Thai government bond yield were at 2.01 and 2.84 percent per annum respectively, while the 1-month, 3-month and 6-month yield were at 1.30, 1.55 and 1.75 percent per annum respectively.

The Thai government bond yields increased in all maturities



Source: ThaiBMA

Capital and financial account recorded a net outflow of 1.4 billion US dollars in the third quarter of 2018. This was caused by a net outflow of Thai outbound investment, in terms of both Thai Direct Investment and Thai Portfolio Investment. Although, there were a large foreign inflow into Thai bond market in this quarter.

Capital and financial account recorded a net outflow due to Thai outbound investment.

Capital Flow

(Billion USD)	2017					2018					
	Year	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Jul.	Aug.	Sep.
- Direct Investment	-10.6	0.2	-2.8	-1.9	-6.1	-0.5	-0.1	-2.0	0.4	-0.6	-1.8
Thai investor	-18.6	-2.2	-4.5	-4.1	-7.8	-5.1	-2.4	-4.5	-0.3	-1.4	-2.8
Foreign investor	8.0	2.4	1.7	2.2	1.7	4.6	2.3	2.5	0.7	0.8	1.0
- Portfolio Investments	-2.2	-1.3	-1.2	2.4	-2.1	-3.0	-4.1	3.3	-0.7	2.1	1.9
Thai investor	-11.6	-3.6	-2.7	-3.0	-2.3	-2.1	1.5	-1.5	0.2	-1.2	-0.5
Foreign investor	9.4	2.3	1.5	5.4	0.2	-0.9	-5.6	4.8	-0.9	3.3	2.4
Others	0.3	-3.9	-0.9	2.3	3.0	-0.3	-0.9	-2.7	0.0	-2.8	0.1
Capital and financial account	-12.4	-5.1	-4.8	2.7	-5.3	-3.7	-5.1	-1.4	-0.4	-1.2	0.2

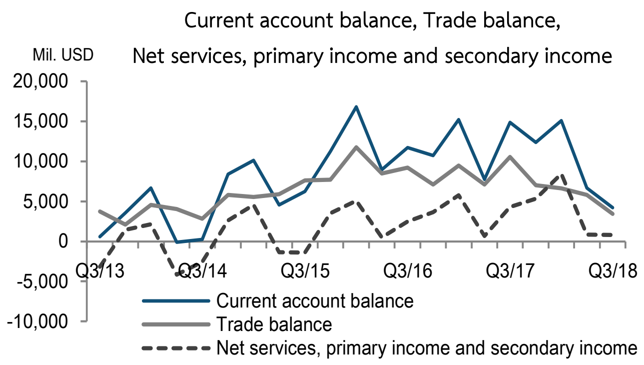
Source: BOT

Current account registered a surplus of 4.2 billion US dollars (138.3 billion baht). This was a result of a trade surplus of 3.4 billion US dollars and a surplus in services, and primary and secondary income of 0.8 billion US dollars.

Current account registered a lower surplus than the same period last year.

International reserve at the end of September 2018 stood at 204.5 billion US dollars (excluding net forward position of 31.9 billion US dollars), which was 3.1 times of short-term foreign debt, and equivalent to an import value of 10.2 months (given the average of import value in the third quarter of 2018).

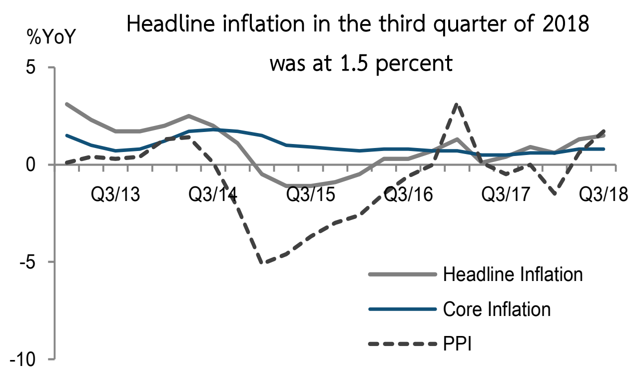
International reserve at the end of September 2018 stood at 204.5 billion US dollars.



Source: Bank of Thailand

Headline inflation: In the third quarter of 2018, average headline inflation was at 1.5 percent, accelerated from 1.3 percent in the previous quarter. **Food-and-Beverage** price index increased by 0.4 percent, compared to 0.5 percent in the previous quarter, due to an increase in prices of rice, flour & cereal products, fish and aquatic animals, and seasonings and condiments. **Non-Food and Beverage** price index increased by 2.2 percent, accelerated from 1.8 percent in the previous quarter as the domestic retail fuel price increased, which caused energy index to increase by 9.1 percent, accelerated from 7.3 percent in the previous quarter. Core inflation was average at 0.8 percent, the same rate seen in the previous quarter.[5]

Headline inflation was at 1.5 percent, accelerated from 1.3 percent in the previous quarter due to the acceleration of Non-Food and Beverage price index.



Source: Ministry of Commerce

Producer Price Index (PPI): In the third quarter of 2018, Producer Price Index increased by 1.7 percent, due to the increase in price of manufactured products and mining products. **The price of manufactured products** rose by 1.6 percent as price of petroleum products hiked. **The price of mining products** increased by 12.0 percent, due to rising price of lignite, petroleum, & natural gas. Meanwhile, **the price of agriculture products** slightly increased by 0.1 percent as price of crops increased.[6]

Producer Price Index (PPI) increased by 1.7 percent due to the increase in price of manufactured products and mining products.

[5] In October 2018, headline inflation was 1.2 percent, Core inflation was 0.7 percent. In the first 10 months of 2018, headline inflation was average at 1.1 percent, Core inflation was average at 0.7 percent.

[6] In October 2018, Producer Price Index (PPI) increased by 1.7 percent. In the first 10 months of 2018, PPI increased by 0.5 percent.

2. Crude Oil price in Q3 of 2018

The crude oil price in the global market rose. In the third quarter of 2018, the average crude oil price in the 4 major markets (Dubai, Oman, Brent, and WTI) stood at 73.53 USD per barrel, increased from the same period last year by 46.1 percent, and from the previous quarter by 2.6 percent.

The major factors contributed to the increase of global crude oil price included (i) the favorably expansion of global economy led by the continued and accelerated growth of the US economy that consequently raised demand for crude oil, in particular, those in the US and China, while demand in Europe and Japan decreased, and (ii) the persistent geopolitical tensions, including the political turmoil in Iraq and Syria, and the US sanction against Iran.

The crude oil price increased due to improvement of the global economy and the influence of geopolitical tensions.

Crude oil price

Year		USD per Barrel					(%YoY)				
		OMAN	DUBAI	BRENT	WTI	Average	OMAN	DUBAI	BRENT	WTI	Average
2016	Year	43.10	45.04	41.40	41.71	42.81	-11.7	-16.0	-18.6	-18.5	-16.3
2017	Q1	51.90	54.60	53.00	53.44	53.24	59.9	55.6	69.4	71.3	63.7
	Q2	48.31	50.92	49.55	49.80	49.65	5.9	8.4	15.1	15.0	11.0
	Q3	48.20	52.22	50.34	50.55	50.33	7.1	11.1	16.8	15.8	12.6
	Q4	55.42	61.55	59.18	59.20	58.84	12.4	20.4	22.8	21.6	19.3
	Year	50.96	54.82	53.02	53.24	53.01	18.2	21.7	28.1	27.7	23.8
2018	Q1	62.90	67.18	63.71	64.04	64.46	21.2	23.0	20.2	19.8	21.1
	Q2	67.89	74.91	71.90	71.93	71.66	40.5	47.1	45.1	44.4	44.3
	Q3	69.61	75.99	74.12	74.41	73.53	44.4	45.5	47.2	47.2	46.1
	Jul.	70.90	75.01	72.95	73.02	72.97	51.4	52.2	53.4	53.5	52.6
	Aug.	67.85	73.84	72.31	72.50	71.62	41.3	42.4	44.2	44.1	43.0
	Sep.	70.08	79.11	77.09	77.73	76.00	40.9	42.5	44.6	44.6	43.2
	9M	66.80	72.69	69.91	70.13	69.88	35.0	38.2	37.2	36.8	36.8
	Oct.	70.81	80.68	79.27	79.95	77.68	37.2	39.9	42.9	44.0	41.1
	10M	67.20	73.49	70.85	71.11	70.66	35.3	38.4	37.8	37.6	37.3

Source: Thaioil Plc and EPPO.

3. The World Economy in Q3 of 2018

The world economy in the third quarter softened, following slower pace of China, Eurozone, Japan, NIEs, and key developing economies. Nevertheless, the US growth remained high and accelerated to reach a 3-year high. The Fed had thus continued its normalization, similar to other key advanced countries. On the contrary, the BOJ and most developing economies maintained their monetary expansion.

The economic improvement and rising inflation prompted several key countries' central banks to continue with their monetary normalization. On the other hand, Japan is still maintaining its expansionary stance.

The world economy in the third quarter of 2018 softened from the previous quarter, following the slower pace of China, Eurozone, Japan, Newly Industrialized Economies (NIEs), and key developing economies. On the contrary, the US economy still performed well and accelerated to the highest rate in 3 years. This has resulted in more growth divergence, amidst the intensifying trade measures and capital movement fluctuations which pressured exchange rate and economic stability in the economies with weak fundamentals.

The accelerated growth of the US economy widened the positive output gap while inflation increased and reached its monetary target. The Fed thus decided to normalize their monetary stance by increasing interest rates and continually reducing its balance sheet size. Similarly, the Bank of Canada and the Bank of England had normalized their monetary policy settings by raising their interests, while the ECB reduced its monthly asset purchases. Meanwhile, trade protectionist measures have been intensifying. On September 7th, the US president announced additional tariffs against imports from China, covering 5,734 products with 200 billion US dollars' worth. The 10.0 percent tariff has been effective since September 24th, and will be raised to 25.0 percent on January 1st, 2019. China has reacted accordingly by imposing tariffs against imports from the US covering 60 billion US dollars' worth of imports.

In the meantime, other major and developing economies are showing signs of deceleration. Given below-target inflation and unease surrounding trade tension, the Bank of Japan (BOJ) and many others developing economies still maintain their monetary expansionary direction. In contrast, some other developing economies continued to raise their rates to alleviate inflationary pressures as well as fluctuations in exchange rate and capital movements arising from rate hikes in advanced economies and rising investors' concerns over more intensifying trade tensions.

The US economy grew by 3.0 percent, the highest in 13 quarters, supported by stronger consumption and investment, while net exports declined. The low unemployment and accelerated wage income would put upward inflationary pressure over the next periods.

The US economy expanded by 3.0 percent (Advance Estimate), accelerating from a 2.9-percent growth in the previous quarter and was the highest growth in 13 quarters. The expansion was supported by expansions in private consumption and total investment. Nevertheless, total exports softened due partly to increase in Chinese tariffs on 50 billion US dollars' worth of US exports, while imports from China accelerated. The US trade deficit with China therefore registered a historical high of 115.6 billion US dollars. However, the ongoing economic growth at a satisfactory pace caused the unemployment rate to remain low at 3.9 percent and the average hourly wage to increase by 3.0 percent, the highest growth rate in 38 quarters. Headline inflation was 2.2 percent, the highest in 26 quarters, and core PCE inflation reached the 2.0–percent target rate. Thus, the Federal Open Market Committee (FOMC) decided to raise the target range for the federal funds rates by 0.25 basis points to 2.00 – 2.25 percent in the meeting on September 25th – 26th, 2018 and also signaled some possible rate hikes during the remainder of this year while in the recent meeting on November 7th – 8th, the rates were kept unchanged.

The Eurozone economy slowed down to the lowest rate in 15 quarters, following the deceleration in manufacturing and service sectors as well as domestic consumption. Nevertheless, unemployment rate declined to a 9-year low while inflation rate reached the monetary policy target for the first time in 23 quarters.

The Eurozone economy expanded by 1.7 percent, softened from 2.2 percent in the previous quarter, and was the lowest rate in 15 quarters. This was mainly due to the slowdowns in manufacturing and service sectors. The deceleration was also because of the weakened domestic consumption in line with weaker business and consumer confidences, partly due to uncertainty in various situations such as Italy's political situation and Brexit negotiations. Nevertheless, the unemployment rate dropped to 8.1 percent, the lowest rate in 9 years. The inflation rate was 2.1 percent, increasing from 1.7 percent in the previous quarter, and above than the monetary policy target of 2.0 percent for the first time in 23 quarters. As a result, in the meeting on October 25th, 2018, the ECB decided to reduce the monthly pace of net asset purchase programme (APP) to 15 billion euro per month starting from October until the end of December 2018, coupled with maintaining its policy rate at least through mid-2019.

The Japanese economy slowed down from the previous quarter following the deceleration of exports and manufacturing. Unemployment and consumer confidence remain favorable. Inflation still remains lower than the policy target.

The Japanese economy expanded by 0.3 percent, less than 1.4 percent in the previous quarter, and was the lowest growth in 14 quarters. The deceleration was attributable to the slowdown in exports, affected by the US-China trade tension and declined services exports. Public and private investment showed a negative growth partly due to the strongest typhoon in 25 years. Nevertheless, the economy was driven by accelerated growths in private consumption, which was in line with favorable labor market conditions and was partially propelled by the planned increase in household spending prior to the consumption tax rate effective in October 2019. The continued expansion maintained the unemployment rate to remain low at 2.4 percent, the lowest level in 8 years. Inflation was 1.1 percent, up from 0.6 percent in the previous quarter, but was still below the 2.0-percent target. In the meeting on October 31st, 2018 , the BOJ agreed to maintain the policy rate and kept the asset purchase policy at the same level.

The Chinese economy grew by 6.5 percent, less than 6.7 percent in the previous quarter. The deceleration was attributable to the slowdown of manufacturing and less contribution from net exports. Export value from China accelerated despite the ongoing implementation of the US trade protectionist measures covering 50 billion US dollars' worth of goods. In September, Chinese exports grew at a 7-month high growth rate of 14.4 percent, while import accelerated to a 6-quarter high growth. On the other hand, investment in fixed assets decelerated as a result of economic rebalancing measures and more restriction in commercial banks' loan provision. In terms of economic stability, credit to non-financial corporations rose to 164.1 percent of GDP. Foreign exchange reserves fell to a 14-month low of 3,087 billion US dollars at the end of September 2018 and capital outflow has been continuing which had thus led to Yuan depreciation. Yuan currency fell by 6.7 percent in comparison to the second quarter, and was a 10-year lowest level. Given these circumstances, on October 7th the People's Bank of China (PBOC) decided to cut the reserve requirement ratio (RRR) to 14.5 percent for the third time after the first two in April and June, and was effective since October 15th, 2018, with key objectives to further increase liquidity in the economy and stimulate small-scaled businesses.

The Chinese economy expanded by 6.5 percent, decelerated with the slower pace of manufacturing and fixed asset investment, as well as less contribution from net exports. Corporate debts remained high and foreign reserves fell, in correspondence to the 10-year low value of Yuan.

The NIEs growth rates slowed down from the preceding quarter. The economies of South Korea, Taiwan, Hong Kong, and Singapore in the third quarter expanded by 2.0, 2.3, 2.9, and 2.6 percent, respectively, in comparison to the second quarter rates of 2.8, 3.3, 3.5 and 4.1, respectively. Softened manufacturing production and exports were the major factors to the slowdown. Similarly, **the ASEAN economies** decelerated owing to weakened exports. Nevertheless, domestic consumption and investment continued to grow at favorable pace, in line with the improvement in the labor market conditions as reflected by low rates of unemployment. The economies of Indonesia, Malaysia, and the Philippines in the third quarter expanded by 5.2, 4.4, and 6.1 percent, respectively, decelerating from the preceding quarter growth rates of 5.3, 4.5, and 6.2 percent, respectively. On the other hand, Vietnam grew by 6.9 percent picking up a faster pace from 6.7 percent, driven by improved export performance. While Malaysia and Indonesia inflation rates declined, the rate in the Philippines reached 9-year high, partially because of the excise tax hike in July 2018.

The NIEs slowed down in line with weaker exports and manufacturing. Most ASEAN economies decelerated following slower export growth. Meanwhile, consumption and investment grew favorably.

GDP growth, Inflation, and Export growth in several key economies

	Export (%YoY)				GDP (%YoY)				Inflation (%YoY)			
	2016	2017	2018		2016	2017	2018		2016	2017	2018	
	Year	Year	Q2	Q3	Year	Year	Q2	Q3	Year	Year	Q2	Q3
USA	-3.6	6.6	11.2	8.0	1.6	2.2	2.9	3.0	1.3	2.1	2.7	2.6
Eurozone	0.1	9.4	12.9	3.5	1.9	2.5	2.2	1.7	0.2	1.5	1.7	2.1
Japan	3.2	8.3	9.4	2.4	1.0	1.7	1.4	0.3	-0.1	0.5	0.6	1.1
China	-7.7	7.9	11.4	11.9	6.7	6.9	6.7	6.5	2.0	1.6	1.8	2.3
Hong Kong	-0.6	7.6	8.1	8.7	2.2	3.8	3.5	2.9	2.4	1.5	2.1	2.5
India	-1.3	13.1	14.5	10.2	7.9	6.2	8.2	-	5.0	3.3	4.8	3.9
Indonesia	-3.4	16.2	11.3	8.5	5.0	5.1	5.3	5.2	3.5	3.8	3.3	3.1
South Korea	-5.9	15.8	3.1	1.7	2.9	3.1	2.8	2.0	1.0	1.9	1.5	1.6
Malaysia	-4.6	14.7	18.8	9.5	4.2	5.9	4.5	4.4	2.1	3.8	1.3	0.5
Philippines	-2.4	19.7	-1.3	0.4	6.9	6.7	6.2	6.1	1.3	2.9	4.8	6.2
Singapore	-5.5	10.4	14.1	12.1	2.4	3.6	4.1	2.6	-0.5	0.6	0.3	0.7
Taiwan	-1.8	13.2	11.2	3.0	1.4	2.9	3.3	2.3	1.4	0.6	1.7	1.7
Thailand	0.1	9.8	12.3	2.6	3.3	3.9	4.6	3.3	0.2	0.7	1.3	1.5
Vietnam	9.0	21.8	9.1	14.3	6.2	6.8	6.7	6.9	2.7	3.5	3.8	4.1

Source: CEIC, compiled by NESDB

4. The World Economic Outlook for 2019

The world economy in 2019 is anticipated to slightly lose its pace led by adjustments to the downtrend of the US economic cycle and the economic deceleration of key countries particularly China, and the Eurozone. Under the adaptation to the escalating trade tensions, economic growth of developing countries and the global trade volume are seen to gradually slow down. Interest rates in the global market still tend to rise following the monetary policy normalization in the US and some key countries in order to curb down the inflationary pressures which have been clearer towards the latter half of 2018. Under the baseline scenario, the world economy and the global trade volume are projected to grow, at the same pace, by 3.8 percent, slowing from 4.0 percent in 2018. The outlook for each key economy is as follows:

The US economy is expected to rise by 2.6 percent, persistently higher than its potential growth. This economic expansion will be supported by: (i) increasing domestic demand, owing to better employment at the above full-employment level, which brought the unemployment rate to its lowest level in 48 years at 3.6 percent in September, and an implementation of the Tax Cuts and Jobs Act of 2017, where individual and corporate income taxes have been reduced; and (ii) higher government investment and consumption, due to the ongoing infrastructure investment projects and a greater government budget deficit framework, compared with that of the previous year. However, the economic expansion tends to decelerate from a 2.8-percent growth in 2018 as consequences of: (i) the expected peak of the economic cycle during the middle of next year; (ii) tighter labor market conditions where employment is higher than full-employment level; (iii) expected increasing impacts of trade protectionism to the manufacturing sector; (iv) the interest rate increases following monetary policy normalization, as to reduce inflationary pressures; and (v) the increases in government bond supply, owing to a reduction in Fed's balance sheet and a higher government budget deficit.

The Eurozone economy is estimated to grow by 1.9 percent, compared to 2.0 percent in 2018. The supporting factors for the growth include improving employment conditions, easing liquidity conditions, and favorable expansion of domestic demand following the improved manufacturing sector. As a result, the unemployment rate in September 2018 decreased to 8.1 percent, the lowest rate in 9 years. Meanwhile, wages tend to rise and inflation rate continues to be higher than its monetary policy target, in line with the above-potential economic growth of the major member economies.

The Japanese economy is expected to expand by 0.9 percent, supported mainly by (i) the inferable increase in production and businesses investment due to adjustments to trade protection measures; (ii) expected higher foreign labors in order to alleviate the impacts from transitioning towards aging society; as well as (iii) the accelerating domestic demand before the consumption tax rate hike becomes effective in October 2019. Nonetheless, contribution from exports is likely to soften following the slowdowns of the US and the Chinese economies, which are Japan's first major export market (shared 19.3 percent of Japan's total export value) and the second major (19.0 percent), respectively. Consequently, the overall economy should be slowly recovering from a growth of 0.8 percent in 2018.

The Chinese economy is estimated to continue its expansion by 6.3 percent. The leading supporting factors include (i) the expected Yuan depreciation, (ii) the rise of investments under the structural reform and the Belt and Road Initiative, (iii) the continual expansion of manufacturing production and exports, and (iv) several government's stimulus policies which will help further sustain growth and reduce pressures from trade tensions including in particular the deduction on comprehensive income and personal tax rates aimed to boost consumption, the relaxation of restrictions regarding infrastructure investments such as public-private partnership (PPP) projects, SFIs credit lending, the expansionary monetary policy through reserve requirement ratio (RRR) cut, and the reduction of import tariffs. However, the economy tends to slow down from a 6.6-percent growth in 2018 following the slower pace of exports and the manufacturing sector as impacts from the trade tension will become more pronounced. Stability of the Chinese economy is also subjected to additional risks arising from production facility relocation and capital outflows during the period of trade redirection and supply chain adjustments.

The NIEs tend to gradually slow down due to the moderation of global growth and the US-China trade protection which will pose some impacts on exports to show some slowdown during the initial phase of trade redirection and supply chain adjustments. It is expected that these changes, coupled with manufacturing facility relocation, are expected to increasingly crystalize and help reduce impacts from the global slowdown and the trade measures from the latter half of 2019. The output levels of the Hong Kong, Singapore, South Korea, and Taiwan economies are estimated to rise by 3.4, 3.4, 2.4, and 2.6 percent, respectively, sequentially from the growth rates of 3.7, 3.5, 2.6, and 2.8 in 2018. Similarly, **the ASEAN economies** are expected to grow at slower pace due to the deceleration of exports, following the economic growth deceleration of trading partners especially the US and China. In addition, domestic demand is likely to face headwinds from the 2018 policy interest rate increases, which were for inflationary pressures cushioning and currency stabilization. Nevertheless, changes in international trade direction and global supply chain as a result of implemented trade protection have turned out to generate some positive spillovers to some countries in the second half of 2018 and are expected to continue throughout 2019, particularly for Vietnam and Cambodia. These will offset the negative impacts from the global slowdown and will support their economic growth in the upcoming periods. In the base case, Indonesia, the Philippines, Malaysia, and Vietnam are projected to expand by 5.0, 6.1, 4.6, and 6.6 percent, slower from the 2018 rates of 5.2, 6.3, 4.7, and 6.9 percent, respectively.

With the above-potential growth of the US and Eurozone economies projected in 2018, above-target inflation during mid-2018, and continual expansion with above-potential level throughout 2019, it is expected that the Fed and the ECB will continue their monetary normalization. Under the base case, it is anticipated that the Fed will raise the rate 1 time during the rest of 2018 and 2 more during the first half of 2019 which will thus lead the rate to reach 2.75 – 3.00 percent in June, and the real rate to be at the neutral rate of interest. After such period, it is possible for them to stop rate hikes for a while during the second half to see economic impacts. Correspondingly, yields on the 10-year US treasury notes will progressively rise following greater positive output gap and growing bond supplies to fund the expected fiscal deficit with the 1 trillion US dollars' worth as well as the central bank's balance sheet reduction. The ECB expects to halt its monthly 15 billion euro asset purchases by the end of 2018 and tends to hike its policy rate once within 2018 given that the fiscal risks posed by Italy soften. Similarly, the Bank of England should be raising its prime rate once the Brexit negotiations proceed smoothly. On the other hand, the Bank of Japan is not likely to change their expansionary stance until inflation starts to surge and reach the 2.0-percent monetary target, coupled with proper plans for monetary policy normalization. The directions of these key economies' monetary policies push the interest rates in the global market into a rising trend and tend to continuously pressure the developing economies, especially those with relatively weak economic fundamentals and those with additional negative impacts from trade tensions. Sequentially, these developing countries will experience some difficulties to adjust their monetary policy settings to normalize. These conditions give rise to the expectation that the US dollar will continually appreciate, with respect to other currencies.

Notwithstanding, there remains some challenges from the high and rising volatility in the global financial system compared to 2018 which will make the global economic and trade volume growths as well as monetary policy directions and exchange rate to diverge from the baseline forecasts. Key risks that are needed to be consistently monitored are as follows: (i) the uncertainties revolving around the US trade protectionist measures with possible further trade tension with China as well as other countries such as the Europeans and Japan, together with potential retaliation responses from China, and the result of the USMCA negotiation. All of which could undermine economic sentiments and limit global economic and trade expansion; (ii) the slowdown of Chinese economy and its instability risks posed by economic imbalances, which will be intensified by the trade tension as well as capital and production facility relocation; (iii) concerns over economic stability of major developing and emerging economies (Turkey, Argentina, Brazil, and South Africa) which could be amplified during the on-going rising US interest rates and global slowdown; (iv) non-aligned US political policy directions between the Democrat party and the Republican party, which could obstruct resolutions to the US debt ceiling and may lead to government shutdown; (v) possibilities that the UK may leave the EU without reaching an agreement (No Deal Brexit); (vi) Italy's plan to increase public spending and budget deficit amidst the high public debt, which may lead to sovereign bond downgrade and adversely affect overall sentiment and unity of the Eurozone; and (vii) oil price volatility which remains upon the OPEC's decision on production cut and the US's exemption on 8 oil importers from Iran including China, India, Greece, Italy, Taiwan, Japan, Turkey, and South Korea, as well as the unity of OPEC and the geopolitical risk among the Middle East countries.

5. Thai Economic Outlook for 2018

The Thai economy in 2018 is projected to grow by 4.2 percent, improving from 3.9 percent and 3.3 percent in 2017 and 2016, respectively. Average headline inflation is expected to be at 1.1 percent and the current account balance will register a surplus of 6.4 percent to GDP, comparing with a surplus of 11.0 percent to GDP in 2017.

In the press release dated on 19th November 2018, NESDB forecasted that the Thai economy will expand by 4.2 percent, the lower bound of the projection range of 4.2 – 4.7 percent in the press release dated on 20th August 2018. Several growth components have been adjusted to be in line with the actual data from the first 3 quarters and projection assumption revisions. Major justifications of the forecast revision are as follows:

1) The Thai economy in the third quarter expanded at a slower pace than expected, due to the fact that: (1) export growth was below estimation, especially the contraction of 5.5 percent in September as a result of: (i) the recent trade protection measures under the second phase in which the US imposed 10-percent tariffs on 5,734 products with 200 billion US dollars' worth of import from China, effective on September 24th and will be raised to 25 percent effective on January 1st, 2019, which were not incorporated in the projection assumption in the August 20th forecast. Obviously, the recent tariff measure on the third phase covered a significant larger share of import products, in comparison to the first phase on 50 billion US dollars. All of these events are resulting in extensive adjustments on international trade and supply chain, especially between the US and China. This was in line with a 14.1-percent decline in Thai exports to China and a 1.2-percent growth of Thai exports to the US while export value to those countries highly dependent on China also declined. On the other hand, Thai exports to other markets still expand favorably; (ii) the decline in car exports to several key markets, as a result of model changes, and the slowdowns of key importers' economies which impacted by increasing concerns over the trade measures and interest rates hike. These were in line with the decline in car sales in several key markets and the decline of car production in major manufacturing countries; and (2) the number of and revenue from tourists were sluggish and less than previously assumed. This is especially because of the declined in number of tourists from China as a result of the July boat capsize, and from Russia and Europe due to the World Cup during June to July 2018. With lower-than-expected export and tourist growth, the overall economy exhibited a slowdown with 3.3 percent growth in the third quarter. Taken into account the 2 preceding quarters, the Thai economy expanded by 4.3 percent, below the midpoint of the projected growth range of 4.2 - 4.7 percent in the previous forecast. Over the rest of 2018, it is expected that trade and international supply chain will remain under their adjustment processes, and will put some pressures on Thai exports and the growth of the Thai economy as well as other economies. However, without additional trade protection measures, it is expected that those pressures will subside along with more progresses on adjustments of international trade and supply chain. Recent October figure also showed that export value of China and South Korea speeded up. Nevertheless, numbers of foreign tourist tend to show a slower-than-expected recovery pace while impacts from car model changes tend to become lessen when the new car models launch into the market. Apparently, the number of commercial car sales in Australia imported from Thailand recovered, as signaled in October data. These conditions should support the overall Thai economic growth to reach the lower bound of the previous projection, at 4.2 percent.

2) Adjustments of growth components to be in line with the first 3 quarters of 2018 actual data and revision of key projection assumptions consist of:

   (1) Downward revision on global growth and export price projections in 2018 from 4.1 and 4.0 percent in the preceding projection to 4.0 and 3.7 percent, respectively. The modification is justified by the slower-than-expected growth performance of key trading partners as well as lower-than-expect export prices. This is in line with the increasing pressures from trade protection measures and slowdown trend of the global economy, which could limit the growth pace of export value during the rest of the year to be lower than previously expected. These factors, together with the impacts from international trade and supply chain adjustments as stated in 1), account for the 2018 export value forecast revision to be lower than in the previous projection.

   (2) Downward revision on revenue from foreign tourists from 2.15 trillion baht (an 11.4-percent growth) in the previous assumption to 2.05 trillion baht (a 6.1-percent growth). This is due to the greater-than-expected fall in the number of Chinese and European tourists in the third quarter as well as the slow recovery pace during the rest of 2018. These will result in less growth contribution from services exports compared to the previous projection.

   (3) Downward revision on public investment growth to be in line with the actual disbursement rates. Specifically, the fourth quarter disbursement of the FY2018 annual government budget (including the FY2018 supplementary budget) was at 19.9 percent, lower than 23.5 percent previously assumed.

   (4) Upward revision on private consumption growth in line with higher-than-expected growth in the third quarter and the expected continual strong expansion in the last quarter of 2018.

6. Thai Economic Outlook for 2019

The Thai economy in 2019 will experience challenges posed by global economic and financial volatilities. Nevertheless, under the baseline scenario, it is expected that the Thai economy will grow at favorable pace driven by improving domestic demand including private consumption, private and public investment, together with a recovery of tourism sector. In addition, the redirection of trade policy as well as international supply chain will ease the strains from the global economic slowdown and impacts from trade protectionist measures on Thai exports. However, the volatility of the global economy and the financial market still needs close surveillance.

Supporting factors for the economic growth:

1) **Private consumption tends to keep its growth momentum**, and correspondingly support the overall economic expansion. Particularly, it grew with stronger rates by 3.7 percent in the first quarter and up to 4.5 and 5.0 percent in the following quarters of 2018. These improvements were in line with (i) the overall improvement of income conditions, especially those related to tourism, exports, and manufacturing sectors in the preceding period, (ii) the improvement of income base of those in the agricultural sector in line with 2-quarter consecutive growths in farmer income's index, and (iii) the stronger employment conditions as observed that the number of employed persons rose for 2 consecutive quarters. Specifically, this is the first time in 22 quarters to be comprised positive growths of employed persons both in the agricultural and non-agricultural sectors. In addition, the unemployment rate was also lowest in 8 quarters. Latest October data also revealed that the employed persons continued to grow by 2.6 percent. the employment in the agricultural sector reached 5-month high with 3.7 percent growth and the employment in the non-agricultural sector increased by 2.1 percent, contributed by the 63-month high of 7.1 percent growth of those employed in manufacturing production. As such, the improvement of both income base and the number of employed persons will become key driver to further support the growth dynamics of private consumption and the overall economic activities, particularly under the currently low levels of interests and inflation, new car model launches, and the end of five-year ownership requirement under the first-car buyer scheme.

2) **Investment tends to show a further improvement led by accelerated growth of public investment. Specifically, key public infrastructure projects have made significant progresses and entered into the construction phase, including:** (i) 14 projects under the Transport Action Plan Year 2016 that have been under construction (705,451 million baht investment value), compared with the 8 projects in the same period last year (442,388 million baht). Key newly construction-started projects include Bangkok – Nakhon Ratchasima train route (Thai – China Cooperation), 3 dual track rail projects (Lopburi – Pak Nam Pho, Mab Kabao – Jira, and Nakorn Pathom – Chumporn), and MRT pink and yellow lines. Moreover, 3 projects have been under the bidding and contract signing processes (399,706 million baht); (ii) 5 projects under the Transport Action Plan Year 2017 that have been under construction (3,592 million baht), 4 projects have been under the bidding and contract signing processes (42,391 million baht), and 1 project was approved by the Cabinet, namely the Den Chai – Chiang Rai – Chiang Khong dual track rail project (85,345 million baht), and; (iii) 5 projects under the EEC initiative that have sizably progressed faster than originally planned. All projects have been approved by the Cabinet, and the High-Speed Rail Linked 3 Airport Project (Don Muang – Suvarnabhumi – U-Tapao) has been under bidding process and the contract signing. The rest of other 4 projects are expected to have their contracts signed by February 2019, namely the U-Tapao Repair, Maintenance, and Overhaul (MRO) Center, the development of U-Tapao International Airport and the establishment of the Aerotropolis, Phase 3 Laem Chabang Seaport development, and Phase 3 Map Ta Phut Port development. Likewise, **private investment** tends to accelerate gradually. The growth will be supported by: (i) increases in capacity utilization, where the average level over the first 9 months of 2018 reached 68.5 percent and its level is expected to continually increase throughout 2019, following upward growth trend in manufacturing production, especially those industries whose exports would benefit from heated trade tensions between the US and China; and (ii) the progress of public investment projects, which starts to further support the expansion of private investment, as in the third quarter of 2018 that the private investment in the construction sector experienced a stronger growth.

Progresses of Key Public Infrastructure Investment Projects

Major public infrastructure investment projects' progresses have been satisfactory, and thus it is expected that the disbursement figures for these projects will keep rising accordingly. As of 11th November 2018, there are 19 projects, with the total budget of 709,043 million, under the 2016 Transport Action Plan (20 projects in total) and the 2017 Transport Action Plan (36 projects in total), which have been proceeded into the construction phase. These are divided into: (i) 14 projects in the 2016 Transport Action Plan with the total investment value of 705,451 million baht such as the Pattaya – Map Ta Phut intercity motorway, the Bang Pa In – Nakhon Ratchasima intercity motorway, and the Nakhon Pathom – Chumporn dual track railways; (ii) 5 projects in the 2017 Transport Action Plan with the total investment value of 3,592 million baht; and (iii) key infrastructure investment projects under the Eastern Economic Corridor Plan (EEC). As of 12th November 2018, State Railway of Thailand started the bidding process for the construction of high speed train project linking 3 major airports (Don Muang - Suvarnabhumi - U Tapao) with the total investment value of 224,544 million baht. The State Railway of Thailand expected that the project will be signed and approved by both the EEC Policy Committee and the Cabinet within January 2019. In addition, the Aircraft Maintenance, Repair and Overhaul (MRO) project is under PPP consideration and the 3rd phase of Laem Chabang (LCB) Port project has recently undergone market sounding and is expected to enter the construction phase by February 2019.

Furthermore, there are 9 projects under the 2018 Transport Action Plan with the total investment value of 489,366 million baht. Most of the projects are under consideration by the State Enterprise Policy Committee and the Cabinet. It is expected that the projects will be approved and the construction process will be commenced in late 2018 and the middle of next year. This progress is thus expected to support overall investment to further expand continually.

Progress of 20 Public Investment Projects under the Transport Action Plan Year 2016 (1,383,938.89 MB. Budget*)

Project	Budget (MB.)	Progress (Percent)
Dual-track rail: Jira – Khon Kaen	23,803	81.05
Coastal port (Port A) at Laem Chabang Port	1,864	100.00
Container depot at Laem Chabang: Stage I	2,031	98.80
Intercity motorway: Pattaya – Map Ta Phut	17,819	93.29
Intercity Motorway: Bang Pa In – Nakhon Ratchasima	76,600	53.17
Mass Rapid Transit Orange Line: Thailand Cultural Centre – Minburi	109,541	18.33
Meter gauge (1 meter) rail development Prachuab – Chumporn	17,250	46.95
Meter gauge (1 meter) rail development Mab Kabao – Jira	29,499	13.54
Meter gauge (1 meter) rail development Lopburi – Pak Nam Pho	24,722	6.98
Train route: Bangkok – Nakhon Ratchasima (Thai – China Cooperation)	179,413	Construction started
Intercity Motorway: Bang Yai – Kanchanaburi	49,120	14.03
Mass Rapid Transit Pink Line: Khae Rai – Minburi	56,691	Site entry
Mass Rapid Transit Yellow Line: Lat Phrao – Samrong	54,644	Site entry
Suvarnabhumi airport: Stage II	62,503	87.39

Under Construction 705,451 MB.

Bidding Process 399,706 MB.
- MRT Light Red Line and Dark Red Line 44,158 MB.
- MRT Purple Line: Tao Pun – Rat Burana 131,004 MB.
- The High-Speed Rail Linked 3 Airport Project (Don Muang – Suvarnabhumi – U-Tapao) 224,544 MB.

MOT / SEPO / NESDB Consideration Process 94,673 MB.
- High-speed train route: Bangkok – Hua Hin 94,673 ลบ.
- High-speed train route: Bangkok – Phitsanulok (Thai – Japan Cooperation) N/A

Study / Survey / EIA / PPP 152,528 MB.
- High-speed train route: Bangkok – Rayong 152,528 ลบ.

*Initially 1,796,385 MB. from 1 Dec 2015 cabinet decisions

Source: Ministry of Transport as of 5 November 2018

Progress of 36 Public Investment Projects under the Transport Action Plan Year 2017 (895,757.55 MB. Budget*)

Project	Budget (MB.)
Ferry Service across Gulf of Thailand	N/A
Common Ticket System	738
Truck rest area on the main routes	480
Intermodal Facility at Chiang Khong, Chiang Rai	2,219
Regional airport: Mae Sod, Tak	430
Regional airport: Betong, Yala	350
Regional airport: Sakon Nakorn	113
Express Way Rama 3 – Dao Kanong – Outer Ring (West)	31,244
Baggage System Upgrade at Suvarnabhumi airport	3,264
Krabi Airport	3,876
Aircraft Maintenance, Repair, and Overhaul Facility Development at U-Tapao Airport	4,007
Dual Track Rail: Den Chai – Chiang Rai – Chiang Khong	85,345
Regional Logistics Center in 7 border cities	8,121
Regional Logistics Center in 5 regional cities	8,606
MRT Orange Line: Taling Chan – Thailand Cultural Centre	120,459
Mass Transit in Phuket	30,155
Lam Cha Bang port: Phase 3	91
Development of Ferry Terminal, Golf of Thailand	982

In Service 738 MB.

Under Construction 3,592 MB.

Bidding Process 42,391 MB.

Cabinet Approval Process 85,345 MB.

Study / Survey / EIA / PPP 257,566 MB.

MOT / SEPO / NESDB Consideration Process 464,634 MB.

Project	Budget (MB.)
Cross-border Logistics Center, Nakorn Phanom	1,169
Intercity Motorway (Nakorn Phatom – Cha Am)	80,600
Expressway Kratu – Patong, Phuket	14,177
Dual Track Rail: Paknampho – Den Chai	62,614
Dual Track Rail: Jira – Ubonratchathani	37,524
Dual Track Rail: Khonkaen – Nong Khai	26,654
Dual Track Rail: Chumporn – Surat Thani	24,287
Dual Track Rail: Surat Thani – Songkhla	57,369
Dual Track Rail: Hat Yai – Padang Beza	8,116
Dual Track Rail: Den Chai – Chiang Mai	59,915
Dual Track Rail: Ban Pai –Nakorn Phanom	67,965
Commuter Train Dark Red Line: Rangsit – Thammasat University Rangsit	6,570
MRT Light Red Line Extension: Taling Chan – Siriraj and Taling Chan – Salaya	17,672
Public Bus Procurement and Stations	572
MRT Blue Line: Bang kae – Sai 4	21,197
MRT Dark Green Line: Samutprakarn – Bang Pu	9,530
MRT Dark Green Line: Kukot – Lumluka	9,803
Mass Rapid Transit: Dark Green Samutprakarn – Bang Pu	30,500
Northern Route N2 and E-W Corridor	17,551

*13 Dec 2016 cabinet decisions **Double Track Rail Network: Huahin – Prachuap Khiri Khan in reported in AP 2016

Source: Ministry of Transport as of 5 November 2018

Progress of 9 Public Investment Projects under the Transport Action Plan Year 2018 (489,366.30 MB. Budget)

Bidding Process 2,043 MB.
- 01 Regional airport development: Khon Kaen 2,043 MB.

Study / Survey / EIA / PPP 483,116 MB.
- 02 489 NGV Public buses 1,891 MB.
- 03 Intercity Motorway: Rangsit – Bang Pa-In 29,400 MB.
- 04 Intercity Motorway: Thonburi – Pak Tho 43,000 MB.
- 05 High-speed train route: Bangkok – Chiang Mai 272,226 MB.
- 06 Mass Transit in Chiang Mai 107,233 MB.
- 07 Mass Transit in Nakhon Ratchasima 13,593 MB.
- 08 Mass Transit in Khon Kaen 13,947 MB.
- 09 Dry Port Khon Kaen 1,826 MB.

Source: Ministry of Transport as of 5 November 2018

3) **A recovery in the tourism sector will contribute more to the overall economy.** During the second half of 2018 as well as the whole year, the number of foreign tourists and income receipts remained below normal trend, mainly caused by: (i) a lower-than-normal growth in numbers of inbound tourists from Russia and other European countries owing to the 2018 FIFA World Cup organized in Russia during June – July 2018. This event had resulted in fewer Russian tourists traveling abroad and more other European tourists changing their destination to Russia. The number of European tourists, which accounts for 18.4 percent of total tourists in Thailand, grew only by 4.8 percent during the first 9 months of 2018, far less than a growth of 10.1 percent in the same period of last year, and; (ii) a decline in numbers of Chinese tourists, which shared 27.7 percent of total inbound tourist, with a contraction of 9.5 percent in the third quarter, compared to an average growth in the third quarter of the previous two years of 13.2 percent. However, the Thai government has been tackling this problem by ensuring standards for tourist safety and an additional advocate of Thailand's tourism sector targeting Chinese and other major countries. Thus, once combined with a recovery in the number of European tourists, it is expected that the total number of tourists will bounce back to its normal trend by the end of the first quarter of 2019 and, as a result, would support the economic growth in 2019 significantly.

4) **Exports continue to exhibit a satisfactory growth and continually buttress economic performance.** This is in spite of the deceleration of the global economy in 2018 resulted from wearing economic growth in the US and other major economies as well as the impacts from trade tensions. Under the baseline assumption that there will be no additional trade protectionist measures other than those already announced by the end of the third quarter of 2018, it is expected that the world economy and trade volume in 2019 will grow by 3.8 and 3.8 percent, respectively. These growth paces of world economy and trade volume will continue to support the Thai exports and overall economic expansion.

5) **Redirection of international trade, global manufacturing, and foreign investment will become more apparent, as a result of the trade protectionism and retaliation between the major advanced economies.** Consequently, the world economy and world trade volumes are likely to slow down and would therefore affect economic growth of export-dependent developing countries, particularly during the early implementation phase of trade barriers and counter measures as the trade and supply chain adaptive capability may be limited. However, without additional trade protection measures, it is expected that the trade and supply chain system will be able to adjust and thus will start to positively affect the Thai economy. A number of products and sectors will likely gain some benefits from the changes in trade direction and supply chain both in terms of rising exports and capacity utilization during the first half of the year as well as production base relocation that is expected to be more pronounced in the second half of the year. Based on information from various sources, it is more evident that the trade barriers have become the main reasons for entrepreneurs to start planning for their production base relocation since the second quarter of 2018. The major destinations for relocation are, for example, the ASEAN countries, India, Mexico, and Bangladesh. Such redirection of global trade and international supply chain will not only reduce the adverse impacts to the Thai economy from the slowdown of world economy, but it will also provide opportunities for Thailand to further drive domestic investment to enhance long-term potential growth, particularly under the progress of major public infrastructure projects including transportation projects, the Eastern Economic Corridor (EEC) and Special Economic Zones (SEZs).

Revisit the Plaza and Louvre Accords

During the meeting of the group of seven major advanced nations (G7) at the Plaza Hotel in New York City on 22nd September 1985, the agreement was signed by 5 countries in order to intervene international currency markets for the first time under the so-called Plaza Accord agreement, which later on led to another agreement to help stabilize the currency markets in 1987 under the so-called Louvre Accord agreement. The purpose was to help the US to devalue its currency, especially against the Japanese Yen and the German Deutsche Mark, due to the US current account deficit approaching estimated 3 percent to GDP and also to help the US and some of the other European G7 members economies to emerge from a serious economic recession that began in the early 1980s. As a result of the currency intervention under the Plaza Accord agreement, the Japanese Yen appreciated from 260 Yen/USD to 140 Yen/USD. This sudden raise in Japanese currency caused the Japanese export prices to surge and severely affected Japanese production and export sectors, especially automobile and electronics industries. Therefore, Japanese firms had to relocate their production base towards ASEAN countries, at which the cost of production was much lower (especially Thailand which received a lot of benefits from the relocation). This was a crucial factor for ASEAN countries economies (consisted of 5 countries at that time: Singapore, Malaysia, Indonesia, Philippines, and Thailand) to experience stronger growth and, as a consequence, further develop their countries at fast paces in following periods, although the overall economies decelerated during the first year of exchange rate intervention.

Compare with the current situation, the US trade protectionism measures against China and the Chinese counter measurements have started to cause some firms to relocate their production bases in the similar way to those under the effects of Plaza and Louvre Accords. Recent data suggested that the global economy and world trade volume started to be on a slowdown trend which, in turn, will affect the growth of developing countries, especially those with a high export dependency, including Thailand. In the meantime, the effects of imposing higher tariff rates between the US and China would raise the cost of raw materials that are imported from one another and thus Chinese products in the US market will relatively become more expensive. Thus, under these conditions, there would be changes in the trade direction as already seen in some large US companies that start to shift their import markets of ready-made garments and household goods from China to, instead, more from Vietnam, Cambodia and other countries. At the same time, foreign entrepreneurs in China are also planning to relocate their production bases to avoid impacts of the US trade barriers against China. Key relocation destinations include ASEAN countries (Brunei, Cambodia, Thailand, Laos, Malaysia, Myanmar, the Philippines, Singapore, Vietnam, and Indonesia) as well as other countries such as Mexico, India and Bangladesh. It is expected that the trend of this production base relocation will be more pronounced in the second half of 2019, especially under such circumstance that trade tensions escalate.

ASEAN 5 economic growth rate

	1980 - 1984	1985	1986	1987	1988	1989	1990	1991
Singapore	9.0	-0.7	1.3	10.8	11.1	10.2	10.0	6.7
Malaysia	6.9	-0.9	1.2	5.4	9.9	9.1	9.0	9.5
Philippines	1.3	-7.3	3.4	4.3	6.8	6.2	3.0	-0.6
Indonesia	6.3	3.9	7.2	6.6	7.0	9.1	9.0	8.9
Thailand	5.4	4.6	5.5	9.5	13.3	12.2	11.6	8.4

Source: IMF and calculated by NESDB

Potential firms to relocate their production bases

	Destination	Products
Japanese firms		
Nidec	Mexico	Automobile and parts, and air conditioner
Panasonic	Thailand, Malaysia, Mexico	In-vehicle devices
Yokowo	Vietnam	Automotive antenna components
Sumitomo Electric Industries	ASEAN countries	Automotive-use electrical wires
Daikin Industries	Thailand, Malaysia	Compressors
Chinese firms		
TCL	Mexico	Televisions
Shandong Linglong Tire	Serbia	Tires
Zhejiang Hailide New Material	Vietnam	Polyester
GoerTek	Vietnam	Wireless headphone for Apple
Taiwanese firms		
Pegatron	Taiwan	Routers
Delta Electronics Inc.	Thailand, India, Slovakia	Supplies power components for Apple
US firms		
Harley Davidson Inc.	Thailand	Motorcycles
Steven Madden Ltd.	Cambodia	Shoes and accessories
Kayamatics	Malaysia	IOT
Merry Electronics Co.	Thailand	Headphones for Bose Corp.

Sources: Bloomberg, Nikkei Asian Review and American Chamber of Commerce

In all, changes in investment direction and relocation of production bases, caused by the ongoing trade tension between the US and China, might be comparable to the incidents under the Plaza and Louvre Accord agreements. Nevertheless, differences in economic conditions and environments between the current period and the past would lessen benefits that Thailand could receive from the effects of the production base relocation. In addition, more robust growth of the Thai economy after the Plaza and Louvre Accord had also contributed by many other factors including the discovery of natural gas in the Thai gulf, the development of petrochemical industries with high value-added and forward linkage, and Thailand's comparative advantage in terms of labor force and geographic location compared to other regional countries. However, this is considered to be a crucial opportunity for Thailand to further drive investment and support development of key target industries in order to upgrade long-term potential of the Thai economy.

Limitation and Risk Factors:

1) **The global economy and financial system are likely to be vulnerable to fluctuations and lower-than-anticipated economic growth.** Key risk factors include: (i) the uncertainty of trade protection and reciprocal retaliation, with additional US trade restrictions imposed on China and its other trade partners, including the EU and Japan, as well as the uncertainty of trade negotiation outturn under USMCA framework, and the possible extension of Chinese countermeasures. These aforementioned trade barriers would negatively affect trading-partner economies, world trade volume, global economy, and Thai exports to grow slower than expected; (ii) the slowdown trend of the Chinese economy and the risk of instability from imbalanced economy, which might be aggravated by trade protection measures, together with capital movements and manufacturing relocation; (iii) economic instability in some emerging economies that could be worsened during the Fed's normalizing process amid the global economic downturn; (iv) non-aligned US political policy directions between the Democrat party and the Republican party that would hinder the resolution to the US public debt ceiling and may lead to the government shutdown; (v) the risk that the UK may not be able to reach an agreement on the exit from EU (No Deal Brexit); (vi) Italian government's plan increase public spending that causes higher budget deficit amidst the high public debt, which may lead to sovereign bond downgrade and adversely affect overall sentiment and unity of the Eurozone; and (vii) oil price volatility which remains upon the OPEC's decision on production capacity and the US's exemption on 8 oil importers from Iran including China, India, Greece, Italy, Taiwan, Japan, Turkey and South Korea, as well as the unity of OPEC.

2) **The possible delay in the recovery of tourist arrival numbers.** Although numbers of Russian, European, and Chinese tourists are expected to improve and return to the normal level within the second quarter of 2019, there may be some possibilities that the recovery process will be slower than expected, partly under the slowdown of the Chinese economy and the Yuan depreciation.

3) **The global interest rates may rise faster than economic fundamental,** which would affect the recovery of major advanced economies. In particular, the US trade protectionism policies ultimately increased its production cost, and in turn lead to higher-than-expected inflation, together with increasing global bond supply from the US budget deficit, the Fed balance sheet reduction, and the expected completion of ECB asset purchase program, would thus lead to a faster-than-expected rise in the US fund rate as well as the US and the global bond yields.

Key assumptions for 2019 economic projection:

World Economic Projection

	Actual Data		Projection on Nov 19, 2018	
	2016	2017	2018	2019
World Economic Growth (%)[1]	3.5	4.1	4.0	3.8
USA	1.6	2.2	2.8	2.6
Eurozone	1.9	2.5	2.0	1.9
Japan	1.0	1.7	0.8	0.9
China	6.7	6.9	6.6	6.3
World Trade Volume (%)	2.2	5.1	4.0	3.8
Exchange Rate (Baht/US dollar)	35.29	33.93	32.3	32.5 – 33.5
Dubai Crude Oil (US Dollar/Barrel)	41.4	53.0	70.5	70.0 – 80.0
Export Price (US Dollar) (%)	-0.4	3.6	3.7	1.0 – 2.0
Import Price (US Dollar) (%)	-2.7	5.5	6.0	1.5 – 2.5
Income from Tourism (Trillion baht)	1.72	1.93	2.05	2.24

Source: NESDB

[1] World economic calculated by trade weight of key economic partners in 2017 (15 economies)

1) **The world economy in 2019 is expected to grow by 3.8 percent, decelerating from a 4.0-percent growth rate in 2018.** This growth is led by the decelerating economic expansion in the US, China, and the EU. **In case of no additional US's trade protectionist measures and China's countermeasures**, the US economy is expected to expand by 2.6 percent in 2019, decelerating from 2.8 percent in 2018. The slowdown in the US economy is due to the downturn of US economic cycle after the economic growth was above the full-employment rate, the impacts of trade measures, and the changes in monetary policy directions. Regarding the prospect of the Chinese economy, it is expected to grow by 6.3 percent, decelerated from 6.6 percent, following the implementation of economic restructuring policy and the impacts of trade protection measures, resulting in a slowdown of exports, production, and investment. The Eurozone economy is projected to expand by 1.9 percent, decelerating from 2.0 percent in 2018, following the decelerating economic expansion in the US and China, which are the Eurozone's important trade partners and the impacts of monetary policy normalization. **The world trade volume in 2019 is projected to expand by 3.8 percent, decelerating from a 4.0-percent growth rate in 2018** mainly due to the decelerating economic expansion in major economies and the impacts of trade protection. The deceleration of the world trade volume could lead to the economic slowdown in other major economies and developing economies, especially in export-oriented economies. However, there are several risk factors which could lead to the lower world economic expansion and world trade volume than assumed, including: (i) increasing US's trade protectionist measures and expanding China's countermeasures; (ii) the pressures on China economic stability resulted from trade tensions as well as capital and production facility relocation; (iii) economic instabilities in countries with weak economic fundamentals; (iv) increasing Italy's government expenditure and budget deficit; and (v) the risk of a no-deal British departure from the EU (No Deal Brexit).

2) **The average value of Thai baht in 2019 is expected to be in the range of 32.5 – 33.5 baht per US dollar, depreciated from 32.3 per US dollar in 2018** following: (i) the Fed monetary policy tightening, including, under baseline scenario, raising its policy rate in December 2018 with 3 more hikes in 2019, and increasing of long-term treasury yield driven by the Fed balance sheet normalization and the US fiscal 6-year high deficit of 779 billion US dollars of FY2018; (ii) depreciation of the Chinese Yuan and other regional currencies due to the slowdown of the Chinese economy and the impact of trade protectionist measures; and (iii) a gradual decline of Thai current account surplus. However, the depreciation trend of the Thai baht tends to be within a limited range due to the investors' expectation on Thai interest rate policy and strong macroeconomic fundamentals, including high current account surplus, ample foreign reserves, and sound level of public debt. All of which allow investors to perceive Thailand as a regional safe haven.

3) **The average Dubai crude oil price in 2019 is expected to be in the range of 70.0 – 80.0 US dollar per barrel, a gradual rise from 70.5 US dollar per barrel in 2018.** Supporting factors for the higher oil price are: (i) increasing oil demand as a result of a favorable global economic expansion; (ii) expectations, regarding OPEC's upcoming meeting in December 2018, that it will cut oil production by 1.4 million barrels per day; (iii) the expiration of the waiver for 8 countries importing

Iranian oil (Under the US sanction against Iran) on May 2019, which will lead to the reduction of Iran crude oil supply; and (iv) the reduction of crude oil supply from the economic and political difficulties in Venezuela. Nevertheless, there are some factors that might cause oil price to increase gradually, including: (i) concerns over intensified trade protection that could contribute to the lower-than-expected crude oil demand and world economic growth; (ii) an expansion of oil production from non-OPEC countries (as indicated by the highest number of US's operating oil rigs in the past 3 year); and (iii) the US dollar appreciation in response to the policy rate hikes.

4) **The export and import price in US dollar term are expected to increase by 1.0 – 2.0 and 1.5 - 2.5 percent, respectively,** decelerated from 3.7 and 6.0 percent in 2018, respectively. This is in line with the world oil price assumption that it will rise at a slower pace from 32.9 percent in 2018 to 6.5 percent in 2019 and in line with the deceleration of world economic growth and world trade volumes, and intensifying trade measures. These will pressure the world commodity prices to increase at a slower rate, including primary products, raw materials, and manufacturing products.

5) **Revenues from foreign tourists in 2019 are expected to reach 2.24 trillion baht, increasing by 9.2 percent from 2.05 trillion baht in 2018,** with the following key supporting factors: (i) the return to normal trend of tourists, especially from Russia and Europe after the contraction which was attributed by the 2018 World Cup taken place in Russia, leading to an increase in the number of European tourists to Russia. It is expected that the number of tourists from Russia to Thailand will resume to its normal growth in early 2019; (ii) the government's measure on safety and on tourism sector stimulation will likely lead to the expansion of Chinese tourists within the first quarter of 2019, after the contraction in 2018, and also be the contributing factor for the expansion in the number of tourists from other origins; and (iii) Thailand is still regarded as one of the world's important tourism destination.

6) **The budget disbursement** assumptions are as follows: (i) the FY2019 annual budget disbursement rate of 93.0 percent of overall budget, compared with 91.5 percent in the previous fiscal year; (ii) state-owned enterprises' capital budget disbursement of 80.0 percent; (iii) carry-over budget disbursement of 75.0 percent; and (iv) annual budget disbursement in the first quarter of FY2019 (October – December 2018) of 30.3 percent.

Economic Projection for 2019:

The Thai economy is projected to expand in the range of 3.5 – 4.5 percent (with the midpoint of 4.0 percent), slightly slow down from 4.2 percent in 2018. Headline inflation is estimated to be in the range of 0.7 – 1.7 percent and the current account balance is forecasted to register a surplus of 5.8 percent of GDP.

Key components of the economic growth :

1) **Consumption: Private consumption expenditure** is estimated to grow by 4.2 percent, compared to 4.7 percent in 2018. The continued expansion is supported by the favorable improvement of overall income conditions in manufacturing, tourism-related, service, and agricultural sector: which is in line with the strengthening employment conditions as observed in the third quarter of 2018 that the employed persons has been increasing for 2 consecutive quarters resulting from increase in both agricultural and non-agricultural sector for the first time in 22 quarters, while the unemployment rate declined to the lowest level in 8 quarters[7]. In addition, interest rates and inflation continue to remain low, together with further contribution from the end of five-year continuous single-ownership condition under the first-time car buying scheme and the new cars launches which will help support private consumption. **Government consumption expenditure** is anticipated to expand by 2.2 percent, accelerated from 1.5 percent in 2018.
2) **Total investment** is projected to expand by 5.1 percent, accelerating from 3.6 percent in 2018. **Public investment** is expected to grow by 6.2 percent, up from 5.0 percent in 2018, mainly supported by an increase in the FY2019 annual capital budget framework of 20.1 percent compare to that of FY2018, favorable progress of strategic infrastructure projects which have continued to enter construction phase which will bring about a speed up in budget disbursement of state-owned enterprises. **Private investment** is expected to expand by 4.7 percent, accelerating from a 3.7-percent growth in 2018, supporting by: (i) an increase in capacity utilization rate in those industries with higher than 75 percent rate[8] as well as those industries that tend to have greater opportunity from the trade tensions between the US and China; (ii) the progress of public infrastructure projects which has begun to further support constructions of private sector; and (iii) the likelihood of manufacturing base relocation of foreign firms to Thailand due to escalating trade protection measures among advanced economies which would expect to exhibit a clearer direction in the second half of 2019.
3) **Export value of goods in US dollar term** is expected to grow by 4.6 percent, compared to a 7.2-percent growth in 2018. It is projected that the export volumes are going to grow by 3.1 percent, softened from a 3.5-percent growth in 2018 following the slowdown of the global economy and trade volumes in 2019. The export price is expected to increase by 1.5 percent, decelerated from a 3.7-growth in 2018 due to slow increase in global crude oil prices, resulting in a slowdown trend of export value from last year. However, export of services tend to expand further both in term of revenues and the number of tourists which is expected to recover during the first quarter of 2019 and will show stronger expansion in the second half of the year. It is projected that export quantity of goods and services will thus expand by 3.9 percent, compared to 3.6 percent in 2018.
4) **Import value of goods in US dollar term** is anticipated to grow by 6.5 percent, compared to a 16.2-percent growth in 2018. The import quantity in 2019 is expected to grow by 4.5 percent following expansions in export quantity, private consumption, and total investment. The import price is expected to increase by 2.0 percent, softened from a 6.0-percent growth in 2018. Combining with import of services, it is projected that import quantity of goods and services will expand by 4.2 percent, compared to 8.6 percent in 2018.
5) **Trade balance** is estimated to register a surplus of 14.9 billion US dollars, lower than a surplus of 18.5 billion US dollars in 2018. The smaller surplus is because the import value is expected to grow faster than export value. After combining with projection on service account surplus, **the current account** is projected to register a surplus of approximately 30.7 billion US dollars (5.8 percent of GDP), compared to a surplus of 32.6 billion US dollars (6.4 percent of GDP) in 2018.
6) **Economic stability will remain sound**: the headline inflation rate in 2019 is expected to be in the range of 0.7 – 1.7 percent, increase gradually from 1.1 percent in 2018.

[7] Recent October 2018 figure showed that total employment grew by 2.6 percent in which the employment in agriculture grew by 3.7 percent, highest rate in 5 months. Meanwhile, the employment in non-agriculture grew by 2.1 percent, especially in manufacturing sector which increased by 7.1 percent, the highest rate in 63 months.

[8] In the third quarter of 2018, the average capacity utilization rate stood at 66.5%, there were 5 industries which have 60 - 75 percent capacity utilization rate. They consist of motorcycles (70.7%), wearing apparel (69.5%), rubber tires and tubes (64.6%), plastic products (64.0%) and articles of concrete, cement and plaster (63.3%). Industries with above 75 percent of capacity utilization rate consist of rubber and plastics products (97.4%), motor vehicles (90.6%), refined petroleum products (85.9%), Processing and preserving of meat (81.6%), electronic components and boards (78.7%), computers and peripheral equipment (78.0%).

7. Economic Management for the year 2019

The Thai economy in 2019 tends to continually improve supported by expanding domestic demand in 2018, which is expected to continue throughout next year. Private consumption tends to strengthen further in line with the improvement of wages and employment conditions. Public investment is likely to accelerate further following the progress of key infrastructure projects, while private investment tends to expand well, following increases in capacity utilization, and international trade and production redirection. Meanwhile, the recovery of the tourism sector could be slower than expected and exports may soften due to the global slowdown and escalating trade protection. However, a clearer direction of global trade and supply chain tends to be opportunity for boosting exports, production, and investment, in order to offset the impact of economic slowdown and to enhance potential economic growth in the long run. Given these conditions, the macroeconomic policy management should emphasize:

1) **Sustaining the expansion of tourism sector**, including: (i) restoring confidence of Chinese tourists to the normal level within the first quarter of 2019; (ii) improving tourist safety standard in key tourist destinations; (iii) promoting tourism packages targeted at high-income and long-distance tourists; (iv) reducing congestion in major tourist attractions; (v) improving distribution of tourism revenue to secondary cities and local communities; and (vi) connecting Thailand with other key destinations in the region.

2) **Fostering exports expansion to meet the target growth rate**, through: (i) leveraging opportunity from products that are subjected to tariffs in the trade tension between the US and China, together with encouraging multi-national manufacturers whose production bases are both in Thailand and countries subjected to the tariff increase to utilize capacity from Thailand; (ii) monitoring key import products which are subjected to the tariffs as they could be re-channeled to the Thai market; (iii) operating foreign trade policies to closely abide by the world trade rules and key trading partners' regulations and guidelines including the US Generalized System of Preference (GPS); and (iv) providing mitigating measures to support manufacturers and exporters who have been affected directly and indirectly by the trade protection measures.

3) **Encouraging private investment** by: (i) fostering expansion of export sectors; (ii) encouraging investors to establish production base in Thailand by promoting investment privileges, competency of transport and logistics system, and progresses of the Eastern Seaboard development program (ESB); (iii) steering public infrastructure projects and special economic zones to be implemented as planned; and (iv) ensuring investors' confidence regarding the continuity of the government's key policies and key investment projects after the transition period to the general election, in order to build investors' confidence.

4) **Supporting small farmers, low income groups, and strengthening the SMEs, local enterprises, and local economies**: through **(1) Agricultural Production and Income,** by: (i) solving problems on agricultural products whose prices remain low and tend not to recover soon enough, especially rubber, due to slowdown in global economy and softened demand for automobiles from global monetary policy tightening and trade protection, and palm oil due to high level of inventory, the EU's plan to reduce palm oil as bioenergy sources, and decreasing prices of soybeans and soybean oil from trade measures; and (ii) supporting large-scale farming and enhancing farmers' income distribution; **(2) Supporting Low Incomes, Local Economies and SMEs,** by: (i) pursuing the ongoing social welfare smart card project; and (ii) providing financial measures to attenuate debt burdens and lessen constraints on fund accessibility for small farmers, low income groups, local enterprises, and SMEs, particularly those who are vulnerable to the uptrend in commodity prices and interest rates; and **(3) Assist and Develop Affected SMEs** from changes in business models, disruptive technologies, consumer preferences, and demography, as well as foreign exchange volatility, by emphasizing: (i) encouraging SMEs to fully utilize benefits from government's measures on financial credit provisioning, currency appreciation impact mitigation, and SMEs promotion and development; (ii) encouraging SMEs to improve their processes particularly on production, managerial, and marketing development towards more advance technology, as well as developing their products and services to match with the market demand; and (iii) establishing linkages between SMEs and larger-scale businesses.

5) **Expediting the public investment to continue its expansion and reach the target** by: (i) expediting the FY2019 government's and state-owned enterprises' capital budget disbursement to reach the disbursement rates of no less than 75.0 (17.0 for the first quarter) and 80.0 percent, respectively; (ii) speeding up the capital budget disbursement of the FY2019 carry-over budget framework to reach the disbursement rates of no lower than 75.0 as well as the non-budgetary budget of 8,031.6 million baht; (iii) driving key infrastructure projects to enter into the construction phase as planned; (iv) promoting incentive measures to continually attract investors to investment in the Eastern Economic Corridor (EEC) and Special Economic Zones (SEZs); and (v) formulating and expediting transportation and logistics infrastructure projects as well as urban and special economic zone areas development plans at both regional and provincial levels in order to bolster economic expansions and economic activities distribution.

6) **Preparing the labor force, both in terms of quantity and quality,** to adequately support further economic expansion and investment, especially for those industries with rising capacity utilization. The measures should also target industries leveraging opportunities from international manufacturing facility relocation as well as Thailand's target industries.

Projection for 2018 - 2019 [1]

	Actual Data		Projection		
	2016	2017	2018		2019
			Aug 20, 2018	Nov 19, 2018	Nov 19, 2018
GDP (at current prices: Bil. Bht)	14,533.5	15,452.9	16,426.4	16,349.1	17,330.1
GDP per capita (Bht per year)	215,454.6	228,412.0	242,166.5	241,027.4	254,891.8
GDP (at current prices: Bil. USD)	411.7	455.3	513.3	506.2	525.2
GDP per capita (USD per year)	6,103.9	6,730.2	7,567.7	7,462.1	7,724.0
GDP Growth (CVM, %)	3.3	3.9	4.2 - 4.7	4.2	3.5 - 4.5
Gross Fixed Capital Formation (CVM, %)	2.8	0.9	4.4	3.6	5.1
Private (CVM, %)	0.5	1.7	3.9	3.7	4.7
Public (CVM, %)	9.5	-1.2	7.3	5.0	6.2
Private Consumption (CVM, %)	3.0	3.2	4.1	4.7	4.2
Government Consumption (CVM, %)	2.2	0.5	2.2	1.5	2.2
Export volume of goods & services (%)	2.8	5.5	5.9	3.6	3.9
Export value of goods (Bil. USD)	214.3	235.3	258.8	252.2	263.8
Growth rate (%)[2/]	0.1	9.8	10.0	7.2	4.6
Growth rate (Volume, %)[2/]	0.5	6.0	6.0	3.5	3.1
Import volume of goods & services (%)	-1.0	6.8	7.2	8.6	4.2
Import value of goods (Bil. USD)	177.7	201.1	232.1	233.7	248.9
Growth rate (%)[2/]	-5.1	13.2	15.4	16.2	6.5
Growth rate (Volume, %)[2/]	-2.5	7.2	9.4	9.7	4.5
Trade balance (Bil. USD)	36.5	34.2	26.7	18.5	14.9
Current account balance (Bil. USD)	48.2	50.2	43.1	32.6	30.7
Current account to GDP (%)	11.7	11.0	8.4	6.4	5.8
Inflation (%)					
CPI	0.2	0.7	0.9 - 1.4	1.1	0.7 - 1.7
GDP Deflator	2.4	2.3	1.5 - 2.0	1.6	1.5 - 2.5

Source: Office of the National Economic and Social Development Board, 19th November 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.