NESDB ECONOMIC REPORT

Thai Economic Performance in Q2 and Outlook for 2018

Macroeconomic Strategy and Planning Office

Press Release 9.30 a.m. Aug 20, 2018

Economic Projection of 2018

(%YoY)	2017		2018		
	Year	Q4	Q1	Q2	Year (f)
GDP (CVM)	3.9	4.0	4.9	4.6	4.2-4.7
Investment[1]	0.9	0.3	3.4	3.6	4.4
Private	1.7	2.4	3.1	3.2	3.9
Public	-1.2	-6.0	4.0	4.9	7.3
Private Consumption	3.2	3.4	3.7	4.5	4.1
Government Consumption	0.5	0.2	1.9	1.4	2.2
Export of Goods[2]	9.8	11.6	9.9	12.3	10.0
Volume[2]	6.0	7.0	4.9	7.5	6.0
Import of Goods[2]	13.2	13.4	17.9	16.8	15.4
Volume[2]	7.2	7.2	10.7	8.9	9.4
Current Account to GDP (%)	11.2	10.2	11.6	5.2	8.4
Inflation	0.7	0.9	0.6	1.3	0.9-1.4

Note: [1] Investment means Gross Fixed Capital Formation

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

- **The Thai economy in the second quarter of 2018** expanded by 4.6 percent (%YoY), compared with 4.9 percent in the previous quarter. After seasonally adjusted, the economy in the second quarter grew by 1.0 percent (%QoQ sa). **For the first half of 2018,** the Thai economy expanded by 4.8 percent.
- **On the expenditure side**, the expansion was supported by the speed up in private consumption and total investment, the continued robust export growth, as well as the increase in government consumption. **On the production side**, the agriculture and wholesale and retail trade sectors accelerated while the construction sector moderately expanded. Nevertheless, the manufacturing, hotel and restaurant, and transportation and communication sectors slowed down in line with high growth base in the same period of last year.
- **The Thai economy in 2018** is forecasted to expand in the range of 4.2 – 4.7 percent, supported by (i) the improvement of the global economy which will further enhance growth of export and key production sectors, (ii) the favorable expansion of government consumption and public investment, (iii) the more pronounced recovery of private investment, and (iv) the improvement of household income conditions. All in all, it is expected that export value will increase by 10.0 percent, and private consumption and total investment will grow by 4.1 and 4.4 percent, respectively. The headline inflation is forecasted to be in the range of 0.9 – 1.4 percent and the current account will record a surplus of 8.4 percent of GDP.
- **Economic management for the remainder of 2018** should focus on **(1) Promoting key economic sectors** by (i) fostering export sector to further expand by seeking opportunities from the escalating trade protection measures as well as closely monitoring and specifying measures for mitigating possible negative impact, (ii) sustaining the expansion of the tourism sector which includes the restoration of tourists' perception on security particularly on key tourism attractions, the sales promotion of tourism package to high-income and long-distance tourists, as well as the distribution of tourism income to secondary cities and local communities, and (iii) supporting private investment expansion by facilitating and pushing up investment projects approved by the Board of Investment in the first half of the year to be materialized and started operations at the soonest, pursuing public infrastructure investment to be implemented as planned, as well as encouraging investors to invest in targeted sectors, and areas. **(2) Supporting small farmers and low income households as well as strengthening SMEs and local economies** by focusing on (i) relieving farmers who are impacted by the recent floods, preparing preemptive measures to accommodate the rising supply, and promoting agricultural products exports, (ii) pursuing the social welfare smart card project, together with credit provision measures in order to reduce debt burden and lessen constraints on fund accessibility, and (iii) assisting and developing SMES affected by changing business patterns and consumers' behavior, changing demographics, as well as Baht fluctuation. **(3) Expediting key public investment** by ensuring sufficient capital budget disbursement under several budget frameworks in order to further support the overall economy, together with driving infrastructure projects under the transportation action plans and the EEC and **(4) Arranging labor force** both in terms of quantity and quality of labor to facilitate expansion of economic and investment activities.

1. The Thai Economy in Q2/2018

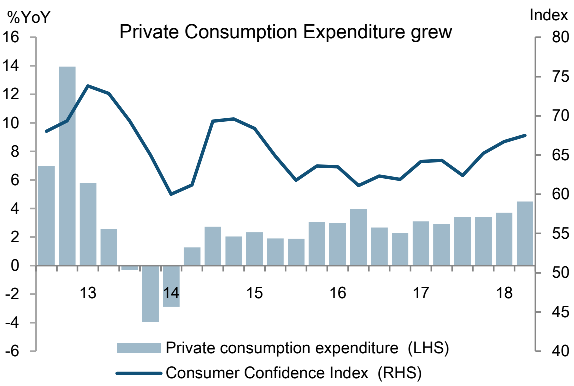
Expenditure side:

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

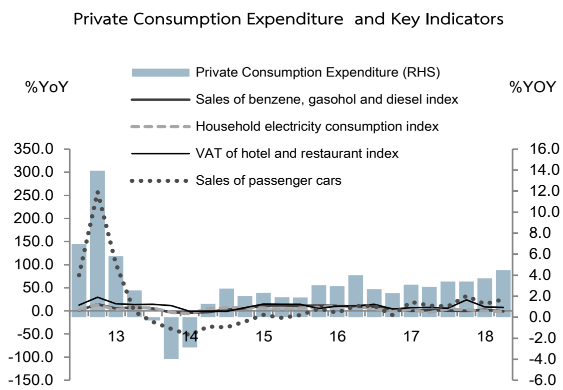
Private consumption expenditure accelerated due to the upsurge consumption of durable goods, together with continual increase in demand for semi-durable and non durable goods, in line with the expansion of overall income conditions, the end of five-year ownership requirement under the first-car buyer scheme, low inflation and interest rates and rising consumer confidence. In the second quarter of 2018, private consumption expenditure grew by 4.5 percent, accelerated from 3.7 percent in the previous quarter. The private consumption expenditure of durable goods increased, aligned with the expansion of passenger cars sales by 25.1 percent. Besides, consumption for other consumer goods and services also favorably rose as seen from the VAT of hotel and restaurant index (at 2010 price), the import of textile index, and sales of passenger transportations index, which grew by 7.7, 12.0, and 13.5 percent, respectively. The expansion of private consumption expenditure in this quarter was supported by (i) the more broad-based recovery for the overall economic activities and income conditions, (ii) consistently low inflation and interest rates, (iii) the additional impulse to further encouraging new car purchases as a consequence of the end of five-year ownership requirement under the first-car buyer scheme, which allows those first-car buyers to purchase a new one as well as the launches of new car models, and (iv) measures to support low income group. Consumer Confidence Index pertaining the overall economic situation stood at 67.5, the highest level in 13 consecutive quarters.

Private consumption expenditure grew by 4.5 percent, accelerated from 3.7 percent in the previous quarter, in line with the expansion of overall income conditions, lower adverse impact after the end of five-year ownership requirement under the first-car buyer scheme, low inflation and interest rates, measures to support low income group and the improvement of consumer confidence that recorded the highest level in 13 quarters.

In the first half of 2018, private consumption expenditure increased by 4.1 percent.



Source: NESDB, University of the Thai Chamber of Commerce

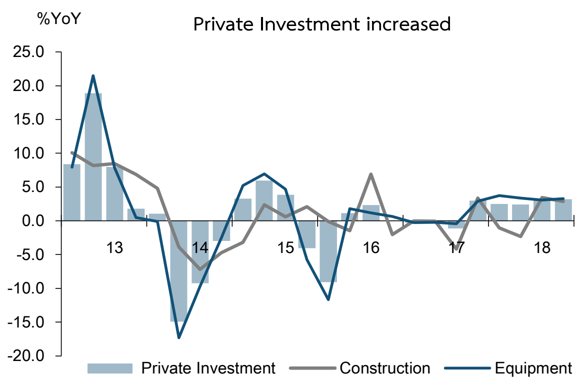


Source: NESDB, BOT, Department of Energy Business

Private investment continually improved, supported by the gradual acceleration of investment in machinery and equipment, together with continued expansion in those for construction. In the second quarter of 2018, private investment rose by 3.2 percent, relative to a 3.1 percent growth seen in the previous quarter. **The investment in machinery and equipment** grew by 3.3 percent, gradually accelerated from 3.1 percent in the previous quarter. This was consistent with 6.6, 7.6, and 6.8 percent growth of the import of capital goods (in 2010 price), domestic machinery sales (in 2010 price), and newly registered motor vehicles for investment purposes, respectively. **The investment in construction** expanded by 2.8 percent from a 3.4 percent growth in the previous quarter, in line with the increase of the permitted construction in municipal area and sales of construction materials by 0.3 percent and 0.5 percent, respectively. **The total value of projects approved by BOI** was recorded at 118.0 billion baht, increased by 16.1 percent. Meanwhile, **the total value of projects that received promotion certificate issued by BOI** was recorded at 148.7 billion baht, which increased by 84.4 percent. The Business Sentiment Index (BSI) stood at 51.3**.**

Private investment continually expanded by 3.2 percent, supported by the expansion of both investment in machinery & equipment. This was in accordance with the improvement of manufacturing production, thus subsequently increased capacity utilization and encouraged new investments to expand production capacity.

In the first half of 2018, private investment grew by 3.2 percent.



Source: NESDB

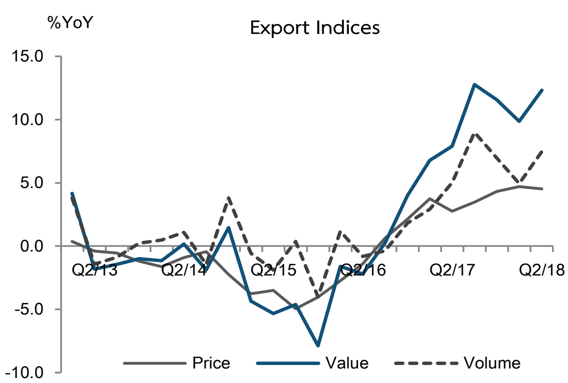
Export in US dollar term maintained its high growth rate of 12.3 percent. Export value excluding unwrought gold increased by 11.9 percent.

Export quantity increased by 7.5 percent and export price increased by 4.5 percent.

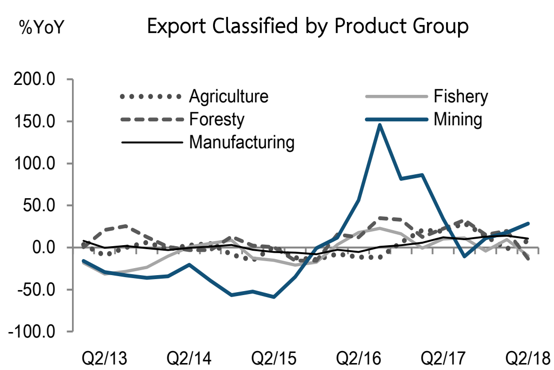
In baht term, export value increased by 4.6 percent.

Exports in US dollar term continued to grow at high growth rate and accelerated from the previous quarter, driven by the continued favorable economic expansion in major trading partners and the improvement of commodity prices in the global market. Export value in the second quarter of 2018 was recorded at 63.0 billion US dollars, a more pronounced growth of 12.3 percent, relative to a 9.9 percent growth seen in the previous quarter. The export volume index increased by 7.5 percent, supported by the strong growth in the export volume of manufacturing products of 6.3 percent. Export price index increased by 4.5 percent, which mainly influenced by the increase in prices of crude oil, refined fuel, chemicals, and plastic resin. Excluding unwrought gold, export value grew by 11.9 percent, compared with 11.2 percent in the previous quarter. **In baht term,** export value increased by 4.6 percent, compared with a 1.3 percent decline in the previous quarter.

In the first half of 2018, export value increased by 11.1 percent. In baht term, export value increased by 1.6 percent.



Source: Bank of Thailand



Source: Bank of Thailand

Export value of manufacturing products and agricultural commodities increased, in accordance with the continued economic recovery in major trading partners and rising commodity prices in the world market. Meanwhile, export value of fishery products declined.

Export value of agricultural commodities increased by 7.8 percent, a recovery from a 1.6 percent decline in the previous quarter. This was mainly due to the increase in the export price of main agricultural products, especially rice and tapioca, whereas export quantity of other key agricultural products slightly decreased. **Export value of manufacturing products** increased by 10.7 percent, continually expanded for eight consecutive quarters, following the continued expansion of global economy. **Export value of fishery products** decreased by 9.7 percent as a result of the reduction in export quantity. Meanwhile, its export price increased. **Export value of other products** expanded by 35.9 percent as a result of the increase in exports of non-monetary gold.

Export items with increased value included rice (14.5 percent), tapioca (4.7 percent), rubber products (19.3 percent), passenger cars (12.4 percent), vehicle parts & accessories (13.4 percent), pick up & trucks (23.9 percent), computer parts & accessories (16.8 percent), machinery & equipment (7.7 percent), and non-monetary gold (37.3 percent). On the other hand, **export items with decreased value** included rubber (-13.6 percent), sugar (-13.9 percent), crustaceans (-12.8 percent), and crustaceans canned, prepared, or preserved (-14.1 percent).

Export Value of Major Product in US Dollar Term

%YoY	2017 Year	H1	H2	Q1	Q2	Q3	Q4	2018 H1	Q1	Q2	Share Q2/18 (%)
Agriculture	**20.2**	**20.0**	**20.4**	**20.6**	**19.4**	**28.9**	**13.5**	**3.0**	**-1.6**	**7.8**	**7.4**
Rice	17.6	4.7	30.6	-7.1	19.6	45.1	20.9	17.7	20.9	14.5	2.1
Rubber	35.5	57.9	16.1	78.5	38.1	23.0	10.6	-25.4	-34.9	-13.6	2.0
Tapioca	-6.1	-15.4	4.8	-18.1	-11.9	6.6	3.4	17.4	28.1	4.7	0.8
Manufacturing	**10.2**	**9.0**	**11.4**	**5.8**	**12.2**	**9.9**	**12.9**	**12.4**	**14.1**	**10.7**	**88.2**
Sugar	12.5	12.0	13.2	-7.6	32.8	31.2	-6.5	-13.7	-13.4	-13.9	1.3
Crustaceans canned, prepared, or preserved	4.6	12.2	-0.7	13.0	11.6	4.7	-5.8	-10.3	-6.0	-14.1	0.3
Rubber products	41.3	41.7	40.8	51.6	32.5	37.2	44.3	7.9	-2.8	19.3	2.4
Apparels and Textile Materials	3.9	2.1	5.7	3.1	1.1	4.0	7.4	8.4	8.4	8.4	2.9
Electronics	14.0	13.2	14.8	10.0	16.5	11.3	18.2	12.4	13.6	11.3	14.9
- Computer parts & accessories	5.7	1.7	9.4	-0.8	4.4	2.5	16.4	16.4	16.1	16.8	6.1
- Integrated circuits & parts	7.1	11.4	3.5	11.8	11.1	3.4	3.6	6.9	7.3	6.5	3.4
- Printed circuits	10.5	11.7	9.4	13.9	9.7	4.0	15.9	1.7	0.9	2.5	0.5
- Telecommunication equipment	51.0	46.0	55.3	21.5	71.7	49.6	60.4	17.5	37.9	2.5	2.3
Electrical appliances	6.2	6.7	5.6	9.5	4.1	3.0	8.5	6.6	9.6	3.6	5.6
Metal & steel	14.3	16.0	12.8	16.1	15.9	8.6	17.2	18.8	18.5	19.0	4.8
Automotive	6.3	2.4	10.0	2.5	2.3	2.6	18.1	15.1	15.8	14.4	14.8
- Passenger car	-7.1	-14.6	0.3	-19.1	-9.8	-10.8	13.5	15.4	18.5	12.4	4.5
- Pick up and trucks	11.8	10.4	13.1	15.8	4.3	-1.8	30.2	11.7	1.8	23.9	3.1
- Vehicle parts & accessories	13.6	11.4	15.7	13.2	9.6	14.5	16.9	14.5	15.6	13.4	6.6
Machinery & equipment	7.2	7.6	6.7	3.9	11.5	13.2	0.7	8.7	9.7	7.7	8.6
Chemicals	22.9	18.5	27.1	23.1	14.5	33.1	21.4	28.2	27.9	28.5	3.6
Petro-chemical products	10.1	9.3	10.9	7.4	11.2	11.1	10.7	20.2	17.6	22.7	5.9
Petroleum products	32.5	39.5	27.7	43.0	36.6	29.7	26.0	35.8	41.1	31.1	3.6
Fishery	**4.1**	**5.3**	**3.1**	**-0.6**	**10.4**	**11.2**	**-4.2**	**-1.4**	**9.3**	**-9.7**	**0.8**
Crustaceans	7.0	2.7	10.5	-4.8	8.4	17.3	4.2	-2.2	13.6	-12.8	0.4
Other Exports	**-19.5**	**-38.7**	**12.1**	**-35.0**	**-44.3**	**49.9**	**-43.0**	**-6.1**	**-30.7**	**35.9**	**2.3**
Non-monetary gold (excl. articles of goldsmiths)	-20.7	-40.7	12.6	-37.5	-45.4	52.7	-46.6	-6.3	-31.5	37.3	2.2
Total Exports (Customs basis)	**9.9**	**7.7**	**12.0**	**4.8**	**10.7**	**12.3**	**11.6**	**11.0**	**11.3**	**10.6**	**100.0**
Exports, f.o.b. (BOP basis)	**9.8**	**7.3**	**12.2**	**6.8**	**7.9**	**12.8**	**11.6**	**11.1**	**9.9**	**12.3**	**100.1**
Export Value (exclude gold)	**10.9**	**9.5**	**12.2**	**9.2**	**9.8**	**11.5**	**12.8**	**11.5**	**11.2**	**11.9**	**97.9**

Source: Bank of Thailand

Export markets: exports to major markets expanded favorably. Exports to the US, EU (15), and Japan increased by 6.6, 11.1, and 11.2 percent, respectively, which were in line with the continued economic recovery in the US, EU, and Japan economies. In addition, exports to China increased by 15.1 percent, accelerated from 0.3 percent growth in the previous quarter, mainly due to the increase in exports of rubber products, plastics resin, and chemicals. Exports to ASEAN (9) expanded by 12.4 percent, due to the expansion of export to ASEAN (5) by 7.6 percent and to CLMV countries by 19.6 percent. Similarly, exports to Australia expanded by 10.2 percent, due to the expansion of exports in vehicles, parts & accessories, plastics resin, and rubber products. Meanwhile, Exports to the Middle East (15) declined by 5.8 percent, due to a contraction in exports of vehicles, parts & accessories, and air conditioning machine and parts.

Exports to major markets expanded favorably, especially US, EU (15), China, Japan, ASEAN (9), and Australia. This were in line with the strengthened economic recovery in major trading partners' economies. Meanwhile, exports to the Middle East (15) declined.

Export Value to Key Markets in US Dollar Term

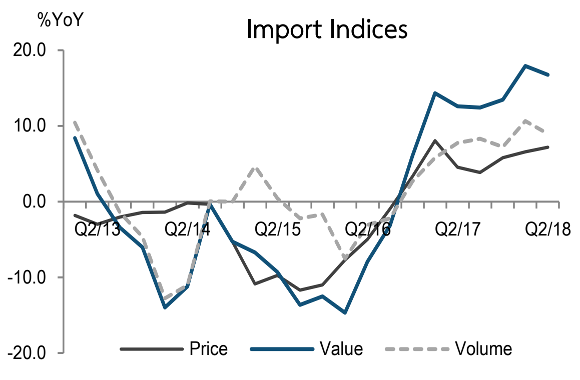
%YOY	2017 Year	H1	H2	Q1	Q2	Q3	Q4	2018 H1	Q1	Q2	Share Q2/18 (%)
Total Exports (Mil US$) (Customs basis)	236,635	113,391	123,243	56,427	56,965	62,065	61,178	125,812	62,829	62,982	100.0
(%YoY)	9.9	7.7	12.0	4.8	10.7	12.3	11.6	11.0	11.3	10.6	
United States	8.5	7.4	9.4	7.6	7.2	8.3	10.7	7.7	9.0	6.6	11.1
Japan	7.7	5.7	9.7	-3.6	16.4	10.4	9.1	17.9	24.8	11.2	9.6
EU (15)	8.1	7.1	9.0	8.7	5.5	6.8	11.3	10.8	10.5	11.1	9.1
China	24.0	31.8	17.8	37.0	26.6	22.0	14.1	7.5	0.3	15.1	12.3
ASEAN (9)	8.9	7.3	10.4	0.4	14.9	9.6	11.2	13.6	14.8	12.4	26.3
- ASEAN (5)*	6.1	3.2	9.1	-8.5	17.1	5.2	13.2	11.2	15.2	7.6	15.1
- CLMV**	12.9	13.6	12.2	15.6	11.7	16.3	8.9	16.9	14.3	19.6	11.2
Middle East (15)	-5.0	-12.4	3.4	-22.5	-0.3	0.7	6.2	2.5	11.4	-5.8	3.2
Australia	1.9	-3.9	7.6	-3.0	-4.8	-0.1	17.2	12.3	14.4	10.2	4.3
Hong Kong	7.2	9.2	5.3	5.9	13.1	7.7	2.8	5.6	1.7	9.8	5.0
India	25.6	15.3	36.5	17.7	13.0	27.4	46.3	29.3	31.6	27.0	3.1
South Korea	14.4	23.6	6.1	23.2	24.1	11.8	0.7	7.9	5.1	10.7	2.1
Taiwan	19.0	19.7	18.3	16.4	22.7	24.9	11.9	5.0	11.0	-0.02	1.7

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

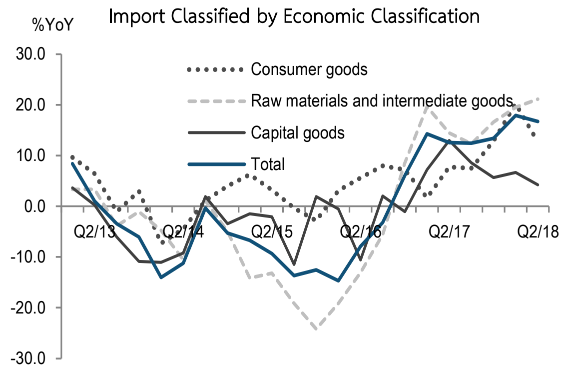
Import value in US dollar term continued to expand as both price and quantity increased, in accordance with the expansion of exports, private investment, and domestic demand. In the second quarter of 2018, the value of import was recorded at 57.2 billion US dollars, and grew by 16.8 percent. Import price and quantity increased by 7.2 percent and 8.9 percent, respectively. The import volume of raw materials & intermediate goods, capital goods, and consumer goods increased by 9.2, 1.7, and 9.0 percent, respectively, associated with the expansion of exports, manufacturing production, and private consumption expenditure. Import value excluding unwrought gold expanded by 17.9 percent. **In Thai baht term,** the import value increased by 8.7 percent.

Import value in US dollar term continued to grow at a high growth rate of 16.8 percent, aligned with the continual high growth of exports and the acceleration of domestic demand.

In the first half of 2018, import value increased by 17.3 percent. In Thai baht term, import value increased by 7.3 percent.



Source: Bank of Thailand



Source: Bank of Thailand

Overall, import value of all categories increased. **Import value of raw materials and intermediate goods** increased by 21.2 percent, associated with the continual high growth of exports and the favorable growth of manufacturing production. **Import value of capital goods** continued to expand by 4.2 percent, which was in line with the expansion of private investment. **Import value of consumer goods** increased by 12.7 percent, following the continual expansion of domestic demand. **Import value of other goods** expanded by 4.3 percent as a result of the 10.3 percent increase in the import of automotive (both vehicle and vehicle parts). Meanwhile, the import of non-monetary gold decreased for the first time in 6 quarters by 9.4 percent.

Import quantity of all categories increased, particularly raw materials & intermediate goods and consumer goods.

Import items with increased value included crude oil (65.9 percent), petroleum products (33.7 percent), materials of base metal (16.4 percent), power-generating machinery & parts (165.3 percent), telecommunication equipment (10.0 percent), other machinery & mechanical appliances & parts (6.1 percent), automotive (10.3 percent), food, beverage, & dairy products (7.1 percent), and animal & fishery products (8.6 percent). On the other hand, **import items with decreased value** included non-monetary gold (-9.4 percent).

Import Value of Major Product in US Dollar Term

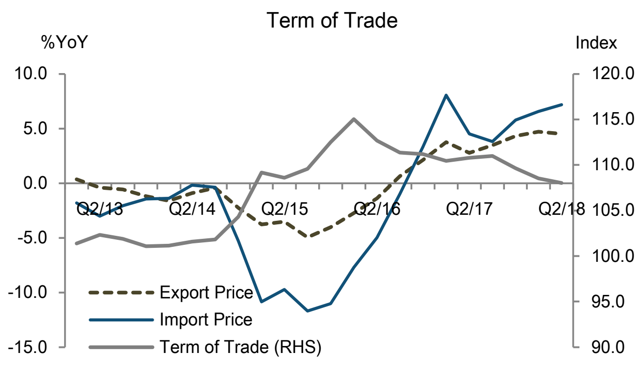
%YoY	2017							2018			Share
	Year	H1	H2	Q1	Q2	Q3	Q4	H1	Q1	Q2	Q2/18 (%)
Consumer goods	7.5	4.7	10.2	1.7	7.7	7.5	12.9	16.4	20.3	12.7	10.3
Raw materials and intermediate goods	15.7	16.9	14.5	19.7	14.5	12.4	16.6	20.4	19.5	21.2	58.0
Capital goods	8.5	10.0	7.1	7.2	13.0	8.6	5.7	5.4	6.7	4.2	22.8
Other Imports	27.9	22.0	32.9	19.2	24.8	46.5	23.3	15.1	25.9	4.3	8.9
Total Imports (Customs basis)	**14.1**	**14.2**	**14.0**	**14.1**	**14.3**	**13.8**	**14.1**	**15.6**	**16.9**	**14.4**	**100.0**
Imports, f.o.b. (BOP basis)	**13.2**	**13.4**	**12.9**	**14.3**	**12.6**	**12.4**	**13.4**	**17.3**	**17.9**	**16.8**	**93.0**

Source: Bank of Thailand

Term of trade decreased from the same period last year, as export price increased by 4.5 percent, slower than the increase in import price of 7.2 percent. Thus, the term of trade decreased from 110.8 in the same quarter last year to 108.0 in the second quarter of 2018.

In the first half of 2018, term of trade stood at 108.3, declined from 110.6 in the same period last year. Export price increased by 4.6 percent while import price increased by 6.9 percent.

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



Source: Bank of Thailand

Trade balance recorded a surplus of 5.8 billion US dollars (equivalent to 186.8 billion baht), compared with a surplus of 7.1 billion US dollars (equivalent to 243.2 billion baht) in the same quarter of last year.

In the first half of 2018, the trade balance recorded a surplus of 12.4 billion US dollars (equivalent to 395.6 billion baht), compared with a surplus of 16.6 billion US dollars (equivalent to 575.0 billion baht) in the same period last year.

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

Production side:

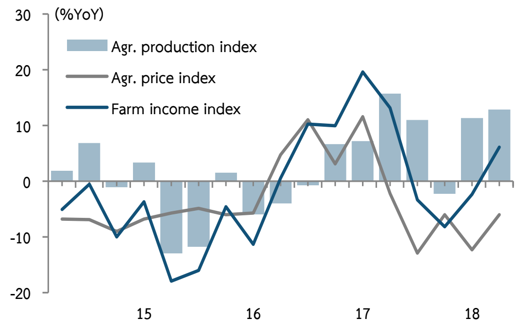
Major production sectors expanded, in line with the favorable expansion of exports, and the improvement in domestic demand.

Agricultural sector expanded at an accelerated rate, mainly supported by adequate water and favorable weather conditions, and resulted in farm income expansion for the first time in four quarters.

Agriculture sector expanded at an accelerated rate, resulted in an increase in farmers' income for the first time in four quarters. In the second quarter of 2018, agriculture sector highly expanded by 10.4 percent, accelerating from 6.5 percent in the previous quarter. This was in association with a 12.9 percent increase of **Agricultural Production Index**. The expansion mainly supported by favorable weather conditions, including the sufficient irrigation water and rainfall, higher demands from both domestic and exports. Major agricultural products with positive growth included (i) sugarcane (520.4 percent), driven by the increase in both planting areas and yield per area, which mainly supported by suitable rainfall, along with await-harvesting in the first quarter in order to deliver output to the factory in the second quarter of 2018, this made sugarcane product in this quarter higher than usual. (ii) paddy (30.0 percent), due to sufficient water for cultivation, combined with an expansion of planting areas during increasing rice prices, (iii) maize (100.5 percent), driven by not only an increase of yield per area but also planting area extension, and (iv) rubber (13.3 percent), associated with an increase in rubber tapping area. However, major agricultural products with contraction include (i) cassava (30.7 percent) following a lower planting area as farmers have switched to other types of crops that gained more return. (ii) swines (1.1 percent) following a decrease in lower demand from foreign markets, especially China and Cambodia. (iii) white shrimp (0.3 percent) due to the reduction of shrimp breeding after the decline in price of white shrimp. **Agricultural Price Index** decreased by 6.0 percent, relative to a 12.3 percent decline in the previous quarter, mainly due to (i) lower rubber price following the strong increase of rubber production and the weak demand in global market, (ii) lower fruit price following a contraction in fruit prices such as mango, pineapple, and mangosteen, as a result of over supplied into market, (iii) lower sugarcane price, owing to a decline in global sugar prices, which dropped continuously after concerns over an excess of sugar stock in the world market, and (iv) lower oil palm price following the downward trend of crude palm oil price in the world market. In contrast, agricultural products with price index increased such as paddy (18.1 percent), cassava (108.7 percent), and maize (39.3 percent). The strong increase of agricultural production index thus led to the increase of **Farm Income Index** by 6.1 percent, the first increase in four quarters.

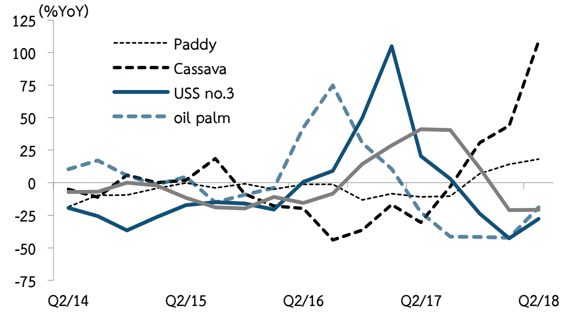
In the first half of 2018, agricultural sector expanded by 8.3 percent, comparing with a 10.4 percent expansion in the same quarter last year. Agricultural Production Index grew by 12.0 percent, while Agricultural Price Index decreased by 9.2 percent and Farm Income Index rose by 1.7 percent.

Farm Income Index increased by 6.1 percent due to an increase in agricultural production.



Source: Office of Agricultural Economics

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



Source: Office of Agricultural Economics

Manufacturing sector expanded by 3.1 percent, in tandem with the favorable expansion of export and the acceleration of domestic demand.

Manufacturing Production Index of the industries with export share of 30-60 percent to total production and the domestic-oriented industries increased by 7.0 and 1.9 percent, respectively. Meanwhile, the export-oriented industries rebounded by 1.4 percent.

The capacity utilization rate reached 66.6 percent, which was the highest second-quarter utilization rate over the last 5 years.

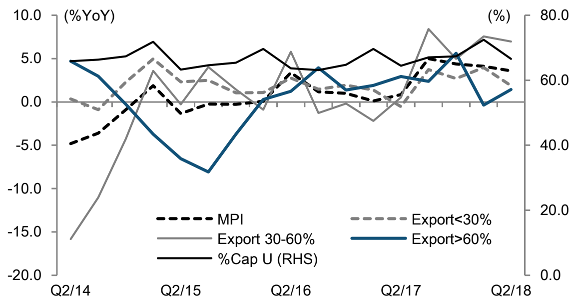
Manufacturing sector favorably expanded, in line with pronounced export growth and the acceleration of domestic demand, meanwhile the capacity utilization rate approached to 66.6 percent which was the highest second-quarter capacity utilization rate over the last 5 years. In the second quarter of 2018, manufacturing sector grew by 3.1 percent compared with 3.8 percent growth in the previous quarter, alongside with the 3.6 percent increase in Manufacturing Production Index (MPI). **Manufacturing Production Index of the industries with 30-60 percent export share to total production** grew by 7.0 percent, in tandem with the expansion of major industries such as 40.5 percent growth of sugar production, 11.5 percent growth of vehicle, and 2.6 percent growth in animal processing and preservation. **Manufacturing Production Index of the domestic-oriented industries (with export share of less than 30 percent to total production)** increased by 1.9 percent, owing to the growth in major industries such as production of concrete and cement (6.6 percent), plastics and synthetics rubber (7.2 percent), basic iron and steel production (2.8 percent), and refined petroleum products (3.9 percent). **Manufacturing Production Index of export-oriented industries (with export share of more than 60 percent to total production)** increased by 1.4 percent, improved from a 0.4 percent drop in the previous quarter, due mainly to the acceleration in major export industries, including production of computers and peripheral equipment (16.3 percent), electronic components (3.9 percent), and processing and preserving of fish (1.2 percent). The strengthening recovery and more broad-based growth of manufacturing production raised the average capacity utilization rate to 66.6 percent, improving from 64.5 percent in the same quarter last year, which was the highest second- quarter capacity utilization rate over the last 5 years. Out of 21 sectors, there were (i) **4 industries with more than 80 percent capacity utilization**, including the production of plastics and synthetics rubber (100.1 percent), vehicles (86.1 percent), refined petroleum products (84.0 percent), and computers and peripheral equipment (80.1 percent) and (ii) **7 industries with 60-80 percent capacity utilization,** included the production of processing and preserving of meat (77.6 percent), electronic components and boards (77.5 percent), motorcycles (70.0 percent), other general-purpose machinery (66.4 percent), tyres and tubes (64.8 percent), wearing apparel, except for apparel (64.8 percent), and plastic products (61.4 percent).

Manufacturing Production Index with positive growth included vehicles (11.5 percent), sugar (40.5 percent), computers and peripheral equipment (16.3 percent), plastics and synthetics rubber (7.2 percent), electronic components (3.9 percent), concrete and cement (6.6 percent), refined petroleum products (3.9 percent), basic iron and steel production (2.8 percent), animal processing and preservation (2.6 percent), and processing and preserving of fish (1.2 percent), etc.

Manufacturing Production Index with negative growth included other rubber products (-6.5 percent), weaving of textiles (-15.1 percent), furniture (-5.0 percent), soft drinks (-2.9 percent), and household appliances (-2.6 percent), etc.

In the first half of 2018, manufacturing sector expanded by 3.5 percent, comparing with a 1.5 percent growth in the same quarter last year. Manufacturing Production Index (MPI) grew by 3.9 percent. The Capacity Utilization Rate (CAPU) stood at 69.5 percent.

Manufacturing Production Index increased by 3.6 percent and the capacity utilization rate averaged at 66.6 percent.



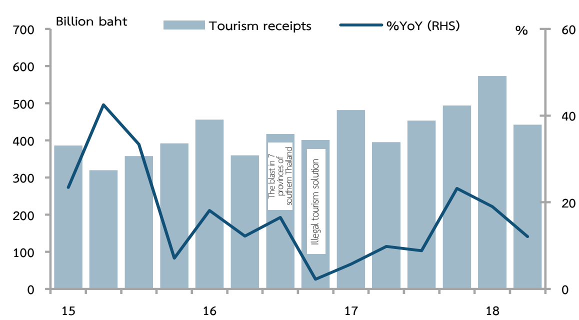
Source : Office of Industrial Economics

Hotels and restaurants sector slightly slowed down in tandem with the deceleration in the number of tourists and tourism receipts. In the second quarter of 2018, hotels and restaurants sector expanded by 9.4 percent, slowed down from a 12.8 percent increase in the previous quarter, following the deceleration in the number of foreign tourists and travel receipts. The total number of foreign tourists was at 8.87 million persons, increased by 9.1 percent comparing with 15.4 percent in the previous quarter, mainly attributed by the number of tourists from China (21.3 percent), India (11.2 percent), Malaysia (4.3 percent), and Hong Kong (17.8 percent). Foreign tourism receipts stood at 442.6 billion baht which grew by 12.1 percent, comparing with 19.0 percent increase in the first quarter, mainly contributed by travel receipts from Chinese, Malaysian, Indian, Hong Kong, and Taiwanese tourists. The average occupancy rate was at 71.40 percent, increased from 67.46 percent in the same quarter last year.

Hotels and restaurants sector expanded by 9.4 percent, in tandem with an expansion of both the number of tourists and receipts. The average occupancy rate was at 71.40 percent, increased from 67.46 percent in the same quarter last year.

In the first half of 2018, hotels and restaurants sector grew by 11.1 percent compared with 6.0 percent in the same quarter last year, tourism receipts stood at 1,015.9 billion baht, number of foreign tourists increased by 12.5 percent, and average occupancy rate was at 73.48 percent.

Income from foreign tourists for Q2/2018 stood at 442.6 billion baht or grew by 12.1 percent.



Source: Ministry of Tourism and Sports

Wholesale and retail trade sectors favorably expanded, aligned with a favorable expansion of exports and tourists' number, and the acceleration of domestic demand. In the second quarter of 2018, wholesale, retail trade, and repair of motor vehicles sector continually grew by 7.2 percent, relative to 7.0 percent growth in the previous quarter, in accordance with **the increase of Wholesale, Retail Sales, and Repair of Motor Vehicles Index of 5.9 percent**, compared with 6.8 percent in the previous quarter which consisted of (i) **Wholesale, Retail Sales, and Repair of motor vehicles and motorcycles index** increased by 8.8 percent, mainly supported by 9.5 percent growth in trading of motor vehicles sale and 8.1 percent growth in automotive parts sale, (ii) **Wholesales Index (except motor vehicles and motorcycles)** increased by 4.3 percent, mainly supported by 12.2 percent growth in wholesales of other goods (such as industrial chemicals, bricks, cement, sand, and concrete products) and 20.8 percent growth in wholesale of machinery and equipment, and (iii) **Retail Sales Index (except motor vehicles and motorcycles)** increased by 7.0 percent, accelerated from 6.4 percent growth in the previous quarter, mainly supported by 9.4 percent growth in retail sales of other goods (such as jewelry and cosmetics) and 10.7 percent growth in retail sales of automotive fuel.

Wholesale & retail trade sector markedly expanded by 7.2 percent, which was expansion in both wholesale and retail trade, in line with the favorable expansion of export and tourism sectors as well as an acceleration in domestic demand.

In the first half of 2018, wholesale, retail trade, and repair of motor vehicles sector grew by 7.1 percent, comparing with a 6.0 percent growth in the same quarter last year. Wholesale, Retail Sales, and Repair of motor vehicles and motorcycles index increased by 9.1 percent, Wholesales Index (except motor vehicles and motorcycles) increased by 5.8 percent, and Retail Sales Index (except motor vehicles and motorcycles) increased by 6.8 percent.

Transport and communication sector highly expanded, in line with the increase in tourism, export & import and production activities. In the second quarter of 2018, transport and communication grew by 7.0 percent compared with a 7.5 percent growth in the previous quarter. Transport services rose by 6.9 percent, comparing with 7.6 percent growth in the previous quarter, attributed by (i) 4.2 percent growth in land transport, (ii) 10.5 percent growth in air transport, and (iii) 9.0 percent growth in water transport. In addition, telecommunications services expanded by 11.6 percent, accelerated from 9.5 percent growth in the previous quarter, in accordance with the better operating result of telecommunication service providers.

Transport and communication sector grew by 7.0 percent, in line with the expansion of tourism, foreign trade and production activities.

In the first half of 2018, Transport and communication sector increased by 7.2 percent, comparing with a 6.5 percent growth in the same quarter last year. Transport services grew by 7.2 percent and telecommunication services expanded by 10.9 percent.

Transport services grew by 6.9 percent and telecommunication services expanded by 11.6 percent.

Electricity, gas and water supply sector expanded by 1.8 percent, in line with the increase in both electricity and water supply production and distribution. In details, (i) production and sale of electricity generation increased by 2.3 percent, slightly slowed down from 3.3 percent growth in the previous quarter due to the lower demand for electricity used in household electricity demand due to lower average temperature over the country. However, electricity demand for transport services expanded at an accelerated rate. (ii) Gas separation decreased by 1.4 percent, relative to 1.8 percent contraction in the previous quarter, in line with the decrease in domestic gas delivered to gas separation plants, due to the improvement in both domestic gas production and gas importation. (iii) Water supply production and distribution increased by 0.3 percent, improved from 1.8 percent decline in the previous quarter in line with the expansion of water demand in hotels and restaurants sector.

Electricity, gas and water supply sector expanded by 1.8 percent. Production and sale of electricity increased, in line with rising in water supply. Meanwhile, gas separation slightly declined.

In the first half of 2018, electricity, gas and water supply sector increased by 1.9 percent, compared to 0.3 percent growth in the same quarter last year. Production and sale of electricity generation increased by 2.8 percent, gas separation declined by 3.7 percent, and water supply production and distribution declined by 0.7 percent

Construction sector expanded by 2.0 percent, accelerated from a 1.2 percent growth in the previous quarter. The public construction increased by 1.5 percent, improved from a 0.1 percent decline in the previous quarter. State-owned enterprise construction grew by 11.5 percent, comparing with 12.1 percent growth in the previous quarter. Meanwhile, government construction decreased by 3.2 percent. The private construction increased by 2.8 percent, continued from a 3.4 percent growth in the previous quarter, in line with the improvement in construction of commercial and residential buildings, which increased by 6.7 and 3.0 percent, respectively, while factory buildings declined by 2.3 percent. **Construction Materials Price Index** increased by 2.4 percent, following a rise in prices of steel and steel products (7.9 percent), cement (2.5 percent), concrete (1.6 percent), and wood and wood products (0.3 percent), especially.

Construction sector expanded by 2.0 percent with the acceleration of public construction.

In the first half of 2018, construction sector increased by 1.6 percent, comparing with a 1.4 percent contraction in the same quarter last year. The public and private construction increased by 0.7 and 3.1 percent respectively.

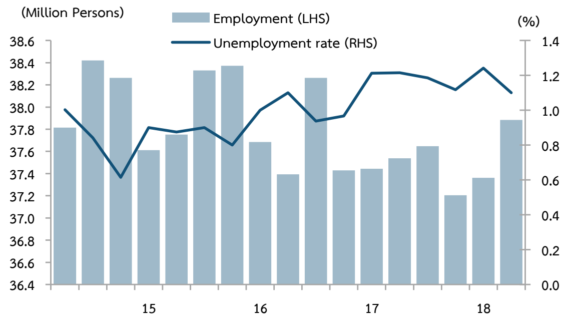
Employment increased for the first time in four quarters. **Agricultural employment strengthened, in tandem with a rising in agricultural production, while employment in manufacturing sector rebounded for the first time in eleven quarters.** In the second quarter of 2018, the employment increased by 0.9 percent, improving from a 0.2 percent decline in the previous quarter. This was mainly due to an expansion of 3.0 percent in agricultural employment, a continuous expansion seen in two consecutive quarters, in tandem with a favorable expansion of major agricultural production, such as paddy and sugarcane, etc. Meanwhile, non-agricultural employment decreased by 0.01 percent, which improved from a 2.8 percent decline in the previous quarter, following (i) a 2.6 percent growth in employment of manufacturing sector, which was the first time growth in eleven quarters, in line with the consistent improvement of manufacturing production and (ii) the increase in employment of accommodation and food service sector of 5.7 percent, aligned with the continuously favorable expansion in the number of foreign tourists. Unemployment rate in the second quarter was at 1.1 percent and unemployment was recorded at 411,155 persons.

Employment increased by 0.9 percent which was the first increase in four quarters. Agricultural employment strengthened while the manufacturing employment recovered for the first time in eleven quarters.

Unemployment rate was low at 1.1 percent.

In the first half of 2018, employment increased by 0.4 percent and the unemployment rate stood at 1.2 percent.

Employment increased by 0.9 percent, following an expansion of employment in agriculture sector. Unemployment rate was low at 1.1 percent.



Source: National Statistics Office

Employed Persons by Industry

%YOY	Share Q2/18	2017							2018		
		Year	H1	H2	Q1	Q2	Q3	Q4	H1	Q1	Q2
Employed	100.0	-0.6	-0.1	-1.1	-0.6	0.4	-1.6	-0.6	0.4	-0.2	0.9
- Agricultural	31.7	0.3	2.4	-1.6	-1.4	6.3	-1.2	-2.0	4.5	6.0	3.0
- Non-Agricultural	68.3	-1.0	-1.2	-0.9	-0.3	-2.1	-1.8	0.1	-1.4	-2.8	-0.01
Manufacturing	16.7	-2.9	-2.8	-2.9	-1.5	-4.2	-4.0	-1.8	1.3	-0.03	2.6
Construction	5.8	-8.2	-10.2	-5.6	-8.7	-11.8	-6.8	-4.3	-7.4	-11.8	-2.7
Wholesale and retail trade; repair of motor vehicles and motorcycles	6.6	-0.2	1.0	-1.3	0.9	1.0	-2.6	0.0	-2.5	-2.8	-2.2
Accommodation and food service activities	7.5	1.8	0.7	2.9	4.2	-2.7	-1.0	6.8	2.1	-1.3	5.7
Total labor force (Million persons)		38.1	38.2	38.0	38.2	38.3	38.2	37.7	38.3	38.1	38.5
Employed (Million persons)		37.5	37.5	37.4	37.4	37.5	37.6	37.2	37.6	37.4	37.9
Unemployment (Hundred thousand persons)		4.5	4.6	4.4	4.6	4.6	4.5	4.2	4.4	4.7	4.1
Unemployment Rate (%)		1.2	1.2	1.2	1.2	1.2	1.2	1.1	1.2	1.2	1.1

Source: NSO

Fiscal Conditions:

On the revenue side, in the third quarter of the fiscal year 2018 (April - June 2018) the net government revenue collection stood at 753.7 billion baht, increased by 9.2 percent from the same quarter last year and higher than the official target by 2.9 percent. This was partly due to an increase of revenue collected from VAT, petroleum income tax, corporate income tax, excise tax on vehicle. Meanwhile, the revenue collection from the excise tax on liquor and beer decreased by 5.7 percent and 0.6 percent, respectively.

For the first 9 months of the 2018 fiscal year, the net government revenue collection stood at 1,832.1 billion baht, increased by 5.4 percent from the same period last year and higher than the official target by 3.5 percent.

Government Revenue

Fiscal Year (Billion Baht)	2017					2018			
	Year	Q1	Q2	Q3	Q4	9M	Q1	Q2	Q3
Net Government Revenue	2,355.7	548.2	500.1	689.9	617.5	1,832.1	547.5	530.9	753.7
Compared with the target (%)	0.5	4.4	-1.5	-1.4	1.2	3.5	4.5	3.5	2.9
YOY (%)	-1.6	-6.5	1.5	-3.8	3.1	5.4	-0.1	6.2	9.2

Source: Ministry of Finance

On the expenditure side, the total budget disbursement in the third quarter of 2018 was at 803.9 billion[1] baht, increased at 12.2 percent from the same quarter last year, by which both current and capital expenditures expanded by 13.1 percent and 9.0 percent, respectively.

Classified by sources of funds, the government disbursements were as follows: (i) **the 2018 annual budget disbursement (including supplementary budget)** stood at 695.5 billion baht, grew by 11.2 percent from the same quarter last year. Its disbursement rate was at 22.8 percent, higher than the target of 22.0 percent and the disbursement rate in the same quarter last year of 21.4 percent. In details, the current expenditure disbursement amounted to 603.7 billion baht, expanded by 11.5 percent from the same quarter of 2017. Its disbursement rate was at 25.0 percent, higher than the target rate and disbursement

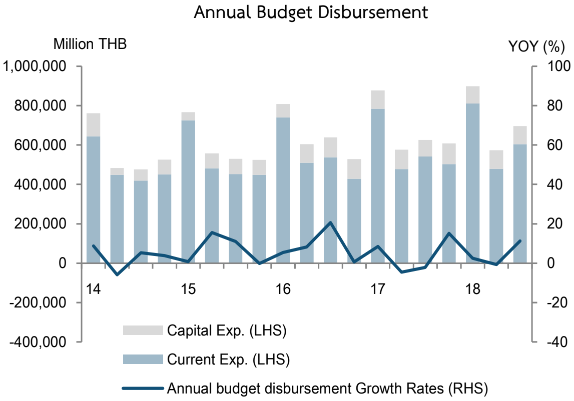
The net government revenue collection increased by 9.2 percent and was higher than the target by 2.9 percent.

The disbursement of current and capital expenditures expanded by 13.1 and 9.0 percent, respectively.

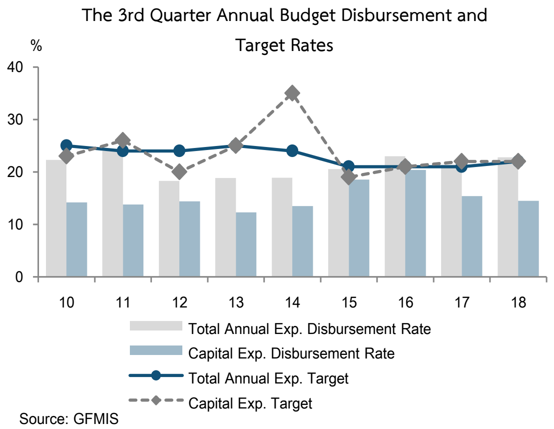
The rate of annual budget disbursement was at 22.8 percent, above its target rate and the disbursement rate of same period last year contributed by the current expenditure disbursement while the capital expenditure disbursement was below its target and last year rates.

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

rates of same period last year of 22.0 percent and 22.7 percent, respectively. The capital expenditure disbursement stood at 91.8 billion baht, increased by 9.9 percent from the same quarter last year. However, its disbursement rate was at 14.5 percent, lower than the target rates and disbursement rates of same quarter last year of 22.0 and 15.4 percent, respectively.



Source: GFMIS



Source: GFMIS

(ii) **The carry-over budget disbursement** stood at 42.7 billion baht, increased by 58.3 percent from the third quarter of 2017 (equivalent to a 13.2 percent of the disbursement rate and greater than the rate in the same quarter last year of 9.8 percent) (iii) **State-owned enterprises' capital expenditure budget (excluding PTT)** was anticipated to disburse at 71.1 billion baht[2], rose from the same period last year by 9.9 percent and (iv) **The off-budget loans** were disbursed at 906.5 million baht attributed by a disbursement on the Water Resource Management and Road Transport System Project's loans.

For the first 9 months of the 2018 fiscal year, the total budget disbursement was at 2,508.4 billion baht, rose from the same period last year by 3.2 percent (the current expenditure disbursement increased by 4.2 percent whereas the capital expenditure disbursement decreased by 0.2 percent). This was due to an increase of 4.2 percent of the 2018 annual budget disbursements. In details, the current expenditure disbursement expanded by 5.0 percent. Its disbursement rate was at 78.3 percent which was higher than the official target and the disbursement rate in the same period of 2017. However, the capital expenditure disbursement declined by 0.7 percent. Its disbursement rate was at 43.1 percent which was lower than the official target and the disbursement rate in the same period last year. The disbursement of the carry-over budget stood at 170.4 billion baht, equivalent to 52.6 percent of the total carry-over budget. State-owned enterprises' capital expenditure budget (excluding PTT) disbursement was expected to disburse at 182.1 billion baht[3], a 6.3 percent increase, and the off-budget loans disbursement amounted to 2.5 billion baht.

The public debt remained in the fiscal prudential framework at 39.8 percent of GDP.

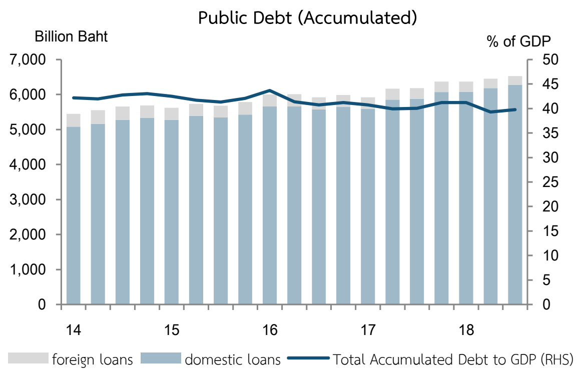
Public Debt at the end of June 2018 was accumulated at 6.5 trillion baht or equivalent to 39.8 percent of GDP. The public debt was comprised of domestic loans of 6.3 trillion baht (38.2 percent of GDP) and foreign loans of 256.4 billion baht (1.6 percent of GDP).

At the end of the third quarter of fiscal year 2018, the treasury reserve stood at 426.8 billion baht.

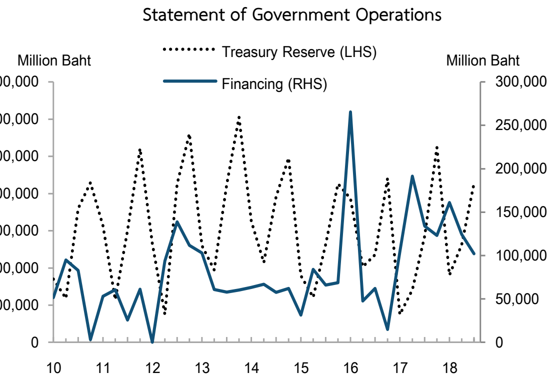
Fiscal Balance in the third quarter of fiscal year 2018, the budgetary balance and non-budgetary balance recorded a surplus of 21.8 billion baht and 40.3 billion baht, respectively. In the meantime, the government conducted a cash balance management through borrowing total of 102.2 billion baht. Therefore, the cash balance after debt financing recorded a net surplus of 164.2 billion baht. At the end of the third quarter of fiscal year 2018, the treasury reserve stood at 426.8 billion baht.

For the first 9 months of the 2018 fiscal year, the budgetary balance recorded a deficit of 493.9 billion baht whereas the non-budgetary balance recorded a surplus of 9.4 billion baht. The government conducted a cash balance management through borrowing total of 387.6 billion baht (70.4 percent of loan for budget deficit financing framework). Therefore, the cash balance after debt financing recorded a net deficit of 97.0 billion baht.

[2] The number was included 6,264.3 million baht of the capital spending allocated from the annual budget.
[3] The number was included 12,899.2 million baht of the capital spending allocated from the annual budget.



Source: PDMO and NESDB



Source: MOF

Financial Conditions:

The policy rate remained steady at 1.50 percent over the second quarter of 2018.

At its May 16th and June 20th meeting, the Monetary Policy Committee (MPC) decided to keep the policy rate on hold at 1.50 percent to support an uptick in headline inflation toward the midpoint of the target range. Meanwhile, The Federal Reserve (Fed) raised its policy rate by 0.25 points to a range of 1.75-2.00 percent during its June 12-13 meeting in response to a rising inflation and solid growth. The European Central Bank (ECB) announced quantitative easing (QE) exit plan at its June 14 meeting to reduce the monthly pace of net asset purchases from 30 billion euros to 15 billion euros after September until the end of December 2018. It would also expect to keep policy rate at present level at least through mid of 2019. Meanwhile, the Bank of Japan (BOJ) announced a more flexible yield curve control policy and a forward guidance to maintain its low interest rate for an extended period of quantitative easing program. Besides, most central banks in the region still maintained accommodative policy stance, while the central banks of the Philippines (BSP), Indonesia (BI) and India (RBI) raised their policy rates between May and June to keep inflation within the target range and act pre-emptively against a possible capital outflows from emerging markets.

In July 2018, Bank of Canada raised its policy rate by 0.25 percent to 1.50 percent, the second time in 2018 to follow the Fed's path, associated with rising inflationary pressure. Nonetheless, central banks in the region still left their policy rates unchanged.

Policy interest rate kept unchanged. Fed, RBI, BI and BSP raised their policy rates. Though, most central banks maintained accommodative stance.

Policy Interest Rate

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

Source: Collected by NESDB

All commercial banks and Specialized Financial Institutions (SFIs) maintained their 12-month deposit and lending rates at the same level as in the previous quarter. In the second quarter of 2018, the 12-month fixed deposit rates and MLR interest rates stayed unchanged. However, real deposit and real MLR rates declined as headline inflation picked up.

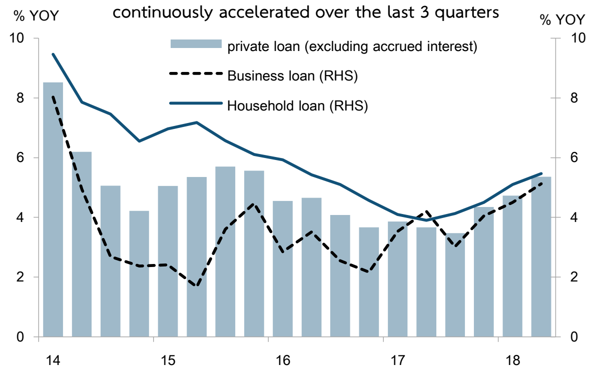
Interest rate remained stable, whereas real interest rate declined as inflation picked up.

In July 2018, deposit and lending rates of all commercial banks and specialized financial institutions were kept at the same rates as at the end of the second quarter of 2018.

Private loan (excluding accrued interest) of Depository Corporations continuously accelerated for three consecutive quarters, in line with the continually improvement of economic condition. At the end of the second quarter of 2018, private loan of depository corporations grew by 5.4 percent, accelerated from 4.7 and 4.3 percent growth in the previous quarter and the forth quarter of 2017, respectively. In particular, the household loan accelerated for those in housing and hire purchase loan, accompanied with the increase in transfer of property ownership and car and motorcycle sales . Likewise, business loan accelerated, driven by wholesale & retail sector and manufacturing sector; especially for food and beverage production. Meanwhile, non-performing loan to total outstanding loan ratio was at 2.94 percent, similar to those in the previous quarter.

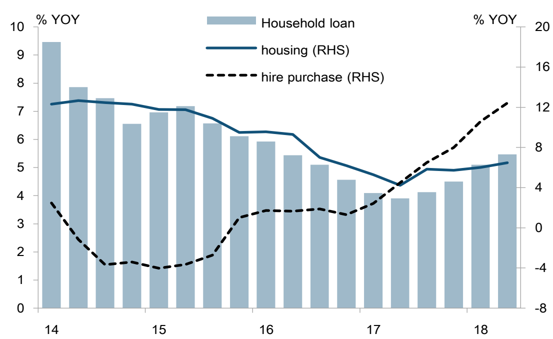
Private loan of Depository Corporations continuously accelerated for three consecutive quarters, in line with the continually improvement of economic condition.

Private loan (excluding accrued interest) of Depository Corporations continuously accelerated over the last 3 quarters



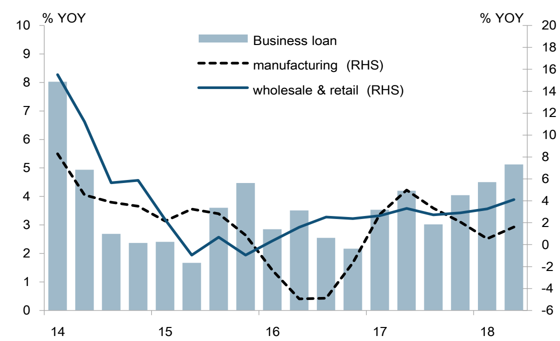
Source: Bank of Thailand

Household loan accelerated from the acceleration of hire purchase loan and housing loan



Source: Bank of Thailand

Business loan was mainly supported by the growth of loan for manufacturing and loan for wholesale & retail



Source: Bank of Thailand

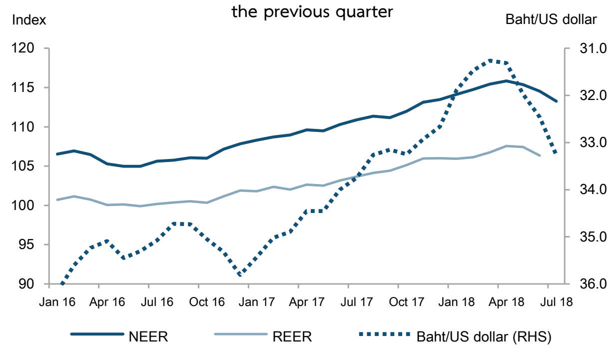
Thai Baht against US Dollar depreciated. During the second quarter of 2018, an average exchange rate was at 31.95 baht per US dollar, depreciating 1.3 percent from the previous quarter. This was mainly caused by US dollar appreciation, net outflows of foreign portfolio investment and Thai investment abroad. In particular, dollar index increased by 2.8 percent as a result of (i) a substantial improvement of US economic perspective, supported by the rise of 10-year US-government bond yield, together with oil price hike, and (ii) a prolonged ECB's accommodative monetary policy. In the meantime, Thai baht had been pressured by a foreign net sell in the capital market. However, **an average Thai baht against trading partners (NEER) and the real effective exchange rate (REER)**[4] appreciated by 0.4 percent and 0.8 percent from the previous quarter, respectively. This was due to a strong fundamental of Thai economy, as shown by an ample international reserve with a continuously current account surplus, and healthy financial system and fiscal conditions.

Thai baht against US dollar depreciated, in association with net outflows of foreign portfolio investment and Thai investment abroad.

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

In July 2018, Thai baht continuously depreciated, as mounting concerns over US-China trade policies led to investors' risk-off behavior. As a result, Thai baht in July was at the average rate of 33.27 baht per US dollar, depreciating by 2.5 percent from June.

Thai Baht appreciated against US dollar from the previous quarter

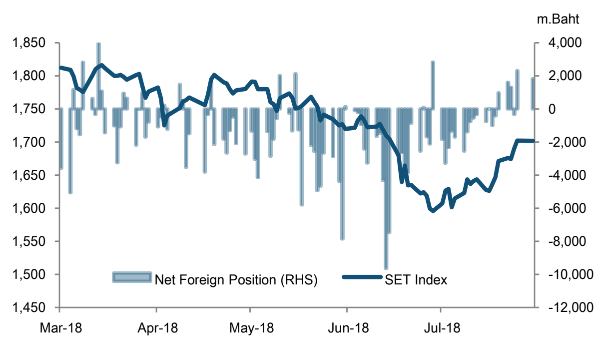


Source : CEIC, Bank of Thailand

SET index fluctuated with a downward trend, due to investors' concerns over the Fed's tightening policy and uncertainty from escalating global trade tension.

SET index in this quarter became volatile with a downward trend due to tightening capital market conditions. The tightening financial condition was attributed to the fear of investors over the uncertainty in global trade condition, Fed's hawkish monetary policy stance and geopolitical tension in oil exporting countries (i.e. Iran and Venezuela), which cultivated risk-off sentiment on assets in emerging market economies. In details, SET Index had experienced a decline during the third week of April, in association with escalating crude oil prices and 10-year US bond yield. Furthermore, SET Index responded negatively to the global trade uncertainty as the US lifted up protectionism stance further, even against its national strategic alliances i.e. Canada, Mexico and EU, which led to the escalating tension during the G7 Summit in the early June. Additionally, SET Index and other emerging market economy indices had plunged further as Fed raised the policy rate in June meeting round, triggering global investors' sell-off sentiment during this period. As a result, SET index closed at 1,595.58 at the end of second quarter, declined from 1,776.26 at the end of last quarter.

SET Index moved in the downward trend and became more volatile

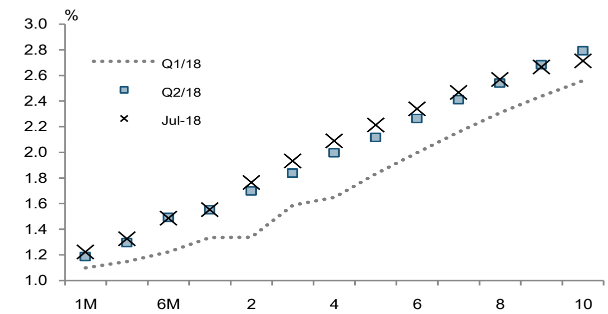


Source: CEIC

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

The Thai government bond yield curve shifted upwardly from the last quarter which reflected expectations on the Fed's tightening policy stances and concerns over mounting inflation rates in the US economy. The upward shift dynamics in the first 2 months of the quarter were mainly driven by the escalating oil prices in April and the positive signs of US economy in May. Nonetheless, the escalating tensions regarding the trade war between the US and its allies, together with Italian political condition, had created downward pressures to the yield curve since the end of May. However, the yield curve moved upward as the market expected the Fed to raise its policy rates in June meeting round. At the end of the quarter, the 2-year and 10-year Thai government bond yield were at 1.70 and 2.79 percent per annum, rose from 1.34 and 2.56 percent per annum at the end of last quarter, respectively.

The Thai government bond yields increased in all maturities



Source: ThaiBMA

In July 2018, the global financial conditions were more easing in relation to the previous month. SET index moved in the upward trend as well as other indices in both major and emerging market economies. The global investors had become net buying position on daily basis since the second half of the month onward. On bond market, the Thai government bond yield curve shifted upwardly further in tandem with the movement of the UST yield curve. However, the curve moved downwardly at the end of the month as the market overreacted towards the Bank of Japan (BOJ) re-adjusted its quantitative and qualitative measures (QQE) in a more easing manner. At the end of the month, SET index closed at 1,701.79 and the 2-year and 10-year Thai government bond yield were at 1.76 and 2.71 percent per annum respectively.

Capital and financial account recorded a net outflow due to foreign investors net sell position and the outflow of Thai direct investment.

Capital and financial account recorded a net outflow of 7.0 billion US dollars in the second quarter of 2018. This was caused by (i) a net sell position of foreign investors in Thai capital market, and (ii) a net outflow of Thai direct investment.

Capital Flow

(Billion USD)	2017							2018					
	Year	H1	H2	Q1	Q2	Q3	Q4	H1	Q1	Q2	Apr	May	Jun
- Direct Investment	-12.4	-5.0	-7.3	-1.0	-4.0	-2.0	-5.3	0.4	-0.2	0.6	0.2	0.6	-0.2
Thai investor	-20.3	-9.0	-11.3	-3.5	-5.5	-4.0	-7.2	-7.1	-4.8	-2.3	-0.5	-0.8	-1.0
Foreign investor	7.9	4.0	3.9	2.5	1.5	2.1	1.9	7.5	4.6	2.9	0.7	1.4	0.8
- Portfolio Investments	-2.6	-2.7	0.1	-1.4	-1.3	2.5	-2.4	-6.1	-2.3	-3.8	-1.4	-1.3	-1.1
Thai investor	-12.0	-6.5	-5.5	-3.8	-2.7	-2.9	-2.6	0.0	-1.4	1.4	0.0	0.6	0.8
Foreign investor	9.4	3.8	5.6	2.3	1.5	5.4	0.2	-6.1	-0.9	-5.2	-1.4	-1.9	-1.9
Others	-4.2	-5.0	0.8	-4.6	-0.4	0.0	0.8	-4.1	-0.3	-3.8	1.1	0.8	-5.7
Capital and financial account	-19.1	-12.7	-6.4	-7.0	-5.7	0.5	-6.9	-9.8	-2.8	-7.0	-0.1	0.1	-7.0

Source: BOT

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

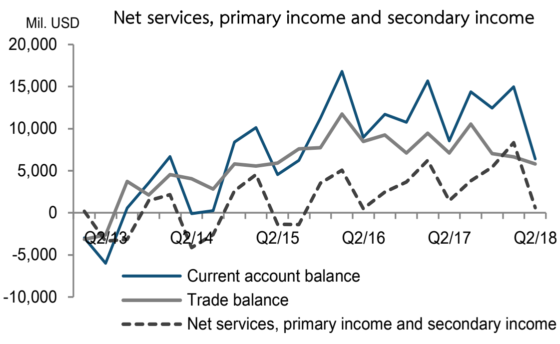
Current account registered a surplus of 6.4 billion US dollars (205.9 billion baht). This was a result of a trade surplus of 5.8 billion US dollars and a surplus in services, and primary and secondary income of 0.6 billion US dollars.

In the first half of 2018, current account registered a surplus of 21.4 billion US dollars (677.5 billion baht), compared with a surplus of 24.2 billion US dollars (843.6 billion baht) in the same period of last year.

International reserve at the end of June 2018 stood at 206.8 billion US dollars.

International reserve at the end of June 2018 stood at 206.8 billion US dollars (excluding net forward position of 33.0 billion US dollars), which was equivalent to 3.4 times of short-term foreign debt, or to an import value of 10.8 months (given the average of import value in the second quarter of 2018).

Current account balance, Trade balance, Net services, primary income and secondary income



Source: Bank of Thailand

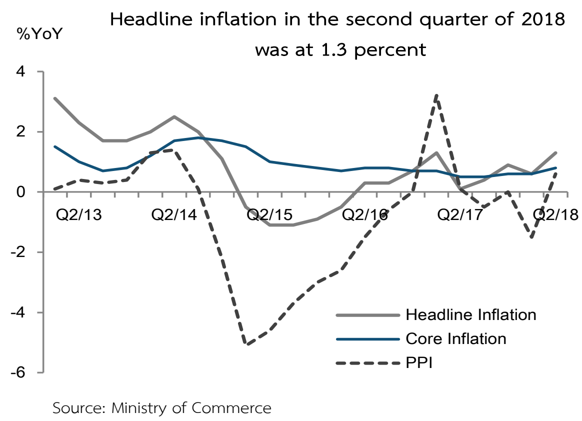
International Reserves

Source: Bank of Thailand

Headline inflation: In the second quarter of 2018, headline inflation was at 1.3 percent on average, accelerated from 0.6 percent in the previous quarter. **Food-and-Beverage** price index increased by 0.5 percent, compared with 0.04 percent in the previous quarter, due to an increase in prices of fresh vegetables, rice, flour & cereal products, fish and aquatic animals, and non-alcoholic beverages. **Non-Food and Beverage** price index increased by 1.8 percent, accelerated from 1.0 percent in the previous quarter as the domestic retail fuel price increased, which made energy index increased by 7.3 percent, a rise from 3.0 percent in the previous quarter. Core inflation was average at 0.8 percent, compared with 0.6 percent in the previous quarter.

Headline inflation was at 1.3 percent, accelerated from 0.6 percent in the previous quarter due to the acceleration of Non-Food and Beverage price index.

In the first half of 2018, headline inflation was average at 1.0 percent. Core inflation was average at 0.7 percent.[5]



Producer Price Index (PPI): In the second quarter of 2018, Producer Price Index increased by 0.6 percent, due to the increase in price of manufactured products and mining products. Meanwhile, the price of agriculture products decreased. **The price of manufactured products** increased by 0.6 percent as price of petroleum products increased. **The price of mining products** increased by 7.8 percent, due to increased price of lignite, petroleum, & natural gas. Meanwhile, **the price of agriculture products** decreased by 1.6 percent as price of crops, live-stocks, and fish & fishery products decreased.[6]

Producer Price Index (PPI) increased by 0.6 percent due to the increase in price of manufactured products and mining products. Meanwhile, the price of agriculture products decreased.

In the first half of 2018, Producer Price Index decreased by 0.4 percent.

[5] In July 2018, headline inflation was 1.5 percent, Core inflation was 0.8 percent. In the first 7 months of 2018, headline inflation was average at 1.0 percent, Core inflation was average at 0.7 percent.

[6] In July 2018, Producer Price Index (PPI) increased by 2.2 percent. In the first 7 months of 2018, PPI decreased by 0.1 percent.

2. Crude Oil price in Q2 of 2018

The crude oil price in the global market rose. In the second quarter of 2018, the average crude oil price in the 4 major markets (Dubai, Brent, Oman, and WTI) stood at 71.66 USD per barrel, increased from the same period last year by 44.3 percent, and from the previous quarter by 11.7 percent.

The major factors contributed to the increase of global crude oil price included (i) the improvement of the global economy that consequently raised demand for crude oil, in particular, those in the US and China, while demand in Europe slightly decreased, (ii) the continual production cuts of OPEC and Non-OPEC oil exporter, and (iii) the persistent geopolitical tensions, including the political turmoil in Libya and Venezuela, and the US sanction against Iran and Venezuela.

In the first half of 2018, the average crude oil price in the 4 major markets (Dubai, Brent, Oman, and WTI) stood at 67.90 USD per barrel, an increase from the same period last year of 32.0 percent.

The crude oil price increased due to the rising demand amid an improvement of the global economy, OPEC and Non-OPEC output cut, and the geopolitical tensions.

Crude oil price

Year		USD per Barrel					(%YoY)				
		WTI	BRENT	DUBAI	OMAN	Average	WTI	BRENT	DUBAI	OMAN	Average
2015	Year	48.84	53.61	50.87	51.17	51.12	-47.3	-46.1	-47.3	-47.1	-47.0
2016	Year	43.10	45.04	41.40	41.71	42.81	-11.7	-16.0	-18.6	-18.5	-16.3
2017	H1	50.11	52.76	51.28	51.62	51.44	28.4	28.6	38.0	38.6	33.2
	H2	51.81	56.88	54.76	54.87	54.58	9.8	16.0	20.0	18.9	16.1
	Q1	51.90	54.60	53.00	53.44	53.24	59.9	55.6	69.4	71.3	63.7
	Q2	48.31	50.92	49.55	49.80	49.65	5.9	8.4	15.1	15.0	11.1
	Q3	48.20	52.22	50.34	50.55	50.33	7.1	11.1	16.8	15.8	12.6
	Q4	55.42	61.55	59.18	59.20	58.84	12.4	20.4	22.8	21.6	19.3
	Year	50.96	54.82	53.02	53.24	53.01	18.2	21.7	28.1	27.7	23.8
2018	H1	65.12	70.91	67.71	67.87	67.90	30.0	34.4	32.1	31.5	32.0
	Q1	62.35	66.90	63.52	63.82	64.15	20.1	22.5	19.8	19.4	20.5
	Q2	67.89	74.91	71.90	71.93	71.66	40.5	47.1	45.1	44.4	44.3
	Apr.	66.25	71.72	68.12	68.15	68.56	30.0	33.7	31.1	29.9	31.2
	May	70.10	77.08	74.10	74.10	73.84	43.7	49.5	46.8	46.4	46.6
	Jun.	67.32	75.94	73.48	73.54	72.57	49.0	59.7	59.0	58.7	56.7
	Jul.	70.90	75.01	72.95	73.02	73.97	51.4	52.2	53.4	53.5	52.6
	7M	65.95	71.49	68.46	68.61	68.63	32.9	36.8	34.9	34.4	34.7

Source: Thaioil Plc and EPPO.

3. The World Economy in Q2 of 2018

The world economy in the second quarter of 2018 has strengthened further, led by the continued and accelerated growth of the US economy to the highest rate in 3 years. The Eurozone, China, and other major economies have favorably grown despite a slight deceleration compared with the preceding growth. Strong growths in the US and other major economies, combined with the improved domestic demand conditions, have facilitated key developing economies to continue their favorable expansion.

The solid expansion of the US and the strengthened growth of other developed economies have led unemployment rates in several countries to decline and reach their lowest levels in a number of years, namely the US (17-year low), Eurozone (9-year low), Japan (25-year low), Canada (42-year low), and the UK (43-year low).

The continual pace of expansion has been pivotal in closing the output gap and attaining above-potential growth of some advanced economies. These are in line with evidences that inflationary pressures have strengthened and started to reach or be above the monetary policy targets in some countries and thus allowed the central banks to continue their monetary policy normalization including the interest rate hikes by the US Federal Reserve, the Bank of Canada (in July), and the Bank of England (in August), while the European Central Bank (ECB) has announced, in June, its plan to wind down its monthly asset purchases.

However, inflation rates in Japan and several developing countries still remained lower than their central banks' targets which thus made the Bank of Japan (BOJ) and most central banks of the developing countries to maintain their expansionary monetary stance from the preceding quarter. Meanwhile, the expected rise in policy rates among key advanced economies together with the concerns surrounding more intensified trade protectionist measures resulted in volatile capital movement. This factor, combined with the more evident economic recovery and increased inflationary pressure, have led some developing countries to increase policy rates in order to mitigate risks from inflationary pressures and capital movement volatilities.

The world economy in the second quarter of 2018 has strengthened, led by the 3-year high growth in the US and favorable growth in Eurozone and China.

The economic strengthening within several developed countries have resulted in the lowest unemployment rate in many years, closed output gap, and increased inflation. As a result, several central banks further their policy normalization, while Japan and key developing countries still maintain their expansionary stance.

Capital movements have been volatile following expectations on monetary policy directions and concerns over the increasingly protectionist trade policies.

Inflation Rate and Inflation Target Rate of Key Countries

Country	Inflation Rate (%YoY)				
	2017	Q4/2017	Q1/2018	Q2/2018	Target
US (Core PCE)	1.6	1.6	1.7	1.9	2.0
Canada	1.6	1.8	2.1	2.3	2.0
Euro Area	1.5	1.4	1.2	1.7	2.0
United Kingdom	2.7	3.0	2.7	2.4	2.0
China	1.6	1.8	2.2	1.8	3.0
Japan	0.5	0.6	1.3	0.7	2.0
South Korea	1.9	1.5	1.3	1.5	2.0
Indonesia	3.8	3.5	3.3	3.3	3.5
Philippines	2.9	3.0	3.9	4.8	2.0 – 4.0

Source: CEIC, compiled by NESDB

The US Economy expanded by 2.8 percent (Advance estimate), accelerating from 2.6 percent in the previous quarter, supported mainly by the speeding-ups in personal and government consumption expenditure as well as higher net export, partly due to the export acceleration to China before the import tariff measures become effective, while the imports' growth rate was lower, along with a slowdown in private investment. However, this continual economic growth has led the unemployment rate to reach the lowest rate in 17 years at 3.9 percent (the unemployment rate in May reached the lowest rate in 48 years at 3.8 percent). Meanwhile, inflationary pressure has become more pronounced as the core PCE inflation rate was at 1.9 percent in the second quarter, increased from 1.7 percent in the previous quarter, and was close to the Fed's target of 2.0 percent. A more pronounced economic strengthening and inflationary pressure had allowed the FOMC to hike its policy rate in the meeting on June 12nd – 13rd 2018 by 25 basis points to the range of 1.75 – 2.00, the second policy rate hike in 2018. The FOMC also signaled more hikes over the remainder of the year, although the recent decision in the 31st July – 1st August 2018 meeting was to maintain the policy rate unchanged.

The US economy expanded at the highest pace in 3 years, following stronger personal and government expenditures, and net exports. Meanwhile, the unemployment rate was at the lowest in 17 years and inflation rate was closer to the Fed's target.

The Eurozone economy expanded by 2.2 percent, and softened from 2.5 percent in the previous quarter. This followed economic slowdowns in Germany, France, Italy, and Spain, due to decelerations in manufacturing and service sectors, as well as the deceleration in domestic consumption growth, in line with weaker business and consumer confidences. Nevertheless, the unemployment rate dropped to 8.3 percent, the lowest rate in 9 years, while the inflation rate rose to 1.7 percent but is still below the monetary policy target of 2 percent. As a result, in the meeting on July 26th, 2018, the ECB decided to

The Eurozone economy slowed down, following decelerations in manufacturing sector, services sector, and domestic consumption. Nevertheless, unemployment rate declined to a 9-year low. Inflation rate increased but still below the monetary policy target.

keep its policy rate unchanged and maintained asset purchases of 30 billion euro per month until the end of September 2018, and also announced that the ECB will reduce its asset purchases to 15 billion euro per month beginning October until the end of December 2018, as well as signaled that it will maintain policy rate at least through mid-2019.

The Japanese economy expanded by 1.0 percent, the same growth as in the previous quarter, which was contributed by the acceleration in private consumption, in line with the improvement of consumer confidence index, and higher contribution from net exports, associated with the high level of the purchasing managers index (PMI). Moreover, government consumption grew from the preparation for 2020 Tokyo Olympics and private investment continued to expand following improving non-residential investments. The economic recovery allows the unemployment rate to reach 2.4 percent, a 25-year low, and the nominal wage index to grow by 2.3 percent, the highest rate in 21 years (mostly due to summer bonuses in June 2018, but is still below the government's target at 3.0 percent). The inflation rate was 0.7 percent, far below the 2.0-percent policy target. Therefore, on July 31th, the BOJ continued to maintain its policy rate and kept the amount of asset purchase unchanged. However, the BOJ decided to expand long-term yields band in a more flexible manner in order to reflect economic and price developments, especially under changes of policy rates in major economies.

The Japanese economic expansion was steady at 1.0 percent, led by stronger private consumption and net exports. Unemployment rate fell to the lowest in 25 years, but inflation remained far below the policy target.

The Chinese economy grew by 6.7 percent, slightly less than 6.8 percent in the previous quarter. The deceleration was attributable to the slowdown of manufacturing in line with the slowdown of exports value as well as softened domestic consumption and investment in fixed assets as a result of the economic rebalancing policies and the stricter credit policy of commercial banks in order to mitigate financial stability risks. With regards to economic stability, the level of corporate debt to GDP was at 160.3 percent, and foreign reserve fell to 3,112.1 billion US dollars from 3,142.8 billion US dollars at the end of March 2018, in line with the depreciation of Yuan from the previous quarter by 2.2 percent. On June 24th, the People's Bank of China (PBOC) decided to cut the reserve requirement ratio (RRR) to 15.5 percent, which was the second reduction after the first one in April 2018 and was effective on July 5th, 2018. Its objective was to increase liquidity in the economy and stimulate small-scaled businesses.

The Chinese economy expanded by 6.7 percent, following the slowdown in manufacturing, investment in fixed assets, and exports. The Yuan depreciated and corporate debt ratio remained high.

NIEs economies continued to expand well. The South Korea and Taiwan economies expanded by 2.9 and 3.3 percent, slightly accelerating from 2.8 and 3.0 percent, respectively, in the previous quarter, following the speed-up in manufacturing and exports. On the other hand, the Singapore and Hong Kong economies grew by 3.9 and 3.5 percent, lower than 4.5 and 4.6 percent, respectively, in the previous quarter, mostly due to the slowdown in manufacturing production. **ASEAN economies** continued to improve driven by stronger growths in exports and domestic consumption, in accordance to the improvement of the labor market. Meanwhile, inflation went up resulting from higher food prices. In the second quarter of 2018, Indonesia expanded by 5.3 percent, a slight acceleration from 5.1 percent previously. Malaysia, Vietnam, and the Philippines grew by 4.5, 6.8, and 6.0 percent, respectively, compared with 5.4, 7.5, and 6.6 percent in the first quarter of 2018.

NIEs economies expanded due to strong exports and manufacturing. The ASEAN economies grew affirmatively, driven by the continued momentum in exports and domestic consumption.

GDP growth, Inflation and Export growth in several key economies

	Export (%YoY)				GDP (%YoY)				Inflation (%YoY)			
	2016	2017	2018		2016	2017	2018		2016	2017	2018	
	Year	Year	Q1	Q2	Year	Year	Q1	Q2	Year	Year	Q1	Q2
USA	-3.6	6.6	8.0	11.3	1.6	2.2	2.6	2.8	1.3	2.1	2.2	2.7
Eurozone	0.1	9.4	17.7	12.8	1.8	2.4	2.5	2.2	0.2	1.5	1.2	1.7
Japan	3.2	8.3	10.1	9.4	1.0	1.7	1.0	1.0	-0.1	0.5	1.3	0.7
China	-7.7	7.9	13.7	11.8	6.7	6.9	6.8	6.7	2.0	1.6	2.2	1.8
Hong Kong	-0.6	7.6	8.8	8.1	2.2	3.8	4.6	3.5	2.4	1.5	2.5	2.1
India	-1.3	13.2	5.5	14.3	7.9	6.2	7.7	-	5.0	3.3	4.6	4.8
Indonesia	-3.4	16.3	8.8	11.4	5.0	5.1	5.1	5.3	3.5	3.8	3.3	3.3
South Korea	-5.9	15.8	9.9	3.2	2.9	3.1	2.8	2.9	1.0	1.9	1.3	1.5
Malaysia	-4.6	14.7	19.8	18.8	4.2	5.9	5.4	4.5	2.1	3.8	1.8	1.3
Philippines	-2.4	19.7	-5.5	-2.2	6.9	6.7	6.6	6.0	1.3	2.9	3.9	4.8
Singapore	-5.5	10.4	9.7	14.1	2.4	3.6	4.5	3.9	-0.5	0.6	0.2	0.3
Taiwan	-1.8	13.2	10.6	11.2	1.4	2.9	3.0	3.3	1.4	0.6	1.6	1.7
Thailand	0.1	9.8	9.9	12.3	3.3	3.9	4.9	4.6	0.2	0.7	0.6	1.3
Vietnam	9.0	21.8	24.0	9.1	6.2	6.8	7.5	6.8	2.7	3.5	2.8	3.8

Source: CEIC, Collected by NESDB

4. The World Economic Outlook for 2018

The world economy is expected to grow favorably throughout the rest of the year, led by the strengthened pace of the US economy, supported by improving economic fundamentals as well as additional supports from the US tax reform under the Tax Cuts and Job Act, as well as the continued expansion of other economies including China, Eurozone, Canada, the UK, and Japan, following the more potent economic fundamentals. In addition, the NIEs and ASEAN economies, as well as other developing ones, are also expected to expand well, driven by the pickup of the world demand and improving domestic demand. After accounting for the first half performance, the world economy is expected to grow by 4.1 percent. It is expected that the US and Australia economies are projected to grow by 2.8 and 3.1, improving from 2.2 -percent growth in 2017 of both economies. Moreover, many developing economies tend to strengthen further. India and Russia economies are projected to expand by 7.5 and 1.7 percent, accelerating from 6.2 and 1.5 percent, respectively. On the other hand, Chinese, Eurozone, and Japanese economies are expected to gradually slow down.

The sustained economic expansions have led the unemployment rate in the first half of 2018 in several advanced countries, especially the US, Eurozone, Japan, Canada, and the UK, to decline and reach their lowest levels in several years. This is also in line with the increasing inflation to be higher than the target rates, as in Canada, the UK, and the Philippines, and to approach the monetary policy target in some other economies, namely the US and Eurozone. With such trend, together with the favorable growth trend in the second half of the year, it is expected that several advanced economies will continue their monetary policy normalization. This will also be in line with the signals to increase policy rates in the US and the rate hikes trend in Canada and the UK, as well as the possible QE tapering by ECB from 30 billion euro per month to 15 billion euro per month by upcoming October before ending the program in December, 2018. These factors are expected to put an upward pressure on the global interest rates to increase slowly, continually from 2017. Short-term interest rates will likely increase in line with policy rate hikes in major economies, while long-term interest rates tend to advance following the expected global expansion and inflation expectations as well as higher global bond supply as a result of the balance sheet reduction and quantitative normalizing in major economies, and also the increasing fiscal deficit in the US. These conditions tend to put pressure on capital movements and the economic stability of countries with weak economic fundamentals.

The US economy, in the baseline scenario, is expected to grow by 2.8 percent in the year 2018, accelerating from 2.2 percent in the previous year. The economic growth in the second half of the year 2018 will be supported by the continual high growth in personal consumption, in line with the full employment condition that brought the unemployment rate to the lowest level in 17 years at 3.9 percent amidst clearer increases in wage. In addition, the growth will also be supported by strong expansion of private investment and public infrastructure investment as well as additional stimulus from the tax reform and job creation policies. Continued strong economic growth will raise the inflationary pressure and, thus, in the baseline scenario, it is expected that the FOMC will hike the policy rate twice during the remaining of the year. **The Eurozone economy** is expected to grow by 2.2 percent, compared to a 2.4-percent growth in 2017. Key supporting factors include the export expansion in response to the Euro depreciation and a recovery in demands from both within Eurozone and the global economy, which will drive the manufacturing sector to expand well. Other key supporting factors also include the continued expansion of private consumption expenditure in line with an improvement in economic fundamentals and business confidence. This is also consistent with the declining unemployment rate which was already at 8.3 percent, the lowest in 9 years, and inflation rate would continue to increase to the 2-percent policy target. Nonetheless, the economic sentiment can be negatively affected by the Italian and Spain government policy directions, weak financial conditions in some member countries that can be aggravated further by the recent economic instability in Turkey, and the US trade protection policies. In the baseline scenario, it is expected that the ECB will remain its monthly asset purchases of 30 billion euro until the end of September 2018 with the possibility to reduce to 15 billion euro in October. **The Japanese economy** is expected to expand by 1.0 percent, decelerating from 1.7 percent in the previous year, in line with the growth of 1.0 percent during the first half of 2018. This outlook follows the positive prospects manufacturing sector and exports supported by the Yen depreciation. Moreover, private consumption expansion would be supported by the continual improvement of consumer confidence and lower unemployment rate, which was already at its lowest level in 25 years at 2.4 percent, amidst recovering nominal wage. Nevertheless, inflation tends to be lower than the BOJ's target for an extended period. Under the base case, it is expected that the BOJ will maintain its key policy rate and asset purchases. **The Chinese economy** is anticipated to grow by 6.7 percent in 2018, a gradual slowdown compared with 6.9 percent in 2017. The growth will be supported by expansion in exports, manufacturing sector, and household consumption, as well as investment following the economic structural reform and the Belt and Road Initiative. Nevertheless, the Chinese economy is prone to several downside risks, including the US' trade protectionist policies which tend to put pressures on the capital movement and the Yuan depreciation, and the susceptible financial sector. **The NIEs** are anticipated to expand at a favorable pace with higher-than-expected growth rates in some countries. The Taiwan and Hong Kong economies are expected to grow by 3.0 and 4.0 percent, compared with the growth rates in 2017 of 2.9 and 3.8 percent, respectively. Singapore and South Korea economies are estimated to maintain their growth rates at 3.6 and 3.1 percent, respectively, from 2017. Likewise, **the ASEAN economies** tend to grow well continuing from the first half of 2018, thanks to strong export growths and the improvement of domestic demand conditions. It is expected that Indonesia and Philippines economies will expand by 5.4 and 6.8 percent, accelerating from 5.1 and 6.7 percent growth in 2017, respectively, while Vietnam will maintain its pace at 6.8 percent. On the other hand, Malaysia economy is anticipated to grow by 5.4 percent, softened from the previous growth rate of 5.9 percent.

Nevertheless, the downside risks from trade protectionist measures are escalating. Despite the fact that measures, either already in effect or are going to be effective in the upcoming third quarter, tend to have limited impacts on the growth of key economies and the overall global economy, risks to the world trade volume and economic growth are increasing with the number of trade protectionist measures, particularly the possible new set of tariffs measure to be imposed on 200 billion US dollars' worth of Chinese goods and on cars imported from every partners by the US. In addition, risks from the uncertainties surrounding the global economic and financial conditions remained unsettling, including: (1) changes in investors' expectation on the policy direction and implementation of key economies regarding monetary, trade, and international affairs policies, as well as the uncertain policy direction in Spain and Italy even after government formation; (2) risks of economic crisis particularly in economies with weak economic fundamental, especially under the rising global interest rates and the capital movement volatilities; (3) geopolitical risks in the Middle East which may dampen confidence and overall economic recovery pace, as well as affect the global oil price to be more volatile and possibly rise faster than expectations; and (4) the progress on Brexit negotiations and the result of the US's mid-term election.

5. Thai Economic Outlook for 2018

The Thai economy in 2018 tends to continually improve supported by the improvement of the global economy, which will sequentially support the expansion of exports and key production sectors and thus the overall economy, the stronger contribution from government consumption and public investment, the more-pronounced recovery of private investment, and the improvement of overall income condition. However, the economy during the rest of 2018 tends to slow down, on a year-on-year basis, due to a high base in the second half of 2017 and the fact that agricultural production is prone to flooding conditions amid higher volatility in the global economy and financial system as well as more intensified trade retaliation which will become risk factors to the recovery of world commodity prices and the global economy.

Supporting factors for the economic growth:

1) **The continued strong pace of global economic expansion,** which will significantly support exports and revenue from tourism to further expand, and in turn will support the expansion of key production sectors , especially: (1) the manufacturing sector (of which ratio to GDP is 26.2 percent), which accelerated from 1.5 percent in the first half of 2017 to 3.8 percent growth in the latter half of 2018, and continually grew by 3.5 percent during the first half of 2018; (2) the hotels and restaurants sector (of which ratio to GDP is 5.5 percent), which grew by 11.1 percent in the first half of 2018; and (3) the transport & communication and wholesale & retail trade sectors, whose 2017 growth rates were favorable at 7.3 and 6.3 percent, respectively, and continued to grow by 7.2 and 7.1 percent, respectively, in the first half of 2018, partially supported by the expansion of tourism activities and exports. In the base case, during the rest of 2018, it is expected that the world economy, and key economies from which tourists travel, will continue to grow favorably. As a result, revenue from exporting goods and tourism in 2018 is forecasted to grow by 10.0 and 10.3 percent, respectively, and will continually support the growth of the aforementioned key production sectors.

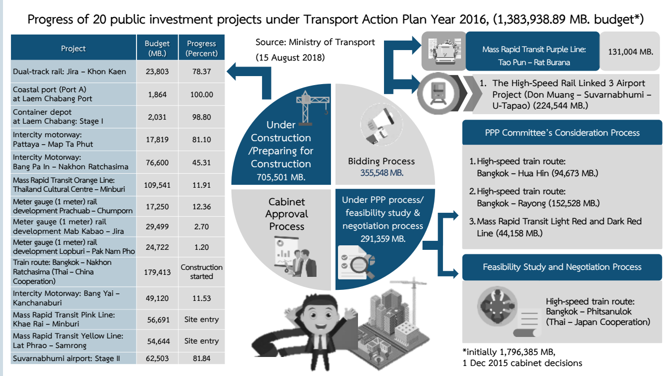
2) **The higher growth momentum from government consumption expenditure and public investment.** The budget disbursement under the 2018 annual budget (including FY2018 supplementary budget) over the first 3 quarters of the fiscal year was at 2.17 trillion baht, a 4.2 percent increase from the same period last year. This contributes to the economic expansion both directly and indirectly. On a direct channel, the growth is supported by the increasing government consumption which recovered from a contraction of 0.1 percent during the first half of last year to a positive growth of 1.6 percent in the first half of 2018 , and indirectly, through spending on transfer and other payments. During the rest of 2018, it is expected that the current budget disbursement (including supplementary and carry-over budgets disbursement) will reach 1.24 trillion baht, which will continue to further support economic expansion. Meanwhile, public investment tends to accelerate following: (1) the acceleration of the capital budget disbursement rate, as reflected by the total amount of issuing a purchase order (PO) of about 65.0 percent of the total capital budget at the end of June, 2018, in comparison with 59.7 percent in the same period last year; (2) the high growth of capital budget framework under the annual government budget and the state-owned enterprise budget framework at an annual growth of 16.7 and 89.2 percent; and (3) the speeding up of the disbursement of large-scale infrastructure projects as more projects has continuously started construction.

3) **More pronounced recovery trend of private investment,** from a growth of 0.9 percent in the first half of 2017 to 2.5 and 3.2 percent in the second of the 2017 and the recent first half of 2018, respectively. In particular, private investment in machinery and equipment accelerated from 1.2 to 3.5, and 3.2 percent in the respective periods, aligned with the rise in manufacturing capacity utilization rate in the second quarter of 2018 of 66.6 percent, the highest second quarter rate in the past 5 years. For the remainder of 2018, private investment is expected to grow further due to the following supporting factors: (1) the increased in capacity utilization rate, which would thus induce more demand for investment in machinery and equipment (accounted for 80 percent of total private investment), for expanding production capacity. Based on the data of 21 key industries in the second quarter of 2018, there were 4 industries operating with capacity utilization rate over 80 percent, 2 industries operating within the range of 71 – 80 percent, and 5 industries operating within the range of 60 – 70 percent; (2) the significant rise in total value of project application for investment promotion made to the Board of Investment (BOI). There was total investment value of 642.0 billion baht in 2017, an increase of 22.4 percent from 2016; and (3) the progress of key public infrastructure investment projects amid the economic recovery condition, which are expected to further support investments in construction.

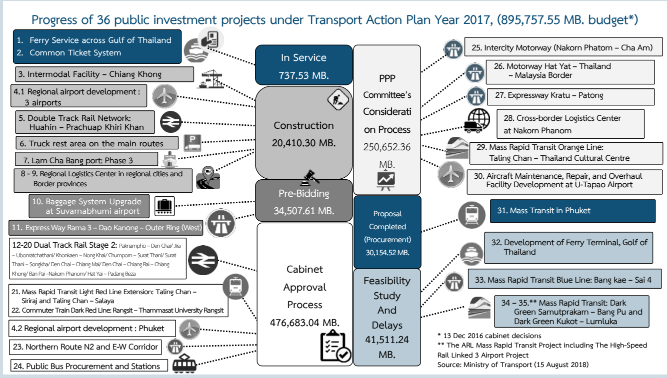
Progresses of Key Public Infrastructure Investment Projects

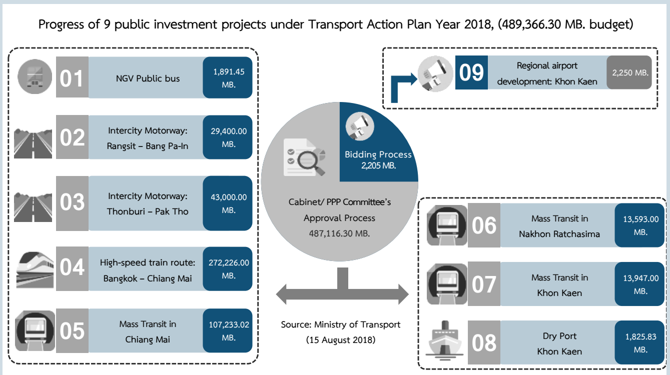
Major public infrastructure investment projects have made increasing progress and thus it is expected that the disbursements for these projects will rise accordingly. As of 15th August 2018, there are 21 projects under the 2016 Transport Action Plan (20 projects in total) and the 2017 Transport Action Plan (36 projects in total), which have been proceeded into a construction phase. The total budget of 725,911 million baht is divided into: (i) 14 projects in the 2016 Transport Action Plan with the total investment value of 705,501 million baht such as the Pattaya – Map Ta Phut intercity motorway, the Bang Pa In – Nakhon Ratchasima intercity motorway, and the Nakhon Pathom – Chumpon dual track railways, (ii) 7 projects in the 2017 Transport Action Plan with the total investment value of 20,410 million baht, and (iii) key infrastructure investment projects under the Eastern Economic Corridor Plan (EEC), as of 27th March 2018, the cabinet has already approved the construction of high speed train linking three major airports (Don Muang - Suvarnabhumi - U Tapao) with the total investment value of 224,544 million baht, which is currently under bidding process and expected to be signed before the end of 2018. Meanwhile, the Aircraft Maintenance, Repair and Overhaul (MRO) and the 3rd phase of Laem Chabang (LCB) Port projects are expected to be enter into the construction phase during the second half of this year onwards.

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



Project	Budget (MB.)	Progress (Percent)
Dual-track rail: Jira – Khon Kaen	23,803	78.37
Coastal port (Port A) at Laem Chabang Port	1,864	100.00
Container depot at Laem Chabang: Stage I	2,031	98.80
Intercity motorway: Pattaya – Map Ta Phut	17,819	81.10
Intercity Motorway: Bang Pa In – Nakhon Ratchasima	76,600	45.31
Mass Rapid Transit Orange Line: Thailand Cultural Centre – Minburi	109,541	11.91
Meter gauge (1 meter) rail development Prachuab – Chumporn	17,250	12.36
Meter gauge (1 meter) rail development Mab Kabao – Jira	29,499	2.70
Meter gauge (1 meter) rail development Lopburi – Pak Nam Pho	24,722	1.20
Train route: Bangkok – Nakhon Ratchasima (Thai – China Cooperation)	179,413	Construction started
Intercity Motorway: Bang Yai – Kanchanaburi	49,120	11.53
Mass Rapid Transit Pink Line: Khae Rai – Minburi	56,691	Site entry
Mass Rapid Transit Yellow Line: Lat Phrao – Samrong	54,644	Site entry
Suvarnabhumi airport: Stage II	62,503	81.84





4) **The improvement of the household income conditions**, supported by (1) the expected continually high growth and a more board-based agricultural output, together with the uptrend of key agricultural commodity prices, thus farm income index started to show a positive growth in the second quarter of 2018; and (2) the improving employment conditions, in line with the continual recovery in major economic activities. In particular, the number of employed persons in agricultural sector in the first half of 2018 (accounted for 31.7 percent of total employment) increased by 4.5 percent, and notably a continuous increase in every month of the second quarter, aligned with the constant expansion in agricultural production. Similarly, the number of those in manufacturing sector (accounted for 16.7 percent) rebounded to exhibit a 2.6 percent growth, the first expansion over the last 11 quarters. This was in line with the continued expansion of manufacturing production, which thereafter has reduced the excess production capacity, and also induced more investments to expand existing capacity, as well as encouraged higher demanded for labors. Besides, the number of those in hotels and restaurants (accounted for 7.5 percent) grew by 5.7 percent in the second quarter, consistent with the expansion of tourism-related sectors and the pickup in domestic demand[7].

[7] Recent July 2018 figure showed the continued improvement of employed person. Total employment grew by 1.7 percent in which that the employment in agriculture, production, and construction sectors increased by 0.7, 0.8, and 2.6 percent (first expansion in 20 months) respectively.

Limitation and Risk Factors:

1) **Risks from flooding conditions.** Over the first half of 2018, the agricultural sector expanded with a high rate of 8.3 percent, which contributed to overall GDP growth by 0.7 percentage points. In the base case scenario, the agricultural production sector is expected to grow continually and thus could be able to further support overall economic growth, supported by higher level of water supply in major dams and higher rainfall compared to the same period last year. However, the agricultural production areas have been affected by the floods occurred during the beginning of the third quarter of 2018. According to the recent data as of 14th August 2018, it was found that the flooded areas and the impacts on agricultural output are less than those in the same period last year, nevertheless, the flood conditions and their expected adverse impacts during the remainder of 2018 could possibly be more severe and is likely to be a key downside risk to the economy which thus needs to monitor the situation and impacts closely.

2) **High base in key production sectors which will curb the year-on-year expansion in the latter half of the year.** Although the Thai economy in the first half of 2018 experienced high growth rates, the year-on-year expansion in the second quarter started to show a slowdown from the first quarter due to the high growth base. For the remainder of the year, the overall economy is likely to favorably grow further when considered on a quarter-on-quarter basis, driven by both domestic and global economic recovery. However, the extent of the year-on-year growth is likely to gradually soften from a stronger growth base, particularly in the hotels and restaurants sector and manufacturing sector which achieved high growth in the latter half of 2017.

3) **Gradual increase in interest rates in the global market,** following major economies' monetary policy normalization, especially the Fed and the Bank of Canada that tend to continue their rate hikes, as well as the ECB that announced the plan to finish its QE before the end of 2018, while the central banks in some developing countries started to raise their policy rates. These factors would clearly put pressures on the interest rates in the global market to be more on the upward trend. Meanwhile, world oil prices in the first half of the year 2018 increased more than projected. Although it is expected that such above mentioned factors would not restrain the Thai economic growth in the second half of the year 2018, it will likely hinder household purchasing power and some of those businesses who are sensitive to changes in interest rates and commodity prices over the next periods. In addition, there remain some risks where the increases in global interest rates are faster than fundamental economic growth and, thus, would affect economic growth and stability in major economies.

4) **Risks from trade protection measures and volatilities in the global financial system.** In the first half of the year, trade protectionism particularly between the US and China has been clearer. Despite the fact that several measures, either already in effect or are going to be effective in the upcoming third quarter, may affect the growth of key economies and the overall global economy only in a limited extent and Thailand could seek for opportunities and deploy benefits from trade diversion, the measures have started to pose some limitations on prices of some Thai agricultural products. In addition, there have been increasing risks to the world growth and some major economies with respect to the possible upcoming US's tariff measures imposed on 200 billion US dollars' worth of Chinese goods and on cars imported from every partners. Also, there could be some risks from higher degree of the trade retaliation, particularly the possible new set of tariffs measure to be imposed. In addition, risks from the uncertainties surrounding the global economic and financial conditions remained unsettling, including: (i) changes in investors' expectation on the monetary policy and the currency direction in key major countries that tend to be volatile in response to the economic conditions and the monetary policy stances of the Fed and other key central banks; (ii) economic situations in countries with weak economic fundamental, especially the economic instabilities in Turkey and some other countries including Argentina and Venezuela; (iii) political conditions in major economies including the US mid-term election and the progress of the Brexit negotiation; and (iv) geopolitical risks in the Middle East.

The impacts and the opportunities arising from the implementation of tax levied on imported goods of the US and China.

In 2018, the US has announced the following trade protectionism policies; (i) higher tariffs on imported steel and aluminum of 25 percent and 10 percent, respectively, for all trading partners (excepted for some countries later), which is effective on 8th March 2018, (ii) higher tariffs on Chinese imports, covering 1,097 products according to the 8-digit Harmonized System (HS) or 16 categories according to 2-digit HS, worth 50 billion USD. This tariff is divided into 2 phases where the first phase imposes 25 percent tariff on 818 Chinese products, worth 34 billion USD, which is effective on 6th July 2018, and the second phase imposes 25 percent tariff on the 279 Chinese products, worth about 16 billion USD, which is effective on 23rd August 2018. Meanwhile, China has announced the retaliatory tariffs to the first phase of US tariff on the 545 US products (19 categories under 2-digit HS) with the same value of goods (34 billion USD), tariff rate (25 percent) and effective date (6th July 2018). Then China has also announced the retaliatory tariff to the second phase of US tariff on the 114 US products (8 categories under 2-digit HS) with the same value of goods (1.6 billion USD), tariff rates (25 percent) and effective date, (iii) higher tariff rate of 25 percent on 200 billion USD of Chinese imports, which caused China to announced the countermeasure tariff at 25 percent on the 5,207 products worth 60 billion USD, and (iv) the security investigation of vehicle imports under the section 232 of the Trade Expansion Act 1962, which would raise a risk of an increase in import duty for all vehicle imported to the US to the same rate as those for imported steel and aluminum.

From the analysis and a close monitoring, it is found that the effects of the steel and aluminum tariffs on Thai economy are limited, as Thai exports to the US only 11.1 percent of total export value. Moreover, Thai exports steel and aluminum only 3.3 percent of total export value. The recent data also shows that, in the second quarter of 2018, Thai exports to the US increase 6.6 percent, with 1.6 percent decline in steel exports and 30.2 percent increase in aluminum. As for the effects of higher tariff rates on Chinese and US imports, it is also found that such protectionism measures also have limited effects on Thai economy. In the contrary, Thailand would have opportunities to increase exports, as to substitute the reduction in imports from US or Chinese, and, thus, raise economic growth. The goods that could be negatively affected are those Thai intermediate goods exports to China for finished goods assembly, which is exported to the US later on, such as rubber and articles thereof, machinery and mechanical appliances, electrical machinery and equipment, plastics and articles thereof, vehicles, aluminum and steel. In addition, those Thai intermediate goods exports to the US for finished goods assembly, which is exported to China later on, such as rubber and articles thereof, vehicles, vegetables, plastics and articles thereof, aluminum and steel. Meanwhile, Thai products that could have a chance to export more and, as a consequence, raise economic growth are those Chinese products that the US imposed higher tariffs and Thailand also exports these same products to the US, such as machinery and mechanical appliances, electrical machinery and equipment, vehicles and parts, steel and plastics and articles thereof and also those US products that China imposed higher tariff and Thailand also exports these same products to China, such as rubber and articles thereof, plastics and articles thereof, vehicles and parts and fruits.

Table 1: The 1,097 goods being targeted by US tariff

HS Code	Categories	US imports (Bil. US$)	Proportion to total Chinese imports	Proportion to total US import
84	Machinery and Mechanical Appliances	17.9	3.5	0.76
85	Electrical Machinery and Equipment	17.4	3.4	0.74
90	Optical and Precision equipment	5.0	1.0	0.22
39	Plastics and Articles thereof	2.2	0.4	0.09
87	Vehicles; Other than Railway or Tramway Rolling Stock	2.2	0.4	0.09
73	Iron or Steel Articles	0.9	0.2	0.04
	Other products	1.1	0.2	0.05
	Total	**46.6**	**9.2**	**1.99**

Source: Global Trade Atlas, 2017

Table 2: The 659 goods being targeted by Chinese tariff

HS Code	Categories	Chinese imports (Bil. US$)	Proportion to total US imports	Proportion to total Chinese import
12	Oil seeds and Oleaginous Fruits	14.3	9.6	0.80
87	Vehicles; Other than Railway or Tramway Rolling Stock	12.9	8.6	0.72
27	Mineral Fuels, Mineral Oils and Products of their Distillation	6.6	4.4	0.37
39	Plastics and Articles thereof	3.8	2.6	0.22
38	Chemical Products	2.2	1.5	0.12
10	Cereals	1.5	1.0	0.08
	Other products	6.8	4.5	0.38
	Total	**48.2**	**32.2**	**2.70**

Source: Global Trade Atlas, 2017

Table 3: Impacts from higher tariff rates

	US	Chinese	Thai
No substitution in production and in imports	-0.08	-0.14	-0.02
No substitution in production but imports	-0.07	-0.13	0.21

Source: International Input-Output Tables, OECD, calculated by NESDB

The above cost and opportunity analysis is in line with the results calculated from the international Input-Output table. The analysis is under the assumptions of (i) higher tariff rates of 25 percent would reduce import values by 40 percent for both the US and China and (ii) both the US and China will not increase their production or imports from other countries as to substitute for those lower imports. It is found that most of the impacts incur within US and Chinese economies, while Thai economy would be slightly declined by 0.02 percent. However, in the case where the US and China could import from other countries as to substitute those declined imported goods, it is found that Thai economy would expand by 0.21 percent.

This analysis is just a preliminary estimation under the strict assumptions. The main massage here is that protectionism measures implemented by both the US and China would affect both of them negatively, while other countries, including Thailand, might enjoy some opportunities from raising their exports. Nonetheless, the actual impacts depend on other important factors such as (i) the actual effects of imports reduction due to higher tariff rates in both US and China, (ii) the actual abilities of the US and China in raising their domestic production, as to alleviate shortage goods supply, (iii) the actual abilities of other countries in responding to a higher imports demand in both the US and China, and (iv) how other countries prevent US and China from dumping their excess goods what could not export to either the US nor China. Although the US and Chinese protectionism measures, affective within the third quarter of 2018, would have limited effect on the global and Thai economies, an increase in degree of protectionism would bring about more negative impacts, especially the recent announcement of the US tariff on 200 billion USD imports of Chinese goods and the Chinese retaliatory tariff on 60 billion USD of US imports. Even if, these policies would have both risks and benefits for other countries as shown in the above analysis, the US and Chinese economies would be severely impacted and it is likely to bring the world economy to a recession period, which, in turn, negatively affects Thai economy. Finally, if the US increases duty on imported car from all trading partners, the global supply chain of car production would be hugely impacted and the possibility of the world economy in 2019 would slow down more than previously expected.

Key assumptions for 2018 economic projection:

World Economic Projection in 2018

	Actual Data		Projection	
	2016	2017	May 21, 2018	Aug 20, 2018
World Economic Growth (%)[1]	3.5	4.1	4.1	4.1
USA	1.6	2.2	2.7	2.8
Eurozone	1.8	2.4	2.4	2.2
Japan	1.0	1.7	1.2	1.0
China	6.7	6.9	6.7	6.7
World Trade Volume (%)	2.2	5.1	4.3	4.3
Exchange Rate (Baht/US dollar)	35.29	33.93	31.0 - 32.0	32.0 - 33.0
Dubai Crude Oil (US Dollar/Barrel)	41.4	53.0	60.0 - 70.0	65.0 - 75.0
Export Price (US Dollar) (%)	-0.4	3.6	3.5 - 4.5	3.5 - 4.5
Import Price (US Dollar) (%)	-2.7	5.5	5.5 - 6.5	5.5 - 6.5
Income from Tourism (Trillion baht)	1.72	1.95	2.23	2.15

Source: NESDB

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

1) **The world economy and the world trade volumes in 2018 are expected to grow by 4.1 and 4.3 percent, respectively**, remained unchanged from the previous forecast assumption. The revised assumption for key major economies are (i) the upward revision of the U.S. economic expansion from 2.7 percent in the previous projection to 2.8 percent, together with upward revision of the economic expansion in Asia, such as Taiwan and Singapore, in accordance with the higher-than-expected expansion in the second quarter of 2018 which tends to continue its growth momentum in the remainder of the year; and (ii) the downward revision of the Eurozone and Japan economies from 2.4 and 1.2 percent respectively in the previous projection to 2.2 and 1.0 percent respectively due to the lower than expected growth in the second quarter of 2018.

2) **The average value of Thai baht in 2018 is expected to be in the range of 32.0 – 33.0 baht per US dollar, slightly appreciated from 33.93 per US dollar in 2017, and revised upward from the range of 31.0 – 32.0 baht per US dollar in the previous projection assumption.** This is in line with the average of Thai baht value at 31.95 baht per US dollar in the second quarter of 2018, depreciated by 1.28 percent from 31.54 baht per US dollar in the first quarter of 2018. Over the remaining of this year, Thai baht is likely to depreciate further following the expectation of the Fed rate hikes, which put pressure on the US dollar appreciation as well as the Yuan depreciation trend, will provide the depreciation pressure on the regional currency and the Thai baht. Nevertheless, the ample foreign reserves amidst the continued current account surplus, and the low public debts and foreign debt ratio are the supporting factors on the Thai Baht appreciation, and will curb down the depreciation trend of the Thai baht to be in a limit range and at slower pace than many other currencies in the region.

3) **The average Dubai crude oil price in 2018 is expected to be in the range of 65.0 – 75.0 US dollar per barrel, a gradual rise from 53.0 US dollar per barrel in 2017, and upwardly revised from the previous forecast of 60.0 – 70.0 US dollar per barrel in the previous projection assumption**. The revision is in line with the average crude oil price in the second quarter of 2018 at 71.9 USD per barrel which thus led the average oil price in the first half to be at around 67.7 USD per barrel, higher than the expected value. The factors that will support the rise come from an increasing oil demand as a result of improving global economic conditions amidst the OPEC and non-OPEC countries production reduction which will reduce the world crude oil supply and lower oil reserves as observed from the current OECD oil inventories that remained lower than the 5-year average. Another key factors that contribute to the lower-than-expected crude oil supply also include the withdrawal of the US from the Iran Nuclear deal (Iran is the 6^{th} largest oil exporter) and the deepening economic and political instability in Venezuela (the 12^{th} largest oil exporter). However, the accelerating oil price rise tend to be mitigated by an expansion of oil production of non-OPEC countries especially from the US and Canada, an increasing OPEC and non-OPEC countries production of around 1 million barrels per day, the pressure on the US dollar appreciation, and the concerns over intensified trade protectionism.

4) **The export and import price in US dollar term are expected to increase by 3.5 – 4.5 and 5.5 – 6.5 percent, respectively,** accelerating from a 3.6 and 5.5 percent growth in 2017, respectively. The export and import price assumptions remain unchanged from the previous projection assumption. In the first half of 2018, the export and import a price increased by 4.6 and 6.9 percent respectively, and tends to accelerate gradually in the remaining of this year, in line with an upward revision of crude oil price assumption.

5) **Tourism revenues from foreign tourists in 2018 are expected to reach 2.15 trillion baht, increasing by 10.3 percent from 1.95 trillion baht in 2017.** It is a downward revision from the previous projection assumption of 2.23 trillion baht in accordance with the number of tourist and the tourism revenues in the first half of the year are at 19.5 million persons and 1.05 trillion baht, increasing by 12.5 and 9.8 percent respectively. The contribution to the slightly lower-than-expected growths came from the decrease in numbers of tourists from Europe (12.5 percent share) by 1.9 percent in the second quarter of 2018, comparing with 12.2-percent growth in the first quarter of 2018, and also lower than the growth of 8.6 percent in the second quarter of 2017, partly attributed by the 2018 world cup taken place in Russia. However, the numbers of tourist tend to expand well over the remaining of the year. Key supporting factors are: (i) favorable economic conditions of key tourist origins; (ii) Thailand is regarded as one of the world's important tourism destination; (iii) the ongoing government's measures to stimulate the tourism sector and stable domestic political condition; and (iv) the expansion of international travel routes and increasing in short-haul international flights operated by low cost airlines.

6) **The budget disbursement** assumptions are as follows: (i) the FY2018 annual budget disbursement rate of 91.8 percent of overall budget compared to 92.0 percent in the earlier projection and the disbursement of the capital budget of 66.0 percent compared with 67.7 percent in the previous projection assumption; (ii) the FY2018 supplementary budget disbursement rate of 60.0 percent, compared to 64.8 percent in the previous projection; (iii) the state-owned enterprise's capital budget disbursement of 75.0 percent, compared to 77.0 percent in the previous projection; (iv) the carry-over budget disbursement of 64.6 percent, compared to 68.2 percent in the previous projection; (v) the off-budget loans including water resources management and road transport system projects of approximately 2,954.9 million baht, reduced from 9,398.4 million baht in FY2017; and (vi) the annual budget disbursement in the first quarter of FY2019 (October – December 2018) of 30.0 percent of overall budget, with the annual budget framework of FY2019 equivalent to 660,305.8 million baht.

Economic Projection for 2018:

The Thai economy is projected to expand in the range of 4.2 – 4.7 percent (with the midpoint of 4.5 percent), improving from 3.9 percent and 3.3 percent in 2017 and 2016, respectively. Headline inflation is estimated to be in the range of 0.9 – 1.4 percent and the current account balance is forecasted to register a surplus of 8.4 percent of GDP.

In the press release dated on August 20th, 2018, NESDB forecasts that the Thai economy in 2018 will expand within the range of 4.2 – 4.7 percent (with the midpoint of 4.5 percent). This was remained unchanged from the last projection dated on May 21st, 2018. However, there were some revisions on the growth components to be consistent with actual data in the first half of 2018 and the key assumptions revision. Major revisions are as follows:

1) In the second quarter of 2018, Thai economy grew by 4.6 percent, close to the previous projection. Together with a 4.9-percent growth in the first quarter, the overall economy in the first half of 2018 expanded by 4.8 percent on average, which was higher than the upper bound of the previous projection. However, the expansion in the second half of 2018 is expected to slow down from the first half due to the higher growth base in the first half of this year that would curb down the year-on-year economic growth. Meanwhile, the number of tourist in the third quarter is likely to be lower than previously expected and the flood conditions are likely to negatively affect agricultural production in the last quarter of the year to grow below than the previous projection. Under such conditions, the Thai economy in 2018 is thus projected to grow in the range of 4.2 – 4.7 percent (with the midpoint of 4.5 percent), keeping unchanged from the previous projection released on May 21st, 2018.
2) The adjustment of the growth components corresponded to actual data on the first half of 2018 and the main assumption revision. These include: (i) the stronger-than-expected private consumption growth in the first half of 2018. This was mainly supported by the improvement of the overall income conditions, measures for supporting the low income people, low inflation and interest rates, and improving consumer confidence. Besides, there was additional impulse to further encouraging new car purchases including the end of five-year continuous single-ownership condition of first-time car buying scheme, which allows those first-car buyers to purchase new ones, and the launches of new car models. These factors thus contributed to higher-than-expected growth of consumption on durable goods. In particular, the number of passenger car sales in the second quarter of 2018 was 135,963 units, increasing by 25.1 percent, which is the highest number of passenger car sales in past 18 quarters since the fourth quarter of 2013. As a result, all the above mentioned factors induced private consumption expenditure to expand at higher pace than previous projection; (ii) the downward revision on budget disbursement rate assumption under several budget frameworks which consequently lower the growth contribution from government consumption and public investment than previously assumed, though still remaining high and speeding up from last year; (iii) the downward revision on the tourism receipts from foreign tourists from 2.23 trillion baht (14.6 percent growth) in the previous projection, to be 2.15 trillion baht (10.3 percent growth), which thus implies that driving force from export services receipts is likely to be lower than the previous projection.

Key components of the economic growth :

1) **Consumption: Private consumption expenditure** is estimated to grow by 4.1 percent, accelerated from 3.2 percent in 2017, and is revised upward from 3.7 percent in the previous projection. The upward revision is in line with a 4.1 growth in the first half of the year and the positive outlook for the rest of the year, supporting by: (i) the favorable improvement of overall income conditions with a more broad-based expansion, especially the increase in farm income following strong expansion and improvement in the prices of several key agricultural products, as well as the strong income growth in exports, manufacturing, and tourism related service sectors, which is in line with the strengthening employment condition[8]; (ii) the implementation of the government measures to assist low income people and local economies and; (iii) the end of five-year continuous single-ownership condition under the first-time car buying scheme and the new cars launches. **Government consumption expenditure** is anticipated to expand by 2.2 percent, a faster pace than 0.5 percent in 2017. It is a slight downward revision from 3.0 percent as in the preceding projection, in tandem with a downward revision in the assumption of the government's current budget expenditures disbursement.

[8] In the first half of 2018, the employment in agricultural sector grew by 4.5 percent and it was growing for 6 months consecutively. Similarly, the employment in manufacturing in this quarter showed the sign of recovery as it expanded by 2.6 percent, the first pick-up in 11 quarters. Meanwhile, the employment in hotels and restaurant sectors also grew by 5.7 percent in the second quarter and 2.1 percent in the first half of 2018. In addition, the latest data in July 2018 showed the strengthening of employment growth of 1.7 percent: the employment in agricultural and manufacturing expanded by 0.7 and 0.8percent, respectively, while that in construction expanded by 2.6 percent, the first expansion in 20 months.

2) **Total investment** is projected to expand by 4.4 percent, accelerating from 0.9 percent in 2017. **Public investment** is expected to grow by 7.3 percent, recovering from a contraction of 1.2 percent in 2017. The growth is mainly supported by the high growth of capital budget framework under the annual budget and the state-owned enterprise's capital budget of 16.7 and 89.2 percent, respectively. In addition, further progresses of key infrastructure projects have become more apparent. However, this is a slight downward revision in the growth of public investment from 8.6 percent in the previous projection due to the downward adjustments of disbursement rate assumptions of the capital expenditure under the annual budget framework (including supplementary budget) to 65.0 percent, and the state-owned enterprises' capital budget framework to 75.0 percent. Nevertheless, it is expected that the capital budget disbursement rate will speed up during the latter half of FY2018 indicated by the purchasing order (PO) outstanding of 65.0 percent of total capital budget, higher than 59.7 percent in the same period last fiscal year. **Private investment** is forecasted to grow by 3.9 percent, stronger than a 1.7 percent growth in 2017 with no adjustment from the previous forecast. The private investment in the second half of the year is expected to accelerate further from a 6-month growth of 3.2 percent in the first half of the year, supporting by an increasing in capacity utilization rate in the second quarter which was at 66.6 percent, the highest second quarter capacity utilization rate in 5 years. The growth was in line with the advancement of key government infrastructure projects and an improvement of business sentiment.

3) **Export value of goods in US dollar term** is expected to grow by 10.0 percent, compared to a 9.8-percent growth in 2017, and is revised upward from the previous projection. It is projected that the export value is going to grow by 6.0 percent, adjusted upward from a 4.9-percent growth in the previous forecast. The upward adjustment follows the growth of export quantity in the second quarter and the first half of 2018 of 7.5 and 6.2 percent, respectively, which were higher than projected. The positive outlook on export in the latter half of the year is in line with the economic expansion of key trading partners. Combining with the adjustment of tourism revenue assumption, it is projected that export quantity of goods and services will expand by 5.9 percent, increased from the growth rate of 2017 and the previous forecast of 5.5 and 6.3 percent, respectively.

4) **Import value of goods in US dollar term** is anticipated to grow by 15.4 percent, compared to a 13.2-percent growth in 2017, which is revised upward from a 12.7-percent growth in the previous projection. The import quantity in 2018 is expected to grow by 9.4 percent, accelerated from 7.2 percent in 2017 and higher than the preceding forecast of 6.7 percent. This upward revision is in response to the upward revisions of private consumption and export quantity growth rate. Combining with import of services, it is projected that import quantity of goods and services will expand by 7.2 percent, increasing from the growth rate in 2017 and the previous forecast of 6.8 and 6.7 percent, respectively.

5) **Trade balance** is estimated to register a surplus of 26.7 billion US dollars, lower than a surplus of 34.2 billion US dollars in 2017, and is a downward revision from the previous projection of 27.0 billion US dollars. The smaller surplus is due to the upward revision of import value to grow faster than export value. After combining with the downwardly revised projection on service account surplus, the **current account** is projected to register a surplus of approximately 43.1 billion US dollars, equivalent to 8.4 percent of GDP.

6) **Economic stability will remain sound.** Comparing with a 0.7-percent rate in 2017, the headline inflation rate in 2018 is expected to be in the range of 0.9 – 1.4 percent, with the midpoint of 1.2 percent (equivalent to the midpoint of the range of 0.7 – 1.7 in the previous forecast).

6. Economic Management for the year 2018

The Thai economy in 2018 tends to continually improve supported by the strengthening global economy, which will sequentially support the expansion of exports and key production sectors and thus the overall economy, the stronger contribution from government consumption and public investment, the more-pronounced recovery of private investment, and the improvement of overall income condition. However, the economy during the rest of 2018 tends to slow down, on a year-on-year basis, due to a high base in the second half of 2017 and the fact that agricultural production is prone to flooding conditions amid higher volatility in the global economy and financial system as well as more intensified trade retaliation which will become risk factors to the recovery of world commodity prices and the global economy. Given these conditions, the macroeconomic policy management should emphasize on:

1) **Supporting the expansion of key economic sectors,** especially by: **(1) Fostering export expansion** to meet the target growth rate, as well as emphasizing on: (i) monitoring and preventing the possible negative impacts as well as seeking for opportunities from trade diversion as the trade protectionisms in the global market have become more intended; and (ii) operating foreign trade policies to be closely under the world trade rules, as well as key trading partners' regulations and guidelines; **(2) Sustaining the expansion of tourism sector,** especially by: (i) restoring tourists' perception on security and tightening tourist safety in key tourist destinations; (ii) promoting tourism packages targeted at high-income and long-distance tourists; and (iii) reducing congestion in major tourist attractions together with improving distribution of tourism revenue to secondary cities and local communities; and **(3) Encouraging private investment** by: (i) facilitating and encouraging newly approved projects from the first half of 2018 to be materialized and start operations at the soonest; (ii) steering public infrastructure projects to be implemented as planned; (iii) encouraging investors to invest in target industries and areas; and (iv) ensuring investors regarding the continuity of the government's key policies, and key investment projects after the transition period to the general election, in order to build investors' confidence.

2) **Supporting small farmers, low income groups, and strengthening the SMEs, local enterprises, and local economies,** by**: (1) agricultural production and farm income,** including: (i) relieving farmers impacted by the recent flood coupled with preventing, mitigating impacts of, and preparing to relieve farmers from possible flood during the rest of the year; (ii) solving problems on agricultural products whose prices remain under constraints and unable to recover; (iii) preparing preemptive measures to accommodate the rising agricultural supply; (iv) promoting exports of agricultural products to further expand in particular those products to China that might be affected from the US tariff measure; and (v) supporting a large-scale farming and enhancing farmers' income share in retail prices; **(2) supporting the low income and local economies as well as SMEs,** by pursuing the ongoing social welfare smart card project, together with credit provision measures aiming to attenuate their debt burdens and lessen constraints on fund accessibility for small farmers, low income groups, local enterprises, and SMEs, particularly those affected from repeated flood and those vulnerable to the uptrend in commodity prices and interest rates; and **(3) assisting and developing SMEs** affected by changes in business patterns, disruptive technologies, consumer preferences, and demography, as well as foreign exchange volatility, by: (i) encouraging SMEs to fully utilize benefits from government's measures on financial credit provisioning, currency appreciation impact mitigation, and SMEs promotion and development; (ii) encouraging SMEs to improve their process particularly on production, managerial, and marketing development towards more advance technology, as well as developing their products and services to match with the market demand; and (iii) establishing linkages between SMEs and larger-scale businesses.

3) **Expediting the public investment to continue its expansion and reach the target** by: (1) expediting the government's (during the last quarter of FY2018) and state-owned enterprises' (during the last half of 2018) capital budget disbursement to reach the disbursement rates of no less than 22.0 and 41.1 percent, respectively; (2) speeding up the capital budget disbursement under both the government's FY2019 budget framework and the carry-over budget framework to reach the disbursement rates of no lower than 14.0 and 32.0 percent, respectively; (3) driving key infrastructure projects to enter into the construction phase as planned; (4) pushing incentive measures to continually attract investors to investment in the Eastern Economic Corridor (EEC) and Special Economic Zones (SEZ); and (5) expediting transportation and logistics infrastructure projects as well as urban and special economic zone areas development at both regional and provincial levels in order to bolster economic expansions and economic activities distribution.

4) **Preparing the labor force, both in terms of quantity and quality, to adequately support further economic expansion and investment,** especially for those industries with rising capacity utilization. The measures should cover both high-skilled and semi-skilled labors and should aim at: (1) equipping new graduates, who recently graduated and are going to enter the job market, with relevant skills and experiences; (2) developing skillsets for those seeking for a career change; (3) promoting the use of electronic media in job searching and matching; (4) integrating the job market to facilitate a platform that brings together job seekers, academic institutes, and employers, which could minimize transaction costs of job searching and matching; and (5) developing specialized labor training institutions to prepare for future target industries development.

Projection for 2018 [1]

	Actual Data		Projection	
	2016	2017	May 21, 2018	Aug 20, 2018
GDP (at current prices: Bil. Bht)	14,533.5	15,452.9	16,457.3	16,426.4
GDP per capita (Bht per year)	215,454.6	228,412.0	242,622.1	242,166.5
GDP (at current prices: Bil. USD)	411.8	455.3	522.5	513.3
GDP per capita (USD per year)	6,103.9	6,730.2	7,702.3	7,567.7
GDP Growth (CVM, %)	3.3	3.9	4.2 - 4.7	4.2 - 4.7
Investment (CVM, %)[2/]	2.8	0.9	4.7	4.4
Private (CVM, %)	0.5	1.7	3.9	3.9
Public (CVM, %)	9.5	-1.2	8.6	7.3
Private Consumption (CVM, %)	3.0	3.2	3.7	4.1
Government Consumption (CVM, %)	2.2	0.5	3.0	2.2
Export volume of goods & services (%)	2.8	5.5	6.3	5.9
Export value of goods (Bil. USD)	214.3	235.3	256.0	258.8
Growth rate (%)[3/]	0.1	9.8	8.9	10.0
Growth rate (Volume, %)[3/]	0.5	6.0	4.9	6.0
Import volume of goods & services (%)	-1.0	6.8	6.7	7.2
Import value of goods (Bil. USD)	177.7	201.1	229.1	232.1
Growth rate (%)[3/]	-5.1	13.2	12.7	15.4
Growth rate (Volume, %)[3/]	-2.5	7.2	6.7	9.4
Trade balance (Bil. USD)	36.5	34.2	27.0	26.7
Current account balance (Bil. USD)	48.2	51.1	43.7	43.1
Current account to GDP (%)	11.7	11.2	8.4	8.4
Inflation (%)				
CPI	0.2	0.7	0.7 - 1.7	0.9 - 1.4
GDP Deflator	2.4	2.3	1.5 - 2.5	1.5 - 2.0

Source: Office of the National Economic and Social Development Board, 20th August 2018

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

[2/] Investment means Gross Fixed Capital Formation

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