



# NESDB ECONOMIC REPORT



## Thai Economic Performance in Q2 and Outlook for 2016

Macroeconomic Strategy and Planning Office

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Economic Projection of 2016

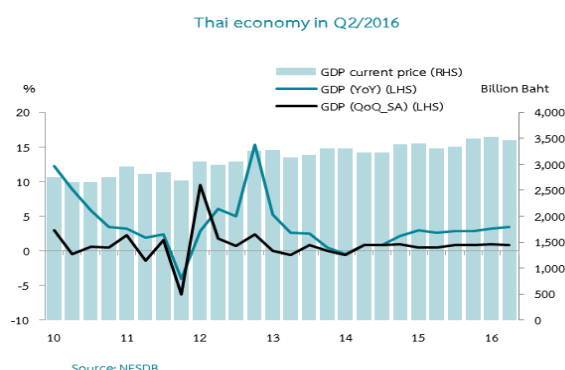
(%YoY)	2015		2016		
	Q4	Year	Q1	Q2	Year(f)
GDP (CVM)	2.8	2.8	3.2	3.5	3.0-3.5
Total Investment	9.4	4.7	4.9	2.7	3.3
Private	1.9	-2.0	2.1	0.1	1.5
Public	41.2	29.8	13.3	10.4	10.0
Private Consumption	2.6	2.1	2.3	3.8	2.7
Public Consumption	4.8	2.2	8.0	2.2	3.9
Export of Goods <sup>1</sup>	-7.9	-5.6	-1.4	-3.1	-1.9
Volume <sup>1</sup>	-5.4	-3.4	1.1	-2.3	-0.9
Import of Goods <sup>1</sup>	-13.2	-11.3	-14.4	-7.8	-6.1
Volume <sup>1</sup>	-2.4	-0.6	-7.3	-3.0	-2.6
Current Account to	10.8	8.0	16.7	8.5	9.8
GDP (%)					
Inflation	-0.9	-0.9	-0.5	0.3	0.1-0.6

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

- ❑ **The Thai economy in the second quarter of 2016** expanded by 3.5 percent, higher than 3.2 percent growth in the first quarter. After seasonal adjustment, the Thai economy in the second quarter expanded by 0.8 percent from the first quarter (QoQ\_SA). Hence **the first half of 2016 registered** 3.4 percent growth.
- ❑ **The expenditure side** was supported by acceleration in private consumption. Export of services and public investment also grew favorably. Meanwhile, exports of goods contracted due to the economic deceleration in key trading partners. On **the production side**, hotel and restaurants sector and construction sector continued to grow at high rates. Manufacturing turned to record positive growth. There was an improvement in the agricultural sector as the impact from drought began to subside. Meanwhile, agricultural prices increased, leading to an increase in farm income for the first time in 10 quarters.
- ❑ **The Thai economy in 2016** is projected to grow in the range of 3.0 - 3.5 percent, improving from 2.8 percent in 2015. The supporting factors for growth includes (i) expanding of government expenditure and the progress of infrastructure investment plan; (ii) the drive from the additional measures of the government's stimulus package launched during September 2015 - April 2016; (iii) number of inbound tourists is expected to continue to grow; (iv) crude oil price is expected to remain low; and (v) the considerable improvement in farm income which was supported by improvements in agricultural production and key agricultural prices. It is forecasted that export value will fall by 1.9 percent, private consumption and total investment will increase by 2.7 and 3.3 percent, respectively. Headline inflation is expected to lie between 0.1 - 0.6 percent. The current account balance is forecasted to register a surplus of 9.8 percent of GDP.
- ❑ **Economic management in 2016** should focus on (i) achieving target of public spending and the implementation of key public infrastructure according to their action plans; (ii) the implementation of key measures under the economic stimulus package already approved; (iii) assisting farmers and preparing them for the plantation in 2016/2017 season, by emphasizing access to loans by farmers for the new growing season, closely monitoring prices of essential farming factors, implementing cooperation or co-production project, using crop insurance, and marketing and relevant measures to handle the produce after the harvesting season; (iv) supporting the recovery and the expansion of private investment by promoting and supporting investors to efficiently utilize investment privileges already approved by the cabinet, encouraging investment in the projects already received incentive approval, and developing key economic areas; (v) facilitating and promoting the export sector by supporting exporters in managing the risks from fluctuation and appreciation of the Thai baht, implementing measures under Thailand's International Trade Strategies 2016 especially by promoting and facilitating border trade promotion within CLMV, seeking new potential markets in those service sector that Thailand has advantages and being known for excellence, and enhancing flexibility and efficiency of government's operational process and regulations; and (vi) enhancing confidence in the tourism and investment sectors.

## The Thai economy in the second quarter and the outlook for the remaining of 2016

The Thai economy in the second quarter of 2016 expanded by 3.5 percent, accelerating from a 3.2-percent growth in previous quarter. **The expenditure side** was supported by acceleration in private consumption. Export of services and public investment grew substantially. Meanwhile, export of goods contracted due to the economic deceleration in key trading partners. **On the production side**, most of non-agricultural sector expanded. In particular, hotel and restaurants sector and construction sector continued to grow at a high rate and the industrial sector expanded once again. There was an improvement in the agricultural sector as the impact from drought began to subside. Meanwhile, agricultural prices increased, leading to an increase in farm income for the first time in 10 quarters. After seasonal adjustment, the Thai economy in the second quarter expanded by 0.8 percent (QoQ\_SA) from the first quarter of 2016. In the first half of 2016, The Thai economy grew by 3.4 percent, improving from a 2.8-percent growth in the same period last year and 2.8 percent in the second half of 2015.



### Thai economy in the second quarter of 2016

- 1) **Private consumption** rose by 3.8 percent compared with a 2.3-percent expansion in previous quarter. The supporting factors for such growth is from the increase in expenditure on durable goods. In particular, the sales of passenger cars rose for the first time in 13 quarters by 4.8 percent, compared with a 26.6-percent contraction in last quarter. This was partly due to launches of new car models and aggressive marketing campaign. Meanwhile, consumption of other products continued to grow, including household electricity consumption, VAT of hotel and restaurant index (at 2010 price), sales of benzene (and gasohol) and diesel. The improvement of household consumption in this quarter was in accordance with the improved farm income and the government stimulus package. Confidence Index pertaining the overall economic situation stood at 61.1, compared with 63.4 in the previous quarter.

**In the first half of 2016**, private consumption rose by 3.1 percent, improving from a 2.1-percent expansion in the same period last year.

- 2) **Total investment** grew by 2.7 percent, compared with 4.9 percent in previous quarter. **Public investment** grew by 10.4 percent, due to growth in investment by the government and State-Owned Enterprises of 11.5 and 8.2 percent, respectively. **Private investment** increased by 0.1 percent, compared with 2.1 percent in the last quarter. This was due to the 2.1-contraction in investments in construction. Meanwhile, investment in machinery and equipment continued to grow by 0.7 percent. Business Sentiment Index (BSI) stood at 50.0, compared with the level of 49.4 in the last quarter.

**In the first half of 2016**, total investment rose by 3.8 percent, with 11.8 and 1.1 percent growth in public investment and private investment respectively;

- 3) **Export** value was recorded at 51.0 billion US dollars, representing a 3.1 percent contraction, compared with a decline of 1.4 percent in previous quarter. This was due to unfavorable economic conditions of key trading partners and the decline in export prices. Export quantity fell by 2.3 percent, whereas export price contracted by 0.8 percent. Exports whose values declined include rice, rubber, tapioca, petroleum products, chemicals, and petro-chemical products. On the other hand, exports of which values increased include passenger cars, air-conditioners, and crustaceans. Exports to US and Australia expanded, while exports to Japan, EU (15), China, and ASEAN (9) declined. Export value, excluding unwrought gold, contracted by 5.0 percent. In baht term, the

value of export was recorded at 1,801 billion baht, increasing by 2.8 percent, compared with a growth of 7.7 percent in the previous quarter.

**In the first half of 2016**, export value was recorded at 103.3 billion US dollars, which is a 2.2 percent contraction. Export volume decreased by 0.6 percent and export price decreased by 1.6 percent. **In baht term**, the value of export was recorded at 3,663 billion baht, expanded by 5.2 percent.

- 4) **Industrial sector** increased by 2.0 percent, accelerating from a 0.2-percent drop in the previous quarter. This was due to the growth in car production and machinery and parts production, especially air conditioner. **Industries with positive growth** includes machinery and parts, tobacco, and vehicle. **Industries which experienced contraction** includes clothing, hard disk drive, and office machinery. The Capacity Utilization Rate (CAPU) stood at 64.4 percent, comparing with 63.6 percent in the same period last year.

**In the first half of 2016**, industrial sector expanded by 0.9 percent while Manufacturing Production Index (MPI) grew by 0.2 percent. The Capacity Utilization Rate (CAPU) stood at 66.6 percent.

- 5) **Hotel and restaurants sector** expanded by 12.7 percent, compared with a 15.8 percent growth in the previous quarter. Number of inbound tourists stood at 7.6 million persons, or an 8.2 percent growth owing to the increasing number of tourists from most regions, except for Oceania. The highest numbers of inbound tourists were from China, Malaysia, India, Lao PDR and Japan, respectively. The tourism revenue amounted to 387.6 billion baht, increasing by 14.7 percent. The average occupancy rate was at 58.3 percent, comparable to 58.4 percent in the same period last year.

**In the first half of 2016**, hotel and restaurants sector expanded by 14.3 percent, number of inbound tourists increased by 12.0 percent growth, the tourism revenue amounted to 881.9 billion baht, the average occupancy rate was at 64.1 percent

- 6) **Construction sector** expanded by 7.5 percent, compared with an 11.2-percent growth in the previous quarter. Public construction rose by 15.5 percent, (government project rose by 15.8 percent, and state enterprises increased by 14.7 percent), compared with a 17.2 percent growth in the previous quarter. Meanwhile, the private construction declined by 2.1 percent, compared with a 7.0 percent growth in the previous quarter.

**In the first half of 2016**, construction sector expanded by 9.3 percent contributed by 16.4 percent growth in public construction and 2.2 percent expansion in private construction.

- 7) **Agricultural sector** dropped by 0.1 percent, improving from a 1.4-percent contraction in the previous quarter as the impact from drought subsided. The crops with an increase in production include cassava. Agricultural Price Index increased by 4.9 percent. The increases of major agricultural prices supported higher farm income which rose by 3.7 percent (in this quarter, agricultural prices and farm income both increased for the first time in ten quarters).

**In the first half of 2016**, agricultural sector dropped by 0.8 percent, Agricultural Production Index, Agricultural Price Index, and farmers' income dropped by 3.8, 0.3 and 4.1 percent, respectively.

### Economic Outlook for 2016

**NESDB projects that the Thai economy in 2016 will grow in the range of 3.0 – 3.5 percent, improving from 2.8 percent in 2015.** This is the same as the forecast made on 16 May 2016. The supporting factors for growth includes (i) government expenditure and public investment which is projected to remain at a high level throughout the year. In the second half of 2016, it is expected that there will be budget disbursement of 1.65 trillion Baht. Meanwhile, investment projects on infrastructure development are making good progress as planned; (ii) the drive from the additional measures of the government's stimulus package launched during September 2015 – April 2016. In the remaining of 2016, the disbursement from the packages is expected to be 100.5 billion baht; (iii) number of inbound tourists is expected to continue to grow at a favorable rate; (iv) the crude oil price is expected to remain low. This will positively affect real purchasing power of households and reduces costs of production of private sector and facilitates the ongoing accommodative monetary policy; and (v) the considerable improvement in farm income which would be supported by the end of drought and improvement of agricultural prices. For growth components, it is forecasted that export value will fall by 1.9 percent, private consumption and total investment will increase by 2.7 and 3.3 percent, respectively. Headline inflation is expected to lie between 0.1 – 0.6 percent. The current account balance is forecasted to register a surplus of 9.8 percent of GDP.

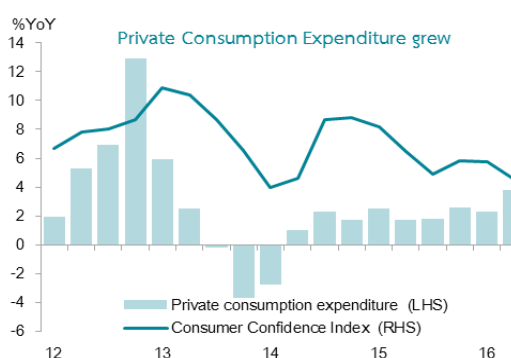


## 1. The Thai Economy in Q1/2016

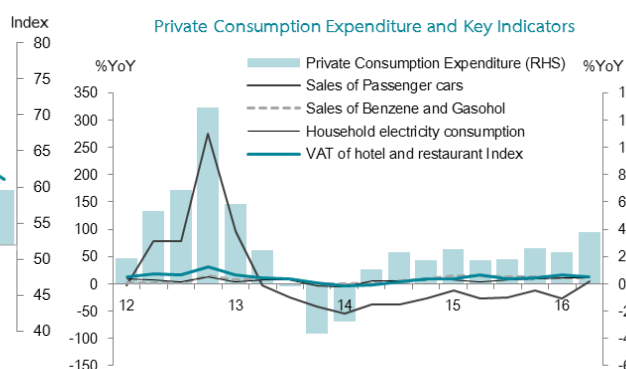
### ❑ Expenditure Side:

**Private consumption expenditure: accelerated due to an expansion in consumption expenditure on durable goods and a continuous growth of non-durable goods.** In the second quarter of 2016, private consumption expenditure rose by 3.8 percent, which improved from a 2.3 percent expansion last quarter, owing to an accelerated expansion of consumption expenditure on durable goods. In particular, the sales of passenger cars rose by 4.8 percent, recovering from a 26.6 percent contraction last quarter and expanding again for the first time in 13 quarters, partly due to launches of new car models and sales promoted competition among car companies. Meanwhile, consumption of consumer products, particularly non-durable products, continued to increase. Household electricity consumption, VAT of hotel and restaurant index (at 2010 price), Sales of benzene (and gasohol) and diesel increased by 10.3, 11.9, 10.4 and 3.9 percent, respectively. The improvement of household consumption in this quarter was in accordance with the improved farm income and the government stimulus package. Consumer Confidence Index pertaining the overall economic situation stood at 61.1, compared with 63.4 in the previous quarter.

**For the first half of 2016,** Private consumption expenditure rose by 3.1 percent, improving from 2.1 percent expansion in the same period last year.



Source: NESDB, University of the Thai Chamber of Commerce



Source: NESDB, Department of Energy Business

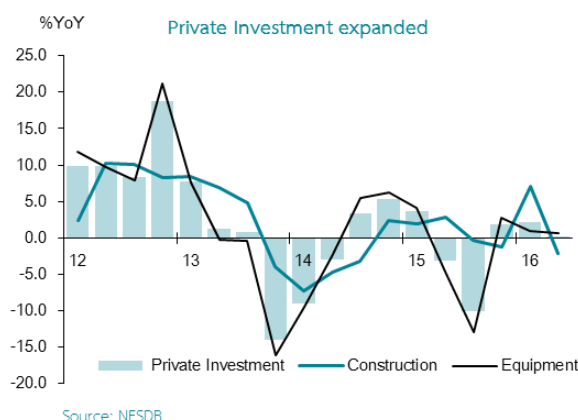
**Private investment: continued to increase, supported by investments in machinery and equipment. However, investments in construction contracted.** In the second quarter of 2016, private investment increased by 0.1 percent, compared with 2.1 percent in the last quarter. **The investment in machinery and equipment** rose by 0.7 percent, compared with a 0.9-percent growth last quarter. This is consistent with the expansion of domestic sales of machinery and equipment and commercial car sales, which expanded by 9.3 and 12.4 percent respectively. **The investments in construction** shrank by 2.1 percent, compared with the 7.0 percent expansion in the last quarter. This is consistent with the decrease in the sales of cement and tile which decreased by 0.1 and 5.0 percent, respectively. Also, the permitted construction area, which decreased by 22.5 percent in this quarter. The value of projects applied for the investment promotion made to Board of Investment (BOI) in this quarter was recorded at 220 billion baht, increasing by 418.9 percent and improving from the 191.6 percent expansion in the last quarter. The Business Sentiment Index (BSI) stood at 50.0, compared with the level of 49.9 in the last quarter.

**For In the first half of 2016,** private investment rose by 1.1 percent. Investments in machinery and equipment increased by 0.8 percent, and investments in construction grew by 2.2 percent.

*In Q2/2016, private consumption accelerated; in addition, services export as well as public investment expanded solidly. However, goods export continued to decline.*

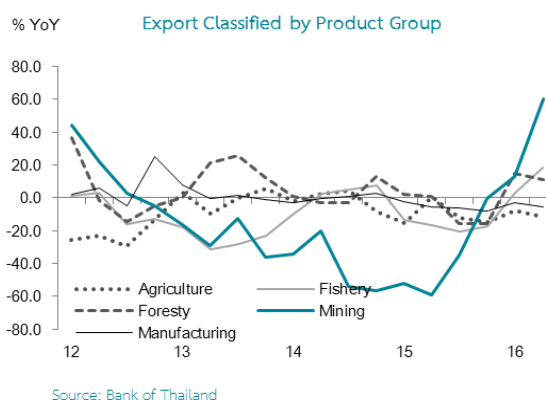
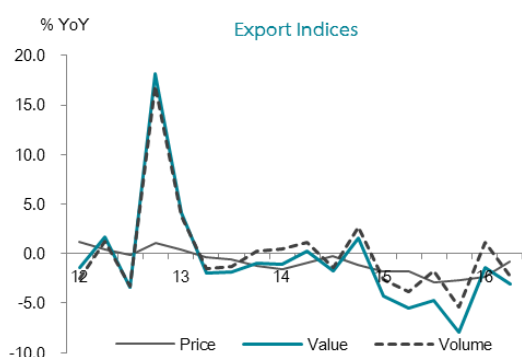
*Private consumption expenditure accelerated, growing at 3.8 percent, due to an expansion of consumption expenditure on durable goods, especially from sales of passenger cars.*

*Private investment rose by 0.1 percent, with an increase in investments in machinery and equipment and a decline in investments in construction..*



**Exports in US dollar term contracted due to the economic deceleration in key trading partners and the fall in export prices. However, exports in Thai baht term grew in line with Thai baht depreciation.** Export value in the second quarter of 2016 was recorded at 51.0 billion US dollars, representing a 3.1 percent contraction, compared with a decline of 1.4 percent in previous quarter. The export quantity fell by 2.3 percent, whereas export price contracted by 0.8 percent. Such decline was a consequence of (i) unfavorable economic conditions of key trading partners, especially ASEAN, Japan and China; and (ii) the decline in export prices which fell with the price of crude oil and commodity prices in the global market, particularly chemical products (by 5.8 percent, with 3.0 percent share of total export), refined fuels (by 4.7 percent, with 2.5 percent share) rubber (by 15.5 percent, with 2.0 percent share), rice (by 5.6 percent, with 1.9 percent share), and tapioca (by 11.2 percent, with 1.1 percent share). Export value, excluding unwrought gold, contracted by 5.0 percent, compared with a fall of 5.1 percent in previous quarter. In baht term, the value of export was recorded at 1,801 billion baht, increasing by 2.8 percent, compared with a growth of 7.7 percent in the previous quarter.

**In the first half of 2016,** export value was recorded at 103.3 billion US dollars, which is a 2.2 percent contraction, compared with a 4.9 percent contraction in the same period last year. Export volume decreased by 0.6 percent and export price decreased by 1.6 percent. **In baht term,** the value of export was recorded at 3,663 billion baht, which is a 5.2 percent growth compared with a 3.8 percent contraction in the same period last year.



**Export of agricultural commodities fell by 11.7 percent, compared with a decline of 7.8 percent in the previous quarter.** This was due to a 7.1 percent decrease in the export quantity of agricultural products, especially rice, tapioca, and sugar. Meanwhile, export prices of key products, such as rice, rubber, and tapioca continued to decrease. As a result, export prices of agricultural products decreased by 2.2 percent. The export of major agricultural products includes **rice** whose export value fell by 13.2 percent due to a 8.1 percent fall in export quantity mainly to China, the U.S., and Cameroon, whereas export price declined by 5.6 percent. The export value of **tapioca** fell by 37.0

*Exports in US dollar term contracted by 3.1 percent, with a fall in quantity and price of exports of 2.3 and 0.8 percent, respectively. In baht term, export value grew by 2.8 percent.*

*Export of agricultural commodities and manufacturing products fell, but exports of fishery and other products increased.*

percent, contributed by an 11.2 percent decrease in export price and a 22.4 percent decline in export quantity. Meanwhile, the export value of **rubber** fell by 8.4 percent as its export price fell by 15.5 percent. Meanwhile, export quantity increased by 8.4 percent. Export value of **sugar** fell by 11.7 percent, as export quantity decreased by 14.5 percent, while its export price increased by 2.8 percent.

**Export value of manufacturing products declined by 5.8 percent, compared with a 2.7 percent contraction in the previous quarter** due to the slow recovery of the global demand, as well as the decline in export prices which fell with the crude oil and commodity prices in the global market. The quantity of export declined by 5.1 percent. Meanwhile, price of export decline by 0.8 percent. The export value of key manufacturing products such as chemicals, petro-chemical products and petroleum products contracted by 10.4, 7.8, and 43.0 percent, respectively, as the export prices remain low due to the subdued crude oil price, as well as the fall in Chinese demand. On the other hand, export of passenger cars expanded by 54.6 percent due to the growth in export to Australia, the Philippines and Saudi Arabia. The export value of **fishery products** increased by 18.6 percent. The key products whose export value increased include crustaceans. Export of **other products** increased by 82.9 percent as a result of the 111.0 percent increase in the non-monetary gold export (1.8 billion USD in total, representing 3.6 percent of total export value) due to the rise of gold price in the global market after the Brexit vote.

Export Value of Major Product

%YoY	2015							2016			Share Q2/16(%)
	Year	H1	H2	Q1	Q2	Q3	Q4	H1	Q1	Q2	
<b>Agriculture</b>	-10.7	-7.8	-13.4	-15.2	0.8	-12.2	-14.6	-9.7	-7.8	-11.7	7.1
Rice	-15.2	-6.3	-22.0	-5.1	-7.4	-27.6	-17.4	-0.8	11.8	-13.2	1.9
Rubber	-16.0	-26.9	-2.5	-36.1	-12.6	11.1	-15.6	-15.7	-22.2	-8.4	2.0
Tapioca	-0.7	22.8	-22.8	-2.7	64.2	-29.0	-17.2	-27.3	-17.1	-37.0	1.1
<b>Manufacturing</b>	-5.5	-3.9	-7.1	-2.5	-5.3	-6.2	-7.9	-4.3	-2.7	-5.8	87.0
Sugar	-2.0	-4.4	0.3	1.2	-8.2	12.7	-11.8	6.3	30.9	-11.7	1.3
Crustaceans canned, prepared, or preserved	-13.8	-11.3	-15.6	-4.6	-17.5	-10.2	-20.4	-2.9	-17.5	12.5	0.5
Apparels and Textile Materials	-8.2	-7.6	-8.8	-6.2	-8.9	-8.6	-9.1	-6.3	-6.6	-6.0	3.2
Electronics	-3.7	-1.4	-5.8	-0.1	-2.6	-5.3	-6.3	-6.5	-5.5	-7.6	14.1
Computer parts & accessories	-5.0	-3.7	-6.2	-4.6	-2.8	-6.7	-5.8	-10.1	-7.5	-12.7	6.1
Integrated circuits & parts	3.1	2.0	4.0	4.5	-0.1	5.2	2.8	-1.9	-3.4	-0.4	3.5
Electrical Appliances	-2.1	-2.0	-2.2	-0.6	-3.5	0.4	-4.6	1.3	-2.7	5.5	6.3
Metal & Steel	-4.1	-2.1	-6.1	4.7	-8.4	-5.9	-6.2	-6.4	-10.8	-1.8	4.3
Automotive	2.5	0.7	4.3	4.9	-3.7	7.1	1.6	2.1	-1.5	6.3	15.3
Passenger car	46.5	7.6	84.6	8.0	7.1	88.0	81.2	64.7	74.8	54.6	5.3
Pick up and trucks	-20.0	-5.9	-34.1	5.2	-18.4	-30.8	-37.4	-36.1	-42.5	-26.8	2.8
Machinery & Equipment	-0.2	2.7	-3.0	3.8	1.7	-4.1	-1.8	-4.9	-0.4	-9.2	8.8
Chemicals	-25.6	-22.5	-29.0	-23.5	-21.4	-30.8	-27.1	-12.6	-14.9	-10.4	3.0
Petro-chemical Products	-11.8	-11.5	-12.2	-10.2	-12.7	-9.3	-15.2	-6.8	-5.8	-7.8	5.3
Petroleum products	-28.3	-22.3	-33.5	-27.2	-17.8	-34.3	-32.6	-42.9	-42.7	-43.0	2.5
<b>Fishery</b>	-17.2	-15.0	-19.0	-13.4	-16.5	-20.8	-17.4	11.0	3.3	18.6	1.0
Crustaceans	-18.8	-14.4	-21.8	-10.6	-18.1	-26.4	-18.1	43.9	22.3	66.1	0.5
<b>Other Exports</b>	22.2	-16.0	100.7	-30.8	4.6	215.3	25.4	135.8	193.5	82.9	3.8
Non-monetary gold (excl. articles of goldsmiths)	36.8	-16.5	174.2	-31.5	6.0	411.2	53.8	169.7	230.7	111.0	3.6
<b>Total Exports (Customs basis)</b>	-5.8	-4.9	-6.7	-4.7	-5.0	-5.3	-8.1	-1.6	0.9	-4.1	100.0
Exports, f.o.b. (BOP basis)	-5.6	-4.9	-6.3	-4.3	-5.5	-4.7	-7.9	-2.2	-1.4	-3.1	99.5
Export Value (exclude gold)	-6.2	-4.7	-6.2	-3.7	-5.7	-6.7	-8.5	-5.0	-5.1	-5.0	95.9

Source: Bank of Thailand

**Export markets: exports to US and Australia expanded, while exports to Japan, EU (15), China, and ASEAN (9) declined.** Exports to the U.S. and Australia increased by 0.6 and 13.1 percent, respectively, whereas exports to Japan, EU (15) and China in this quarter contracted by 7.5, 1.0 and 10.3 percent, respectively. Such decline is in line with the economic deceleration in China and the slow economic recovery in Japan and Europe. Export to ASEAN (9) fell by 10.4 percent primarily as a result of a 14.8 percent decline in export to ASEAN (5), especially Singapore, Indonesia and Malaysia. The export to CLMV contracted by 3.5 percent, mainly due to the fall in fuels export to Vietnam and Lao PDR. Meanwhile, exports to Hong Kong and the Middle East fell by 8.2, and 8.1 percent, respectively.

*Exports to US and Australia expanded, while exports to key markets such as Japan, EU (15), China, and ASEAN (9) declined, while exports to US and Australia expanded.*

Export Value to Key Markets

(%YOY)	2015							2016			Shared Q2/16 (%)
	Year	H1	H2	Q1	Q2	Q3	Q4	H1	Q1	Q2	
Total Exports (Mil US\$) (Customs basis)	214,352	106,833	107,520	53,351	53,482	54,691	52,829	105,137	53,829	51,308	100.0
(%YoY)	-5.8	-4.9	-6.7	-4.7	-5.0	-5.3	-8.1	-1.6	0.9	-4.1	
United States	0.7	4.0	-2.4	5.6	2.6	0.2	-4.9	-1.3	-3.2	0.6	11.9
Japan	-7.7	-6.6	-8.8	-9.2	-3.9	-7.8	-9.6	-0.9	5.7	-7.5	9.2
EU (15)	-5.7	-6.2	-5.1	-3.9	-8.4	-4.4	-5.9	-0.8	-0.5	-1.0	9.4
China	-5.4	-7.0	-3.7	-14.4	1.2	-1.0	-6.3	-8.4	-6.4	-10.3	10.3
ASEAN (9)	-7.2	-4.2	-9.9	-2.5	-5.9	-10.6	-9.3	-3.5	3.9	-10.4	24.8
- ASEAN (5)*	-15.1	-10.7	-19.3	-9.5	-11.8	-19.5	-19.1	-3.3	9.1	-14.8	14.5
- CLMV**	7.7	7.9	7.5	10.5	5.5	7.2	7.9	-3.8	-4.0	-3.5	10.2
Middle East (15)	-10.5	-14.6	-6.1	-7.9	-21.6	-8.2	-4.1	-9.9	-11.3	-8.1	4.2
Australia	5.0	9.3	1.4	9.5	9.2	8.4	-4.8	10.1	7.2	13.1	5.0
Hong Kong	-6.2	-10.3	-2.0	-11.5	-9.0	-2.0	-1.9	-3.7	0.6	-8.2	5.0
India	-5.7	0.3	-11.6	6.1	-4.8	-11.5	-11.8	-5.8	-9.1	-2.4	2.7
South Korea	-9.2	-8.7	-9.7	0.6	-16.4	-10.7	-8.6	-9.0	-9.7	-8.3	1.9
Taiwan	-12.0	-3.8	-19.3	4.7	-11.5	-15.3	-23.1	-9.9	-18.1	-1.1	1.7

Note: \* ASEAN (5) Consist of Brunei, Indonesia, Malaysia, Philippines, and Singapore

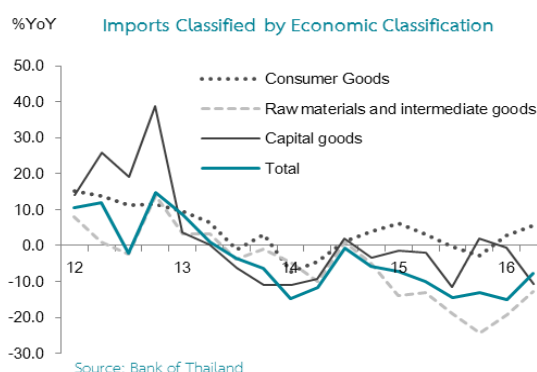
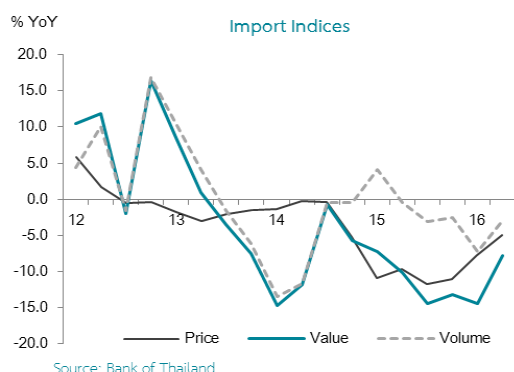
\*\* CLMV Consist of Cambodia, Laos, Burma, and Vietnam

Source: Bank of Thailand

**Imports continued to contract as both import quantity and import price declined.** In the second quarter of 2016, the value of import was recorded at 41.3 billion US dollars, representing a decline of 7.8 percent, compared with a 14.4 contraction in the previous quarter. This was mainly due to the decline of import price which fell by 5.0 percent as the prices of crude oil, fuel, iron, steel and products and chemical products fell. Meanwhile, import quantity fell by 3.0 percent, owing to the decline in the import of capital, raw materials and intermediate goods. With unwrought gold excluded, the value of import contracted by 8.3 percent. Import value excluding unwrought gold and crude oil contracted by 3.6 percent. In Thai baht term, the value of import was recorded at 1,457 billion baht, or a contraction of 2.2 percent, compared with a 6.5 percent decline in the previous quarter.

**In the first half of 2016,** the value of import was recorded at 80,237 million US dollars, representing a decline of 11.1 percent. The quantity of import fell by 5.2 percent, and the price of import declined by 6.3 percent. In Thai baht term, the value of import was recorded at 2,846 billion baht, representing a decline of 4.4 percent.

*Value of import declined by 7.8 percent, due to decline of import price and quantity, especially capital, raw materials and intermediate goods.*



Overall, there was a decline in import value of raw materials and intermediate goods, and capital goods. Meanwhile, the import of consumer goods and other imports expanded. **The import value of raw materials and intermediate goods** declined by 12.9 percent due to a 9.9 and 3.4 percent decline in import price and import quantity, respectively. The goods whose import value decreased include crude oil, petroleum products, chemical products, computer parts & accessories, and integrated circuits & parts. **The import value of capital goods** fell by 10.6 percent (owing to import quantity, which fell by 11.7 percent, while there was a 1.2 percent rise in import price). The import whose values fell includes computer, power-generating machinery & parts, other machinery and mechanical appliances & parts, transformers, generators, motors & accumulators, aircrafts and ships' derricks / cranes / floating structures. **The import value of consumer goods** grew by 5.5 percent due to a 5.6 increase in import quantity, while import price declined by 0.1 percent. The import items with an increase in value included animal & fishery products, food, beverage & dairy products and medicinal & pharmaceutical products. **The value of other imports** increased by 17.0 percent, especially the import of non-monetary gold which grew by 15.3 percent

*Import value of raw materials and intermediate goods, and capital goods declined, while import value of consumer goods grew.*

Import Value of Major Product

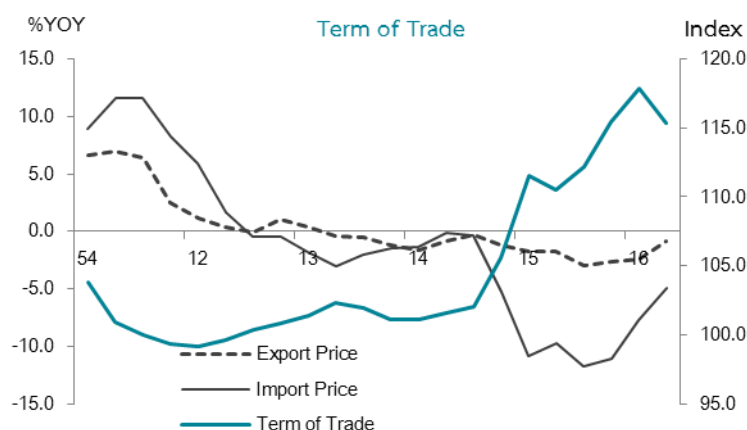
%YoY	2015							2016			Shared Q2/16 (%)
	Year	H1	H2	Q1	Q2	Q3	Q4	H1	Q1	Q2	
<b>Consumer goods</b>	1.5	4.8	-1.6	6.3	3.2	-0.4	-2.8	4.1	2.7	5.5	11.0
Animal & fishery products	-7.7	-8.5	-6.9	-7.5	-9.6	-12.4	-1.1	6.4	-4.7	18.8	1.7
Food, beverage, and dairy products	-2.1	1.4	-5.3	4.8	-1.9	-5.4	-5.3	-0.9	-2.6	1.0	2.5
Household Electrical Appliances	5.6	7.9	3.4	3.7	12.0	17.3	-8.0	6.4	-4.7	18.8	1.7
Medicinal and pharmaceutical products	5.6	13.9	-2.2	23.8	4.7	-2.1	-2.2	-1.2	-8.1	6.5	1.3
<b>Raw materials and intermediate goods</b>	-17.6	-13.7	-21.6	-14.1	-13.2	-19.1	-24.2	-16.0	-19.1	-12.9	54.7
Crude oil	-41.2	-38.9	-43.9	-47.6	-29.6	-42.9	-45.1	-40.4	-44.1	-37.6	8.0
Petroleum products	-48.8	-47.6	-50.4	-49.5	-45.7	-57.4	-38.7	-8.4	-12.0	-5.2	2.5
Materials of base metal	-15.9	-7.3	-23.9	-1.8	-12.6	-15.7	-32.2	-9.2	-19.6	2.0	9.1
Parts of electrical appliances	-0.4	4.0	-4.3	6.7	1.2	0.1	-8.6	-8.0	-11.2	-4.7	12.8
Chemicals	-12.5	-7.8	-17.4	-10.0	-5.7	-13.5	-21.6	-13.5	-14.0	-13.0	5.9
<b>Capital goods</b>	-3.5	-1.8	-5.0	-1.5	-2.1	-11.5	1.9	-5.7	-0.5	-10.6	25.3
Telecommunication equipment	-0.7	-1.7	0.2	10.4	-12.5	3.5	-2.3	7.0	10.5	3.1	3.8
Transformers, generators, motors, and accumulators	-1.0	-8.3	5.8	-3.5	-12.8	-10.4	23.5	7.6	20.0	-5.1	1.9
Other machinery and mechanical appliances & parts	-8.3	-9.9	-6.6	-8.7	-11.1	-8.3	-4.7	-4.2	-4.7	-3.8	10.3
Measuring, checking, and precision instruments	-2.3	-2.5	-2.0	-1.8	-3.2	-1.5	-2.5	-5.3	-8.6	-1.8	1.6
Aircrafts	2.0	77.9	-27.5	-2.7	452.8	-59.6	30.7	-25.8	8.5	-54.0	0.8
Ships' derricks / cranes / floating structures	-20.4	20.5	-73.8	42.9	9.3	-82.9	-27.5	-69.2	-52.8	-80.0	0.3
<b>Other Imports</b>	1.1	3.3	-0.8	23.2	-16.3	-14.6	13.7	-2.0	-15.0	17.0	8.9
Non-monetary gold (excl. articles of goldsmiths)	9.4	17.6	3.8	100.1	-41.7	-28.6	44.8	-32.1	-51.3	15.3	2.2
Automotive	-4.2	-5.7	-2.6	-6.3	-5.0	-1.0	-4.2	6.4	-1.7	15.9	5.3
<b>Total Imports (Customs basis)</b>	-11.0	-8.0	-14.0	-6.6	-9.4	-15.3	-12.6	-10.2	-12.0	-8.4	100.0
<b>Imports, f.o.b. (BOP basis)</b>	-11.3	-8.7	-13.8	-7.3	-10.2	-14.5	-13.2	-11.1	-14.4	-7.8	87.7

Source: BOT



**Term of trade improved from the same period last year**, as export price decreased by only 0.8 percent, while import price decreased by 5.0 percent. Thus, the term of trade improved by 4.4 percent to 115.4 in the second quarter of 2016, compared with 110.6 in the same quarter of last year.

**In the first half of 2016**, Term of Trade stood at 116.6, compared with 111.0 in the same period in previous year. Export price decreased by 1.6 percent while import price decreased by 6.3 percent.



**Trade balance recorded a surplus.** The trade balance in the second quarter of 2016 recorded a surplus of 9,747 million US dollars (equivalent to 344,093 million baht), compared with a surplus of 13,301 million US dollars (equivalent to 473,324 million baht) in the previous quarter, and a surplus of 7,858 million US dollars (equivalent to 262,222 million baht) in the same period last year.

**In the first half of 2015**, the trade balance recorded a surplus of 23,048 million US dollars (equivalent to 817,417 million baht), compared with a surplus of 15,339 million US dollars (equivalent to 506,331 million baht) in the same period last year.

## □ Production side

**Agricultural sector slightly contracted but recovered from the previous quarter due to the fact that the drought circumstance started getting improved. Meanwhile, the prices and farmers' income increased for the first time in ten quarters.** In this second quarter, agricultural sector dropped by 0.1 percent, improving from a 1.4-percent contraction in the previous quarter. This was in association with a 1.2 percent decrease of Agricultural Production Index, attributed by (i) a 22.5-percent decrease in paddy production caused by drought which has affected the water supply for agriculture, and the deduction in off-season rice production following the government's drought mitigation measures; (ii) a 4.6-percent decrease in rubber production, caused by the heat wave and drought in which the temperature in April reached its peak, recorded at 38.3 Celsius; (iii) a 15.7-percent decrease in oil palm production, due to low level of rainfall; and (iv) a 0.1-percent decrease in fruit production, caused by dry spell. However, other agricultural productions expanded, namely cassava, livestock, and fishery. **Agricultural Price Index** increased by 4.9 percent compared to a 5.4 percent contraction in the previous quarter due to (i) a 42.3-percent increase in oil palm price following an increase of crude oil price in global market caused by a contraction in production under unfavorable weather and drought circumstance; (ii) a 30.1-percent increase in fruit price following a contraction in production under drought circumstance; and (iii) a 3.5-percent increase in livestock price following an increase in higher consumption as well as higher demand from China and EU. Nevertheless, price of other three products included cassava, sugarcane and maize decreased. **The increases of major agricultural prices led to higher farmers' income which rose by 3.7 percent** for the first time in ten quarters.

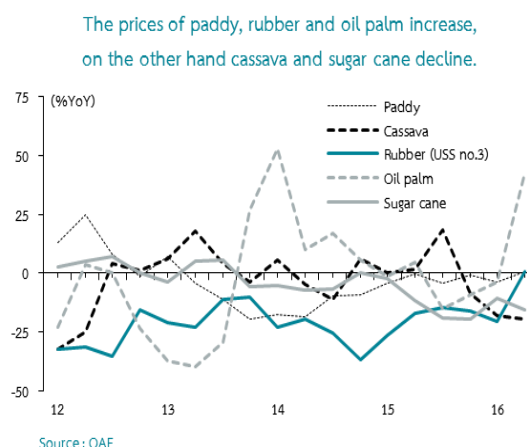
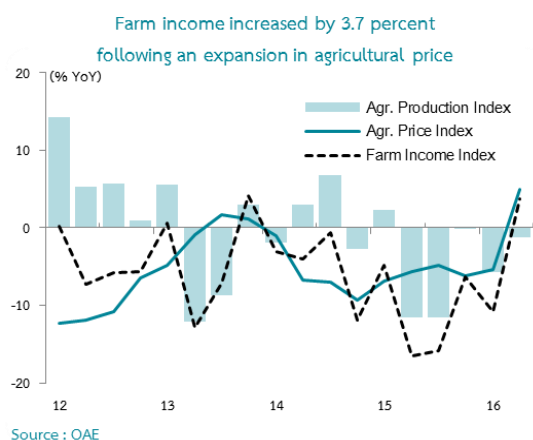
*Term of trade improved compared with the same period last year.*

*Trade balance recorded a surplus.*

*Agricultural sector dropped at slower pace while industrial sector returned to an expansion. Wholesale and retail trade sector slightly picked up. Hotel and restaurants sector remained in a high-level growth.*

*Agricultural sector dropped by 0.1 percent improving from 1.4 percent contraction in previous quarter. Meanwhile, the prices increased by 4.9 percent which led to an expansion of farm income by 3.7 percent.*

**In the first half of 2016**, agricultural sector dropped by 0.8 percent, Agricultural Production Index, Agricultural Price Index, and farmers' income dropped by 3.8, 0.3 and 4.1 percent, respectively.

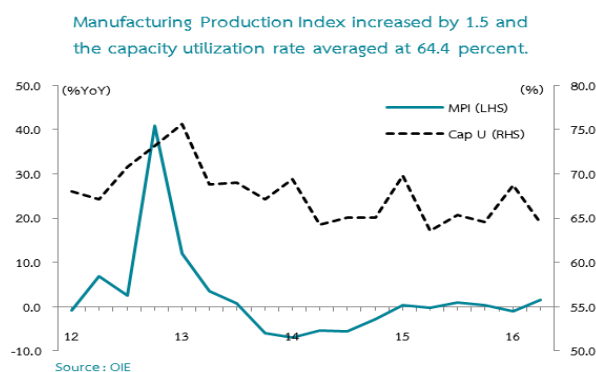


**Industrial sector expanded, owing to manufacturing growth in automobile, machinery and parts, chemical products and etc.** In this second quarter, industrial sector increased by 2.0 percent, rebounded from a 0.2-percent drop in the previous quarter. This was in line with a 1.5-percent increase in Manufacturing Production Index (MPI), compared with a 0.9-percent drop in the previous quarter. In details, the production with favorable growth includes (i) car production with a 12.1-percent increase. (ii) machinery and parts production increased by 18.5 percent, especially air conditioner following a higher global demand, such as 83.6 and 55.1 percent growth of export to Vietnam and Australia, respectively, due to high temperature and an expansion in real estate sector; and (iii) chemical production increased by 3.3 percent, especially production in plastic products following last year low based production caused by the closure of petrochemical plants for maintenance. The Capacity Utilization Rate (CAPU) stood at 64.4 percent, increasing from 63.6 percent in the same period last year.

**Industries with positive growth** includes machinery and parts (18.5 percent), tobacco (15.6 percent), vehicle (12.1 percent), electronic devices (5.0 percent), transportation equipment (4.1 percent), chemical products (3.3 percent), radio and television parts (1.6 percent), electronic tube (1.6 percent), and petroleum products (1.4 percent).

**Industries which experienced contraction** includes clothing (-26.9 percent), hard disk drive (-14.4 percent), office machinery (-13.2 percent), leather products (-12.4 percent), textiles (-9.8. percent), furniture (-5.0 percent), rubber and plastic products (-4.6 percent), non-metal products (-3.2 percent), and food and beverage (-2.1 percent).

**In the first half of 2016**, industrial sector expanded by 0.9 percent. Manufacturing Production Index (MPI) grew by 0.2 percent. The Capacity Utilization Rate (CAPU) stood at 66.6 percent.



*Industrial sector increased by 2.0 percent following increases in vehicle, machinery and parts, as well as chemical products.*

**Construction sector expanded following an acceleration in the public construction, but private construction contracted.** In this second quarter, construction sector expanded by 7.5 percent, compared with an 11.2-percent growth in the previous quarter. In details, public construction rose by 15.5 percent, (government construction rose by 15.8 percent, and state enterprises construction increased by 14.7 percent), compared with a 17.2-percent growth in the previous quarter. Meanwhile, the private construction declined by 2.1 percent, compared with a 7.0-percent growth in the previous quarter. (construction of office and commercial building, factory, and housing building declined by 4.3, 4.0 and 0.5 percent, respectively), which was in line with the contraction of key indicators, including permitted construction areas, as well as sales of cement products which decreased by 22.5 and 0.1 percent, respectively. Price of construction materials continued to contract by 2.2 percent, owing to a contraction of major price index, especially cement, concrete and wood prices. Sanitary ware products remained unchanged. Meanwhile, the price of steel products rose, owing to higher price in global market caused by the drop in global supply.

**In the first half of 2016**, construction sector expanded by 9.3 percent, public construction grew by 16.4 percent and private construction grew by 2.2 percent.

**Real estate sector continued to expand, owing to real estate stimulation measure launched by the government, while prices increased continually.** In this second quarter, real estate sector expanded by 2.3 percent, decelerating from a 3.3 percent expansion in the previous quarter. Housing right transfer in Bangkok and vicinities areas expanded by 22.1 percent, especially a 180.7 percent expansion in April owing to the final phrase of fee reduction measure (launched by government during 29 October 2015 – 28 April 2016), and a 9.0 percent increase in personal housing credit from commercial banks. Regarding price, overall prices increased, particularly for land which increased by 14.4 percent, owing to an announcement on land asset assessment accounting launched by the Treasury Department during the accounting period of 2016-2019. Overall land asset price rose by 25.0 percent compared to the accounting period of 2012-2015 as well as condominium and detached house with land, which increased by 6.6 and 4.7 percent, respectively.

**In the first half of 2016**, real estate sector expanded by 2.8 percent, compared with a 3.4-percent growth in the same period last year.

**Hotel and restaurants sector expanded at a high level owing to increases in tourists' number and revenue.** In this second quarter, hotel and restaurants sector expanded by 12.7 percent, compared with a 15.8 percent growth in the previous quarter. Number of inbound tourists stood at 7.6 million people, or an 8.2 percent growth owing to increasing number from most regions, except for Oceania. In details, the inbound tourists from East Asia (71.5 percent of overall tourists) rose by 8.2 percent and from Europe (13.8 percent of overall tourists) grew by 10.7 percent. This is especially from Russia which continually grew for two consecutive quarters with increasing pace. The 5 highest numbers of inbound tourists were from China, Malaysia, India, Lao PRD and Japan, respectively. The tourism revenue amounted to 387.6 billion baht, increasing by 14.7 percent. The average occupancy rate was at 58.3 percent, comparing with 58.4 percent in the same period last year.

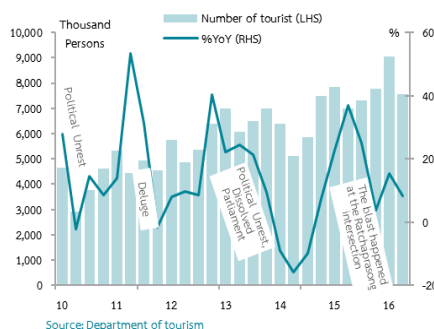
**In the first half of 2016**, hotel and restaurants sector expanded by 14.3 percent, number of inbound tourists increased by 12.0 percent growth, the tourism revenue amounted to 881.9 billion baht, the average occupancy rate was at 64.1 percent.

*Construction sector expanded by 7.5 percent, public construction rose by 15.5 percent meanwhile, the private construction contracted by 2.1 percent.*

*Real estate sector expanded by 2.3 percent, owing to government measure. Overall prices increased, particularly for condominium and detached house with land.*

*Hotel and restaurants sector expanded at a high level by 12.7 percent following tourism in both number and revenue terms.*

Number of inbound tourists stood at 7.6 million persons or grew by 8.2 percent



**Wholesale and retail trade sector slightly accelerated in line with the improving household consumption and an increasing number of tourists.** In this second quarter of 2016, the sector expanded by 5.4 percent, accelerating from 5.0 percent in the previous quarter. **For wholesale trade**, wholesale indices improved in all categories especially in durable goods (such as housewares products), intermediate goods and non-durable goods (food, beverage, tobacco, pharmaceutical and medical goods, and incense and cosmetic products). **For retail trade**, the retail trade indices also grew in all categories, including department store and retailing shop, non-durable goods (food and beverages), durable goods, and car trading, maintenance service and fuel.

**In the first half of 2016**, wholesale and retail trade sector expanded by 5.2 percent, improving from a 3.9-percent growth in the same period last year.

**Employment dropped following a decrease in agricultural employment, while unemployment rate remained low.** In this second quarter of 2016, employment dropped by 0.9 percent following a 6.2 percent contraction in agricultural sector employment, owing to an effect of dry spell leading to in-season rice planting delay, and the deduction in off-season rice production following the government's drought mitigation measures. However, non-agricultural employment rose by 1.4 percent following the increase in employment in construction, hotel and restaurant, and wholesale and retail trade; repair of motor vehicles and motorcycles sectors by 5.4, 4.0 and 1.4 percent, respectively. Meanwhile, industrial employment contracted by 1.7 percent due to the declined employment in computer and electronic, as well as in optical product sectors. Unemployment in this quarter was recorded at 411,100 people, or 1.1 percent.

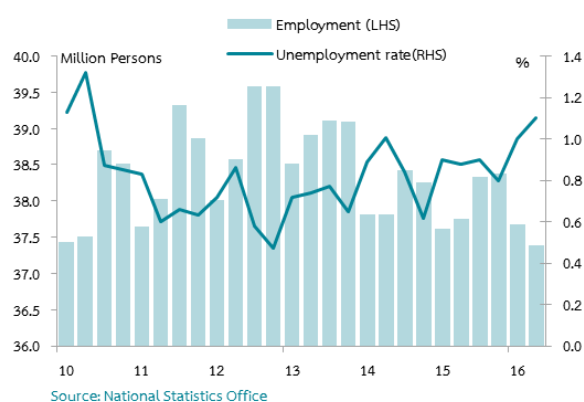
**In the first half of 2016**, employment dropped by 0.4 percent, the unemployment rate stood at 1.0 percent.

*Wholesale and retail trade sector expanded by 5.4 percent in line with an improving household consumption as well as continued expansion of tourism sector.*

*Employment dropped by 0.9 percent following 6.2 percent drop in agricultural employment. Meanwhile, non-agricultural employment rose by 1.4 percent. The unemployment rate remained low at 1.1 percent.*

Employment declined by 0.9 percent following a decline in agricultural employment.

Unemployment rate was low at 1.1 percent.





Employed Persons by Industry

%YOY	Shared Q2/16	2015							2016		
		Year	H1	H2	Q1	Q2	Q3	Q4	H1	Q1	Q2
Employed	100.0	-0.2	-0.3	0.0	-0.5	-0.2	-0.2	0.3	-0.4	0.2	-0.9
- Agricultural	29.3	-3.6	-5.1	-2.3	-4.4	-5.8	-3.8	-0.7	-4.5	-2.7	-6.2
- Non-Agricultural	70.7	1.6	1.9	1.2	1.3	2.6	1.7	0.8	1.4	1.5	1.4
Manufacturing	17.2	0.9	2.1	-0.2	1.2	3.0	0.6	-1.0	-2.0	-2.2	-1.7
Construction	6.9	0.6	2.2	-1.3	1.9	2.5	2.4	-4.9	5.6	5.8	5.4
Wholesale and retail trade; repair of motor vehicles and motorcycles	17.0	-0.1	-0.3	0.1	-2.6	2.0	-0.2	0.3	2.1	2.9	1.4
Accommodation and food service activities	7.4	3.0	3.0	2.9	2.3	3.6	1.9	4.0	3.4	2.9	4.0
Unemployment (Hundred thousand persons)		3.4	3.5	3.3	3.6	3.4	3.6	3.1	3.9	3.7	4.1
Unemployment Rate (%)		0.9	0.9	0.9	0.9	0.9	0.9	0.8	1.0	1.0	1.1

Source: NSO

### □ Fiscal Conditions:

**On the revenue side**, in the third quarter of the fiscal year 2016 (April-June 2016), the net government revenue collection stood at 715,101.2 million baht; higher than the same quarter of last year by 9.6 percent. The key contributing components included revenues from non-tax revenues which are the excess revenue from government bond at 38,996 million baht and revenue from gambling tax on special lottery from The Government Lottery Office at 11,982 million baht. In addition, the collection of revenue from corporate income tax and VAT increased steadily. The corporate income tax expanded by 10.4 percent in this quarter compared to a 4.3 percent increase in the previous quarter. Similarly, VAT revenues expanded by 3.2 percent in this quarter, accelerated from 0.9 percent in the previous quarter. This is also reflecting on an improvement of profitability of business sector, and domestic spending.

**For the 9 months of the 2016 fiscal year**, the net government revenue collection stood at 1,793,591.6 million baht, increased by 10.0 percent from last year and higher than the projection by 4.6 percent.

*The net government revenue collection increased by 9.6 percent mainly due to the non-tax revenue.*

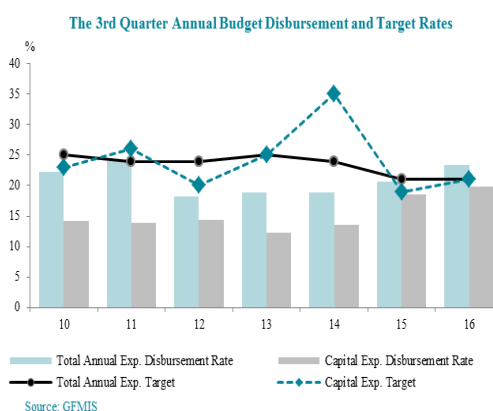
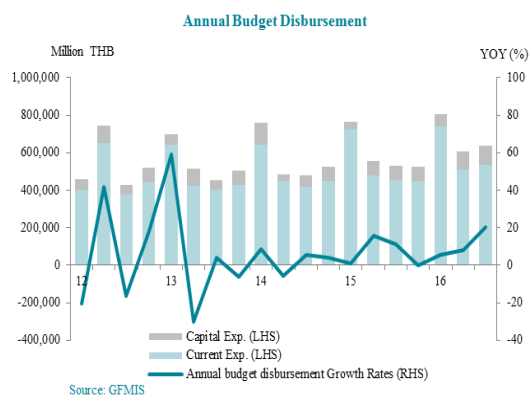
Government Revenue

Fiscal Year (Billion Baht)	2014	2015					2016			
	Year	Year	Q1	Q2	Q3	Q4	9M	Q1	Q2	Q3
Net Government Revenue	2,075.3	2,213.4	507.5	469.9	652.5	583.5	1,793.6	585.9	492.6	715.1
Compared with the target (%)	-8.8	-4.8	1.1	-0.7	-9.6	-7.1	4.6	13.4	-0.7	1.8
YOY (%)	-4.0	6.7	0.8	7.5	7.2	11.0	10.0	15.5	4.8	9.6

Source: Ministry of Finance

**On the expenditure side**, the total budget disbursement in the third quarter of the fiscal year 2016 was at 737,658.6 million baht, increased by 13.6 percent from the same period of last year. Classified by its source of funds, the government disbursements are as follows: (i) the 2016 annual budget disbursement in this quarter was at 636,302.1 million baht, increased by 20.2 percent from the same period last year, or equivalent to the disbursement rate of 23.4 percent, which were higher than the target rate of 21.0 percent and the same period of last year rates of 20.6 percent. In details, the current expenditure was disbursed at 534,787.7 million baht, rose by 18.3 percent from the same period last year (equivalent to 24.2 percent, which were higher than the rate of the same period last year of 20.9 percent). Meanwhile, the capital expenditure was disbursed at 101,514.4 million baht, increased by 31.7 percent compared with the same period last year. (equivalent to 19.8 percent, which almost reached the target rate of 21.0 percent, but were higher than the same period last year rates of 18.5 percent.);

*The total budget disbursement has been continuously higher than the target since the previous quarter.*



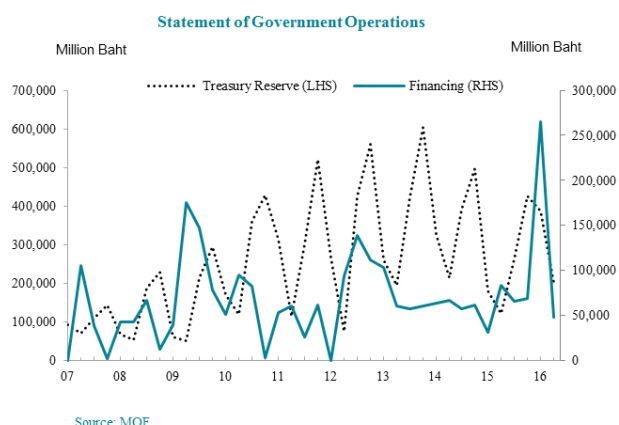
(ii) the 2016 additional annual budget disbursement in this quarter was at 2,452.0 million baht. (iii) the carry-over budget disbursement was at 39,013.8 million baht, decreased by 1.5 percent from the same period last year (equivalent to 12.7 percent of the overall carry-over budget, which were higher than the rate of the same period last year of 11.3 percent); (iv) state-owned enterprises' capital expenditure budget, after deducting the disbursement of capital budget of 1,287.7 million baht which was already counted in (i), was expected to disburse in this quarter at 54,979.6 million baht (include PTT), declined by 17.5 percent, compared with the same period last year. It was due to the fact the PTT Public Company Limited planned to adjust its investment plan. In the meantime, SOEs e.g. the Electricity Generating Authority of Thailand, Mass Rapid Transit Authority of Thailand, State Railway of Thailand and Thai Airways International Public Company Limited planned to increase their investment. (v) the off-budget loans were disbursed at 4,911.1 million baht, which included the Economic Stimulus Package phase II: Loans for water resource management and road transport system projects of 4,244.0 million baht, Thai Khem Kaeng stimulus package phase II (TKK) of 278.5 million baht, the Development Policy Loan (DPL) of 144.5 million baht and special budget reallocating from TKK of 244.1 million baht.

**For the 9 months of the 2016 fiscal year**, the annual budget disbursement amounted to 2,048,072.2 million baht, increased by 10.5 percent from the previous year (the disbursement rate was at 75.3 percent, surpass from the target of 73.0 percent, and were higher than the same period of last year rate of 72.0 percent). The capital budget was disbursed at 264,698.0 million baht, increased by 35.7 percent from last year (equivalent to 51.8 percent of total capital budget, fell short from the target of 61.0 percent, but were higher than the same period of last year rate of 46.9 percent); (ii) the carry-over budget disbursement amounted to 198,053.0 million baht, (equivalent to 64.3 percent of total carry-over budget); (iii) State-owned enterprises' capital budget disbursement amounted to 196,678.3 million baht<sup>1</sup> and; (iv) the off-budget loans disbursement amounted to 45,059.1 million baht.

**Fiscal Balance:** in the third quarter of fiscal year 2016, the budgetary balance recorded a surplus of 69,297.2 million baht, increased by 22.5 percent from the same period last year. The non-budgetary balance however recorded a deficit of 99,224.2 million baht. In the meantime, the government conducted a cash balance management through borrowing total of 62,157.0 million baht. (For the 9 months of the 2016 fiscal year, the government has conducted a cash balance management through borrowing total of 375,180.0 million baht from 390,000.0 million baht.) Therefore, the cash balance recorded a net surplus of 32,230.0 million baht, decreased by 77.4 percent from the net surplus in the same period of last year. Therefore, the treasury reserve stood at 235,448.4 million baht which was lower than the same period last year by 10.8 percent.

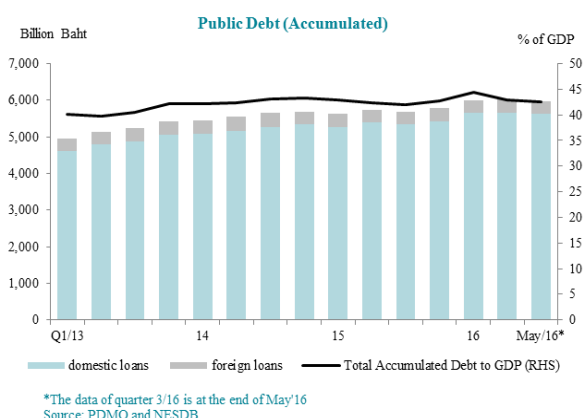
*At the end of the third quarter of fiscal year 2016, the treasury reserve stood at 235,448.4 million baht*

<sup>1</sup> This amount included the disbursement of fiscal year 2015, from October-December 2015.



**Public Debt:** at the end of the 3<sup>rd</sup> quarter, was accumulated at 5,924,055.5 million baht (equivalent to 42.2 percent of GDP). The public debt was comprised of domestic loans of 5,577,202.0 million baht (39.7 percent of GDP) and foreign loans of 346,853.5 million baht (2.5 percent of GDP).

The components of public debt consisted of direct government debt at 4,373,288.1 million baht (73.8 percent of total public debt), state enterprises debt (non-financial institution) at 1,021,940.4 million baht (17.3 percent), and special financial institutions debt (guaranteed by the government) at 517,517.9 million baht (8.7 percent).



*The Public Debt was at 42.2 percent of GDP. This level of public debt remains under the fiscal prudential framework.*

## Financial Conditions:

**The policy rate is kept unchanged at 1.50 percent per annum throughout the second quarter of 2016.** In both meetings on 11<sup>th</sup> May 2016 and 22<sup>nd</sup> June 2016, the Monetary Policy Committee (MPC) decided to hold the policy rate unchanged at 1.50 percent per annum. These decisions were based on the assessment that the current policy rate was at an appropriate level for supporting the economic recovery. Also, the need to preserve the policy space as a cushion for any potential risks was considered. Likewise, central bank of the major economies including the FED, ECB and BOJ held the same stance of their monetary policy as in the previous quarter. On the contrary, regional and other major countries including South Korea, Russia, India, Indonesia, Philippines, and Australia cut their policy rates by 0.25 – 1.00 percent with the objectives to push up their inflation rates to targeting levels as well as to stimulate their economic growths. In addition, Indonesia reduced its policy rate for the fourth time since January 2016 while Philippines decreased its policy rate for the first time in the last 3 years.

*The policy rate was kept unchanged at 1.50 percent per annum in the midst of the monetary policy easing in various countries.*

**In July 2016**, Malaysia decided to lower its policy rate by 0.25 percent for the first time in the last 7 years. Likewise, Taiwan cut its policy rate by 0.125 percent, which was the second reduction in 2016; those decisions were made with the intention to support their economic growths. Furthermore, **in August 2016**, BOE introduced a package of monetary measures to back up the effects on Brexit. This package comprised of (i) the reduction of policy rate by 0.25 percent to 0.25 percent per annum (ii) an expansion of the asset purchase scheme for UK government bonds with the amount of £60 billion per month or the total amount of £435 billion and (iii) the purchase of the UK corporate bonds with the total amount of £10 billion.

*All major commercial banks and medium-sized commercial banks decreased their lending rates. On the contrary, one major commercial bank and one medium-sized commercial bank cut their deposit rates.*

Policy Interest Rate

At the end of period	2015					2016					
	Year	Q1	Q2	Q3	Q4	Q1	Q2	Apr	May	Jun	Jul
USA	0.25-0.50	0-0.25	0-0.25	0-0.25	0-0.25	0.25-0.50	0.25-0.50	0.25-0.50	0.25-0.50	0.25-0.50	0.25-0.50
EU	0.05	0.05	0.05	0.05	0.05	0.00	0.00	0.00	0.00	0.00	0.00
Japan	0.10	0.10	0.10	0.10	0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
Australia	2.00	2.25	2.00	2.00	2.00	2.00	1.75	2.00	1.75	1.75	1.75
New Zealand	2.50	3.50	3.25	2.75	2.50	2.25	2.25	2.25	2.25	2.25	2.25
Russia	11.00	14.00	11.50	11.00	11.00	11.00	10.50	11.00	11.00	10.50	10.50
China	4.35	5.35	4.85	4.60	4.35	4.35	4.35	4.35	4.35	4.35	4.35
Taiwan	1.625	1.875	1.875	1.75	1.625	1.50	1.50	1.50	1.50	1.50	1.375
Korea, South	1.50	1.75	1.50	1.50	1.50	1.50	1.25	1.50	1.50	1.25	1.25
India	6.75	7.5	7.25	6.75	6.75	6.75	6.50	6.50	6.50	6.50	6.50
Indonesia	7.50	7.50	7.50	7.50	7.50	6.75	6.50	6.75	6.75	6.50	6.50
Philippines	4.00	4.00	4.00	4.00	4.00	4.00	3.00	4.00	4.00	3.00	3.00
Thailand	1.50	1.75	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50

Source: Collected by NESDB

**Average deposit and lending rates of commercial banks decreased.** During the second quarter of 2016, four major commercial banks and medium-sized commercial banks reduced their lending rates by 0.25 percent to 6.27 and 6.68 percent per annum, respectively. Moreover, the average 12-month deposit rates of major commercial banks and medium-sized commercial banks were lowered by 0.02 and 0.14 percent to 1.38 and 1.27 percent per annum, respectively. Specialized Financial Institutions (SFIs) decreased its deposit and lending rates by 0.18 and 0.15 percent to 1.55 and 6.63 percent per annum, respectively. On the contrary, retail banks raised the deposit rate by 0.10 percent to 1.70 percent per annum while dropped the lending rate by 0.10 percent to 8.52 percent per annum.

**In July 2016**, all types of banks including commercial banks, which are comprised of four major commercial banks, medium-sized commercial banks and retail banks, and SFIs held the 12-month deposit and lending rates stable at the same level as in the previous quarter.

**Real deposit and lending rates dropped from the previous quarter** to 1.00 and 5.89 percent per annum, respectively; in accordance with the increase in headline inflation rate.

**In July 2016**, the real deposit and lending rates increased to 1.28 and 6.17 percent per annum, respectively; as a result of reduction in the headline inflation rate.

*Real deposit and lending rates decreased from the previous quarter.*



Deposit and Lending Rates of Commercial Banks

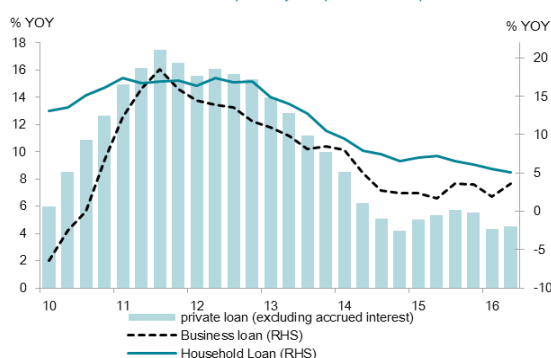
At the end of period	2015					2016						Interest rate at the end of Jul, 2016
	Year	Q1	Q2	Q3	Q4	Q1	Q2	Apr	May	Jun	Jul	
Policy Interest Rate	-0.50	-0.25	-0.25									1.50
The commercial banks' 12-month deposit rates change												
Four Major Banks	-0.33	-0.20	-0.03	-0.04	-0.06		-0.02	-0.02				1.38
Medium-sizes Commercial Banks	-0.43	-0.27	-0.04	-0.03	-0.09	-0.03	-0.14	-0.08	-0.06			1.27
Retail Banks	-0.65	-0.30	-0.20	-0.10	-0.05	-0.65	0.10			0.10		1.70
Specialized Financial Institutions (SFIs)	-0.31	-0.16	-0.15				-0.18	-0.13	-0.05			1.55
The commercial banks' Minimum Loan Rates change												
Four Major Banks	-0.23	-0.12	-0.11				-0.25	-0.25				6.27
Medium Commercial Banks	-0.24	-0.13	-0.11				-0.25	-0.25				6.68
Retail Banks	-0.10		-0.10				-0.10		-0.10			8.52
Specialized Financial Institutions (SFIs)	-0.14	-0.09	-0.05				-0.15	-0.15				6.63

Source: CEIC

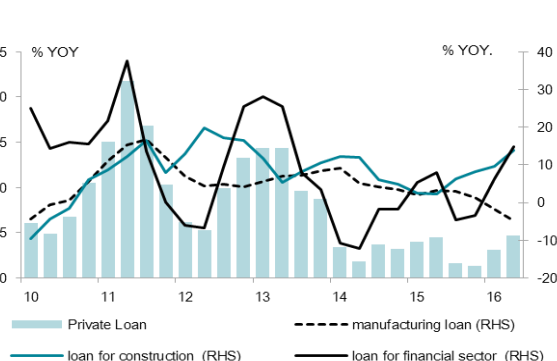
**Deposits including Bill of Exchange (B/E) and loans expanded.** Deposits including Bill of Exchange (B/E) of Depository Corporations expanded by 4.2 percent; increased from 3.9-percent growth in the first quarter. Similarly, private loans (excluding accrued interest) of Depository Corporations accelerated from 4.3 percent in the previous quarter to 4.5 percent. Household loans expanded by 5.1 percent though slightly slowdown from the previous quarter; however, after being adjusted seasonally, household loans in this quarter still exhibited accelerating trend. The household loans expansion in this quarter was mainly due to the tax incentives for home buyers which was applicable until April 2016. Despite its great drop in the previous quarter, business loans in this quarter expanded by 3.6 percent. This was owing to the acceleration in (i) loans for financial sector (grew by 14.9 percent), which was influenced by temporary factor; i.e. loans for tender offer, and (ii) loans for construction (grew by 13.8 percent). On the other hand, manufacturing loans and loans for real estate developers contracted from the previous year. During the second quarter of 2016, large firms in the sector of construction material, communication technology, food, transportation and logistics, real estate and financial intermediaries chose bond issuing as a source of fund raising as its cost was lower compared to commercial banks' loans. As a result, at the end of the second quarter of 2016, the new issuances of debt securities expanded by 12.0 percent.

*Household loans expanded. Business loans grew from financial sector. Large firms from both manufacturing sector and service sector increased their bond issuances.*

Private loan of Depository Corporations expanded



Loan for financial sector accelerated



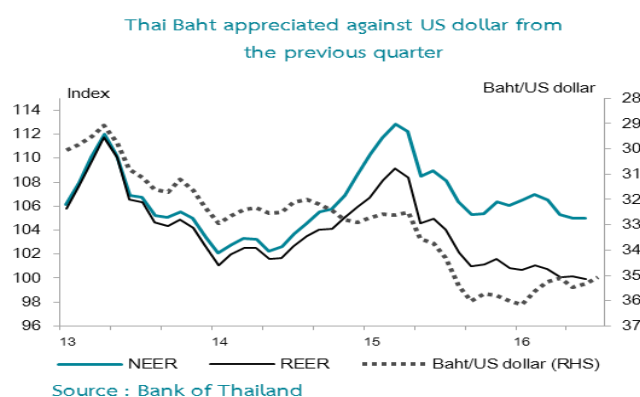
Source: Bank of Thailand

Source: Bank of Thailand

In the second quarter of 2016, Thai Baht against US dollar fluctuated, and ended up appreciating from the previous quarter; as a result of expectations over FED policy rate hike and monetary easing measures conducted by the major industrial countries. In April 2016, Thai Baht fluctuated in an appreciating trend before depreciated in the beginning of May as there was possibility that FED would raise its policy rate in the meeting in June, which was influenced by the US's better-than-expected economic data. Despite that, in the beginning of June, Thai Baht appreciated as a result of (i) the delaying trend of further FED policy rate hike caused by the lower-than-expected economic data in the US which ended up causing the US dollar to be depreciated, and (ii) expectations toward further monetary easing measures conducted by the major industrial countries which caused capital inflow to the equity and bond markets in emerging-countries. Thus, in the second quarter of 2016, an average Thai Baht stood at 35.29 Baht per US dollar; appreciated by 1.0 percent when compared to the previous quarter, and depreciated by 6.0 percent when compared to the same period of last year. Nevertheless, the Nominal Effective Exchange Rate (NEER)<sup>2</sup> depreciated by 1.5 and 4.4 percent compared to previous quarter and the same period of last year, respectively. Likewise, the Real Effective Exchange Rate (REER) depreciated by 0.8 and 5.6 percent compared to previous quarter and the same period of last year, respectively. This was due to the Yen appreciated rapidly.

In the first half of 2016, an average exchange rate stood at 35.48 Baht per US dollar; depreciated by 7.6 percent from the first half of 2015.

In July 2016, Thai Baht remained in an appreciating trend; due to the capital inflows into Thai capital markets as investors expected that the FED would not pursue its policy rate hike soon. In addition, the result of the UK referendum to leave the European Union (Brexit) caused investors to expect further monetary easing measures conducted by the central bank of industrial countries. Thus, in July, an average Thai Baht stood at 35.08 Baht per US dollar; appreciated by 0.7 percent compared to an average level in June. During 1<sup>st</sup> – 11<sup>th</sup> of August, Thai Baht continued to fluctuate in an appreciating trend with an average of 34.86 Baht per US dollar. In seven-month period of 2016, an average Thai Baht stood at 35.43 Baht per US dollar



SET Index shifted upward as a result of substantial foreign capital inflow. In the end of the second quarter of 2016, despite the short-term sentimental fluctuations in global financial markets caused by the Brexit outcome on 23<sup>rd</sup> June 2016, SET Index closed at 1,445 points; representing a 2.7-percent growth from the previous quarter. This was owing to the investors' anticipation for additional monetary easing conducted by the major economies and the delaying trend of further FED policy rate hike as Brexit entered an important downside risk for the global economy. Altogether, expectations toward higher liquidity in the global financial markets, with the supports of recovery in the global oil price and improving

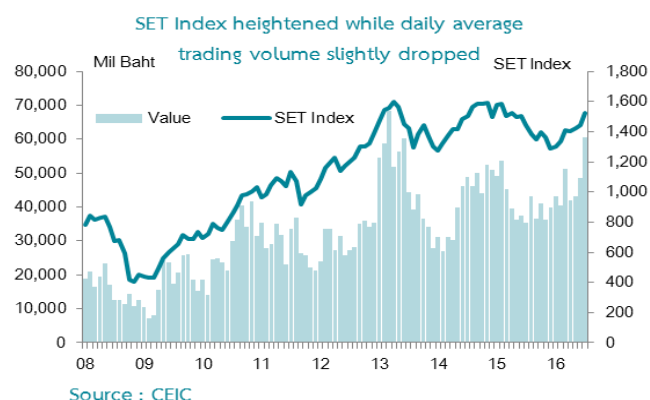
*Thai Baht against US dollar in the second quarter of 2016 fluctuated in appreciating trend following expectation over hike of FED policy rate and expectations of expanded monetary easing measures conducted by the major industrial countries. However, NEER and REER depreciated because the yen appreciated rapidly.*

*SET Index shifted upward as a result of substantial foreign capital inflow.*

<sup>2</sup> 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 trade dynamics.

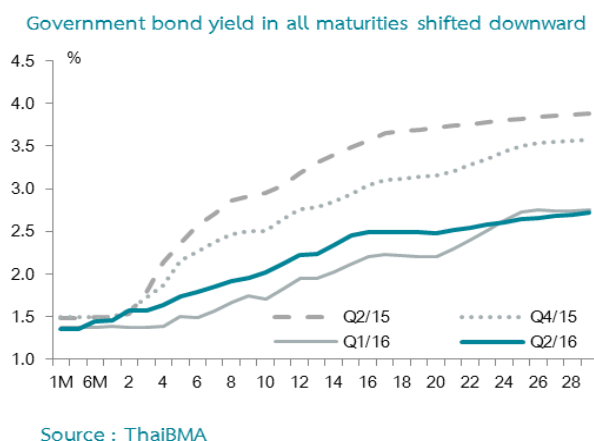
prospects of Thai economy, have caused foreign capital to flow into emerging markets, including Thai capital markets. As a result, throughout the second quarter of 2016, foreign investors registered a net capital inflow of 17.5 billion baht, compared to 19.0 billion baht in the previous quarter.

**In July 2016**, SET Index remained in an upward trend with foreign investment as a main contributor – net buy position of 44.0 billion baht. Owing to Thai stock rally in July 2016 were (i) higher probability of FED policy rate hike delay which continually induced foreign capital inflow to emerging markets, and (ii) improving prospects of Thai economy. As a result, SET Index increased by 5.5 percent from the previous month, and closed at 1,524 points.



**The government bond yields significantly shifted upward in almost all maturities.** In the second quarter of 2016, especially in May, the government bond yields in almost all maturities substantially increased. Owing to the marked upward shift were (i) the market's reaction to the potential that FED would carry out the further policy rate hike after the US economic data in May improved, (ii) soaring global oil price, (iii) better-than-expected Thai economic outlook in the first quarter of 2016, and (iv) investors' expectations toward increase in bond supply and market liquidity from bond switching scheme. As a result, the government bond yields in almost all maturities substantially increased; for instance, the 10-year government bond yield rose by 31 bps relatively to the previous quarter while the government bond price index dropped to 112.8 points, from 115.0 points in the previous quarter. Furthermore, foreign investors posed a net buy position of 133.2 billion baht, and an average daily outright transaction slightly increased to 98.2 billion baht per day.

**In July 2016**, foreign capital inflow significantly dropped to 10.6 billion baht compared with 113.4 billion baht in June 2016. Despite the continuing trend of capital inflow as investors adjusted their portfolios according to Brexit; however, the influx of foreign capital in the previous month had shifted bond yields downward and caused investors to flee to other assets with higher returns; i.e. stock (search for yields).



*The government bond yields significantly shifted upward in almost all maturities as a result of both domestic and international factors.*

**Capital and financial account recorded an outflow position for 12 consecutive quarters.** In the second quarter of 2016, capital and financial account registered a net outflow of 1.5 billion US dollars, compared with an outflow of 4.7 billion US dollars in the previous quarter. This was mainly due to (i) Thai off-shore investments both direct and portfolio and (ii) depositing abroad of Foreign Investment Fund (FIF). However, there were inflow surges due to (i) foreign direct and portfolio investments and (ii) foreign short-term loans of depository corporations.

*Capital and financial account continued to record an outflow, while foreign investment increased.*

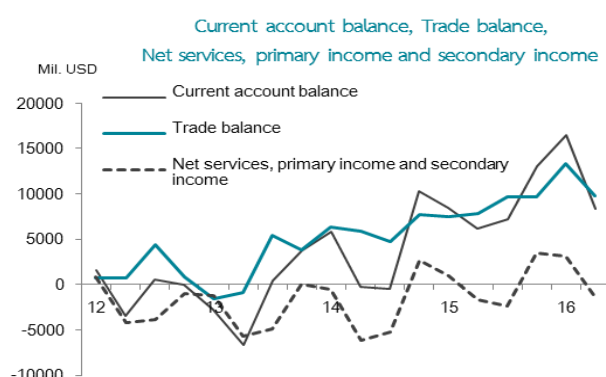
Capital Flow										
(Billion USD)	2015					2016				
	Year	Q1	Q2	Q3	Q4	Q1	Q2	Apr	May	Jun
Categorized by economic sectors										
Government	-1.7	-0.4	-0.5	-0.6	-0.3	-0.7	0.5	0.1	-0.2	0.7
Monetary Authorities	-1.4	-0.4	-0.4	-0.7	0.1	2.6	-0.1	-0.5	0.1	0.3
Bank	-12.8	-3.2	-0.4	-7.0	-2.2	-0.8	2.4	-1.5	2.9	0.9
Others	-3.6	1.9	-0.5	0.8	-5.9	-5.8	-4.2	1.4	-3.6	-2.0
Capital and financial account	-19.5	-2.0	-1.8	-7.4	-8.3	-4.7	-1.5	-0.5	-0.8	-0.2
Categorized by financial transactions										
- Direct Investment	-3.5	0.6	-0.6	-2.5	-1.1	-5.9	-2.7	0.6	-2.0	-1.3
Thai investor	-10.6	-2.3	-1.9	-3.3	-3.1	-5.1	-3.8	0.08	-2.2	-1.7
Foreign investor	7.1	0.3	1.3	0.9	2.0	-0.8	1.1	0.5	0.2	0.5
- Portfolio Investments	-17.9	-2.5	-6.6	-3.1	-5.7	0.3	0.2	-1.0	-0.9	2.0
Thai investor	-5.2	-0.9	-3.7	-1.0	-1.6	-0.8	-0.04	0.5	-0.3	-0.2
Foreign investor	-12.7	-1.6	-2.9	-4.1	-4.1	1.1	0.3	-1.4	-0.6	2.2
- Loans	-5.2	-2.2	1.0	-2.0	-2.0	-0.06	3.3	-0.5	2.4	1.5
- Others	7.0	2.0	4.4	0.2	0.5	1.0	-2.3	0.4	-0.3	-2.4
Capital and financial account	-19.5	-2.0	-1.8	-7.4	-8.3	-4.7	-1.5	-0.5	-0.8	-0.2

Source: BOT

**Current account registered a surplus** in the second quarter of 2016, with a surplus of 8,375 million US dollars (295,314 million baht), compared with a surplus of 16,576 million US dollars (590,619 million baht) in the previous quarter and a surplus of 6,117 million US dollars in the same period last year. This was a result of a trade surplus of 9,747 million US dollars and a deficit in services, primary and secondary income of 1,372 million US dollars.

*Current account registered a surplus.*

**In the first half of 2016,** current account registered a surplus of 24,950 million US dollars (885,933 million baht), compared with a surplus of 14,558 million US dollars (479,189 million baht) in the same period last year.

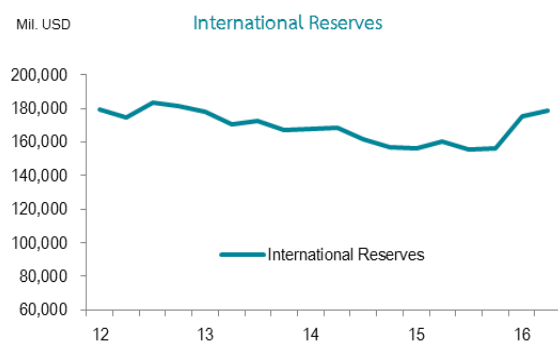


Source: Bank of Thailand

**International reserve** at the end of June 2016 stood at 178.7 billion US dollars (excluding net forward position of 15.7 billion US dollars), which was equal to 3.3 times of short-term foreign debt (at the end of June 2016) or 13.0 months of import value (the average of import value in the second quarter of 2016).

*International reserve at the end of June 2016 stood at 178.7 billion US dollars.*

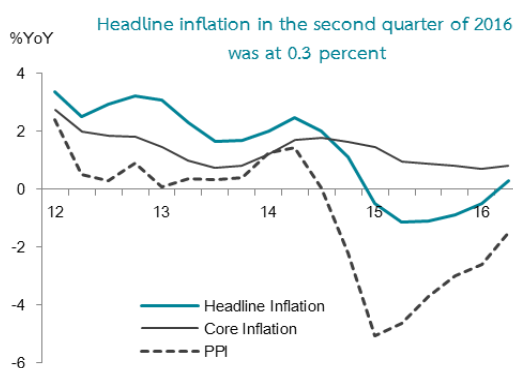




Source: Bank of Thailand

**Headline Inflation:** In the second quarter of 2016, headline inflation was 0.3 percent, after having been in the negative territory since the first quarter of 2015, primarily due to an increase in price of raw food. **Food-and-Beverage price index increased by 2.4 percent**, compared with 1.0 percent in the previous quarter due to an increase in price of vegetables and fruits during the drought condition. Meanwhile, **non-Food-and Beverage price index declined by 0.9 percent**, compared with 1.3 percent decline in the previous quarter due to a decline in energy price, which was a result of (i) the cut of Energy Adjustment Cost (FT) during January to April 2016 by 0.048 baht per unit and May to August by 0.33 baht per unit; and (ii) the domestic retail fuel prices increased in the same direction with global crude oil price, but its price still remained at a low level, which made Energy index decreased by 9.0 percent, compared with 11.4 percent in the previous quarter. The Core Inflation stood at 0.8 percent, compared with 0.7 percent in the previous quarter.<sup>3</sup>

**In the first half of 2016**, headline inflation was -0.1 percent. Core Inflation was 0.7 percent.



Source: Ministry of Commerce

**Producer Price Index (PPI)** in the second quarter of 2016 declined by 1.5 percent, compared with 2.6 percent in the previous quarter, due to the fall in price of manufactured products and mining products. Meanwhile, price of agriculture products increased. **The price of manufactured product** declined by 1.5 percent due to the fall in prices of petroleum product. **The price of mining products** declined by 12.8 percent, especially the decrease of lignite, petroleum, and natural gas prices. Meanwhile, **the price of agriculture product** increased by 1.6 percent after 2 consecutive quarters of contraction due to the increase in production of agriculture, and fish and other fishery products.<sup>4</sup>

**In the first half of 2016** Producer Price Index declined by 2.0 percent, compared with 4.9 percent decline in the same period last year.

*In the second quarter of 2016 headline inflation was 0.3 percent. Food-and-Beverage price index increased, but non-Food-and Beverage price index decline.*

*Producer Price Index (PPI) declined by 1.5 percent due to the fall in price of manufactured products and mining products, but price of agriculture products increased.*

<sup>3</sup> July 2016, Headline iInflation was 0.1 percent. Core iInflation was 0.8 percent. In the first 7 months of 2016, Headline iInflation was -0.1 percent. Core iInflation was 0.7 percent.

<sup>4</sup> July, 2016 Producer Price Index (PPI) declined by 1.50.8 percent. In the first 7 months of 2016, Producer Price Index (PPI) declined by 1.9 percent.

## 2. Crude Oil price in Q2 of 2016

The crude oil price in the global market declined for the eighth consecutive quarter. In the second quarter of 2016, the average crude oil price in the 4 major markets (Dubai, Oman, Brent, and WTI) stood at 44.73 USD per barrel or a decline of 26.7 percent, compared with the same period last year, which was at 60.98 USD per barrel. In the second quarter of 2016, crude oil price decreased by 37.6 percent (QoQ), compared with the previous quarter.

Key reasons for the decline in the global crude oil price include (i) **an increase in OPEC production** to 39.23 million barrels per day (higher than 37.37 million barrels per day in the same period last year) which caused the global oil production in the second quarter of 2016 to be at 95.85 million barrels per day (higher than 95.56 million barrels per day in the same period last year); (ii) **an increase in OECD (US, Canada, and others) inventory** to 3,093 million barrels (higher than 2,890 million barrels in the same period last year); and (iii) **world economic slowdown**, causing the global demand to increase slowly.

In the first half of 2016, the average crude oil price in the 4 major markets (Dubai, Oman, Brent, and WTI) stood at 38.62 USD per barrel or a decline of 31.7 percent, compared with the same period last year, which was at 56.55 USD per barrel.

*The crude oil price in the global market declined due to an increase in OPEC production and OECD inventory and the global demand increased slowly.*

Crude oil price											
Year		USD per Barrel					(%YOY)				
		OMAN	DUBAI	BRENT	WTI	Average	OMAN	DUBAI	BRENT	WTI	Average
2014	Q1	104.39	104.26	107.90	98.47	103.76	-3.5	-3.6	-4.7	4.3	-2.1
	Q2	106.22	106.10	109.74	103.04	106.27	5.4	5.4	6.0	9.3	6.5
	Q3	101.59	101.28	103.38	96.28	100.63	-4.3	-4.5	-5.7	-8.9	-5.9
	Q4	75.14	74.30	77.02	73.00	74.86	-29.7	-30.4	-29.6	-25.2	-28.8
	Year	96.82	96.48	99.49	92.71	96.38	-8.2	-8.5	-8.6	-5.6	-7.7
2015	H1	57.06	56.58	59.27	53.31	56.55	-45.8	-46.2	-45.5	-47.1	-46.1
	H2	45.29	45.16	47.95	44.38	45.70	-48.7	-48.6	-46.8	-47.6	-47.9
	Q1	52.82	52.03	54.99	48.64	52.59	-49.4	-50.1	-49.0	-50.6	-49.3
	Q2	61.30	61.12	63.54	57.97	60.98	-42.3	-42.4	-42.1	-43.7	-42.6
	Q3	49.87	49.71	51.28	46.61	49.37	-50.9	-50.9	-50.4	-51.6	-50.9
	Q4	40.71	40.61	44.62	42.14	42.02	-45.8	-45.3	-42.1	-42.3	-43.9
	Year	51.17	50.87	53.61	48.84	51.12	-47.1	-47.3	-46.1	-47.3	-47.0
2016	H1	37.25	37.17	41.03	39.04	38.62	-34.7	-34.3	-30.8	-26.8	-31.7
	Q1	31.20	31.30	35.09	32.46	32.51	-40.9	-39.8	-36.2	-33.3	-37.6
	Q2	43.30	43.03	46.96	45.61	44.73	-29.4	-29.6	-26.1	-21.3	-26.7
	Jan	27.44	26.67	31.91	31.73	29.44	-40.9	-41.6	-35.9	-33.0	-37.8
	Feb	30.03	29.19	33.55	30.61	30.84	-47.5	-47.9	-42.6	-39.8	-44.5
	Mar	36.14	38.03	39.80	35.05	37.26	-34.1	-30.1	-29.9	-26.5	-30.3
	Apr	39.17	38.75	43.21	40.98	40.53	-33.0	-33.6	-29.5	-25.1	-30.4
	May	44.30	44.23	47.74	47.01	45.82	-30.6	-30.2	-27.2	-20.8	-27.3
	Jun	46.41	46.11	49.93	48.85	47.83	-24.7	-25.1	-21.7	-18.3	-22.5
	Jul	43.19	42.41	46.51	45.00	44.28	-23.6	-24.7	-18.6	-12.6	-20.0
	7M	38.10	37.91	41.81	39.89	39.43	-33.1	-32.9	-29.1	-24.8	-30.1

Source: Thailoil Plc and EPPO.

WTI Price Projection

Institution	USD /barrel			
	Previous		Latest	
Moody's Investors Service	33.00	(Mar 2559)	40.00	(Jun 2559)
EIA	34.60	(Apr 2559)	43.57	(Jul 2559)
Barclays	46.00	(May 2559)	43.00	(Jul 2559)
JP Morgan	31.50	(Jan 2559)	46.66	(Jul 2559)

Source: Collected by NESDB

### 3. The World Economy in Q2 of 2016

In the second quarter of 2016, the growth of developed economies slowed down slightly compared with the previous quarter, owing to the economic deceleration in the US and the EU, as well as the weak recovery of the Japanese economy. Nonetheless, developing economies in Asia slowly improved from the previous quarter. The Chinese economy had the same growth in this quarter as the previous one. Meanwhile, other economies in the region achieved gradual acceleration in growth. Such growth was supported by the growth of domestic demand and export which declined more slowly compared with the previous quarter.

Key currencies were volatile throughout the quarter due to the constant changes in the expectation of key economies' monetary policies, and the concerns about the impact from Brexit. The US dollar weakened against its key trading partners (trade-weighted) since earlier this year due to the expected delay in the FED policy rate hike. Nevertheless, after the Brexit vote, the US dollar, Japanese Yen, and the Australian Dollar appreciated as there was a capital influx induced by investors' flock to safe-haven assets. By contrast, the Pound Sterling and the Euro weakened due to the increased concerns that investors have over the economic outlook and the relationship between the UK and the EU post-Brexit. Meanwhile, currencies in most developing economies depreciated after Brexit, before beginning to appreciate as a result of the Fed's tendency to postpone its further policy rate hike. It was also due to the additional accommodative monetary policy conducted by major economies, causing higher capital influx into developing countries, especially the ones with strong economic fundamental. Nevertheless, the Yuan displayed a depreciating trend as the People's Bank of China (PBOC) lowered the Yuan reference rate. Throughout the quarter, major economies continued to pursue their accommodative monetary policy stance as well as becoming more accommodative caused by (i) the delayed economic recovery pattern, (ii) deflationary risks, and (iii) Brexit consequences.

Regarding this trend, the Fed maintained the US interest rate throughout the quarter. The People's Bank of China lowered the Yuan reference rate by 0.9 percent on the 27<sup>th</sup> June 2016. Meanwhile, Australia, South Korea, Russia, India, Indonesia, and the Philippines cut their policy rates by 0.25 – 1.00 percent. More recently in July 2016, Malaysia and Taiwan cut their policy rate by 0.25 and 0.125 percent, respectively.

- ❑ **US economy expanded at the slowest pace in three-year periods; mismatched the market expectations.** In the second of 2016, US economy expanded by 1.2 percent, slowing down from a 1.6-percent growth in the first quarter of 2016. A deceleration in US economic growth was mainly due to (i) decrease in non-residential fixed investments and exports, (ii) decline in changes of inventories for the first time in 19 quarters, and (iii) slowdown in government expenditure and residential investment despite the high-expansionary trend since the first quarter of 2015. Nevertheless, household consumptions expanded with the highest level in the last three quarters, in accordance with the continued improvement in labor markets, which brought down the unemployment rate to the lowest level in more than eight-year periods. Inflation rate remained in subdued level at 1.1 percent. Altogether, considering the decelerating trend in economic activities with low inflationary pressure and higher risk of deceleration and volatility in the global economy, the FOMC decided to maintain its policy rate and signaled more gradual trend of further hike.
- ❑ **The Eurozone economy slightly decelerated.** In the second quarter of 2016, the Eurozone economy expanded by 1.6 percent, compared with a 1.7-percent expansion in the previous quarter. A decelerating economic growth was due to the contraction in exports and manufacturing sectors. However, domestic demand improved with the supports of a gradual improvement in employment, consumer confidence and continued accommodative monetary

*Developed economies slowed down while China achieved the targeting growth. Nonetheless, other developing economies gradually picked up.*

*US economy expanded by 1.2 percent; the slowest pace in three-year periods, while the FED postponed the further policy rate hike.*

*Eurozone economy decelerated while deflationary pressure heightened. Nevertheless, the ECB maintained its accommodative monetary policy measures unchanged.*

policy. Nevertheless, there was higher deflationary risk as the inflation rate in this quarter turned to be in a negative value of 0.1 compared with 0.0-percent level in the previous quarter. Hence, the ECB decided to maintain its pursuance on accommodative monetary measures as the ECB still has to assess of the effects the additional non-standard measures in the meeting on 10<sup>th</sup> March 2016.

- ❑ **Japanese economy still experienced fragile recovery.** Key indicators in the second quarter signaled the persisted economic slowdown. Exports and manufacturing production declined by 9.5 and 4.6 percent, respectively. Retail sales contracted by 1.5 percent and inflation rate turned to negative in this quarter at 0.4 percent compared with 0.1 percent in the previous quarter. Moreover, the appreciation in the Yen in this quarter is the highest in the 2 years. As a result, the BOJ decided to remain accommodative monetary policies after applying a negative interest rate and pursuing an 80 trillion yen target in the meeting on 29<sup>th</sup> January 2016.
- ❑ **Chinese economy still expanded within the target range set by the government while the capital outflow pressure eased from the first quarter.** In the second quarter of 2016, the Chinese economy expanded by 6.7 percent, equivalent to the previous quarter with the supports by the expansion of manufacturing production and retail sales including slower-pace contraction in exports. Nonetheless, the fixed asset investment continued to decelerate following the deceleration in the rural government. Regarding the economic stability, the fluctuation in stock index lessened from the first quarter while Yuan depreciated as the People's Bank of China (PBOC) lowered the Yuan midpoint. Furthermore, the PBOC continually pursue to ease its monetary policy in order to alleviate economic downside risk by implementing liquidity injection into the economy through the 7-day reverse repos, coupled with the implementing on fiscal policy in infrastructure investments.
- ❑ **Other major Asian economies improved from the previous quarter. Regarding the NIEs economies,** South Korea, Hong Kong, and Singapore experienced improving economic growth. Likewise, Taiwan economy started to pick up after experiencing its economic contraction in the previous four quarters. **ASEAN Economies improved from the previous quarter** in most countries, owing to gradual improvement in domestic demand and slower contractions in export.

*Japanese economic momentum remained weak; as inflation turned to negative with the highest appreciation of Yen in 2 years, which reduced the effectiveness of monetary policy easing.*

*Chinese economy expanded by 6.7 percent, in line with the official target. The capital outflow pressure has eased from the first quarter. Meanwhile, The Central Bank decided to lower the Yuan midpoint and continues to inject liquidity.*

*NIEs economies and ASEAN – 5 improved slowly from the first quarter, as gradually improving domestic demand and exports declined at a slower pace.*

Economic Inflation and Export growth in selected countries

	Export (%YoY)				GDP (%YoY)				Inflation (%YoY)			
	2014	2015	2016		2014	2015	2016		2014	2015	2016	
	Year	Year	Q1	Q2	Year	Year	Q1	Q2	Year	Year	Q1	Q2
USA	2.5	-7.3	-7.0	-6.2	2.4	2.6	1.6	1.2	1.6	0.1	1.1	1.1
EU	2.2	-12.0	-2.8	na.	0.9	1.6	1.7	1.6	0.4	0.0	0.0	-0.1
Japan	-3.4	-9.5	-4.8	1.8	0.0	0.5	0.1	na.	2.7	0.8	0.1	-0.4
China	6.0	-2.9	-11.1	-4.7	7.3	6.9	6.7	6.7	2.0	1.4	2.1	2.1
Hong Kong	3.2	-1.8	-7.0	-1.2	2.7	2.4	0.8	1.7	4.4	3.0	2.9	2.7
India	2.4	-17.0	-8.2	-2.1	7.0	7.2	7.9	na.	6.7	4.9	5.3	5.7
Indonesia	-3.6	-14.6	-14.0	-8.8	5.0	4.8	4.9	5.2	6.4	6.4	4.3	3.5
South Korea	2.3	-8.0	-13.3	-6.6	3.4	2.6	2.8	3.2	1.3	0.7	1.0	0.9
Malaysia	2.4	-14.6	-12.6	-7.4	6.0	5.0	4.2	4.0	3.1	2.1	3.4	1.9
Philippines	9.5	-5.3	-8.4	-6.6	6.2	5.9	6.9	na.	4.2	1.4	1.1	1.5
Singapore	-0.4	-14.5	-14.4	-5.7	3.3	2.0	2.1	2.1	1.0	-0.5	-0.8	-0.9
Taiwan	2.8	-10.9	-12.1	-6.2	3.9	0.7	-0.7	0.7	1.2	-0.3	1.7	1.3
Thailand	-0.3	-5.6	-1.4	-3.1	0.8	2.8	3.2	3.5	1.9	-0.9	-0.5	0.3
Vietnam	13.7	7.9	6.0	5.2	6.0	6.7	5.5	5.6	4.1	0.6	1.3	2.2

Source: CEIC, Collected by NESDB



## 4. The World economic outlook for 2016

The World economy in 2016 tends to grow in a slower pace by 3.1 percent, close to a 3.0-percent growth in 2015. However, this projection is a downward revision to the previous assumption of 3.2-percent growth as a result of (i) the slower-than-expected economic recovery in the developed countries in the first half of 2016, (ii) the UK referendum outcome (Brexit) causing the constraints in the world economic recovery and leading to the deceleration of economic growths in major countries - especially in the UK. With the expected downturn in the UK economy, the worsened economic outlook has casted over the European economy, countries with close economic relationship and the overall global economy.

In baseline scenario, **US economy** is projected to expand by 2.0 percent; lower than the 2.6-percent growth in 2015 as well as the forecasted 2.2-percent growth in the previous assumption; as the economic growth in the first half of 2016 was quite behind the forecast. Nevertheless, the economic growth in the second half of 2016 tend to outpace the first half encouraged by the continuous improvement in labor market, causing reduction in the unemployment rate, increase in wages, and expansion in the domestic demand. **The Eurozone economy** is expected to expand by 1.6 percent in 2016 - the same growth rate as in the previous year though stepping down from the previous assumption of 1.7 percent. This is due to the lower-than-expected growth rate in the second quarter. In addition, the effects of the UK economic deceleration and the uncertainty caused by Brexit also influence this downward revision. Meanwhile, the tendency of below-target inflation rate is expected to be longer than previously forecasted; as a result, the risk of deflationary spiral is intensified. **Japan economy** is expected to expand by 0.5 percent in 2016 - the same growth rate as in the previous year though being the downward revision from the previous assumption of 0.7 percent. Owing to the lower growth prospect are constraints in export and manufacturing sectors which are affected by the economic slowdown in major trading-partner countries as well as the highest level of Yen's appreciation in two years. Whereas, domestic demand recovery remains weak and the inflation rate is expected to remain subdued. **Chinese economy** is expected to expand by 6.6 percent - decelerating from 6.9 percent in 2015; as a result of the decelerating economic outlook in major trading partners especially Europe, Japan and US. Meanwhile, **other major Asian economies** are projected to improve gradually, especially South Korea, Taiwan, Hong Kong and Singapore with the expected economic growth rate of 2.9, 0.9, 1.5 and 2.0 percent, respectively; compared with the actual growth rates in 2015 at 2.6, 0.7, 2.4 and 2.0, respectively. **Likewise, the ASEAN economies**, the Indonesian, Philippines, Malaysian and Vietnamese economies are likely to grow by 5.2, 6.2, 4.4 and 6.0 percent, compared with the actual growth in 2015 of 4.8, 5.9, 5.0 and 6.7 percent, respectively.

The delay in global economic recovery in the first half of 2016, as well as the impact from Brexit, is likely to affect the recovery of major countries in the latter half of 2016. In addition, the changes in exchange rates and the prices of goods in the global market cause the inflation rates of major countries to return to the target rate more slowly than expected. Consequently, central banks of major countries and those of other developing economies are expected to maintain their accommodative monetary policy after having cut their policy rates in the second quarter of 2016, and in July and August. In the base case, it is expected that the Fed will raise the US policy rate in December 2016 with the increased possibilities that the FED may postpone its further policy rate hike to the first half of 2017. Similarly, the European central bank is expected to further ease its monetary policy after completing the impact assessment of the most recent expansionary monetary measure and that of Brexit. Likewise, the Japanese central bank is likely to conduct its monetary policy in the more accommodative manner as well as to use measure to reduce the appreciating pressure on the yen. Meanwhile, the People's

Bank of China is expected to be more accommodative with its monetary policy in order to maintain the growth rate to be within the target range of 6.5 - 7.0 percent, especially in the case where Brexit causes the European economies, who are China's key trading partners, to significantly slow down.

## 5. Thai Economic Outlook for 2016

Thai economy for the remaining of 2016 is expected to continue to expand at a favorable pace as in the first half of the year. The supporting factors for economic growth in the latter half include increases in public spending, increasing number of tourists, low oil price, and the improvement in farm income. Nevertheless, the growth in economic activities in private sector and overall economy remains constrained and still faces external risks from subdued global economic growth. Moreover, the Thai baht still has the risk to fluctuate and to appreciate more in the second half of 2016

### □ Supporting factors for the economic growth.

- 1) **Government expenditure and investment are expected to remain at a high level throughout the year.** In the first half of 2016, the public budget was disbursed into the economy with the total amount of 1.49 trillion Baht. The disbursement of annual budget and carry-over budget expanded by 14.3 and 15.3 percent, respectively, due to an increase of budget ceiling and efficiency of budget disbursement, as well as the capital budget disbursement of state-owned enterprises that was expected to expand by 6.5 percent. The acceleration in disbursement was a main growth contributor in the first half of the year. **In the second half of 2016**, it is expected that the public budget will be disbursed at 1.65 trillion Baht, which will be the major support for growth, especially the disbursement of state-owned enterprises that expect to be expedited with the progress of an investment on Infrastructure Development Action Plan, which currently comprises of 4 ongoing construction projects with the total budget of 50.1 billion Baht, with another 7 projects under the bidding process with total budget of 430.6 billion Baht, and 5 more proposed project awaiting cabinet's approval with total budget of 249.9 billion Baht.
- 2) **The drive from 11 additional measures of the government's stimulus package announced during September 2015 – April 2016** consisted with total budget of 671.4 billion baht (excluding tax measures), including the credit allowance of 481.5 billion baht and the government spending of 189.9 billion baht. In 2015, the packages were disbursed at 229.6 billion baht. In the first half of 2016, the disbursement was at 217.0 billion baht (127.0 billion in the first quarter, and 90.0 billion baht in the second quarter). In the remaining of 2016, the disbursement from the packages is expected to be 100.5 billion baht.
- 3) **Number of inbound tourists is expected to grow at a favorable rate.** In the first half of 2016, number of inbound tourists stood at 16.6 million persons, and tourism revenue amounted to 881.9 billion baht; representing a 12.0-percent and 18.5-percent increases, respectively. The number of tourists from the major markets, including China, the US, and ASEAN, grew favorably by 22.3, 14.2 and 9.8 percent, respectively. Meanwhile, the number of tourists from Europe and Russia markedly accelerated. In the second half of 2016, the number of inbound tourists is projected to increase favorably—the expected number of inbound tourists is at 33.5 million persons, which will generate the revenue of 1,735,271 billion baht.

*The supporting factors for growth includes (i) acceleration in government expenditure (ii) the push from the additional measures announced by the government for September 2015 – April 2016 (iii) the growing number of inbound tourists (iv) the crude oil price is expected to remain low and (v) the farmers' income considerably improved.*

### The progress of Economic Stimulus Measures during September 2015 – April 2016

From September 2015 to April 2016, the Thai government announced 11 key Economic Stimulus Measures worth 671,442 million baht (excluding tax measures) for enhancing wealth and income of farmers (including low income citizens) and assisting loan accessibility of SMEs. Six of them were announced since September until December 2015, which recorded at 450,942 million baht. The other five new measures valued 220,500 million baht were revealed since January until April 2016. They were comprised of (1) strengthening Grass Root Economy measure following Pracha Rat (State of People) Approach (Cabinet endorsement at 26 January 2016), (2) Baan Pracha Rat (accommodation providing project for low income citizens) (Cabinet endorsement at 22 March 2016), (3) Baan Thanarat Pracha Rat (Cabinet endorsement at 19 April 2016), (4) assistant measurements for drought experiencers and capacity building programs on agricultural sector by Bank of Agricultural And Cooperatives (Cabinet endorsement at 23 February 2016), and (5) Credit Guarantee program for Micro Entrepreneurs (Phase 2) by Thai Credit Guarantee Corporation (Cabinet endorsement at 23 February 2016). In the first half of this year, the budget under the key economic stimulus measures was actually disbursed at 217,033 million baht, consisting of credit allowance and government budget spending of 128,407 million baht and 88,626 million baht (the disbursement of the first quarter was 127,001 million baht, consisting of 91,423 million baht for credit allowance and 35,578 million baht for government spending and the disbursement of the second quarter was 90,031 million baht consisting of 36,984 million baht for credit allowance and 53,047 million baht for government spending). It is expected that in the remaining period of 2016, they will be disbursed at 100,488 million baht.

Unit: Million Baht

Unit: Million Baht

Measures	Budget Framework approved by the Cabinet	Actual disbursement in 2015			Expected Disbursement in the remain- ing period of	Measurement ending
		2015	Q1/2016	Q2/2016		
Measures announced during September – December 2015						
1. Assistance Measure for Low Income Earners and Nationwide Small Public Investment Measure	139,730	71,829	24,885	24,288	6,685	
1.1 Living Standard of Low Income Earners Promotion Measure	60,000	47,642	255	0	0	Contract signed within 31 March 2016
1.2 Living Standard Promotion Measure at District Level	39,730	556	16,292	22,298	584	Budget disbursed within 30 September 2016
1.3 Nationwide Small Public Investment Promotion Measure	40,000	23,630	8,338	1,931	6,101	Budget disbursed within 30 September 2016
2. Monetary and Fiscal Measures for SMEs Promotion	271,000	144,998	76,221	19,371	24,445	
2.1 Low Interest Rate Credit Allowance for SMEs Promo- tion Project	150,000	100,000	50,000	0	0	30 June 2016
2.2 PGS 5 Credit Guarantee Project (new)	100,000	41,905	21,496	17,230	19,368	30 June 2016
2.3 SMEs Promotion through Join Venture Funds Measure	6,000	15	5	25	NA	
2.4 Corporate Tax Reduction for SMEs Measure	-	NA	NA	NA	NA	Approaching request within 15 March 2016 (Corporate Tax reduction for 5 rounds of 2015 -2016 tax year)
2.5 Tax Incentive Measure to Promote New Start-ups	-	NA	NA	NA	NA	Registered until 31 December 2016 (Tax Incentive gained for 5 Tax years continuously)
2.6 Policy loan for SMEs	15,000	3,078	4,720	2,115	5,087	31 December 2016
3. Monetary and Fiscal Measures for a Real Estate Sector Promotion	25,000	11,982	7,720	155	5,141	
3.1 Government Housing Bank’s Housing Credit Allowance for Low and Medium Income Earners Measure	25,000	11,982	7,720	155	5,141	31 December 2016
3.2 Housing Transference and Legal Transaction Fees Reduction Measure	-	NA	NA	NA	NA	28 April 2016
3.3 Personal Income Tax Incentive for Purchasing Proper- ties under 3 Million Baht Measure	-	NA	NA	NA	NA	31 December 2016
4. Tax Incentive for Domestic Investment Promotion Measure	-	NA	NA	NA	NA	31 December 2016
5. Board of Investment (BOI)’s Speeding Up Investment Meas- ure	-	NA	NA	NA	NA	Requesting for promotion within 30 June 2016 and operating/providing service/gaining in- come within 2017
6. Assistance Measure for Rubber Farmers and labor hiring measurement for agricultural sector	15,212	817	10,948	1,591	1,856	30 September 2016
Measures announced during January - April 2016						
7. Strengthening Glass Root Economy Measure following Pracha Rat (People’s State) Approach	35,000	0	0	27,229	7,771	30 September 2016
8. Baan Pracha Rat	70,000	0	0	7,078	20,974	31 March 2018
9. Assistant measurements for drought experiencers and capacity building programs on agricultural sector	93,000	0	7,194	9,947	27,054	
9.1 Credit allowance program for farmers’ emergent spending caused by drought	6,000	0	557	1,266	0	End of project
9.2 Credit allowance program “1 Tambon - 1 SMEs” for sustaining agricultural sector	72,000	0	6,637	8,635	22,054	31 December 2018
9.3 Community producing adjustment program for fighting drought crisis	15,000	0	33	46	5,000	31 December 2018
10. Credit Guarantee program for Micro Entrepreneurs (Phase 2)	13,500	0	0	394	6,552	31 December 2017
11. Baan Thanarat Pracha Rat	9,000	0	0	38	NA	
Total	671.442	229.627	127.001	90.031	100.488	

Source: Stimulus Packages and Investment Committee, collected by NESDB

- 4) **The crude oil price is expected to remain low.** For the rest of the year, the price is expected to be stable from the second quarter of 2016. It is forecasted that the average Dubai of 2016 will be in the range of 35.0 – 45.0 USD per barrel, declining from 50.9 USD per barrel in 2015. This will positively affect real purchasing power of private sector by reducing their costs of production, and by facilitating the ongoing expansionary monetary policy.
- 5) **The farm income considerably improved.** In the second quarter, the farm income rebounded from the lowest level in the first quarter of 2016 to be in the positive territory for the first time in 10 quarters. For the remainder of the year, the farm income is projected to improve further attributed by (i) the end of drought and greater rainfall which led to a recovery for agricultural production, and (ii) an improvement in agricultural prices affected by the persisting drought as well as Early Mortality Syndrome (EMS) reducing the production in the competitor countries, coupled with the stable oil price trend. Considering these factors, the prices of agricultural products are expected to be higher in the second half of 2016, compared with the same period of last year.

#### ❑ Limitations and Risk Factors

- 1) **The world economy continued to grow weaker than expected,** which is a result of (i) the delayed economic recovery of major countries during the first half of 2016; (ii) the additional negative effects of Brexit, which will probably lead to the UK's economic slowdown during the second half of 2016. It will also cause the growth of Euro countries and their major trading partners to be slower than expected. However, under the exclusion of unanticipated additional effects, the impact of Brexit on the global economy is projected to be limited. Thus, in the baseline scenario, world economy is expected to grow at 3.1 percent in 2016, a comparable rate with 2015 growth of 3.0 percent, but lower than the previous assumption of 3.2 percent. Nevertheless, crucial factors that should be closely monitored and evaluated are political movement of UK and EU, and their post-Brexit economic relationship.
- 2) **Thai Baht fluctuated in an appreciating trend.** Owing to a slow recovery of the global economy in the first half of 2016 as well as the additional risks to future recovery, several countries cut their policy rates in the second quarter and the early part of the third quarter of 2016. In the second half of the year, the Fed is anticipated to postpone the policy rate hike to December 2016 or the first quarter of 2017. Furthermore, Central banks of other major countries are expected to implement additional monetary policy easing. All those factors led to Thai baht's appreciating trend. As a result, the average rates of Thai baht during July was at 35.08 baht per US dollar, compared with the average rates in the first half of 2016 and the second half of 2015 of 35.48 and 35.54 baht per US dollar, respectively.
- 3) **It is still too early to accurately assess the impact from the incidences that occurred in several Southern provinces of Thailand during 10<sup>th</sup> – 12<sup>th</sup> August 2016.** Nonetheless, the economic impact on economic recovery is expected to be short-lived, especially the effect on the tourism sector, which is a key driver of the economic expansion in 2016.



## □ Key assumption for 2016 economic projection

World Economic Projection

	Actual Data		Projection of 2016	
	2014	2015	May 16, 2016	Aug 15, 2016
World Economic Growth (%)	3.2	3.0	3.2	3.1
USA	2.4	2.6*	2.2	2.0
EU	0.9	1.6	1.7	1.6
Japan	0.0	0.5	0.7	0.5
China	7.3	6.9	6.5	6.6
World Trade Volume (%)	3.4	2.6	3.0	2.8
Exchange Rate (Baht/US dollar)	32.48	34.29	35.5 - 36.5	35.0-36.0
Dubai Crude Oil (US Dollar/Barrel)	96.5	50.9	35.0 - 45.0	35.0-45.0
Export Price (US Dollar) (%)	-1.0	-2.3	(-1.5) - (-1.0)	(-1.5) - (-1.0)
Import Price (US Dollar) (%)	-1.8	-10.8	(-4.5) - (3.5)	(-4.0) - (-3.0)
Tourist (Million Person)	24.8	29.9	33.0	33.5

Source: NESDB

Notes: The U.S. GDP growth in 2015 was revised to 2.6% from 2.4%

- 1) The world economy and world trade volume in 2016 are projected to grow by 3.1 and 2.8 percent, respectively, revised down from 3.2 and 3.0 percent in the previous projection.** This downward revision is due to the lower-than-expected growth of major economies, especially the UK, US, Eurozone, Japan and key Asian economies.
- 2) The average Thai baht value of 2016 is expected to be in the range of 35.0-36.0 baht per US dollar, depreciating from 34.29 baht per US dollar in 2015 but appreciating from the previous assumption of 35.5-36.5 baht.** The average rate in the first seven months was at 35.43 baht per US dollar. For the latter half of the year, Thai baht is likely to appreciate against US dollar due to the anticipation that major economies will further ease the monetary policies and the Fed may delay raising the interest rate.
- 3) The average Dubai crude oil price in 2016 is expected to be in the range of 35.0-45.0 US dollar per barrel, lower than 50.9 US dollar per barrel in 2015 and unchanged from the previous projection.** The average Dubai crude oil price in the first seven months of 2016 stood at 37.9 US dollar per barrel, and is highly constrained from going over the upper bound of this assumption in the rest of 2016. This was due to (i) the gradual improvement of oil demand as the world economic recovery is slower than expected; (ii) oil production in Non-OPEC countries, especially in the North-America, is likely to increase if oil prices are higher than the break-even point (on 5 August 2016, the operating oil rigs in the US were at 381 rigs which had been increasing for the sixth consecutive weeks); and (iii) oil stocks stood at a high level, although oil stocks in the early of the third quarter of 2016 decreased slightly (on 29 July 2016, Oil stocks stood at 523 million barrels, compared with 543 million barrels, which were the highest level on 29 April 2016 or a contraction of 3.8 percent).

- 4) **The export price in US dollar term is likely to decline by (-1.5)-(-1.0) percent, compared with a decline of 2.3 percent in 2015**, which is the same as in previous assumption. The reasons for keeping this assumption unchanged include a significant improvement in export prices in the second quarter of all products. The prices of agricultural and manufacturing products had the least contraction in 11 and 6 quarters, respectively. In addition, the export price of fishery products increased for the first time in 7 quarters. Moreover, crude oil price in the fourth quarter is likely to increase, compared with the same period last year, which will help push the export price to be positive in the last quarter of 2016. **The import price in dollar term is expected to decline by (-4.0)-(-3.0) percent, compared with the contraction of 10.8 percent in 2015.** This rate were revised up from the previous assumption of (-4.5)-(-3.5) percent due to a lesser contraction of crude oil price in the second quarter. The import price of consumer products fell at the slowest pace in 6 quarters, while the price of capital products increased for the first time in 7 quarters. For the rest of the year, the import price is likely to contract at a slower pace due to an increase in crude oil price.
- 5) **The number of inbound tourists in 2016<sup>5</sup> is expected to be 33.5 million people, increasing by 12.1 percent from 29.9 million people in 2015, and is revised upward from the prior assumption of 33.0 million people.** Meanwhile, income from tourism in 2016 is projected to be 1.74 trillion Baht, growing by 13.9 percent from 1.52 trillion Baht in 2015. The supporting factors include (i) the increase of low cost airlines on their short-haul international operations; (ii) the number of tourists from the Eurozone and Russia have continuously expanded as economic recovery in Russia and Eurozone; and (iii) Thailand is still a highly popular destination, especially among tourists from the Eurozone, Russia and China.
- 6) **Government disbursements** are expected to be as follows. (i) FY 2016 annual budget disbursement rate is expected to be at 93.5 percent of the overall budget, including current and capital expenditure budget disbursement of 98.5 and 72.0 percent, respectively; (ii) state-owned enterprises' capital budget disbursement at 60.0 percent; (iii) carry-over budget disbursement at 77.0 percent; (iv) off-budget loans consisted of The Thai Khem Kaeng stimulus package, Development policy loans (DPL), Water resource management and road transport system projects about 56,193 million baht, increasing from 44,217 million baht in FY2015; and (v) additional government budget framework of 47,661.03 million baht, which is expected to disburse by 5,026.9 million baht.

#### □ Economic Projection for 2016:

**The Thai economy in 2016 is projected to grow in the range of 3.0 – 3.5 percent, accelerating from 2.8 percent in 2015. Headline inflation is forecasted to lie between 0.1 – 0.6 percent. The current account balance is predicted to register a surplus of 9.8 percent of GDP.**

**In the press release on 15<sup>th</sup> August 2016, NESDB forecasted that the Thai economy will expand by 3.0 -3.5 percent, which is the same projection range as published on 16<sup>th</sup> May 2016 though some growth components have been revised due to changes in the projection assumption as follows:**

- 1) The assumption of the world economic growth is revised downward from 3.2 percent to 3.1 percent. Likewise, the projection assumption on exchange rate is revised from 35.50 – 36.50 Baht per USD to 35.00 – 36.00 Baht to USD. As a result, the growth contribution from export is lower compared with the previous projection.

<sup>5</sup> The assumptions were revised before the southern incidence, in which its effects are expected to be limited and unfolded.

- 2) The assumption of number of inbound tourists and tourism income<sup>6</sup> are revised upward to be 33.5 million persons and 1.74 billion baht, respectively. Such upward revisions, improving from 33.0 million persons and 1.69 billion baht in the previous assumption, imply a greater growth contribution from export of services.

□ **Key contributions to the economic growth**

- 1) **Private consumption expenditure** is expected to grow by 2.7 percent, gradually accelerating from 2.1 percent in 2015, and revised upward from 2.3 percent in the previous projection. The growth in private consumption will be driven by (i) improvement in farm income as a result of the improving agricultural production and prices in the second half of 2016; (ii) the fiscal stimulus packages including the measure aiming to support farmers and low-income earners. The upward revision also reflects stronger-than-expected expansion of private consumption in the second quarter. Meanwhile, **public expenditure** is expected to grow by 3.9 percent, improving from 2.2 percent in 2015, albeit remains unchanged from the previous projection.
- 2) **Total investment** is expected to expand by 3.3 percent, decelerating from the 4.7-percent growth recorded in 2015 and revised downward from the 4.2-percent growth in the previous projection. **The private investment** is expected to increase by 1.5 percent which is revised downward from 2.1 percent growth stated in the prior publication. This is due to the limitation from an increase in capital utilization in the manufacturing sector, particularly in export – oriented industries, which is affected by the subdued global economic recovery, causing the delay in investment by the existing firms. Nevertheless, conditions for new investment project in the remaining of the year are expected to be favorable as a result of decent progress in the public infrastructure investment and political stability, which is consistent with an increase in the project value applied for the investment promotion, with the value increasing from 68 billion baht in the first half of 2015 to 304 billion baht in the first half of this year (a 326.8-percent hike). Considering this favorable conditions, the private investment is expected to grow once again after having contracted by 1.0 and 2.0 percent in 2014 and 2015, respectively. Likewise, **the public investment** is expected to expand by 10.0 percent, which is a downward revision from the expected growth of 11.7 percent in the previous projection, consistent with the downward revision of the budget disbursement of state enterprise.
- 3) **Export value of goods in US dollar term** is forecasted to decline by 1.9 percent, improving from a contraction of 5.6 percent in 2015. Nevertheless, this is a downward adjustment from the 1.7-percent contraction in the previous forecast. The revision was mainly due to a downward revision of world economic growth assumption, resulting in the lower export volumes of goods. However, the projection of export volumes of services has an upward adjustment from the last forecast due to an increase in the number of tourists assumption. As a result, the export volumes of goods and services in 2016 is forecasted to expand by 2.5 percent, compared with a 0.2-percent growth in 2015.

<sup>6</sup> The assumptions were revised before the southern incidence, in which its effects are expected to be limited and unfolded.

- 4) **Import value of goods in US dollars term** is projected to contract by 6.1 percent, compared with a 11.3-percent contraction in 2015, but lower than a contraction of 4.6 percent in previous estimation. This downward revision is owing to a lower-than-expected import value in the second quarter of the year, and a downward revision of export growth and private investment assumptions, which will discourage import demands. Considering the import volumes, after adding up import of services, it is projected that the import volumes of goods and services of the whole year will contract by 1.3 percent, compared with a drop of 0.4 percent in 2015.
- 5) **Trade balance is projected to register a surplus by 41.3 billion US dollars**, increasing from 34.6 billion US dollars in 2015, representing an upward revision from 39.1 billion US dollars in the previous estimation as a result of the greater downward revision in import value than in the export value. Meanwhile, the current account is expected to register a surplus of 38.6 billion US dollars, or an equivalence of 9.8 percent of GDP, increasing from 9.4 percent of GDP in the previous estimation mainly due to an increase in trade surplus.
- 6) **Economic Stability remains favorable.** The average headline inflation in 2016 is projected to be in the range of 0.1 - 0.6 percent, compared with a decline of 0.9 percent in 2015; remaining unchanged from the previous projection.

## 6. Economic Management in 2016

In the second half of this year, the Thai economy is expected to continue to grow well. The number of inbound tourists is likely to expand markedly. Agricultural production will recover and begin to be a supporting factor in economic growth even though it is still in an early stage of recovery. Private consumption also improved. Meanwhile, the growth of export, manufacturing production, and private investment are still under constraints of the low global economic growth, and the uncertainty in the global recovery. Under such conditions, economic management in the remaining of the year should focus on public investment and expenditure, as well as the stimulus package to be efficient and meet its target in order to remain as the main contributors for growth. Assistance should be given to the private sector to foster its recovery so that it can contribute more to the economic expansion in 2017.

- 1) Achieving target of public spending and the implementation of key public infrastructure according to their action plans**, which include (i) disbursing the FY2016 annual budget, the FY2015 carry-over budget, and SOE's capital budget to be no less than 93.5 percent, 77.0 percent, and 60.0 percent, respectively; (ii) increasing disbursement rate of government investment budget in the FY2017 budget, along with the disbursement of SOE's capital budget in order to maintain the growth of public investment in the last quarter of 2016 and in 2017; and (iii) implementing infrastructure investment plan in 2017 to be adequate in supporting growth and to meet the target under the 12<sup>th</sup> National Development Plan.
- 2) The implementation of key measures under the economic stimulus package already approved to be completed as planned by the end of this year**, with remaining budget of around 100.5 billion. This will help providing income and benefits for farmers and low-income individuals, as well as credits access by SMEs. This is important as the agricultural sector is still in an early stage of recovery, and export-oriented manufacturing sector remained constrained by weak global demand.
- 3) Assisting farmers and preparing them for the plantation in 2016/2017 season**, by emphasizing access to loans by farmers for the new growing season. The quality and prices of essential farming factors should be kept in line with the international prices. Moreover, the cooperation or co-production project should be implemented to encourage small farmers to join up and to give knowledge on agricultural development. Support on farming machines and equipment should be provided for farmers who form cooperation or co-production. Lastly, crop insurance, as well as marketing and relevant measures, should be provided to handle the products entering the market after the harvesting season.
- 4) Supporting the recovery and the expansion of private investment** by (i) promoting and supporting investors to utilize investment privileges already approved by the cabinet, such as, tax incentives to promote investment, BOI's measures to expedite investment, fiscal and financial measures to promote SMEs; (ii) implementing proactive measures to incentivize investors to invest in the targeted industries and service sectors which will contribute to future development of the country, such as targeted industries and services listed under industrial cluster development and the supporting framework for International Headquarters (IHQ) and International Trading Center (ITC) in Thailand; and (iii) developing key economic areas and implementing the infrastructure development projects according to the existing action plans.



- 5) Facilitating and promoting the export sector** by emphasizing (i) supporting exporters and producers in managing the risks from fluctuation and appreciation of the Thai baht, (ii) implementing measures under Thailand's International Trade Strategies 2016 announced by Ministry of Commerce, especially by promoting and facilitating border trade promotion within CLMV countries and by seeking for new trade and service markets particularly those service sector that Thailand has advantages and being known for excellence; (iii) collaborating between public and private sectors in seeking new potential markets and enhancing flexibility and efficiency of government's operational process and regulations.
- 6) Enhancing confidence in the tourism and investment sectors** by emphasizing (i) preventing and resolving 10<sup>th</sup> – 12<sup>th</sup> August incidences, especially in tourist areas and residence areas of tourists; (ii) apprehending the perpetrators and the victims from the incidences on 10<sup>th</sup> – 12<sup>th</sup> August, as well as communicating with the international community about the fact of the situation; (iii) preventing and resolving accidents and crimes which affect tourists; (iv) publicizing information and explaining about the timetable after the 7<sup>th</sup> August Referendum before an election is held, as well as conveying the principles and contents of the constitution related to the effort to solve the political problems of Thailand in the past, and the reform efforts under the National Strategy; (v) proactive campaign and implementation of key spatial development plans, as well as the existing infrastructure development plans.

Projection for 2016 <sup>1</sup>

	Actual Data		Projection	
	2014	2015	May 16, 2016	Aug 15, 2016
GDP (at current prices: Bil. Bht)	13,132.2	13,533.6	14,034.3	14,034.3
GDP per capita (Bht per year)	195,995.2	201,284.9	208,055.2	208,055.2
GDP (at current prices: Bil. USD)	404.3	395.1	389.8	395.3
GDP per capita (USD per year)	6,033.6	5,876.5	5,779.3	5,860.7
GDP Growth (CVM, %)	0.8	2.8	3.0-3.5	3.0-3.5
Investment (CVM, %)	-2.4	4.7	4.2	3.3
Private (CVM, %)	-1.0	-2.0	2.1	1.5
Public (CVM, %)	-7.3	29.8	11.7	10.0
Private Consumption (CVM, %)	0.6	2.1	2.3	2.7
Public Consumption (CVM, %)	2.1	2.2	3.9	3.9
Export volume of goods & services (%)	0.2	0.2	2.0	2.5
Export value of goods (Bil. USD)	224.8	212.1	208.4	208.0
Growth rate (%) <sup>2/</sup>	-0.3	-5.6	-1.7	-1.9
Growth rate (Volume, %) <sup>2/</sup>	0.7	-3.4	-0.7	-0.9
Import volume of goods & services (%)	-5.3	-0.4	0.0	-1.3
Import value of goods (Bil. USD)	200.2	177.5	169.3	166.7
Growth rate (%) <sup>2/</sup>	-8.5	-11.3	-4.6	-6.1
Growth rate (Volume, %) <sup>2/</sup>	-6.9	-0.6	-1.1	-2.6
Trade balance (Bil. USD)	24.6	34.6	39.1	41.3
Current account balance (Bil. USD)	15.4	31.6	36.5	38.6
Current account to GDP (%)	3.8	8.0	9.4	9.8
Inflation (%)				
CPI	1.9	-0.9	0.1-0.6	0.1-0.6
GDP Deflator	1.0	0.3	0.1-0.6	0.1-0.6

Source: Office of the National Economic and Social Development Board, 15<sup>th</sup> August 2016

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

<sup>2/</sup> Export and import base on the Bank of Thailand's data.