



Thai Economic Performance in Q2 and Outlook for 2014

Macroeconomic Strategy and Planning Office

Press Release 9.30 a.m. August 18th, 2014

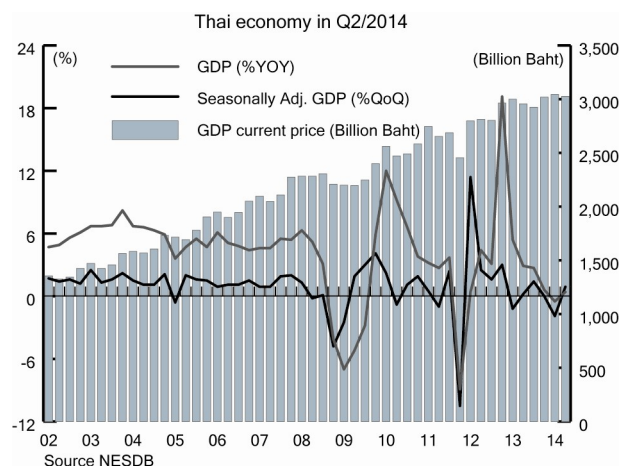
Economic Projection for 2014

| (% YOY) | 2013 | | 2014 | | |
|-----------------------------------|-------|------|-------|-------|----------|
| | Q4 | Year | Q1 | Q2 | Year (f) |
| GDP (at 1988 price) | 0.6 | 2.9 | -0.5 | 0.4 | 1.5-2.0 |
| Total Investment (at 1988 price) | -11.4 | -2.0 | -9.3 | -6.9 | -2.0 |
| Private | -13.2 | -2.8 | -7.4 | -7.0 | -2.9 |
| Public | -4.7 | 1.3 | -16.6 | -6.7 | 1.0 |
| Total Consumption (at 1988 price) | -3.3 | 1.1 | -1.9 | 0.5 | 1.3 |
| Private | -4.1 | 0.3 | -3.0 | 0.2 | 0.8 |
| Public | 0.8 | 4.9 | 4.2 | 1.9 | 3.7 |
| Export of Goods (US\$) | -0.9 | -0.2 | -0.8 | 0.4 | 2.0 |
| Volume | 0.3 | 0.2 | 0.9 | 1.5 | 3.0 |
| Import of Goods (US\$) | -7.5 | -0.5 | -14.8 | -11.8 | -4.9 |
| Volume | -6.1 | 1.6 | -13.8 | -11.7 | -4.4 |
| Current Account to GDP (%) | 3.1 | -0.5 | 8.8 | 0.4 | 2.6 |
| Inflation | 1.7 | 2.2 | 2.0 | 2.5 | 1.9-2.4 |
| Unemployment rate | 0.7 | 0.7 | 0.9 | 1.0 | 0.9 |

- ❑ **The Thai economy in the second quarter of 2014** grew by 0.4 percent improving from a contraction of 0.5 percent in the previous quarter. After seasonal adjustment, the Thai economy expanded from the first quarter by 0.9 percent (%QoQ SA). **In the first half of 2014, the Thai economy contracted by 0.1 percent.**
- ❑ **On the expenditure side**, the economic expansion was mainly contributed by government expenditure, private consumption expenditure, and exports, while private investment declined. **On the production side**, the agricultural sector expanded while the manufacturing and construction sectors showed a smaller contraction. Nonetheless, hotels and restaurants continued to decline.
- ❑ **The Thai economy in 2014 is likely to grow at a slower pace than previously projected.** Due to the prolonged political disturbances in the first 5 months of 2014, the slow recovery of export sector, and the continual decline in car production and sales, the Thai economy thus experienced a contraction in the first half of 2014. In the latter half, it is expected that the Thai economy will grow at a faster pace, supported by the improved confidence and the return of government administration and budget disbursement to normal process. However, the economy is likely to perform below its full potential due to the following reasons: (i) the constraints on export expansion due to the slower-than-expected recovery of the global economy and the decline in export price, (ii) the delay in tourism recovery and competition among global tourism market, which made some tourists changing their destinations, (iii) the constraints on investment growth due to the low capacity utilization and the slow progress in investment promotion approval in the first half of 2014, and (iv) the continual declining car production and sales from a high base in the previous year. Meanwhile, economic stability remained sound.
- ❑ **In 2014, the Thai economy is forecasted to grow by 1.5 – 2.0 percent.** Export sector is expected to expand by 2.0 percent and private consumption will grow by 0.8 percent while total investment is estimated to decline by 2.0 percent. Headline inflation is expected to be in the range of 1.9 - 2.4 percent while current account will record a surplus of 2.6 percent of GDP.
- ❑ The macroeconomic management in the second half of the year should focus emphasized on: (i) Expediting exports to its full potential in major markets and new high-potential market as well as promoting border and interregional trade, (ii) Restoring tourists' confidence and solving key problems in tourism sector, (iii) Accelerating the disbursement of the FY2014 budget and first quarter of FY2015 budget to be not less than 31 percent, (iv) Speeding up the approval of key investment projects and encouraging the approved projects to start operations in order to boost up the domestic economy, (v) Restoring confidence by spurring investment in key infrastructure projects, (vi) Implementing accommodative monetary policies which can facilitate the economic recovery and maintain the stability of the Baht currency.

The Thai economy in the second quarter and the outlook for 2014

Thai economy in the second quarter of 2014 expanded by 0.4 percent, after a contraction of 0.5 percent in the previous quarter. **The expansion on expenditure side** is supported by government expenditure, private consumption expenditure, and exports, but private investment contracted. On the **production side**, the agricultural sector expanded while the manufacturing and construction sectors contracted at a decelerated rate. Nonetheless, hotels and restaurants continued to contract due to the decline in number of inbound tourists. After seasonal adjustment, the Thai economy in the second quarter of 2014 expanded from the previous quarter by 0.9 percent (QoQ SA). **In the first half of 2014, the Thai economy contracted by 0.1 percent.**



Thai economy in the second quarter of 2014

- (1) **Private consumption expenditure** expanded by 0.2 percent, compared with a 3.0 percent decline in the previous quarter. This increase is in line with the growth in the electricity consumption and VAT collection (constant price) of 3.1 and 0.1 percent respectively. Consumer Confidence Index about the overall economic situation improved to 61.2 in the second quarter from 60.0 in the previous quarter, due to improvement in political situation in later part of the quarter.

In the first half of 2014, private consumption expenditure contracted by 1.4 percent.

- (2) **Total investment** declined by 6.9 percent, compared with a contraction of 9.3 percent in the previous quarter. **Public investment** contracted by 6.7 percent compared with a 16.6 percent contraction in the previous quarter owing to improvement in investment by state-owned enterprises. **Private investment** declined by 7.0 percent, compared with a contraction of 7.4 percent in the previous quarter due to contraction in construction, machinery and equipment investment. Meanwhile, the value of net applications for investment promotion from the Board of Investment (BOI) declined by 69.4 percent. However, the number of project applying for investment promotion began to improve as investors began to apply for more investment promotion towards the end of second quarter after a new BOI board was appointed on 6 June 2014. The Business Sentiment Index (BSI) remained below 50-level for the fourth consecutive quarter, in spite of some recovery in late second quarter, as entrepreneurs wait for clear signs of economic recovery and new government policy.

In the first half of 2014, total investment contracted by 8.1 percent, with a 11.3 percent contraction in public investment and a 7.2 percent contraction in private investment.

- (3) **Export** value was recorded at 55.8 billion US dollars – a 0.4 percent growth, compared with a 0.8 percent contraction in the previous quarter. This is due to a 1.5 percent increase in export quantity supported by the gradually recovery of global economy, being led by the on-going recovery of demands in U.S. and EU. Export price contracted by 0.9 percent. Export value (excluding unwrought gold) increased by 0.2 percent. In baht term, the value of export expanded by 8.9 percent. Export items with value growth include rice, tapioca, petrochemical, machinery and equipment, and electrical appliances. Export items whose value contracted include rubber, crustaceans, automotive, and metal products. Exports to the U.S. and EU (15) continue to grow, which is in line with the recovery of key export markets. Meanwhile exports to Japan and China contracted due to unfavorable economic conditions in Japan and China.

In the first half of 2014, export value contracted by 0.2 percent. Export volume increased by 1.2 percent and export price decreased by 1.3 percent. **In baht term**, the value of export grew by 8.8 percent.

- (4) **The agricultural sector** accelerated and expanded by 2.2 percent, increasing from 1.4 percent in the previous quarter. Key products with positive growth include off-season rice, rubber, and oil palm. The products with contraction in this quarter include cassava and white shrimp. agricultural prices continued to decline, causing farm income to contracted by 2.6 percent.

In the first half of 2014, agricultural sector expanded by 1.8 percent. The Agricultural Product Index and farm income rose by 4.3 and 0.8 percent, respectively. However, Agricultural Price Index decreased by 3.4 percent.

- (5) **Construction sector** contracted by 3.2 percent, compared with 11.9 percent contraction in the previous quarter. There was an improvement in both private and public sector. This was in line with the increase in cement sales by 2.3 percent, compared with only 0.4 percent growth in the previous quarter.

In the first half of 2014, construction sector contracted by 7.5 percent, with 7.2 percent contraction in public sector and 6.5 percent contraction in private sector.

- (6) **Industrial sector** decreased by 1.6 percent, a slight improvement from a 2.7 percent contraction in the previous quarter as export industries expanded for the first time in the past six quarters, especially electronic devices and hard disk drive. However, domestic sale industries contracted. Car production also declined by 29.3 percent. This is in line with the Manufacturing Production Index (MPI) which dropped by 5.0 percent, improving from a 7.1 percent drop in the previous quarter, and the average capacity utilization at 59.5 percent, lowest level in the past ten quarters.

In the first half of 2014, the industrial sector contracted by 2.1 percent. The Manufacturing Production Index (MPI) decreased by 6.1 percent and the capacity utilization rate averaged at 60.7 percent.

- (7) **Hotels and restaurants sector** contracted by 4.2 percent, deteriorating from a contraction of 3.1 percent in the previous quarter due to a 12.3 percent contraction in inbound tourist numbers. This is due to (i) international travel advisories and curfew announcement, (ii) an exemption of travel insurance during the martial law period, and (iii) competition from other traveling destinations. Concordantly, tourism revenue contracted by 8.4 percent, and the level of average hotel occupancy rate is lowest in 15 quarters at 47.5 percent. Nevertheless, the inbound tourists from Europe, Oceania and Africa increased.

In the first half of 2014, hotels and restaurants sector contracted by 3.6 percent.

Thai Economic outlook for 2014

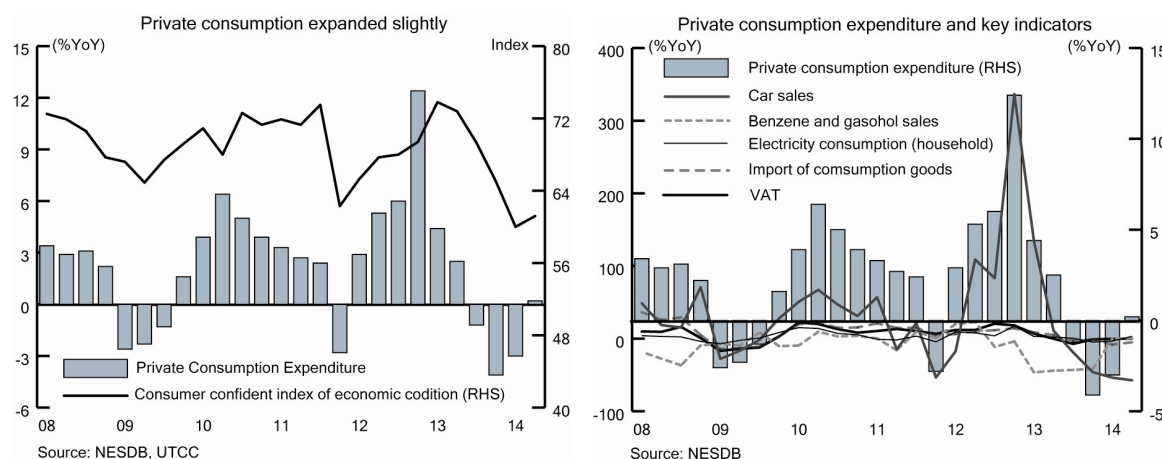
NESDB projected that Thai economy in 2014 will expand in the range of 1.5 – 2.0 percent. It is expected that the Thai economy will improve in the second half of 2014 from government spending, and an improvement in consumer confidence and business sentiment which will lead to a growth in expenditure and investment. Export is also expected to improve as the global economy recovers. On the 18th August 2014, NESDB revised the upper bound of its projection down to 2.0 percent from 2.5 percent level announced in the previous projection on 19th May 2014. The justifications of the revision are as follows: (1) **Thai economy grew less than anticipated in the second quarter** due to the prolonged political situation, constrained export growth, and contraction of automotive sales. and (2) **Thai economic growth in the second half of 2014 is expected to be lower than its potential** due to (i) a slow pickup of the global economy and falling export price, (ii) a sluggish recovery of the tourism sector and competition of the global tourism market, (iii) low capacity utilization and a delay in investment projects' approval process in the first half of the year which tend to hinder investment growth during the rest of the year, and (iv) an adjustment to the normal trend of car sales and production which still remained a limitation for an economic recovery. Such constraints are expected to dampen Thai economic growth, despite the resolved political situation which improves consumer confidence, business sentiment and government expenditure. It is expected that there will be a 2.0 percent growth in export value in US dollars, a 0.8 percent expansion in private consumption expenditure, a 2.0 percent contraction in investment, a 1.9 - 2.4 percent Headline inflation, and a 2.6 percent-of-GDP current account surplus.

1. The Thai Economy in Q2/2014

□ Expenditure Side:

Private consumption expenditure expanded slightly after 3 consecutive quarters of contraction, while Consumer Confidence Index began to improve. In the second quarter of 2014, private consumption expenditure expanded slightly by 0.2 percent, compared with a 3.0 percent decline in the previous quarter. This increase is in line with the growth in VAT collection (constant price) and the electricity consumption of 0.1 and 3.1 percent respectively after having contracted by 0.3 and 3.3 percent respectively in the previous quarter. Spending on durable goods contracted at a decelerated rate. The sales of passenger cars contracted by 44.0 percent, compared with 52.3 percent contraction in the previous quarter. This is the result of spending returning to the norm after the first-time-car-buyer scheme finished. A slowdown in other spending was due to the slowdown of domestic economy, particularly the decline of agricultural prices, contraction in manufacturing production, tourism, and the corroded consumer confidence in the earlier period of 2014. The sales of motorcycle, import value of consumer goods, and beer sales contracted by 15.2, 5.0, and 4.5 percent respectively. Moreover, Consumer Confidence Index about the overall economic situation improves from 60.0 in the previous quarter to 61.2 in the second quarter of 2014 due to the improvement in political situation during the end of the quarter.¹

In the first half of 2014, private consumption expenditure contracted by 1.4 percent.



Private investment declined due to the contraction in machinery and equipment and construction investment. In the second quarter of 2014, private investment declined by 7.0 percent, compared with a contraction of 7.4 percent in the previous quarter. **The machinery and equipment investment** contracted by 7.5 percent compared to the 7.3 percent contraction in the previous quarter. This is in line with the 9.2 percent contraction of import value of capital goods. Domestic commercial car sales contracted by 39.1 percent. **Construction investment** declined by 5.2 percent, compared with a contraction of 7.8 percent in the previous quarter. Such improvement is reflected by the 2.3 percent growth in cement sales compared with 0.4 percent in the previous quarter. Furthermore, the value of net applications for investment promotion from the Board of Investment (BOI) recorded a total value of 103.4 billion baht, declined by 69.4 percent. However, the number of projects applying for investment promotion declined at a slower rate of 14.9 percent compared with 48.4 percent in the previous quarter, as investors began to apply for more investment promotion towards the end of second quarter after a new BOI board was appointed on 6 June 2014. The Business

Expenditure in the second quarter of 2014 increased in both export and private consumption expenditure. Nonetheless, private investment continued to decline.

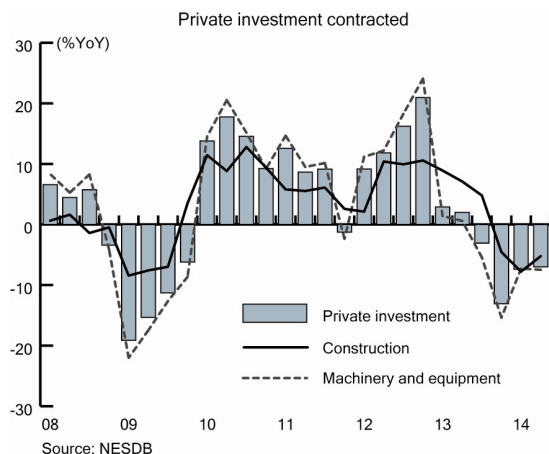
Private consumption expenditure grew by 0.2 percent, compared with 3.0 percent contraction in the previous quarter, while consumer confidence index began to improve.

Private investment declined by 7.0 percent, compared with a contraction of 7.4 percent in the previous quarter due to the contraction in machinery and equipment and construction investment.

¹ In July 2014, Consumer Confidence Index about the overall economic situation continued to improve for the third consecutive months to the level of 68.5. For the first seven months in 2014, Consumer Confidence Index about the overall economic situation stood at 61.7.

Sentiment Index (BSI) remained below 50-level for the fourth consecutive quarter, from 47.1 in the previous quarter to 47.0 in this quarter as some entrepreneurs wait for clear signs of economic recovery and new government policy.

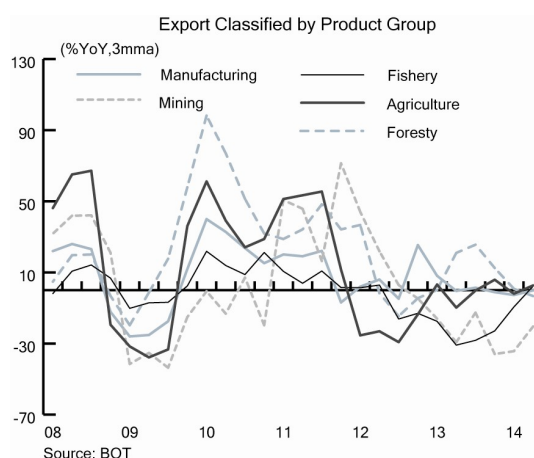
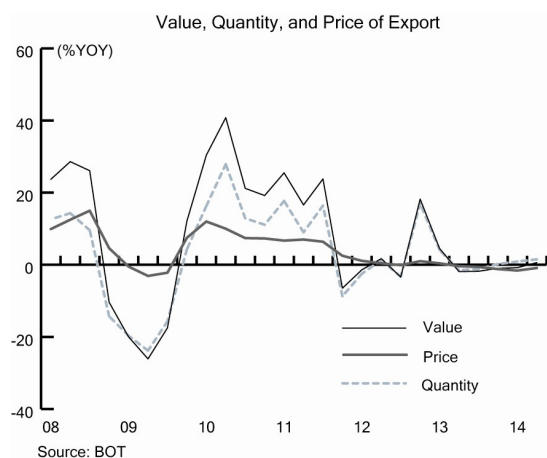
In the first half of 2014, private investment declined by 7.2 percent, with contractions of 7.4 percent in machinery and equipment and 6.5 percent in construction.



Exports recovered slightly after 4 consecutive quarters of contraction, supported by the gradual recovery of the global economy. However, export price continued to fall along with the agricultural prices. Export value in the second quarter of 2014 was recorded at 55.8 billion US dollars – a 0.4 percent growth, compared with a 0.8 percent contraction in the previous quarter. The export quantity increased by 1.5 percent from the same period last year, while export price contracted by 0.9 percent. Export value (excluding unwrought gold) increased by 0.2 percent. In baht term, the value of export, recorded at 1,810.0 billion baht, expanded by 8.9 percent, compared with a growth of 8.8 percent in the previous quarter.

In the first half of 2014, export value was recorded at 111.3 billion US dollars, which is a 0.2 percent contraction compared with a 1.0 percent growth in the same period last year. Export volume increased by 1.2 percent and export price decreased by 1.3 percent. **In baht term**, the value of export was recorded at 3,624.5 billion baht, which is a 8.8 percent growth compared with a 3.2 percent contraction in the same period last year.

Export value (USD term) grew by 0.4 percent due to gradual global economic recovery. Export price continued to fall. In baht term, the value of export, expanded by 8.9 percent.



Export of agricultural commodities: Export value of agricultural commodities increased by 2.7 percent, compared to a contraction of 2 percent in the previous quarter. This was due to a low base in the same period last year, and the increase in the export volume of key agricultural products (16.1 percent growth), especially rice, and cassava. However, the price of key exports, namely rice, rubber, and cassava continued to decline, causing the price of agricultural products to decline by

Export of agricultural and fishery products increased, but manufacturing products slightly contracted.

declined by 20.3 percent contributed primarily by a contraction in exports of automotive and parts, and iron, metal and steel. Similarly, export to South Korea continued to contract by 3.9 percent.

Major Export Market

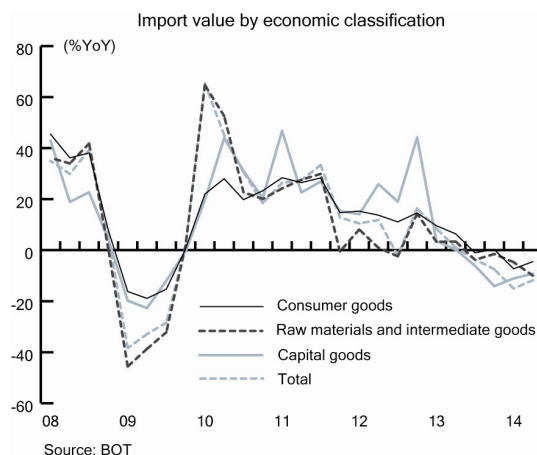
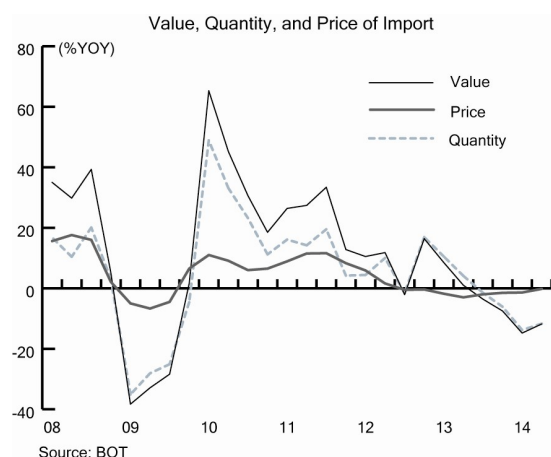
| (%YOY) | 2012 | 2013 | | | | | | | 2014 | | | | | | Shared Q2/14 |
|------------------------------------|------|------|------|-------|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------------|
| | Year | Year | H1 | H2 | Q1 | Q2 | Q3 | Q4 | H1 | Q1 | Q2 | Apr. | May. | Jun. | |
| USA | 4.6 | 0.8 | -1.4 | 2.9 | 0.8 | -3.5 | 0.7 | 5.2 | 2.8 | 0.6 | 4.9 | 0.6 | 2.8 | 11.2 | 10.5 |
| Japan | -1.6 | -5.2 | -2.6 | -7.8 | 1.5 | -6.3 | -10.1 | -5.5 | -2.2 | 2.0 | -6.3 | -4.5 | -9.9 | -4.1 | 9.4 |
| EU (15) | -9.2 | 2.7 | 0.6 | 4.7 | 7.0 | -5.3 | 3.3 | 6.3 | 7.8 | 4.8 | 11.0 | 5.4 | 11.9 | 15.4 | 9.5 |
| ASEAN (9) | 5.0 | 5.0 | 4.1 | 5.9 | 5.9 | 2.4 | 10.8 | 1.2 | -2.7 | -5.4 | -0.1 | -1.9 | 0.1 | 1.4 | 26.8 |
| Hong Kong | 4.4 | -4.0 | 3.7 | -11.8 | -2.2 | 9.8 | -16.2 | -6.8 | -8.4 | -13.3 | -3.9 | -0.5 | -13.2 | 3.2 | 2.2 |
| Middle East | 12.8 | 0.3 | -0.8 | 1.5 | 5.4 | -6.9 | 0.6 | 2.4 | 4.8 | 2.6 | 7.2 | 23.4 | 1.0 | 0.6 | 5.1 |
| China | 2.5 | 1.4 | -3.6 | 6.3 | 7.3 | -13.4 | -0.3 | 12.9 | -4.3 | -4.4 | -4.2 | -9.5 | -5.7 | 3.2 | 10.4 |
| Australia | 22.1 | 6.0 | 24.4 | -7.9 | 33.6 | 16.3 | -5.5 | -10.7 | -18.9 | -17.4 | -20.3 | -14.8 | -31.5 | -12.5 | 3.7 |
| Total Export | 3.1 | -0.3 | 0.8 | -1.4 | 3.9 | -2.2 | -1.7 | -1.0 | -0.5 | -1.0 | 0.1 | -0.9 | -2.1 | 3.3 | 100.0 |
| Total Export by Balance of Payment | 3.1 | -0.2 | 1.0 | -1.4 | 4.5 | -1.9 | -1.8 | -0.9 | -0.2 | -0.8 | 0.4 | -0.9 | -1.2 | 3.1 | 98.9 |

Source: BOT & NESDB

Imports contracted for the fourth quarter in line with the weaken domestic demand, as well as the shutdown of a number of oil refinery which led to a decrease in crude oil import. Meanwhile, import price decreased, and import value thus continue to decline: import in US dollar term was recorded at 49.8 billion US dollars in the second quarter of 2014. This represented a decline of 11.8 percent compared with a 14.8 percent contraction in the previous quarter. Import quantity declined by 11.7 percent, representing a decline in all categories, especially raw materials and capital goods. The price of imports declined by 0.2 percent, compared with from 1.4 percent contraction in the previous quarter. With unwrought gold excluded, the value of import contracted by 9.4 percent. In Thai baht term, the value of import was recorded at 1,617.27 billion baht, or a decline of 4.2 percent compared with a contraction of 6.6 percent in the previous quarter.

In the first half of 2014, import in US dollar term was recorded at 98.9 billion US dollars. Import volume declined by 12.7 percent. Price of import contracted by 0.8 percent. In Thai baht term, the value of import was recorded at 3,220.1 billion baht or a decline of 5.4 percent.

Import value (USD term) contracted by 11.8 percent, compared with 14.8 percent contraction in the previous quarter, due to weaker domestic demand



Overall, there was a decline in all categories of import. The **import value of raw materials and intermediate goods** contracted by 10 percent. This was due to the decline in import of crude oil, natural gas, minerals, construction materials, materials of base metal, and chemical products. Such decline is in line with the contraction in manufacturing production, domestic investment, as well as the maintenance shutdown of several oil refineries which led to a decline in crude oil import. The

11.6 percent. The export value of **rice** increased by 21.5 percent as there was an increase in export quantity of rice by 76.8 percent (owing to the expedited release of government's stockpiles). Similarly, the export value of **cassava** increased by 14.2 percent, contributed by an increase in export quantity, especially the export to China who has a growing demand for cassava for ethanol production. Meanwhile, the export value of **rubber** declined by 24.0 percent, mainly due to a drop in the price of rubber by 28.9 percent, owing to a high level of stockpile of China. Export value of **sugar** decreased for the seventh consecutive quarters by 29.8 percent, as export price and quantity continued to drop. **Manufacturing products** contracted slightly due to the slow recovery of global demand, as well as the constraints on production of key products, causing the quantity and value of export contracted by 0.2 and 0.3 percent respectively. Export which declined in value in this quarter includes crustaceans (canned, prepared, or preserved), automotive, and metal products. Nonetheless, the goods that recorded growth in export were electrical appliances, petrochemical, and machinery and equipment which grew by 2.0, 11.2, and 10.0 percent respectively. **Fishery products** grew by 2.3 percent, partly due to a low base of the same period of last year.

Export Value of major commodities

| %YoY | 2012 | 2013 | | | | | | | | 2014 | | | | | Shared Q2/14 |
|------------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-----------------|
| | Year | Year | H1 | H2 | Q1 | Q2 | Q3 | Q4 | H1 | Q1 | Q2 | Apr. | May. | Jun. | |
| Agriculture | -22.1 | 0.0 | -3.0 | 3.1 | 3.2 | -9.8 | -0.2 | 5.9 | 0.1 | -2.0 | 2.7 | -5.8 | -0.7 | 16.0 | 7.2 |
| Rice | -28.0 | -4.6 | -3.4 | -5.6 | 8.6 | -14.0 | 5.5 | -14.0 | 12.6 | 4.6 | 21.5 | 16.2 | 14.8 | 35.1 | 2.1 |
| Rubber | -31.1 | -5.9 | -12.3 | 1.6 | -8.7 | -16.8 | -11.1 | 13.8 | -19.1 | -15.5 | -24.0 | -27.4 | -23.1 | -20.9 | 2.3 |
| Tapioca | 6.9 | 14.8 | 13.2 | 22.6 | 34.9 | -8.3 | 19.1 | 25.5 | 21.8 | 26.9 | 14.2 | -1.1 | -2.5 | 58.2 | 0.9 |
| Industry | 6.1 | 1.8 | 3.5 | 0.1 | 7.7 | -0.4 | 1.3 | -1.1 | -1.5 | -2.7 | -0.3 | 0.1 | -3.0 | 2.1 | 88.8 |
| Agro Manufacturing Product | 4.1 | -2.6 | -2.4 | -2.8 | -1.7 | -3.1 | -4.5 | -0.9 | -6.5 | -7.8 | -5.4 | -8.9 | -4.3 | -3.1 | 12.4 |
| Sugar | 8.9 | -27.2 | -29.2 | -23.2 | -37.4 | -22.6 | -32.2 | -1.2 | -29.2 | -28.3 | -29.8 | -36.8 | -23.0 | -30.8 | 1.4 |
| Shrimp, Crab Manufacturing Product | -16.2 | -19.5 | -19.3 | -19.7 | -13.6 | -24.6 | -21.2 | -18.2 | -19.7 | -25.2 | -13.8 | -13.3 | -17.6 | -10.1 | 0.5 |
| Apparels and textile materials | -12.0 | 3.6 | 4.0 | 3.2 | 1.3 | 6.8 | 4.2 | 2.2 | -0.2 | -1.3 | 0.9 | 1.6 | -1.2 | 2.5 | 3.4 |
| Electronics | 0.9 | -0.7 | -3.6 | 2.0 | 2.3 | -8.6 | 2.4 | 1.7 | -0.8 | 0.2 | -1.7 | -6.4 | 3.4 | -2.4 | 14.5 |
| - Computer and parts | 14.3 | -5.6 | -10.5 | -0.4 | -1.2 | -18.1 | -1.8 | 0.9 | -5.1 | -3.2 | -7.1 | -12.8 | 0.7 | -9.5 | 6.5 |
| - Integrated circuits & parts | -15.4 | 7.9 | 4.7 | 10.4 | 2.0 | 7.4 | 17.9 | 3.1 | 3.1 | 5.2 | 1.3 | -1.8 | 10.3 | -3.4 | 3.2 |
| Electrical Appliances | 2.2 | 2.3 | 5.3 | -0.7 | 13.4 | -1.4 | -0.8 | -0.6 | 4.6 | 7.2 | 2.0 | 7.7 | -0.4 | -0.8 | 5.7 |
| Automotive | 26.3 | 7.6 | 14.4 | 1.6 | 16.8 | 12.2 | 7.2 | -3.9 | 0.8 | 3.1 | -1.6 | -0.2 | -6.9 | 2.6 | 13.6 |
| Metal & Steel | 21.3 | -5.5 | 30.1 | -29.7 | 55.9 | 6.6 | -21.0 | -37.2 | -21.1 | -34.2 | -3.5 | 4.4 | -11.6 | -2.0 | 4.4 |
| - Steel | 63.1 | -14.8 | 69.9 | -55.1 | 140.6 | 6.7 | -45.7 | -62.7 | -46.9 | -62.5 | -15.7 | -5.2 | -26.9 | -12.0 | 1.2 |
| Petrochemical | -1.8 | 5.3 | 6.4 | 4.2 | 9.1 | 3.8 | 3.6 | 4.9 | 8.2 | 5.3 | 11.2 | 13.0 | 11.6 | 9.1 | 6.0 |
| Petroleum products | 15.7 | -1.3 | -13.0 | 10.7 | -6.3 | -19.4 | 9.6 | 11.8 | -8.2 | -15.5 | 0.0 | -10.5 | 0.7 | 9.6 | 4.8 |
| Machinery & Equipment | 1.9 | 4.0 | 1.2 | 6.8 | 4.2 | -1.5 | 4.7 | 9.0 | 9.4 | 8.7 | 10.0 | 19.8 | 4.2 | 7.3 | 8.6 |
| Chemical | 2.1 | 7.6 | 12.8 | 2.4 | 15.9 | 10.0 | 4.6 | 0.2 | -7.3 | -7.3 | -7.3 | -3.4 | -17.0 | 0.4 | 3.9 |
| Gold | 12.8 | -50.1 | -64.6 | -40.7 | -86.8 | -29.1 | -46.8 | -8.7 | 119.0 | 469.3 | 14.3 | -22.5 | 53.1 | 2.2 | 1.4 |
| Fishery | -7.1 | -25.4 | -25.3 | -25.5 | -18.2 | -31.6 | -28.2 | -22.9 | -3.7 | -9.4 | 2.3 | 6.3 | -3.5 | 5.2 | 0.9 |
| Shrimp, Crab, Lobster | -14.3 | -33.4 | -34.3 | -32.5 | -19.0 | -46.5 | -35.1 | -29.8 | -17.6 | -27.1 | -6.1 | -6.0 | -11.3 | 0.1 | 0.4 |

Source: BOT & NESDB

Export markets: exports to major markets such as the U.S. and EU (15) continued to grow in this quarter, while exports to Japan, China, Australia, and Hong Kong contracted. This is in line with the slow recovery of the global economy which remained concentrated in the key industrial countries. Exports to the US, and EU (15) grew by 4.9 and 11.0 percent, accelerating from a growth of 0.6 and 4.8 percent in the previous quarter respectively. Such growth was in line with the recovery of the US and European economy. Meanwhile, exports to Japan and China contracted by 6.3 and 4.2 percent respectively due to unfavorable economic conditions in Japan and China. At the same time, export to Australia

Exports to key markets recovered as the U.S. and EU economies recover. However, exports to Japan, China and Australia contracted.

import value of capital goods contracted by 9.2 percent. Goods with a contraction in import value were computers, machinery, equipment, and supplies, aft, ships, floating structures, and locomotive. The **import value of consumer goods** declined by 4.5 percent. The goods whose import value declined were animal & fishery products, jewelry (excl. pearls & precious stones), furniture and parts, ceramic products. The goods with an increase in import value include food, beverage, and dairy products.

There was a decline in all categories of import.

Import Value of major commodities

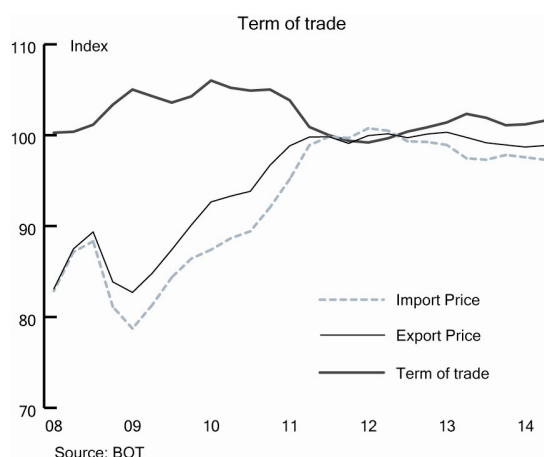
| %YoY | 2012 | 2013 | | | | | | | | 2014 | | | | | | Shared |
|-------------------------------------------------------|-------------|-------------|------------|--------------|------------|------------|-------------|--------------|--------------|--------------|-------------|--------------|--------------|-------------|-------------|--------|
| | Year | Year | H1 | H2 | Q1 | Q2 | Q3 | Q4 | H1 | Q1 | Q2 | Apr. | May | Jun. | Q2/14 | |
| Raw materials and intermediate goods | 4.7 | 0.4 | 3.4 | -2.7 | 3.3 | 3.4 | -3.8 | -1.5 | -7.4 | -4.7 | -10.0 | -9.8 | -2.5 | -17.8 | 60.2 | |
| Crude oil | 9.0 | 9.8 | 8.2 | 11.5 | 6.2 | 10.1 | -0.1 | 23.8 | -12.6 | -4.3 | -20.0 | -13.8 | 1.7 | -43.5 | 15.1 | |
| Natural gas | 10.0 | 16.6 | 39.9 | -1.0 | 31.5 | 45.7 | -5.1 | 3.5 | -11.4 | -6.4 | -14.4 | -38.7 | 21.2 | -0.8 | 2.4 | |
| Coal | 8.0 | -8.7 | -11.8 | -5.4 | -14.6 | -9.3 | -11.7 | 2.0 | 13.0 | 15.5 | 10.9 | 57.5 | 17.2 | -14.6 | 0.7 | |
| Petroleum products | 12.9 | 10.2 | 9.4 | 11.2 | -1.4 | 20.2 | 12.4 | 9.6 | 32.9 | 42.3 | 25.1 | 46.9 | 3.1 | 33.8 | 4.1 | |
| Minerals | -1.2 | -20.6 | -5.5 | -35.4 | 8.3 | -22.4 | -25.6 | -46.2 | -30.5 | -44.0 | -7.5 | -11.9 | -12.3 | 3.1 | 1.1 | |
| Construction materials | 16.5 | -0.1 | 6.8 | -6.6 | 11.0 | 3.1 | -4.1 | -9.1 | -9.6 | -8.9 | -10.3 | 0.6 | -20.1 | -10.0 | 1.8 | |
| Materials of base metal | 1.5 | -5.0 | 7.3 | -16.7 | 10.4 | 4.3 | -16.1 | -17.2 | -17.3 | -19.2 | -15.5 | -20.3 | -15.4 | -9.8 | 8.4 | |
| Chemical | -4.6 | -2.1 | -3.0 | -1.2 | -0.7 | -4.8 | -0.3 | -2.2 | -2.6 | 3.3 | -7.6 | -7.7 | -5.5 | -9.5 | 6.0 | |
| Capital goods | 25.4 | -4.5 | 1.9 | -10.2 | 3.6 | 0.2 | -6.1 | -14.1 | -10.1 | -11.1 | -9.2 | -14.4 | -12.7 | 0.4 | 23.9 | |
| Computer | 10.8 | -1.2 | 11.4 | -13.1 | 39.6 | -9.5 | -14.6 | -11.4 | -17.4 | -24.3 | -9.5 | -12.1 | 2.2 | -18.9 | 0.9 | |
| Machinery, equipment, and supplies | 27.6 | -13.2 | -10.2 | -16.1 | -6.3 | -13.8 | -13.0 | -19.3 | -6.3 | -9.8 | -2.6 | -4.4 | -6.0 | 3.0 | 10.0 | |
| Aircrafts, ships, floating structures, and locomotive | 13.1 | 46.5 | 115.3 | 7.5 | 65.2 | 178.0 | 25.7 | -5.8 | -50.1 | -36.9 | -59.9 | -77.4 | -69.7 | -18.3 | 1.7 | |
| Consumer goods | 13.6 | 3.7 | 8.0 | -0.4 | 9.6 | 6.4 | -1.1 | 0.2 | -5.9 | -7.3 | -4.5 | -0.1 | -8.3 | -4.7 | 8.4 | |
| Animal & fishery products | 12.3 | 3.2 | 12.9 | -6.4 | 11.0 | 14.7 | -17.7 | 8.7 | -17.8 | -10.5 | -24.5 | -23.2 | -20.9 | -29.6 | 1.3 | |
| Jewelry (excl. pearls & precious stones) | 9.5 | -15.1 | -16.5 | -13.6 | -30.4 | 5.7 | -22.0 | -0.5 | -6.4 | -8.2 | -4.6 | 78.5 | -27.2 | -22.9 | 0.3 | |
| Furniture and parts | 30.4 | 9.3 | 16.6 | 3.7 | 28.0 | 7.0 | 8.3 | -0.3 | -0.6 | 0.7 | -1.9 | 2.1 | -5.7 | -1.8 | 0.3 | |
| Food, beverage, and dairy products | 12.0 | 8.3 | 11.4 | 5.5 | 17.4 | 5.0 | 4.5 | 6.4 | -5.0 | -12.4 | 3.9 | 10.3 | -1.4 | 3.1 | 2.1 | |
| Household Electrical Appliances | 34.5 | -18.5 | -3.9 | -30.9 | -4.2 | -3.5 | -6.4 | -45.2 | -17.6 | -19.6 | -15.5 | -8.9 | -30.2 | -2.0 | 0.4 | |

Source: BOT

Terms of Trade remained relatively stable compared with the previous quarter. Export price decreased by 0.9 percent while import price decreased by 0.2 percent, bringing the terms of trade to 101.6 in the second quarter of 2014, compared to 101.2 in the previous quarter.

In the first half of 2014, terms of trade is 101.4, compared with 101.9 in the same period last year. Export price decreased by 1.3 percent while import price decreased by 0.8 percent.

Terms of Trade remained relatively stable compared with the previous quarter.



Trade balance recorded a surplus for the fourth consecutive quarters. The trade balance in the second quarter of 2014 recorded a surplus of 5.93 billion US dollars (equivalent to 192.732 billion baht), compared with a surplus of 6.519 billion US dollars (equivalent to 211.715 billion baht) in the previous quarter.

In the first half of 2014, trade balance recorded a surplus of 12.449 billion US dollars (equivalent to 404.448 billion baht), compared with a surplus of 2.5 billion US dollars (equivalent to 73.748 billion baht) in the same period last year.

❑ Production side

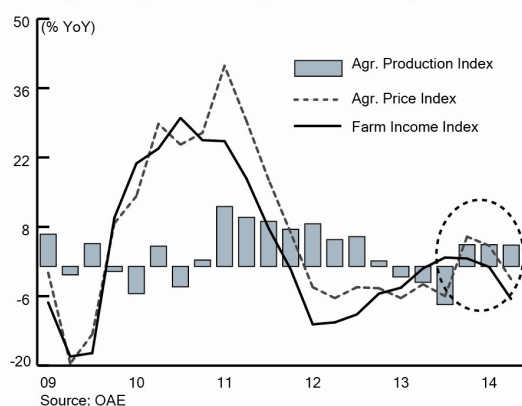
Agricultural sector accelerated following the increases in off-season paddy, maize, rubber, oil palm, sugar cane, fruit and livestock. In the second quarter, agricultural sector continuously expanded by 2.2 percent, increasing from 1.4 percent in the previous quarter, due to the rise in production of off-season paddy, rubber, oil palm, sugar cane, fruit and livestock which benefit from (i) higher volume of irrigation for off-season paddy production (ii) rise in maize production attributable to increasing plating areas and higher yields (iii) increase in rubber tapping and palm planting areas (iv) higher yield of fruit production due to favorable weather and (v) acceleration of livestock production owing to higher price and increasing demand from both domestic and international markets. However, other major agricultural production declined including drop in cassava due to conversion of cassava's plantation area to sugar cane, and drop in white shrimp as a result of the effect of Early Mortality Syndrome. This was in line with an increase of 4.3 percent in the Agricultural Product Index.² **Meanwhile, the Agricultural Price Index dropped** by 6.6 percent in the second quarter worsened from a contraction of 0.1 percent in the first quarter due mainly to (i) acceleration of rice sale from government's stockpiles (ii) higher global rubber production and lower demand from China, as well as high rubber stocks of Thailand and China and (iii) lower price of oil palm and white shrimp. All in all, farm income contracted by 2.6 percent, compared to 4.2 percent expansion in the previous quarter.

In the first half of 2014, agricultural sector expanded by 1.8 percent. The Agricultural Product Index and farm income rose by 4.3 and 0.8 percent, respectively. However, Agricultural Price Index decreased by 3.4 percent.

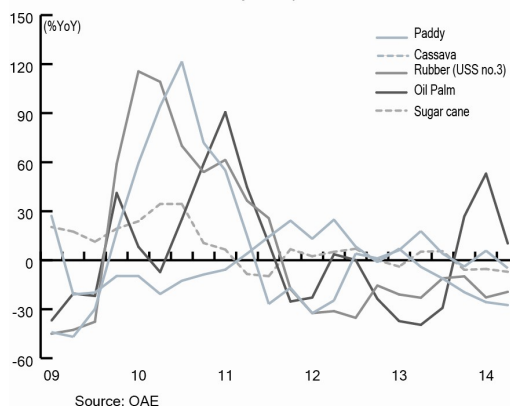
Trade balance recorded a surplus.

Agricultural sector expanded by 2.2 percent thanks to the increases in most agricultural products. However, white shrimp production was still low and experienced a slow recovery; while agricultural prices decreased which result in the decline in farm income.

Farm income dropped by 2.6 percent, compare to an increase of 4.2 percent in the previous quarter following the decrease in agricultural price



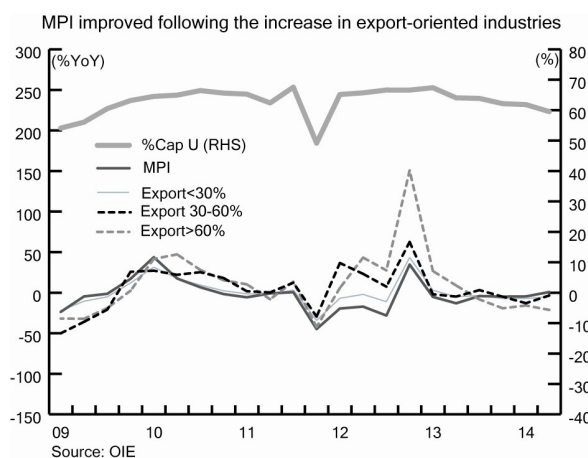
Prices of most major crops dropped while oil palm's rose by 10.3 percent



² The increase of Agricultural Product Index was announced by Office of Agricultural Economics (OAE) on July 22nd 2014. However, a further revise of the index is expected which tends to be revised downwardly since some agricultural productions were lower than estimation.

Industrial sector continued to contract for five consecutive quarters, though showing a slight improvement compared with the previous quarter following the increases in export industries. In the second quarter, the industrial production decreased by 1.6 percent, a slight improvement from a 2.7 percent contraction in the previous quarter, contributed by a 0.8 percent increase in export industries. The export-oriented industries expanded for the first time in the past six quarters thanks to higher demand in the US market for electronic devices and hard disk drive that were used in the Cloud Computing³ System. However, domestic sale industries contracted including (i) a decline of 0.9 percent of less-than-30- percent export-oriented industries, owing to declines in meat and meat product (3.2 percent), malt liquors and malt (5.3 percent), and textile (5.4 percent), and (ii) a decline of 21.2 percent of industries with 30-60 percent export shares, following a continual decline in car production by 29.3 percent. Overall, the Manufacturing Production Index (MPI) dropped by 5.0 percent, improving from a 7.1 percent drop in the previous quarter. Classified by sectors, the industries with positive growth included leather products (3.0 percent), petroleum products (2.5 percent), chemical products (1.3 percent), rubber and plastic products (4.2 percent), electronic appliances (10.4 percent) and hard disk drive (2.2 percent). The industries which experienced contractions included food and beverage products (4.8 percent), textile (3.1 percent), clothing (2.4 percent), machinery and parts (7.4 percent), electrical appliances (7.1 percent), and automotive (29.3 percent). The decrease in industrial production was in line with lowest average capacity utilization in ten quarters at 59.5 percent, compared to 64.0 percent in the same quarter last year.

In the first half of 2014, the industrial sector contracted by 2.1 percent. The Manufacturing Production Index (MPI) decreased by 6.1 percent and the capacity utilization rate averaged at 60.7 percent.



Construction sector improved in both public and private sectors. In the second quarter, the construction dropped by 3.2 percent, considerably improving from 11.9 percent in the previous quarter. Public and private constructions decreased by 0.3 and 5.2 percent, respectively, better than contractions of 14.3 and 7.8 percent in the previous quarter. This was in line with the increase in cement sales by 2.3 percent, compared with only 0.4 percent growth in the previous quarter. Meanwhile, construction material price rose by 1.4 percent in response with higher cost of raw materials and wages.

In the first half of 2014, construction sector contracted by 7.5 percent. Public and private construction declined by 7.2 and 6.5 percent respectively.

Real estate sector contracted as a result of a slowdown in new project launching due to political situation and a softened private investment. In this quarter, the sector contracted by 0.7 percent, improving from 1.6 percent drop in the previous quarter. **On the demand side,**

Industrial Sector continued to contract by 1.6 percent, though with a slight improvement due to expansion in export industries, especially from electronic devices and hard disk drive.

Construction sector showed a significant improvement in both public and private constructions. This was consistent with increasing cement sales.

Real estate sector contracted by 0.7 percent affected by the political situation. Prices increased both in land and residential.

³ Cloud computing is the delivery of computing as a service provided by cloud provider, whereby shared resources, software, and information are provided to computers and other devices (smart phone or tablet) over a network (typically the Internet).

housing right transfer in Bangkok and vicinities remained stable; while housing credits grew by 10.3 percent. **On the supply side**, newly completed and registered housing units in Bangkok and vicinities contracted by 23.2 percent. The number of new projects also declined by 16.9 percent, especially commercial buildings, condominium and townhouse projects with contractions of 65.7, 24.6, and 20.8 percent, respectively. This was partly affected by the political uncertainty in the first two months of the quarter which caused investors to slow down investment. Land and residential prices rose in which that prices of land and condominium increased by 11.2 and 9.7 percent, respectively.

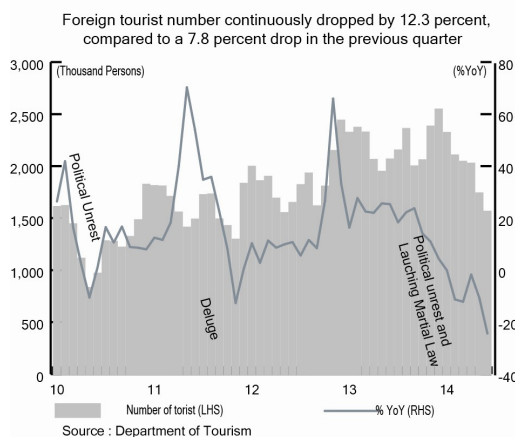
In the first half of 2014, real estate sector contracted by 1.2 percent.

Hotels and restaurants sector declined due to the political disturbances. In this quarter, the sector contracted by 4.2 percent, deteriorating from a contraction of 3.1 percent in the previous quarter as a result of existing international travel advisories and curfew announcement, an exemption of travel insurance during the martial law period, and higher intense competition from other traveling destinations. The contraction was consistent with the following indicators; (i) a continual drop in inbound tourist numbers to 5.3 million people or a 12.3 percent contraction, especially those from Asia, United States, and the Middle East, compared with a 7.8 percent drop in the previous quarter. (ii) a lower tourism revenue to 260 billion baht or a 8.4 percent contraction, compared with a 4.2 percent contraction in the previous quarter, and (iii) the lowest level of average hotel occupancy rate in the previous 15 quarters at 47.5 percent, compared with 60.3 percent in the same period last year.

It was apparent that inbound tourists travelling via major airports declined in almost all airports including Suvarnabhumi, Don Muang, and Phuket Airports with contractions of 24.4, 10.8 and 0.9 percent, respectively. However, inbound tourists travelling via Samui and Chiangmai Airports increased by 407.3 and 71.1 percent, respectively. All in all, inbound tourists travelling via Bangkok and vicinities decreased by 22.6 percent, while those travelling via other regional airports rose by 4.9 percent.

Nevertheless, the inbound tourists from Europe, Oceania and Africa increased by 6.3, 3.6 and 6.1 percent, respectively. Top five of inbound tourists were Laotian, British, French, German, and Australian, which increased by 33.0, 15.2, 10.2, 10.0 and 5.1 percent, respectively.

In the first half of 2014, hotels and restaurants sector contracted by 3.6 percent.



Wholesale and retail trade sector improved in tandem with higher household and public spending, as well as better consumer confidence. In the second quarter, wholesale and retail trade sector expanded by 0.3 percent, compared with a 0.4 percent contraction in the previous quarter. **For the wholesale trade**, machinery and equipment improved; while other sectors (agricultural raw material, food and beverages, fuel, and construction material) accelerated. **For the retail trade**, food and beverages, and department store increased; while, motor

Hotels and restaurants sector contracted by 4.2 percent due mainly to an exemption of travel insurance under martial law and existing international travel advisories. Inbound tourist declined by 12.3 percent (5.3 million people).

Wholesale and retail trade sector rose by 0.3 percent, compared with a 0.4 percent drop in the previous quarter, due to increased household and public spending, as well as improved consumer confidence.

vehicles and fuel experienced contraction. In all, the wholesale and retail trade sectors improved in line with better Consumer Confidence Index about the overall economic situation of 61.2 percent, increased from 60.0 percent in the previous quarter.

In the first half of 2014, wholesale and retail trade sector declined by 0.1 percent.

Wholesales and retail sales indices

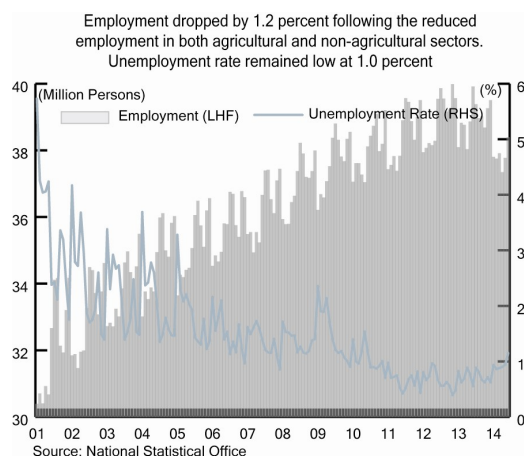
| % YOY | 2012 | 2013 | | | | | | | 2014 | | | | |
|--------------------------------------------|-------|------|-------|-------|-------|-------|------|-------|-------|-------|-------|-------|-------|
| | Year | Year | H1 | H2 | Q1 | Q2 | Q3 | Q4 | Q1 | 5M | Apr. | May. | 2M |
| Retail sales index | 18.4 | -0.5 | 6.4 | -6.7 | 10.0 | 2.8 | -5.4 | -8.0 | -9.1 | -8.6 | -7.2 | -8.4 | -7.8 |
| Food and beverages | -16.3 | 51.7 | 105.5 | 14.1 | 106.6 | 104.5 | 14.7 | 13.6 | 46.0 | 43.1 | 69.5 | 18.4 | 38.1 |
| Department stores and supermarket | 8.8 | 2.2 | 4.1 | 0.4 | 4.4 | 3.8 | -1.2 | 2.0 | -1.2 | -0.2 | 1.1 | 1.7 | 1.4 |
| Motor vehicles and fuel | 29.1 | -2.9 | 7.2 | -12.0 | 14.1 | 0.6 | -9.7 | -14.3 | -15.7 | -15.0 | -11.9 | -15.6 | -13.9 |
| Wholesales index | 20.4 | -2.1 | 4.6 | -8.1 | 11.1 | -1.8 | -5.8 | -10.3 | -15.2 | -12.1 | -11.6 | -2.4 | -7.0 |
| Agricultural raw material and live animals | -12.2 | 0.0 | -0.1 | 2.3 | -0.3 | 0.1 | 3.5 | 1.2 | 2.1 | 3.7 | 3.1 | 9.2 | 6.3 |
| Food and Beverage | 10.8 | 0.0 | 13.8 | 10.3 | 13.9 | 13.8 | 15.0 | 6.3 | 2.4 | 4.2 | 5.6 | 8.2 | 6.9 |
| Fuel | 16.0 | 5.4 | 4.7 | 6.1 | 6.8 | 2.6 | -1.8 | 13.7 | 9.3 | 9.7 | 7.5 | 13.3 | 10.3 |
| Construction material | 10.9 | 5.8 | 7.5 | 4.5 | 9.6 | 5.3 | 10.0 | -0.7 | 1.5 | 2.7 | 2.1 | 6.8 | 4.6 |
| Machinery and equipment | 18.6 | 1.6 | 13.7 | -9.4 | 26.6 | 1.6 | -8.3 | -10.6 | -23.0 | -19.4 | -13.6 | -12.0 | -12.8 |

Source: BOT

Employment declined following a slow economic recovery, while unemployment rose but remained low. In the second quarter of 2014, employment stood at 37.81 million persons, declining by 1.2 percent. Employment in agricultural sector dropped by 391,757 persons or 3.1 percent due to harsh weather condition for plantation and low agricultural product prices. Non-agricultural employment contracted by 61,410 persons or 0.2 percent including: (i) employment in the construction sector decreasing by 152,117 persons or 6.0 percent due to the contraction in public and private construction following the political situation that made investor to decelerate investment, (ii) wholesale and retail trade sector decreased by 177,997 persons or 2.8 percent which was in line with the declines in wholesale trade index and retail trade index of 7.8 and 7.0 percent, respectively, and (iii) hotels and restaurants sector decreased by 35,163 persons or 1.3 percent in line with contractions in hotel and restaurants, and tourist numbers. However, industrial sector's employment increased by 84,397 persons or 1.3 percent, due mainly to higher employment in foods, clothing as well as computer and electronic parts industries.

Average numbers of unemployed persons in this quarter were 385,700 persons, increasing by 97,654 persons from the same period last year. Unemployment rate stood at 1.0 percent.

In the first half of 2014, employment declined by 0.8 percent and unemployment rate was at 0.9 percent.



Employment declined by 1.2 percent owing to declines in agricultural and non-agricultural employment by 3.1 and 0.2 percent, respectively. Unemployment rate slightly increased but remained low at 1.0 percent.

Employed Persons by Industry

| %YOY | 2012 | 2013 | | | | | | | 2014 | | |
|--------------------------------------------|------|------|------|------|-----|------|------|------|------|------|------|
| | Year | Year | H1 | H2 | Q1 | Q2 | Q3 | Q4 | H1 | Q1 | Q2 |
| Employed (100%) | 1.2 | -0.1 | 1.1 | -1.2 | 1.3 | 0.9 | -1.2 | -1.3 | -0.8 | -0.4 | -1.2 |
| - Agricultural (32.6%) | 3.7 | -0.2 | 0.8 | -1.1 | 1.2 | 0.5 | -1.7 | -0.4 | -1.2 | 0.7 | -3.1 |
| - Non-Agricultural (67.4%) | -0.3 | 0.0 | 1.2 | -1.3 | 1.4 | 1.1 | -0.8 | -1.9 | -0.7 | -1.1 | -0.2 |
| Manufacturing (16.9%) | 1.8 | 0.8 | -0.1 | 1.7 | 1.1 | -1.3 | 2.5 | 0.9 | 0.0 | -1.3 | 1.3 |
| Construction (6.3%) | 5.1 | 2.0 | 5.8 | -2.3 | 6.0 | 5.6 | -3.2 | -1.4 | -6.4 | -6.8 | -6.0 |
| Wholesale (16.3%) | -0.7 | 0.2 | 2.9 | -2.5 | 3.5 | 2.3 | -1.2 | -3.7 | -2.2 | -1.6 | -2.8 |
| Hotel and Restaurant (6.8%) | -9.4 | -0.3 | 5.8 | -6.2 | 4.4 | 7.2 | -6.0 | -6.4 | -1.3 | -1.3 | -1.3 |
| Unemployment (Hundred thousand persons) | 2.6 | 2.8 | 2.9 | 2.8 | 2.8 | 2.9 | 3.1 | 2.6 | 3.6 | 3.4 | 3.9 |
| Unemployment Rate | 0.7 | 0.7 | 0.7 | 0.7 | .07 | 0.7 | 0.8 | 0.7 | 0.9 | 0.9 | 1.0 |

Source: National Statistical Office

❑ Fiscal Conditions

On the revenue side, the revenue collection was lower than the target and the same period of last year. In the third quarter of the fiscal year 2014 (April-June 2014) the net government revenue collection stood at 611,514.1 million baht, lower than the target and the same quarter of last year by 4.7 and 13.4 percent respectively. This was mainly due to the reduction in tax collection from both consumption and income tax base following the slowdown of domestic economy. Moreover, the drop in collection also caused by (i) the decrease in personal income tax rates and the tax base's expansion fell short from the target and (ii) the deceleration of excise tax on automotive as domestic demand for automotive shrunk after the end of the first-time-car buyer scheme.

For the first nine months of fiscal year 2014, the net government revenue collection stood at 1,552,635.6 million baht, lower than the forecast and the same period of last year by 4.2 and 6.6 percent, respectively.

Government Revenue

| Fiscal Year (Billion Baht) | 2012 | 2013 | | | | | | | 2014 | | | | |
|-------------------------------|---------|---------|-------|---------|-------|-------|-------|-------|---------|-------|-------|-------|-------|
| | Year | Year | H1 | H2 | Q1 | Q2 | Q3 | Q4 | 9M | H1 | Q1 | Q2 | Q3 |
| Net Government Revenue | 1,975.9 | 2,161.6 | 978.2 | 1,183.4 | 508.5 | 469.7 | 641.8 | 541.6 | 1,552.6 | 941.1 | 503.5 | 437.7 | 611.5 |
| Compared with the target (%) | 4.4 | 9.4 | 20.6 | 1.6 | 27.6 | 13.8 | 3.4 | -0.4 | -4.2 | -3.8 | -1.0 | -6.8 | -4.7 |
| YOY (%) | -0.2 | 2.9 | 10.7 | -2.7 | 16.2 | 5.2 | -1.4 | -4.2 | -6.6 | -1.6 | 2.5 | -6.0 | -13.4 |

Source: Ministry of Finance

On the expenditure side, the total budget disbursement in the third quarter of the fiscal year 2014 (April-June 2014) was at 641,847.2 million baht, increased by 14.4 percent compared to the same period of last year. In detail, the disbursement of current budget was at 435,178.9 million baht (increased by 5.4 percent) and capital budget was at 206,668.3 million baht (increased by 39.6 percent). Furthermore, the budget disbursements classified by source of funding were as follow: **(i) The 2014 annual budget disbursement** in this third fiscal quarter was at 476,772.6 million baht (increased by 5.4) or equivalent to 18.91 percent of total budget, lower than the target of 24 percent. The current expenditure was disbursed at 418,532.1 million baht (equivalent to 20.0 percent of total budget, which was lower than the same quarter of last year). Meanwhile, the capital expenditure was disbursed at 58,240.4 million baht (equivalent to 13.6 percent of total budget, which was 1.0 percent higher than the same period of last year). Although, in order to bolster the domestic economy, there have been ongoing measures to accelerate governmental budget expenditure such as easing of regulation on government procurement, the rate of capital budget disbursement has yet to achieve the target, especially in government units who involved with large-scale projects. The obstacles were such as shortage of contractors, changes in construction design, delay in bidding process and lack of consents of

The revenue collection was lower than the target and the same period of last year.

The total budget disbursement was expanded.

local people over the projects. In addition, the acceleration in budget disbursement of Department of Local Administration, during the past two quarters, led to the significant reduction of its disbursement in this quarter. **(ii) Carry-over budget disbursement** was at 38,017.3 million baht, declined by 4.1 percent from the same quarter of last year (the disbursement rate was equivalent to 12.6 percent). A decline in carry-over budget disbursement was also caused by similar obstacles as mentioned above in the annual budget disbursement. **(iii) Off-budget loans disbursement** was at 3,087.9 million baht, which included Thai Khem Kaeng stimulus package phase II (TKK) of 217.8 million baht, the Development Policy Loan (DPL) of 1,551.8 million baht and the Royal Decree on Investment Loan for Water Resource Management and Future Development of 1,318.3 million baht **(iv) State-owned enterprises' capital budget disbursement (including PTT Public (Limited))** was expected to invest at 123,969.5 million baht, increased by 53,501.2 million baht or by 75.9 percent from the same period of last year. The improvement was largely contributed by the disbursement of PTT Public Limited, State Railway of Thailand, Mass Rapid Transit Authority of Thailand and Electricity Generating Authority of Thailand.

For the first nine months of fiscal year 2014, the public expenditure amounted to 2,205,739.7 million baht, contracted by 0.1 percent compared to the first nine months of last year. The current expenditure disbursement registered at 1,594,206.4 million baht, expanded by 3.3 percent from the same period of last year. Meanwhile, the capital expenditure disbursement registered at 611,533.3 million baht, declined by 7.9 percent from the same period of last year. The decline in capital expenditure disbursement was mainly due to negative spill-over effect from the political situation which had started since the first quarter of fiscal year 2014.

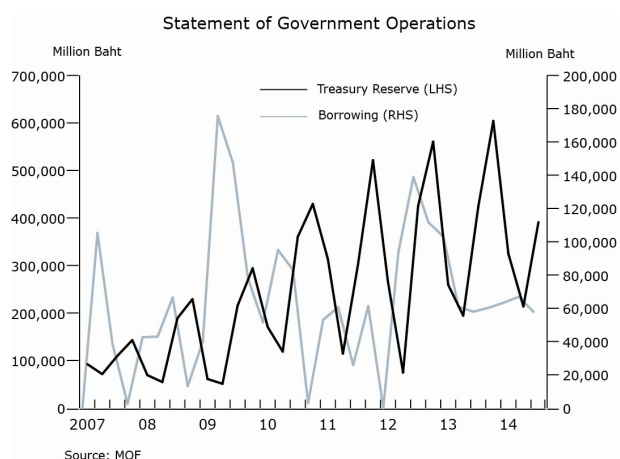
Government Expenditure

| Fiscal Year (Bil baht) | 2013 | | | | | | 2014 | | | |
|-----------------------------------------------------------|----------------|--------------|--------------|--------------|----------------|--------------|--------------|--------------|--------------|----------------|
| | Year | Q1 | Q2 | Q3 | 9M | Q4 | Q1 | Q2 | Q3 | 9M |
| budget disbursement | 2,851.5 | 981.2 | 664.7 | 561.1 | 2,207.0 | 644.6 | 922.6 | 641.3 | 641.8 | 2,205.7 |
| YOY (%) | 6.1 | 70.6 | -21.3 | 6.1 | 12.3 | -12.6 | -6.0 | -3.5 | 14.4 | -0.1 |
| Current Expenditure | 1,996.6 | 675.0 | 455.1 | 413.0 | 1,543.1 | 453.5 | 674.6 | 484.4 | 435.2 | 1,594.2 |
| YOY (%) | 2.5 | 59.0 | -32.3 | 5.8 | 4.4 | -1.7 | -0.1 | 6.4 | 5.4 | 3.3 |
| Capital Expenditure | 855.0 | 306.2 | 209.5 | 148.1 | 663.8 | 191.1 | 248.0 | 156.8 | 206.7 | 611.5 |
| YOY (%) | 15.8 | 103.6 | 21.0 | 6.9 | 36.3 | -30.8 | -19.0 | -25.1 | 39.6 | -7.9 |
| Disbursement excluded Department of local administration | 2,658.6 | 903.9 | 592.5 | 525.8 | 2,022.2 | 636.4 | 784.4 | 601.8 | 624.8 | 2,011.1 |
| YOY (%) | 6.2 | 70.5 | -19.9 | 2.0 | 12.2 | -11.2 | -13.2 | 1.6 | 18.8 | -0.6 |
| 1. Annual Budget | 2,171.4 | 699.8 | 512.8 | 452.5 | 1,665.1 | 506.3 | 760.7 | 482.9 | 476.8 | 1,720.4 |
| Disbursement | 90.5 | 29.2 | 21.4 | 18.9 | 69.5 | 21.1 | 30.1 | 19.1 | 18.9 | 68.1 |
| Disbursement Target (%) | 94.0 | 20.0 | 24.0 | 25.0 | 69.0 | 25.0 | 22.0 | 24.0 | 24.0 | 70.0 |
| Current Budget | 1,894.9 | 641.4 | 422.1 | 402.3 | 1,465.8 | 429.0 | 644.2 | 448.5 | 418.5 | 1,511.3 |
| Capital Budget | 276.6 | 58.4 | 90.7 | 50.2 | 199.3 | 77.3 | 116.5 | 34.4 | 58.2 | 209.2 |
| Disbursement | 68.7 | 14.6 | 22.6 | 12.6 | 49.8 | 18.9 | 27.2 | 8.0 | 13.6 | 48.8 |
| Disbursement Target (%) | 80.0 | 10.0 | 15.0 | 25.0 | 50.0 | 30.0 | 15.0 | 20.0 | 35.0 | 70.0 |
| Disbursement of Department of local administration | 192.9 | 77.2 | 72.2 | 35.3 | 184.7 | 8.2 | 138.2 | 39.5 | 17.0 | 194.7 |
| YOY (%) | 4.9 | 72.7 | -31.3 | 159.9 | 13.1 | -60.0 | 78.9 | -45.3 | -51.8 | 5.4 |
| Disbursement | 87.2 | 34.9 | 32.6 | 15.9 | 83.4 | 3.7 | 58.1 | 16.6 | 7.2 | 81.8 |
| Annual Budget excluded Department of local administration | 1,978.5 | 622.5 | 440.6 | 417.2 | 1,480.3 | 498.1 | 622.5 | 443.2 | 459.8 | 1,525.8 |
| YOY (%) | 0.7 | 57.8 | -29.8 | -1.1 | 2.5 | -4.3 | 0.0 | 0.6 | 10.2 | 3.1 |
| Disbursement | 90.8 | 28.6 | 20.2 | 19.2 | 68.0 | 22.9 | 27.2 | 19.4 | 20.1 | 66.7 |
| 2. Carry-over-budget | 231.0 | 86.2 | 72.7 | 30.8 | 189.7 | 41.1 | 70.3 | 70.5 | 38.0 | 178.8 |
| Current Budget | 95.0 | 31.8 | 30.7 | 10.4 | 72.9 | 22.0 | 29.5 | 34.8 | 16.2 | 80.5 |
| Capital Budget | 135.8 | 54.4 | 42.0 | 20.4 | 116.8 | 19.1 | 40.7 | 35.7 | 21.8 | 98.3 |
| 3. Off-budget loan | 30.6 | 6.4 | 6.7 | 7.3 | 20.4 | 10.2 | 6.0 | 5.8 | 3.1 | 14.9 |
| 4. State-own-enterprise's capital budget | 418.7 | 188.8 | 72.4 | 70.5 | 331.7 | 87.0 | 85.6 | 82.0 | 124.0 | 291.7 |

Source: FPO & GFMIS & NESDB

Fiscal Balance, in the third quarter of fiscal year 2014, the cash balance before debt financing recorded a surplus of 180,426.4 million baht. This comprised of a surplus in budgetary balance of 109,299.5 million baht and a surplus of non-budgetary balance of 10,200.5 million baht. In addition, the government has conducted the cash balance management through borrowing in the amount of 57,727 million baht.

For the first nine months of fiscal year 2014, the government budget balances recorded deficit in budgetary and non-budgetary balances of 340,848 and 60,809 million baht, respectively. Furthermore, the government has conducted the cash balance management through borrowing in the amount of 187,877 million baht (the ceiling for borrowing in the fiscal year 2014 is at 250,000 million baht). Thus, the treasury reserve amounted at 391,282 million baht at the end of the third quarter.



Public debt at the end of June 2014 was accumulated to 5,642,430.04 million baht (equivalent to 46.6 percent of GDP), increased from the last quarter by 0.3 percent. The components of public debt consisted of government debt at 3,933,234.3 million baht (69.7 percent of total public debt), non-financial institution state enterprises debt at 1,084,682.35 million baht (19.2 of total public debt) and financial institution state enterprises debt at 620,861.22 million baht (11.0 of total public debt).

At the end of the third quarter, the treasury reserve amounted at 391,282 million baht.

The Public Debt was still under the fiscal prudential framework.

Public Debt

| End of Fiscal Year (Billion Baht) | 2012 | | | | 2013 | | | | 2014 | | |
|---------------------------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 |
| Public Debt End of Period | 4,297.9 | 4,473.1 | 4,810.0 | 4,937.2 | 4,961.3 | 5,074.0 | 5,209.3 | 5,430.6 | 5,449.8 | 5,550.4 | 5,642.4 |
| Public Debt to GDP (%) | 40.3 | 41.4 | 43.7 | 44.5 | 43.7 | 44.1 | 44.1 | 45.5 | 45.8 | 46.5 | 46.6 |
| Direct Government | 3,088.5 | 3,268.4 | 3,506.3 | 3,515.0 | 3,516.6 | 3,555.6 | 3,642.1 | 3,774.8 | 3,827.1 | 3,919.4 | 3,933.2 |
| Non-Financial State Enterprises Debt | 1,061.0 | 1,035.9 | 1,047.2 | 1,064.3 | 1,072.8 | 1,072.4 | 1,076.2 | 1,113.0 | 1,085.0 | 1,091.9 | 1,084.7 |
| Special Financial Institutions Guaranteed Debt | 148.4 | 162.5 | 246.4 | 352.2 | 364.6 | 437.9 | 490.2 | 541.9 | 536.9 | 532.2 | 620.9 |
| Autonomous Agency Debt (VF&EFO) | 5.5 | 6.8 | 10.6 | 5.7 | 7.3 | 8.1 | 0.8 | 0.8 | 0.8 | 0.8 | 3.7 |

Source: FPO

Financial Conditions

The policy rate was kept unchanged throughout the second quarter of 2014. The Monetary Policy Committee (MPC) held policy rate at 2 percent per annum during the second period of 2014 after reducing the rate in March, 2014. The MPC assessed that the current policy rate remained favorable to accommodate economic growth after political situation had settled and public administration was back on track particularly the preparation of 2015 annual budget. Meanwhile, major countries such as the US, UK, and Japan, continually held its policy

The policy rate was kept unchanged, in line with other Asian countries.

rate at exceptionally low level, except for the EU which reduced the policy rate further during the quarter. Meanwhile, most of the Asian countries kept its policy rate unchanged throughout the quarter except Korea which decided to lower its policy rate, on the 14th of August, by 25 basis points to 2.25 percent per annum. Moreover, on the 6th of August, the MPC decided to maintain its policy rate at 2 percent per annum as the current expansionary monetary policy was mandatory to the recovery of economy and the current inflationary pressure remained in line with expectations.

An average deposit and lending rates of four major commercial banks remained stable relatively to the previous quarter. During the second quarter of 2014, an average 12-month deposit rate of four commercial banks was slightly increased by 10 basis points to 1.85 percent per annum relatively to the previous quarter. The slight adjustment was resulted from a temporarily increase of 12-month deposit rate by one of the major commercial banks during June (the rate was reverted back to its May level in July), while other three major commercial banks held its 12-month deposit rate throughout the second quarter. An average Minimum Loan Rate (MLR) of four major commercial banks remained stable at 6.75 percent per annum, in line with the policy interest rate. Meanwhile, medium commercial banks and Specialized Financial Institutions decreased their average 12-month deposit rate by 0.19 and 0.10 percent per annum to 1.83 and 2.24 percent per annum while kept their MLR unchanged at 7.17 and 6.92 percent per annum, respectively.

Real deposit and lending rates declined from the previous quarter. The real deposit rate decreased from -0.36 percent per annum to -0.50 percent per annum in line with the real lending rate which decreased from 4.64 percent per annum to 4.40 percent per annum. The decline in real deposit and lending rates were mainly due to soaring inflation rate.

An average deposit and lending rates of four major commercial banks remained stable relatively to the previous quarter.

Real deposit and lending rates declined from the previous quarter.

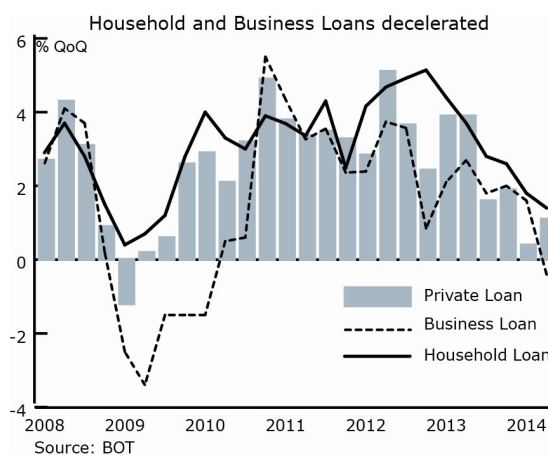
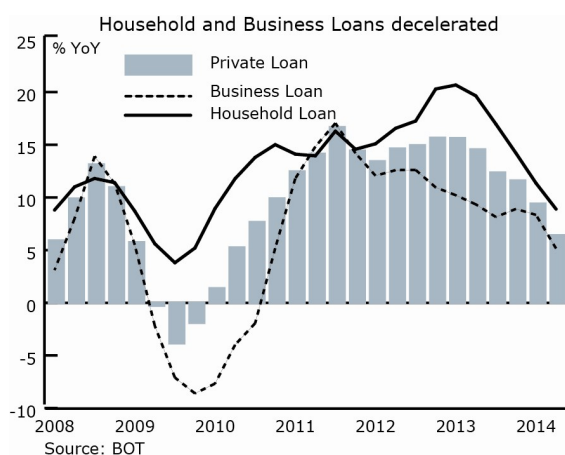
| Interest rate | | | | | | | | | | | | |
|-----------------------------------------------------|-------|-------|-------|----|-------|-------|-------|-------|-------|-------|--------------------------------------------|------|
| Bank | 2012 | 2013 | | | | 2014 | | | | | Interest rate at the end of Jul 2014 | |
| | Year | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Apr. | May. | Jun | | Jul |
| Policy Interest rate | -0.25 | | -0.25 | | -0.25 | | | -0.25 | | | | 2.00 |
| The commercial banks' 12-month deposit rates change | | | | | | | | | | | | |
| Four Major banks | -0.41 | | 0.05 | | -0.27 | -0.49 | 0.10 | -0.02 | | 0.13 | -0.50 | 1.73 |
| Medium Commercial Banks | 0.28 | -0.06 | | | -0.13 | -0.35 | -0.19 | -0.1 | -0.03 | -0.06 | | 1.83 |
| Retail Bank | -0.30 | | | | -0.11 | -0.23 | -0.10 | | -0.10 | | -0.35 | 2.13 |
| The commercial banks' Minimum Loan Rates change | | | | | | | | | | | | |
| Four Major banks | -0.25 | | | | -0.16 | -0.10 | | | | | | 6.75 |
| Medium Commercial Banks | -0.22 | | | | -0.13 | -0.09 | | | | | | 7.17 |
| Retail Bank | -0.12 | | | | -0.12 | | | | | | | 6.92 |

Source: CEIC, BOT

Deposits including Bill of Exchange (B/E) of Commercial Banks expanded by 3.6 percent, decelerated from 6.4 percent in the previous quarter. This was mainly due to the easing competition among financial institutions to increase their deposit following the unfavorable trend of economic condition from both internal and external factors. Moreover, the unattractive deposit rate has caused depositors to shift their savings towards higher yield products particularly mutual funds which exhibited an exceptionally high yields in this quarter. Nevertheless, the deposits are projected to improve in a latter half of the year due to the expectation of higher credits growth once the overall economy start to pick up.

Deposits including Bill of Exchange (B/E) of Commercial Banks merely expanded by 3.6 percent due to changing behavior of depositors.

Private loans (excluding accrued interest) grew by 5.2 percent slowed down from 8.1 percent in the previous quarter, following a decline in both business and household loans. Business loan decelerated to 5.2 percent compared to 8.3 percent in the previous quarter. The deceleration came from the slowdown of loans in all sectors, particularly agricultural and manufacturing sectors, while loans to a financial sector contracted. Similarly, household loan slowed down from 11.4 percent to 8.9 percent, which mainly due to the shrinkage of purchase or hire purchase car and motor-cycle's loans. However, the loans provided for dwelling and education continued to expand at a satisfactory rate. Furthermore, the slowdown of private loan in this quarter was partly due to a higher restriction in loan approval as the concern over economic outlook and the level of household debt rose. Meanwhile, SMEs demand for loan declined. On the other hand, number of credit card issued and credit outstanding moderately expanded. Credit card expenditure registered a growth rate of 8.9 percent, even a high based effect from previous year. The ratio of NPLs to overall loans still remained low at 2.3 percent, however, NPLs in manufacturing, property and construction, auto-finance, and personal loan started to accelerate. In the second half of 2014, private loan is expected to income due to improving investor confidence and investment climate following an unraveled political situation. Commercial bank performance in this quarter posted a profit of 59.8 billion baht increased by 18.2 percent from the same period of last year, mostly owed to the reduction in deposits which raised competition and lowered the burden of reserve requirement.



Excess liquidity of commercial bank system slightly tightened in line with excess liquidity.⁴ Commercial bank's credit (excluding repurchase position: RP) to deposits (including B/E) ratio increased to 102.6 percent relatively to 100.6 percent at the end of last quarter following the decline in deposits in the higher proportion than the private loans. Likewise, excess liquidity declined to 1,251.3 billion baht compared to 1,389.0 billion baht in the preceding quarter.

Thai baht movement in the second quarter was highly fluctuated and largely influenced by the domestic political situation. During the first two months of the quarter, Thai baht depreciated and hit its highest point at 32.86 baht per US dollar as the domestic political tension escalated. However, during late May through June, Thai baht has reversed its course to an appreciation trend based on the political situation which has unraveled and boosted investor confidence toward a recovery of the domestic economy. Thus, an average exchange rate in the second quarter of 2014 stood at 32.45 baht per US dollar, appreciated by 0.65 percent compared with the previous quarter. Nevertheless, Thai baht remained under a depreciation pressure due to the QE tapering measures, thus, Thai baht depreciated by 8.56 percent compared to the same period of last year. For the first half year of 2014, average exchange rate stood at 32.56 baht per US dollar.

Private loans (excluding accrued interest) grew by 5.2 percent slowing down from the previous quarter, following a decline in both business and household loans. However, private loans are expected to improve in the latter half of the year due to expectation of higher demand for loan.

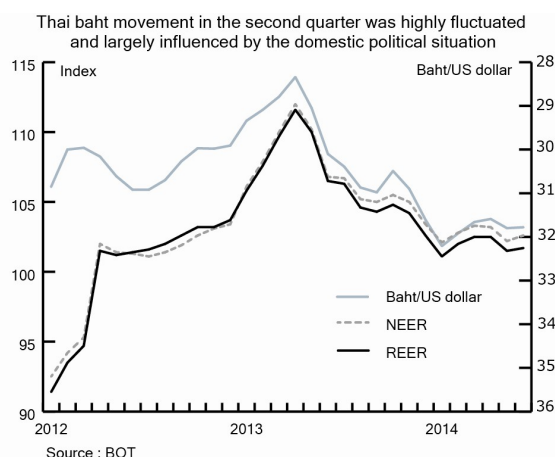
Excess liquidity of commercial bank system slightly tightened in line with excess liquidity declined.

Thai baht movement in the second quarter was highly fluctuated and largely influenced by the domestic political situation.

⁴ Excess liquidity equals to 90 percent of net repurchase position +40 percent of net foreign assets +50 percent of investment in government in government and Bank of Thailand bond.

In July 2014, Thai baht continued to appreciate from the previous month to 32.10 baht per US dollar or appreciated by 1.26 percent. Moreover, average Thai baht during 1st – 15th of July was at 32.10 baht per US dollar.

Thai baht against trading partner's⁵ appreciated compared to the previous quarter and the same period of last year. At the end of the second quarter of 2014, Nominal Effective Exchange Rate (NEER) was at 102.61, appreciated by 0.69 and 3.95 percent compared with the previous quarter and the same period of last year, respectively. Similarly, Real Effective Exchange Rate (REER) appreciated by 0.79 and 4.56 percent compared with the previous quarter and the same period of last year respectively.



Net outflow recorded in capital and financial accounts were significantly declined from the previous quarter. In the second quarter of 2014, capital and financial account registered a net outflow of 0.73 billion US dollars, which significantly dropped from a net outflow of 6.12 billion US dollars in previous quarter owing to the shift from net outflow to net inflow in government and banking sectors and increased in net inflow to central bank. Nevertheless, Thai investors continually increased their investment position abroad, in both direct investment and portfolio investment, in order to gain higher return on investment. Thus, the capital and financial accounts continued to record a net outflow. For the first half year of 2014, the capital and financial accounts recorded a net outflow of 6.85 billion US dollar.

Net outflow recorded in Capital and financial accounts were significantly declined from the previous quarter.

Capital Flow

| (Billion US dollars) | 2013 | | | 2014 | | | | |
|-------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|
| | Year | H1 | H2 | H1 | Q1 | Q2 | May | Jun |
| Capital and financial account | 0.38 | 8.09 | -7.82 | -6.85 | -6.12 | -0.73 | -0.10 | -1.66 |
| Government | 4.53 | 3.95 | 0.58 | -1.19 | -1.50 | 0.31 | -0.14 | 0.15 |
| Monetary Authorities | -4.56 | -0.84 | -3.72 | 0.43 | 0.15 | 0.28 | -0.68 | 0.69 |
| Bank | -0.83 | 3.63 | -4.46 | -1.37 | -3.45 | 2.08 | 1.90 | -0.35 |
| Others | 1.13 | 1.36 | -0.22 | -4.72 | -1.33 | -3.39 | -1.18 | -2.14 |

Source: BOT

⁵ The BOT would begin using the new NEER and REER in March 2013. The base year would be changed to 2012, that the indicators could capture the true structure of trade in line with changing international trade dynamics

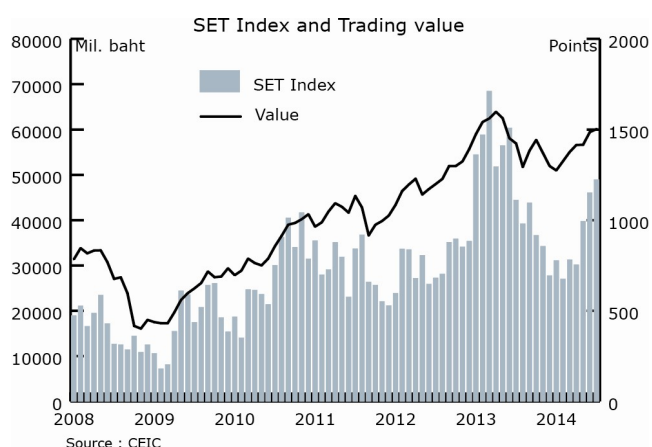
Capital Flow

| (Billion US dollars) | 2013 | | | 2014 | | | | |
|--------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|
| | Year | H1 | H2 | H1 | Q1 | Q2 | May | Jun |
| Capital and financial accounts | 0.38 | 8.09 | -7.82 | -6.85 | -6.12 | -0.73 | -0.10 | -1.66 |
| Direct Investment | 6.17 | 0.86 | -2.17 | 3.03 | 2.50 | 0.53 | 0.61 | -0.55 |
| Thai investor | -6.64 | -3.74 | -2.99 | -3.77 | -0.89 | -2.88 | -0.36 | -1.59 |
| Foreign investor | 12.81 | 4.60 | 8.20 | 6.80 | 3.39 | 3.41 | 0.97 | 1.04 |
| Portfolio Investments | -7.26 | -0.23 | -7.02 | -7.15 | -3.30 | -3.85 | -3.66 | 0.36 |
| Thai investor | -2.76 | -0.93 | -1.83 | -4.83 | -1.64 | -3.19 | -1.16 | -0.52 |
| Foreign investor | -4.50 | 0.70 | -5.19 | -2.32 | -1.66 | -0.66 | -2.50 | 0.88 |
| Loans | 11.18 | 9.44 | 1.34 | -2.01 | -3.53 | 1.52 | 2.40 | -0.89 |
| Other | -9.34 | -1.98 | -7.36 | -0.73 | -1.80 | 1.07 | 0.55 | -1.57 |

Source: BOT

SET index fluctuated in an upward trend throughout the second quarter. In the second quarter, SET index moved in the range of 1,369.6 – 1,493.1 points and closed at 1,376.3 points at the end of quarter, increased by 8.0 percent from the previous quarter, with an average trading value rose to 38.9 billion baht. Foreign investors posed a net sell of 20.2 billion baht following an escalation in political situation during May. However, institutional investors recorded a net buy of 28.0 billion baht as their view over the factors of the unchanged in size of QE tapering measures (10 billion US dollars per month) and maintaining policy rate by the Federal Reserve has outweighed the domestic political situation. Furthermore, during June, foreign investor net sell has significantly dropped according to the fact that the political situation has eased. Thus, overall movement of SET index remained positively in line with regional markets. For the first half year of 2014, SET index increased by 14.4 percent with foreign investors posed a net sale of 41.0 billion baht.

In July, SET index reached the highest point at 1,548.2 points and closed at 1,502.4 points at the end of the month, with an increased in an average trading value to 49.0 billion baht. Foreign investors shifted their position to a net buy of 13.8 billion baht. This reflected improvement in foreign investors' confidence toward the recovery of Thai economy. However, institutional investors recorded a net sell of 15.2 billion baht, partly caused by profit taking action. During 1st – 15th of August, SET index remained volatile following the global economy condition as well as profit taking action by investors to reduce overall investment risk.



Source : CEIC

Bond trading volumes increased following an increase in net buy position of foreign investors. An average daily outright trading volume in the second quarter registered at 87.8 billion baht, increase from 75.2 billion baht in the first quarter. Foreign investors registered a net buy of 69.3 billion baht reverted back from net sell of 0.3 billion baht in the previous quarter, in line with regional markets. As interest rate gap between major countries and regional market remained attractive after Federal Reserve continued to maintain the size of QE tapering measures at 10 billion US dollar per month and kept its policy rate at a low level.

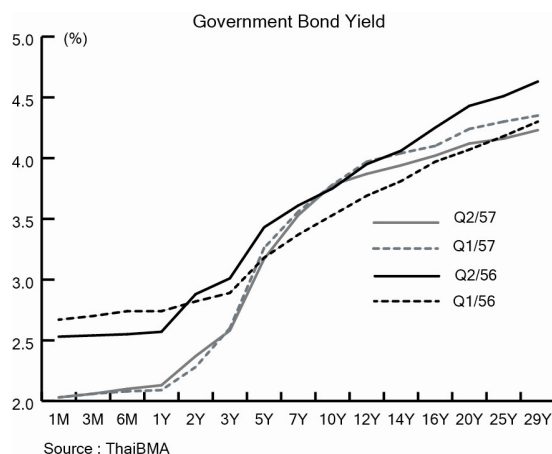
SET index fluctuated in an upward trend throughout the second quarter, in line with the regional market, with main driving force from institutional investors.

Bond trading volumes increased in line with net buy of foreign investors.

Thai government bond yield at the end of this quarter shifted downward, especially in medium and long term maturities

Nevertheless, domestic political situation has also played a role in the foreign investor's position during the quarter as exhibited in May when the political situation escalated, foreign investors posed a net sell of 37.2 billion baht then they shifted to net buy of 64.8 billion US dollar in June after political situation has unraveled. Thai government bond yield at the end of this quarter shifted downward in all maturities, especially in medium and long term maturities. This was a result of the high demand in bond and market expectation over stable Thai's policy rate during the rest of the year. For the first half year of 2014, foreign investors recorded a net buy of 69.0 billion baht.

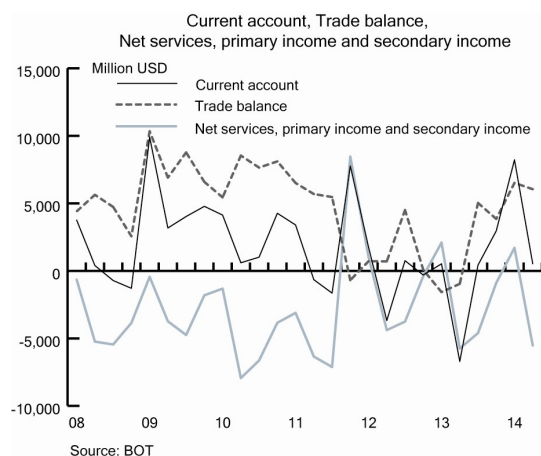
In July, average daily outright trading volume was at 79.3 billion baht, slightly decreased from June. Foreign investors recorded a net buy of 170.2 billion baht from inflow of foreign capital into the market, in line with other regional markets.



Current account in the second quarter of 2014 registered a surplus of 409 million US dollars (13.441 billion baht), compared with a surplus of 8.226 billion US dollars (267.929 billion baht) in the previous quarter. This was a result of a trade surplus of 5,930 billion US dollars and a deficit in services, primary and secondary income of 5,521 billion US dollars.

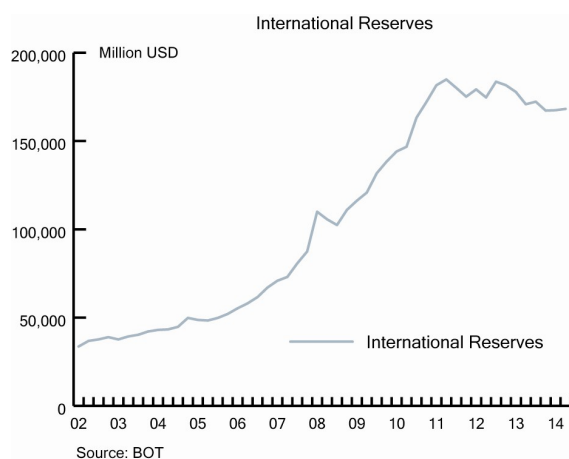
Current account registered a surplus.

In the first half of 2014, Current account registered a surplus of 8.635 billion US dollars (281.370 billion baht), compared with a deficit of 6.153 billion US dollars (182.292 billion baht) in the same period of last year.



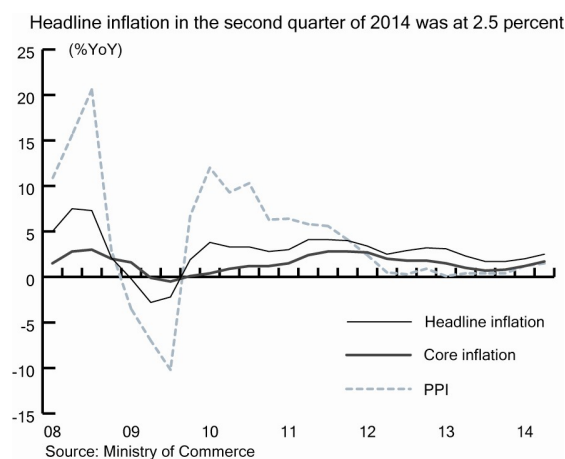
International reserves at the end of June 2014 stood at 168.21 billion US dollars (excluded net forward position of 23.73 billion US dollars), which was equal to 2.8 times of short-term foreign debt (at the end of the first quarter of 2014) or 10.1 months of import values (the average of import values in the second quarter of 2014).

International reserves at the end of June 2014 stood at 168.21 billion US dollars.



Headline inflation in the second quarter of 2014 was at 2.5 percent, accelerating from 2.0 percent in the previous quarter due to an increase in the price of prepared food and energy, especially domestic fuel and electricity. **Food-and-beverage price index** increased by 4.4 percent, accelerating from 4.1 percent in the previous quarter because the price of cooking gas (LPG) has been increased gradually since September 2013 till May 2014, causing an increase in cost and price of prepared food. The **non-food-and-beverage price index** increased by 1.5 percent, compared with 0.9 percent increase in the previous quarter. This was mainly due to increases in fuel prices of household fuel (cooking gas) and in electricity cost which increased per the Ft cost hike of 0.1 baht per unit from May to August 2014. Consequently, the cost of electricity and fuel increased by 5.1 percent, accelerating from 2.6 percent in the previous quarter. The core inflation was at 1.7 percent, compared with 1.2 percent in the previous quarter. In the first half of 2014, the headline inflation and the core inflation rates were at 2.2 and 1.4 percent respectively.⁶

Headline inflation in the second quarter of 2014 was at 2.5 percent, accelerating from 2.0 percent in the previous quarter.



Producer Price Index (PPI) in the second quarter of 2014 rose by 1.5 percent, accelerating from 1.2 percent in the previous quarter, due primarily to the increase in prices of mining and manufactured products. The prices of mining products increased by 11.1 percent, due to increases in prices of Lignite, petroleum & natural gas. The price of manufactured products increased by 1.7 percent, owing to an increase in the price of petroleum products. The price of agricultural products contracted by 0.9 percent. For the first half of 2014, Producer Price Index increased by 1.4 percent.⁷

Producer Price Index (PPI) in the second quarter of 2014 rose by 1.5 percent.

⁶ In July 2014, headline inflation was 2.2 percent while core inflation was 1.8 percent. In the first seven months of 2014, headline inflation was 2.2 percent while core inflation was 1.5 percent.

⁷ In July 2014, Producer Price Index rose by 1.2 percent. In the first seven months of 2014, Producer Price Index rose by 1.4 percent.

2. Crude oil price movement in Q2/2014

The average crude oil price increased from the previous quarter. In the second quarter of 2014, the average crude oil price in the 4 major markets (Dubai, Oman, Brent and WTI) stood at 106.27 US dollars per barrel (a 6.5 percent increase %YOY). This level was higher than the 2013 average price of 103.98 US dollars per barrel and the level of 103.76 US dollars per barrel in the previous quarter respectively.

An increase in crude oil price was due to (i) **global economic recovery**, especially industrial countries whose oil demands increased; (ii) **an increase in Chinese demand** (as the world's second largest oil consumer, accounting for 11.8 percent of global consumption). In the second quarter of 2014, Chinese demand for oil increased by 5.9 percent (%YOY), accelerating from 1.0 percent in the previous quarter; (iii) a **decline of OPEC production capacity** due to political instabilities in Libya, Iraq, and the conflict between Ukraine and Russia, which has caused OPEC production to decline by 0.3 million barrel per day, or a 2.3 percent reduction compared with the same period last year.

In the first half of 2014, the average crude oil price in the 4 major markets (Dubai, Oman, Brent and WTI) stood at 105.01 US dollars per barrel, representing an increase of 2.1 percent compared with the same period last year (%YOY) (at 102.91 US dollars per barrel).

Crude oil price increased from the previous quarter due to global economic recovery, especially industrial countries, and instability in Middle East and the conflict between Ukraine and Russia

Crude Oil Price

| Year | | US Dollar per Barrel | | | | | Growth (%YOY) | | | | |
|------|-----------|----------------------|--------|--------|--------|---------|---------------|-------|-------|------|---------|
| | | OMAN | DUBAI | BRENT | WTI | Average | OMAN | DUBAI | BRENT | WTI | Average |
| 2012 | Q1 | 115.95 | 115.11 | 117.51 | 101.87 | 112.61 | 15.3 | 14.9 | 11.7 | 8.2 | 12.6 |
| | Q2 | 106.36 | 106.3 | 108.84 | 93.43 | 103.74 | -4.3 | -4.0 | -7.1 | -9.0 | -6.0 |
| | Q3 | 106.52 | 106.31 | 109.58 | 92.33 | 103.68 | -0.8 | -0.6 | -2.3 | 2.9 | -0.4 |
| | Q4 | 107.3 | 107.28 | 110.04 | 88.15 | 103.19 | 0.3 | 0.9 | 0.9 | -6.2 | -0.8 |
| | Year | 109.04 | 108.75 | 111.49 | 93.95 | 105.81 | 2.4 | 2.6 | 0.5 | -1.3 | 1.1 |
| 2013 | Q1 | 108.13 | 108.12 | 112.64 | 95.18 | 106.02 | -6.7 | -6.1 | -4.2 | -6.6 | -5.9 |
| | Q2 | 100.73 | 100.64 | 103.56 | 94.27 | 99.80 | -5.3 | -5.3 | -4.9 | 0.9 | -3.8 |
| | Q3 | 106.14 | 106.00 | 109.68 | 105.73 | 106.89 | -0.4 | -0.3 | 0.1 | 14.5 | 3.1 |
| | Q4 | 105.30 | 105.27 | 107.83 | 94.40 | 103.20 | -1.9 | -1.9 | -2.0 | 7.1 | 0.0 |
| | H1 | 104.43 | 104.38 | 108.10 | 94.72 | 102.91 | -4.2 | -4.0 | -3.0 | 0.8 | -2.7 |
| | H2 | 106.49 | 106.40 | 109.51 | 101.68 | 106.02 | -0.4 | -0.4 | -0.3 | 12.7 | 2.5 |
| | Year | 105.08 | 105.01 | 108.43 | 97.40 | 103.98 | -3.6 | -3.4 | -2.7 | 3.7 | -1.7 |
| 2014 | Q1 | 104.39 | 104.26 | 107.90 | 98.47 | 103.76 | -3.5 | -3.6 | -4.7 | 4.3 | -2.1 |
| | Q2 | 106.22 | 106.10 | 109.74 | 103.04 | 106.27 | 5.4 | 5.4 | 6.0 | 9.3 | 6.5 |
| | H1 | 105.28 | 105.17 | 108.79 | 100.79 | 105.01 | 0.7 | 0.7 | 0.5 | 7.0 | 2.1 |
| | Apr. | 105.04 | 104.65 | 108.02 | 101.88 | 104.90 | 3.2 | 3.0 | 4.0 | 10.5 | 5.0 |
| | May. | 105.59 | 105.65 | 109.05 | 101.96 | 105.56 | 5.3 | 5.5 | 5.6 | 7.6 | 6.0 |
| | Jun. | 108.02 | 108.00 | 112.15 | 105.27 | 108.36 | 7.8 | 7.8 | 8.3 | 9.9 | 8.4 |
| | Jul. | 106.10 | 106.08 | 108.23 | 102.40 | 105.70 | 2.8 | 2.8 | 0.8 | -1.9 | 1.1 |
| | 1-14 Aug. | 103.05 | 103.05 | 104.28 | 97.29 | 101.92 | | | | | |

Source: Thaioil PLC

WTI projection in 2014

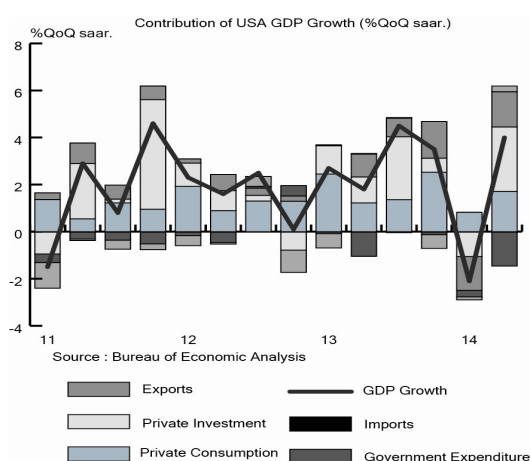
| Institution | WTI Projection (US Dollar / barrel) |
|---------------------------------------------|-------------------------------------|
| Deutsche Bank AG (July 2014) | 102.65 |
| EIA (August 2014) | 100.45 |
| The Financial Forecast Center (August 2014) | 99.80 |
| EIU (June 2014) | 101.00 |

Source: Collected by NESDB

3. World Economy in Q2/2014

The world economy in the second quarter of 2014 improved following the pickup in the US economy which regained strength from the economic recovery after experiencing a contraction in the first quarter due to the harsh winter conditions. It was also contributed by a gradual recovery of the Chinese economy. However, the Japanese economy lost economic momentum after experiencing a contraction in the second quarter due primarily to the consumption tax hike. The Eurozone economic recovery also remained uneven due to recent geopolitical conflicts, a weak domestic demand as well as continued deflationary pressure. As a result of a slow recovery and low inflation pressure, most advanced economies continued to deploy easing monetary policy to further accommodate the economy.

- ❑ **US economy** in the second quarter, the growth rate improved to the satisfactory rate at 4.0 percent (%QoQ saar.) compared with the contraction of 2.1 percent in the previous quarter. Compared with the same period of last year, the economy expand by 2.4 percent (%YoY), up from 1.9 percent in the first quarter which led to an average 2.2 percent growth in the first half of 2014. After experiencing the economic contraction in the first quarter due to temporary unusual winter, the economic expansion in the second quarter picked up strongly led by the acceleration of private domestic demand, particularly the private consumption in durable goods and the accumulation of industrial inventory. The ISM indices also reflected the recovery in production. Likewise, the labor market also showed an improvement. The unemployment rate in June decreased to 6.1 percent, the lowest rate since September 2008. Similarly, the weekly initial jobless claim dropped below 350,000 people for the first time since 2008. Meanwhile, the inflation rate was at 2.1 percent, increased from 1.4 percent in the previous quarter owing to rising energy price. As a result of the continuation of economic recovery and improvement of labour market, the Federal Reserve gradually tapered the QE measure. The FOMC meeting on 29th – 30th July 2014 had decided to further taper the QE measure to 25 billion US dollars per month before the program end in October. Moreover, the Fed confirmed that the interest rate would be maintained at low levels of 0 – 0.25 percent to support economic growth.



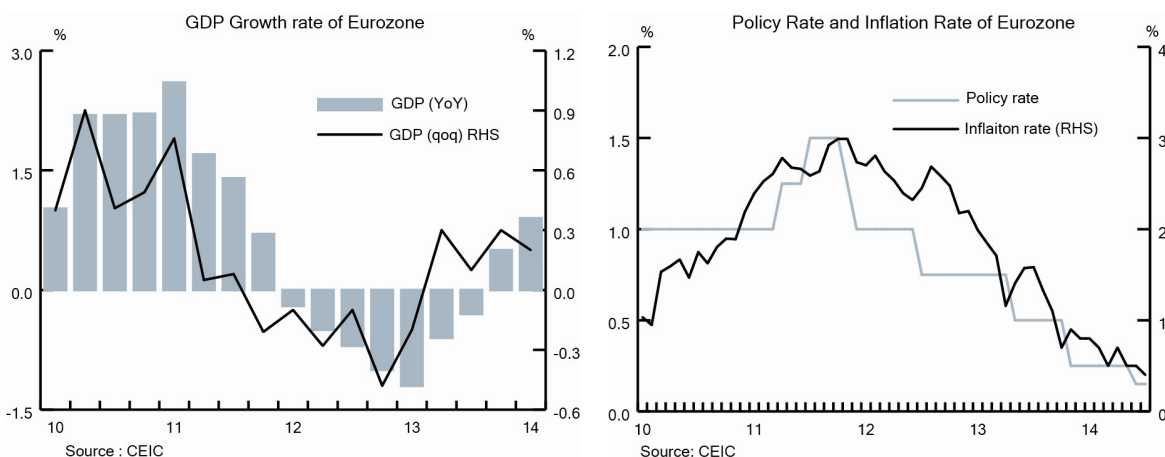
- ❑ **Eurozone economy** stalled with a zero growth in the second quarter of 2014, decelerated from the expansion of 0.2 percent (%QoQ sa) in the previous quarter. This was mainly due to the contraction of the German economy which decreased by 0.2 percent, the first contraction in 6 quarters. Moreover, the Italian economy also contracted by 0.2 percent and the French economy stagnated for two consecutive quarters. In year-on-year basis, the Eurozone economy grew by 0.7 percent (%YoY) slowing down from 0.9 percent in the first quarter. As the result, the Eurozone economy in the first half of 2014 increased by only 0.8 percent. The slowdown in the economy in this quarter was a result of the deceleration of production in the industrial sector affected by the conflict between Russia and Ukraine. Furthermore, the domestic demand

World economy in the second quarter improved due to the acceleration of US and Chinese economies. However, Eurozone and Japanese economies decelerated.

US economy in the second quarter grew by 4.0 percent (%QoQ saar.) compared with the contraction of 2.1 percent in the previous quarter due to the acceleration of private domestic demand after the slowdown during the extreme cool weather in first quarter.

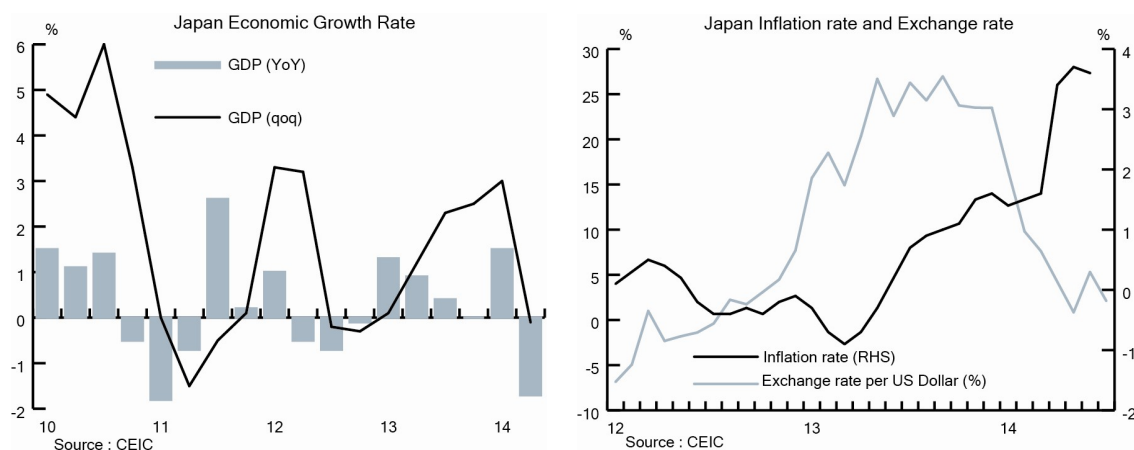
The Eurozone economy stalled in the second quarter compared to an expansion of 0.2 percent in the previous quarter due to the contraction of German economy.

was recovering sluggishly due to the remaining high unemployment rates at above 10 percent for 30 consecutive months. The inflation rate remained low at 0.6 percent which had been below 1.0 percent for 3 consecutive quarters. Therefore, the ECB further maintained the policy rate at a low level of 0.15 percent and the deposit rate at -0.10 percent.



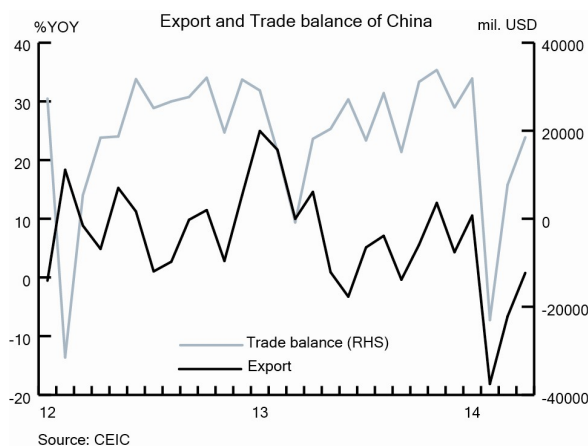
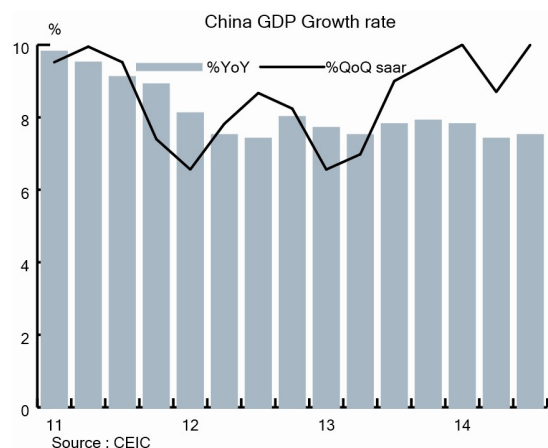
❑ **Japanese economy** in the second quarter contracted by 0.1 percent (%YoY), compared to the expansion of 3.0 percent in the first quarter. On quarter-on-quarter basis, Japanese economy declined by 1.7 percent (%QoQ sa), the hardest contraction since the earthquake in the first quarter of 2011. The plunge was a result of the consumption tax hike in April 2014 which made the spending accelerated in the first quarter. The Manufacturing PMI stood at 50.3, down from 55.2 in the first quarter. Domestic consumption also decreased by 2.5 percent in the second quarter. Meanwhile, the private fixed asset investment reduced dramatically especially the private residential investment. Export sector also decelerated. However, the unemployment rate decreased to 3.7 percent, the lowest level in 7 years. The inflation rate hit the highest point in 23 years at 3.6 percent due to the tax hike, the stimulus measures in the previous period, and the continuing accommodative monetary policy. Moreover, the Monetary Policy Committee meeting on 15th July 2014 decided to maintain the expansionary monetary policies by raising money base and continuing the asset purchasing program. For exchange rate, the Japanese Yen became stable after a continual appreciation since the beginning of 2014.

Japanese economy declined by 0.1 percent (%YoY) mainly due to the consumption tax increase.



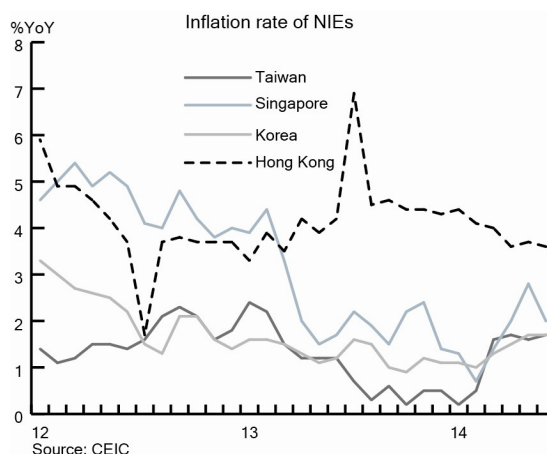
- ❑ **Chinese economy** in the second quarter grew by 7.5 percent (%yoy), accelerated from 7.4 percent in first quarter. In quarter-on-quarter basis, the Chinese economy expanded by 2.0 percent (%qoq) compare to 1.5 percent in the previous quarter. This acceleration was mainly due to more robust domestic demand expansion. In particular, retail sale grew by 12.3 percent accelerated from the first quarter. The fixed asset investment also enhanced due to the public spending on infrastructure and industrial investment. Moreover, in the second quarter export showed the first expansion of 4.9 percent after contracting in the previous quarter, while the imports decelerated. Consequently, trade surplus increased to the highest level in the 5 years. Besides, the inflation rate slightly declined to 2.2 percent in the second quarter due to softened prices of food and construction materials.

Chinese economy in the second quarter grew by 7.5 percent slightly accelerated from 7.4 percent in the previous quarter.

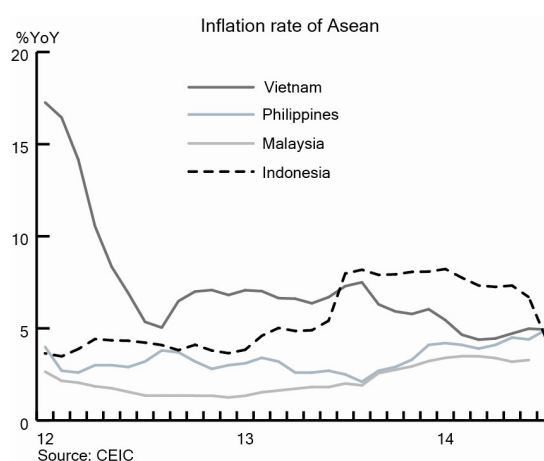
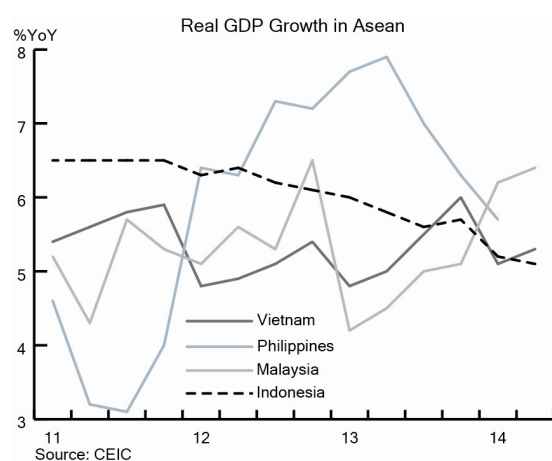


- ❑ **Newly Industrial Economies** in the second quarter of 2014; the Taiwanese economy grew by 3.8 percent, compared to 3.1 percent in first quarter due to an acceleration of private consumption and export sector. The Korean, Singaporean, and Hong Kong economies expanded by 3.6, 2.1, and 1.8 percent respectively, decelerating from 3.9, 4.7, and 2.6 percent in the first quarter. The slowdown of the Korean economy was resulted from a slowing in construction, manufacturing as well as gross fixed capital formation and private consumption. Meanwhile, the slowdown of the Singaporean economy was due to the slowdown in manufacturing, construction and service sectors. The Hong Kong economy also experienced a slower growth following a weaker manufacturing PMI index in the first quarter. Meanwhile, the unemployment rate stood at 3.2 percent, increasing from 3.0 percent in previous quarter. The inflation rate climbed up in all countries following rising food price and transportation cost except Hong Kong.

World Economy in 2014 is likely to expand by 3.3 percent accelerated from 3.0 percent in 2013 however this was revised down from the previous projection due to the downward revision of US and Asian economic growths



- **ASEAN economy** in the second quarter, the economies of Vietnam and Malaysia grew by 5.3 and 6.4 percent respectively, speeding up from 5.1 and 6.2 percent in the first quarter. The Vietnam's economic growth was stronger in the second quarter due to an improvement of service sector and a robust export growth of 15.7 percent. Similarly, the Malaysian economy accelerated, driven mainly by the private consumption and investment, as well as the healthier export sector that followed the global recovery. Meanwhile, the Philippines economy is expected to grow well in line with the higher remittances which drove the expansion of household consumption. Nevertheless, the Indonesian economy faced with a slightly slowdown from 5.2 percent in the first quarter to 5.1 percent in the second quarter, mainly due to falls in export growth and government spending. However, the domestic demand continued to expand, with more stable Indonesian Rupiah and subdued inflation.



GDP and Export growths in NIEs and ASEAN economies

| | GDP Growth | | Export Growth | | | | |
|--------------|------------|-------|---------------|-------|-------|------|------|
| | Q1/14 | Q2/14 | Q1/14 | Q2/14 | April | May | June |
| NIEs | | | | | | | |
| Hong Kong | 2.6 | 1.8 | 0.6 | 4.9 | -1.5 | 5.1 | 11.5 |
| South Korea | 3.9 | 3.6 | 1.7 | 3.3 | 8.9 | -1.4 | 2.5 |
| Singapore | 4.8 | 2.4 | 5.0 | 2.4 | 4.2 | -1.4 | 4.6 |
| Taiwan | 3.1 | 3.8 | 1.2 | 3.7 | 8.4 | 2.1 | 0.9 |
| Asean | | | | | | | |
| Indonesia | 5.2 | 5.1 | -2.5 | -2.5 | -3.2 | -8.1 | 4.5 |
| Malaysia | 6.2 | 6.4 | 3.6 | 8.4 | 11.2 | 8.6 | 5.4 |
| Philippines | 5.7 | n.a. | 6.9 | 9.7 | 1.3 | 6.9 | 21.3 |
| Vietnam | 5.1 | 5.3 | 12.2 | 15.7 | 30.3 | 6.3 | 12.4 |

Source: CEIC

4. World Economic Outlook in 2014

The World Economy in 2014 is expected to grow by 3.3 percent from an expansion of 3.0 percent in 2013, despite a slight adjustment from the previous forecast, due primarily to the downward revision of the US and other major economies in Asia. The Chinese economy is still expected to slow down from the previous year. Meanwhile, the Japanese economy is likely to regain momentum and grow faster than previously forecasted. The economies of the Eurozone tend to recover gradually from the continuing contraction during 2012-13. The revised down projection of the world economic growth was a result of the lower-than-expected growth rates in several key economies in the first half of the year. This is particularly the case for the US economy which was affected by unusual winter in the first quarter. Nevertheless it has rebounded to a stronger growth in the second quarter, and is likely to grow continuously in the second half of the year. Likewise, the Eurozone economy had been affected by the dispute in Ukraine, leading to a sluggish recovery of the economy and the slowdown in the second quarter. The Eurozone economy is however expected to improve in the second half of the year supporting by easing monetary policy, better confidence, as well as the wane of the tightened fiscal measures following more progress on the economic reforms. Moreover, the Japanese economy is expected to gain momentum and expand at a faster pace after experiencing the contraction in the second quarter due to tax hike. As the result of all conditions, the world economy is expected to have a clear sign of recovery in the second half of the year, even though at a slow pace. Nonetheless, the conflict in Ukraine and the Ebola outbreak are still the main concerns for many major economies, which need to be closely monitored.

- ❑ **US economy** in 2014 is likely to expand by 2.0 percent, comparing with 1.9 percent in 2013. This projection was revised down from 2.8 percent in the previous forecast due to the higher-than-expected contraction in the first quarter, which was a result of the temporary factors, namely the inventory rundown during the harsh winter period and the slowdown in net export. However, the economy in the second quarter rebounded to 4.0 percent growth (%QoQ saar) compared with 2.1 percent contraction in the first quarter. Consequently, in the second half the US economy tends to recover stronger than the first half of the year, as indicated by the economic indicators in July that show the ongoing recovery in private consumption and investment thanks to the improvement in employment, as well as rising consumer confidence index to reach the highest point since 2007. Moreover, expansionary monetary policy also supports the recovery as the interest rates were maintained at low level at 0 – 0.25 percent further for a period of time at least until the first half of 2015. Furthermore, in the second half of the year, the export sector is likely to improve in line with a pickup in the world economy.
- ❑ **Eurozone economy** in 2014 is forecasted to grow by 1.0 percent, unchanged from the previous forecast. The growth is higher than 0.5 percent in 2013 suggesting a gradual recovery from the recession in the first quarter. The supporting factors include a continued easing monetary policy, a robust export performance due to the world economic recovery, a lower real wage which benefits more price competitiveness, as well as an improvement in consumer confidence. However, the economic growth still has some risks on the fragile stability conditions, with rising unemployment rate, low inflation, and high government and private debts as well as tighter credits for businesses. Moreover, the economy has some risks from the crisis in Ukraine, where there is still no clear solution between different parties. Moreover, on the 7th August 2014, Russia announced the food embargo on food imports from the EU, the USA, Australia, Canada and Norway for one year in response to additional sanctions over Russia by those countries.

- ❑ **Japanese economy** in 2014 is likely to expand higher than previously projected. The economy is expected to grow by 1.4 percent, slightly lower than 1.5 percent in 2013. The upward revision was due to outperformed economic indicators in the first quarter. Meanwhile, the impact of the consumption tax hike to economic growth in the second quarter was lower than expected and is expected to have only a temporary impact on the economy. In addition, recent economic indicators in June and July indicated that the economy is likely to recovery in the latter half of the year due to the economic stimulus measures which could offset an economic slowdown in the first half as well as quantitative easing policies by maintaining the policy rate at 0-0.1 percent and the continual expansion of monetary base.
- ❑ **Chinese economy** in 2014 is expected to grow by 7.4 percent, slowing from 7.7 percent in the previous year due to a deceleration of investment in industrial, real estate and construction sectors in response to the economic reform package aiming to a more balanced economy. However, the economic growth in the second quarter accelerated from the first quarter, which indicated that the government still emphasized on stimulating the economic growth and employment by introducing the economic stimulus measures, for example the public infrastructure investment, as well as the tax measure to support the small and medium enterprises until the end of 2016, which will further support the economic growth. In addition, it is expected that exports will expand more robustly in the latter half of the year, in tandem with the global recovery. Moreover, the Renminbi depreciation since the beginning of the year will help boosting the export growth.
- ❑ **NIEs economies** in 2014 tend to recover. The Korean and Taiwanese economies are expected to expand by 3.8 and 3.8 percent respectively, accelerating from 2.3 and 2.1 percent in 2013. The recovery will be driven mainly by the export sector, which is supported by the recovery in the world economy and improvements in the domestic demand in each country. However, the Korean economy may encounter with household debt problem, which will dampen private consumption. Nevertheless, the Singaporean economy is expected to expand by 3.4 percent in 2014, slower from 4.1 percent in the previous year by the slowdown in the service sector. The Hong Kong economy is also expected to grow by 2.5 percent in 2014, which is the same as the previous year, as a result of a slower-than-expected rate for household spending in the second quarter.
- ❑ **ASEAN economy in 2014.** The economies of Indonesia, the Philippines and Vietnam are expected to slow down owing to weaker domestic demands, while the Malaysian economy is expected to speed up. The Indonesian economy is expected to grow by 5.4 percent, slower from 5.8 percent in 2013 due to a slowdown of the domestic demand following the tightened monetary and fiscal policies. However, the Indonesian economy has a tendency to improve in the latter half of the year once the policies from the new government become more settled. Moreover, the Philippines economy is expected to grow by 6.0 percent, slowing down from 7.2 percent in 2013, due to the tightening of monetary policy by raising the policy rate in order to curb with higher inflation rate. The Vietnamese economy is expected to grow by 5.3 percent, slower from 5.4 percent in 2013, due partly to the territorial dispute in the South China sea between Vietnam and China that is likely to impact the export sector. The Malaysian economy is expected to grow by 6.3 percent, a considerable acceleration from 4.7 percent growth in 2013, fueled by the expansion of domestic demand. In addition, the export sector continues to improve following the recovery of the world economy. Meanwhile, the inflationary pressure tends to subside after the central bank raised the policy rate.

5. The Thai Economic Outlook for 2014

The Thai economic growth in 2014 is forecasted to grow in the lower bound of the earlier projection released on 19th May 2014 due to a contraction of 0.1 percent in the first half of the year. Despite improving sentiment and higher budget disbursement as a result of easing political tension which supported a recovery of domestic demand, the economic growth in the latter half of the year will face some constraints namely (1) a slow pickup of the global economy which may limit the export growth performance, (2) a slow recovery of the tourism sector in the first half of the year amid increasing competition of the global tourism market, (3) low capacity utilization and a delay in investment projects' approval process in the first half of the year, and (4) an adjustment to the normal trend of car sales and production which further remained a limitation for an economic recovery.

Such factors are likely to make the economy in the second half of the year expand lower than its potential. Meanwhile, the economic stability remained favorable with subdued inflation and a surplus in trade and current account. Supporting, factors and risk factors associated with the economic growth in 2014 are as follows:

□ Supporting factors

- 1) **Government expenditure** has improved due to easing political tensions which turned the government budget disbursement back to the normal operation, and also being able to accelerate the disbursement in order to support the economy in the last quarter of FY2014. The budget disbursement rate of FY2014 is expected to be approximately 91.3 percent, increasing from 90.4 percent in the FY2013. Moreover, it is expected that the formulation of the annual budget disbursement for FY2015 can be completed and be able to announce as scheduled, and thus further help stimulate the economy. Moreover, there should be an acceleration of the government investment projects, especially in transport infrastructure projects that can be implemented within 2014. Therefore, these lead the budget disbursement in 2014 to be higher than previously expected.
- 2) **Better consumer and business sentiment.** The improved political climate in Thailand since the end of May, had led the government administration to function as normal and thus the government policies became more concrete and clearer in their directions, hence the consumer confidence index started to improve in July, after reducing continually since April 2013. The Consumer Confidence Index about the overall economic situation increased from 57.7 in April to 60.7, 65.3 and 68.5 in May, June and July respectively, which is the peak in past 11 months. In addition, the Business Sentiment Index increased to 48.0 in June, though still below 50. As a result, the improvement in confidence has a tendency to accelerate the private expenditure in the second half of the year.
- 3) **Crude oil prices and inflation remain subdued**, which are driven by (1) stable crude oil prices despite some fluctuations in the short period due to the distress caused by the political unrests in the major oil production countries, (2) the ceiling price setting policy for fuel and LPG prices which thus limit the transmission impacts on domestic prices, and (3) the slow recovery of domestic demand which suggests that the inflation rate in the second half of the year will remain low and will be accommodate the monetary policy in order to facilitate the economic recovery.

Key supporting factors for the economic growth are as follows: (i) the improvement of political stability boosting the government expenditure, (ii) recovery of consumer confidence and business sentiment, and (iii) low inflationary pressure

❑ Risk factors and limitations

- 1) **Export growth remains limited due to a slow recovery of the global economy and softened export price.** Although the export acceleration in the latter half will be supported by the global economic recovery, the export growth will be faced with some limitations which are (i) the sluggish recovery of the global economy due mainly to the lower than expected growth of US economy as well as the slow economic recovery of Japan and the Eurozone, and (ii) the declining trend of export prices in the second half due to mounting production and stocks of agricultural products in the global market.
- 2) **Private investment is likely to recover at a slower pace** due to (i) low capacity utilization rate at 59.5 percent in the second quarter which was the lowest rate in 10 quarters, and (ii) declines in net applications and approval for investment promotion by the Board of Investment (BOI) since the latter half of 2013. In particular, the investment values of applications and approval projects in the first half of 2014 dropped by 43.7 and 58.9 percent respectively. Despite the appointment of the new BOI board on 6th June 2014, the approval process remains slow. Despite the fact that the approval process is expected to accelerate in the second half of the year, it is required a couple months to complete legal procedures before the project can start operations and thus really stimulate the economy.
- 3) **Number of inbound tourist in 2014 is likely to be lower than previous year due to the domestic political unrests in the first five months.** While, several countries have announced the warning alert for their citizens travelling to Thailand which affects the travel insurance coverage for tourists travelling to Thailand. For the first half of the year, the number of inbound tourists in 2014 was 11.8 million persons declining from 13.1 million persons in the same period of 2013. Despite the improved domestic political situation since the end of the second quarter and the establishment of the tourist fund for insurance coverage, so called Thailand Travel Shield, the tourism sector in the second half tends to experience with sluggish recovery due to several factors including: (i) the number of countries which announce the warning alert in August still remained at 60 countries, though declining from 66 countries warning in June, (ii) the intense competition which offers more destination alternatives for tourists. Japan is one of the top tourist destinations due partly to its recent tourists' visa exemption and depreciation of Japanese Yen as well as several low-cost airlines, and (iii) long-distance tourists may be affected by the Ebola outbreak in which that they will become more cautious on their traveling routes.
- 4) **The contraction of car sales and production from high base** continued to deter the manufacturing production. In the first half of 2014, passenger cars sales and production declined by 44.4 and 24.1 percent respectively which led to declines in private consumption and manufacturing production in the first half. This is also in line with the reduction in production's target in 2014 from 2.4 to 2.2 million units owing to the decline in car production for domestic sales from 1.2 to 1 million units while still maintaining the production for export at 1.2 million units. However, the car production in the first half of 2014 remained at 964,968 units, dropping by 24.1 percent. It is also likely that the production will continue to decline in the third quarter. Therefore, there is possibility that the annual production will be below the target which will dampen the overall economy.

Risk factors and limitations: (i) Sluggish global economic recovery and stagnated export price limit the export expansion. (ii) Private investment recovered slowly. (iii) Number of inbound tourists tends to be lower than previous year, and (iv) automobile production declined sharply from the high-base.

□ Economic projection in 2014

The Thai economy in 2014 is forecasted to grow in the range of 1.5 - 2.0 percent, compared with 2.9 percent growth in 2013. The headline inflation is expected to be between 1.9 - 2.4 percent, compared with 2.2 percent in 2013 and the current account is likely to record a surplus of 2.6 percent of GDP, improving from a deficit of 0.5 percent in 2013.

According to the press released on the 18th August 2014, Office of the National Economic and Social Development Board (NESDB) revised the economic projection to 1.5-2.0 percent, down from 1.5 - 2.5 percent in the previous projection released on 19th May 2014. The justifications of the revision are as follows:

- 1) In the second quarter of 2014, the Thai economy expanded by 0.4 percent less than 0.8 percent, the mid-point growth of the second quarter projected in the previous projection of 1.5-2.5 percent. Together with the contraction of 0.5 percent in the first quarter of 2014, the Thai economy in the first half of 2014 experienced a contraction of 0.1 percent. The lower-than-expected growth in the second quarter of 2014 and the contraction of the economy in the first half of 2014 suggested less possibility that the economy in 2014 can achieve higher than 2.0 percent growth.
- 2) Despite the fact that improving domestic political situation has brought about healthier household confidence and the return-to-normal budgeting process and the speed up in budget disbursement will result in the pickup in domestic demand in the second half of the year, together with increasing trend of export performance, the economic recovery in the second half of 2014 however may face with several limitations including a slow recovery of the global economy and domestic private investment, reduced number of tourists, and the high-base effect of passenger car sales and production. Under such conditions, therefore, key assumptions of the economic projection were revised as follows:
 - 2.1) A downward revision of the global economy and trade volumes from the growth rate of 3.4 and 4.2 percent in the previous assumption to 3.3 and 4.0 percent, respectively. The revision has been made due mainly to the slower-than-expected recovery of US and many Asian economies, which in turn lower the demand for export goods than previously assumed.
 - 2.2) A downward revision of the inbound tourist numbers from 27 million persons in the previous projection to 25.7 million persons. The revision due to the fact that (i) the inbound tourists in the first six months were only 11.8 million persons, lower than 13.1 million persons over the same period of last year, (ii) number of countries that maintain their warning alerts for their citizen traveling to Thailand still remained at 60 countries in August, slightly declining from 66 countries in June, and (iii) the tourist confidence remained distress as a result of the exemption of travel insurance from foreign insurance companies, while the introduction of Thailand Travel Shield (a new tourism insurance coverage scheme) has been underway, and (iv) changing tourist destinations to countries with visa exemption, as well as countries with currency depreciation, and low cost airline route provision.
 - 2.3) A downward revision of the export price from the growth rate of (-1.0) – 0.0 percent in the previous assumption to (-1.5) – (-0.5) percent following a contraction of 1.3 percent in export price in the first half year. Furthermore, there is still no clear sign of recovery in the latter half especially prices of agriculture product that experienced high global stocks and rising supplies in major production countries. Import price is expected to expand in the range of (-1.0) – 0.0 percent, remaining unchanged from the previous assumption. Average import price in the first half of 2014 declined by 0.8 percent.

Thai economy is expected to expand by 1.5 – 2.0 percent. Inflation rate tends to be in the range of 1.9- 2.4 percent and current account is likely to record a surplus of 2.6 percent of GDP.

- 2.4) The assumption revision on the budget disbursement due to following facts: (i) the upward revision of the FY2014 budget disbursement rate to 91.3 percent from 90.4 percent in the previous assumption (the disbursement rate of the first 10 months of FY2014 was 75.6 percent). The revision is due to more stable political situation and faster-than-expected public administration, and (ii) the revision of budget disbursement in the first quarter of FY2015 from the previous assumption to be back to normal budgeting process and can be promptly disbursed at similar rate as in the first quarter of the FY2013 at 30.1 percent in order to stimulate the economy.
- 2.5) Passenger car production in 2014 is expected to be around 1.98 – 2.05 million units. In particular, the car production in the last quarter of 2014 will not be lower than those in the same period of 2013 and the domestic car sales in the third quarter is likely to decrease by 20 – 30 percent before growing in the last quarter.

Projection Assumption

| | Actual Data | Actual Data | Projection of 2014 | |
|------------------------------------|-------------|-------------|--------------------|-----------------|
| | 2012 | 2013 | May 19,2014 | Aug. 18,2014 |
| World Economic Growth (%) | 3.2 | 3.0 | 3.4 | 3.3 |
| USA | 2.2 | 1.9 | 2.8 | 2.0 |
| EU | -0.6 | -0.4 | 1.0 | 1.0 |
| Japan | 2.0 | 1.5 | 1.2 | 1.4 |
| China | 7.8 | 7.7 | 7.4 | 7.4 |
| World Trade Volume (%) | 2.8 | 3.0 | 4.2 | 4.0 |
| Exchange Rate (Baht/US dollar) | 31.1 | 30.7 | 32.0 - 33.0 | 32.0 - 33.0 |
| Dubai Crude Oil (US Dollar/Barrel) | 108.8 | 105.0 | 102.5 - 107.5 | 102.5 - 107.5 |
| Export Price (US Dollar) (%) | 0.6 | -0.5 | (-1.0) - 0.0 | (-1.5) - (-0.5) |
| Import Price (US Dollar) (%) | 1.6 | -2.1 | (-1.0) - 0.0 | (-1.0) - 0.0 |
| Tourist (Million Person) | 22.4 | 26.7 | 27.0 | 25.7 |
| Car production (Million Units) | 2.38 | 2.36 | 2.2 | 1.98 - 2.05 |

Source: NESDB

❑ Components of the Economic Growth in 2014

- 1) **Total consumption is projected to grow by 1.3 percent**, accelerating from 1.1 percent in 2013 and upwardly revised from 1.0 percent in the previous estimation. This is due to an upward revision of government expenditure from 1.8 percent to 3.7 percent in line with an adjustment of disbursement assumption of the FY2014 budget and the first quarter of FY2015 budget. Meanwhile, private consumption growth is projected to be 0.8 percent, unchanging from earlier projection.
- 2) **Total investment is expected to contract by 2.0 percent**, compared with 2.0 percent contraction in 2014 and a contraction of 1.3 percent in the previous estimation. Private investment is expected to contract by 2.9 percent, slightly lower than a 2.8 percent contraction in 2013, a downward revision from a contraction of 0.2 percent in the previous forecast. This revision is due to slower-than-expected overall economy, low capacity utilization rate in the second quarter, and the reduction in the approval projects for investment promotion in the first half of 2014. On the contrary, public investment is expected to grow by 1.0 percent improving from a contraction of 5.0 percent in the previous projection. The upward revision is in line with the adjustment of the disbursement assumption and the budget acceleration in the first quarter of FY2015 budget.

- 3) **Export value of goods in US dollar term is likely to grow by 2.0 percent**, improving from the contraction of 0.2 percent in 2013 but downwardly revised from 3.7 percent in the previous estimation. The downward adjustment is mainly due to (i) the revision in export price assumption from a contraction of 1.0 – 0.0 percent in the earlier estimation to 1.5 – 0.5 percent in this forecast, (ii) a lower-than-expected export growth in the first half of the year, and (iii) the downward revision of the world economy and trade volume growth from 3.4 and 4.2 percent to 3.3 and 4.0 percent, respectively which dampen down export volume to expand by 3.0 percent compare with 4.2 percent previously estimated. Together with a downward revision of the number of tourists from 27.0 million persons to 25.7 million persons, export volume of goods and services is thus likely to expand by 1.7 percent down from 3.6 percent in the previous projection.
- 4) **Import value of goods in US dollar term is forecasted to contract by 4.9 percent**, worsened from a contraction of 0.5 percent in 2013 and a growth of 0.5 percent in the previous projection. The downward revision is mainly due to (1) lower-than-anticipated import value of goods, and (2) the downward revision of export and investment which suggest lower demand of raw materials and semi-finished products as previously assumed. Similarly, import volume of goods is downwardly revised to 4.4 percent from a contraction of 1.0 percent in the preceding projection. Together with the adjustment in import of services and the downward revision of economic growth, import volume of goods and services is projected to contract by 3.1 percent lower from the contraction of 1.3 percent in the previous projection.
- 5) **Trade balance and current account**: Trade balance is likely to register a surplus of 21.8 billion US dollars compared with a surplus of 6.7 billion US dollars in 2013, and is higher than the previous projection of about 13.6 billion US dollars. While, current account is expected to register a surplus of 9.9 billion US dollars compared with a deficit of 2.5 billion US dollars in 2013 and increased from a surplus of 1.9 billion US dollars in the previous projection. This owes to a more rapid downward adjustment of import value than a downward adjustment of export value.
- 6) **Headline inflation** is estimated to lie in the range of 1.9 - 2.4 percent, compared with 1.9 - 2.9 percent in the previous forecast. This adjustment is based on the fact that the headline inflation rate during the first seven months of 2014 averaged at 2.2 percent and inflation rate in the latter half of the year tends to be maintain at similar rate as in the first half of the year due mainly to stable world crude oil price, the extension of price control measure to keep down the cost of living, the price ceiling measure on the prices of cooking gas and a slow recovery of the Thai economy.

6. Economic Management in 2014

In the first half of 2014, the Thai economy experienced a contraction owing to the prolonged political disturbances in the first 5 months of 2014, the slow recovery of export sector, and the continual decline in car production and sales from the unusual high base. The Thai economy is likely to grow at a stronger pace in the latter half of the year supporting by the global recovery and the improved domestic political situation which boosts consumer and business sentiment and made the budget disbursement to a normal operation. However, the economy in the latter half will face with several constraints on export, tourism, private investment, and also industrial production sectors. Hence, the macroeconomic management in the second half of the year should focus on:

- (1) Expediting exports to its full potential, in major markets and newly high-potential market as well as by promoting boarder and interregional trade, and by facilitating and solving all production limitations of main export commodities.
- (2) Recovering a tourism sector by providing better understanding about the situation of Thailand to the world and restoring tourists' confidence through (i) expediting the establishment a new tourism insurance coverage scheme, (ii) launching the tourism campaigns and restoring a country's image by addressing all frauds and crime problems against tourists, as well as improving geographical landscape in major tourist attractions.
- (3) Accelerating the FY 2014 annual budget disbursements, not to be less than 91.3 percent of total budget and 31 percent disbursement in the first quarter of the FY2015, as well as speeding up the state-owned enterprises disbursement on important projects to accommodate the recovery of Thai economy in the remaining of the year.
- (4) Easing constraints on investment by speeding up the approval of key investment projects and facilitating the approved projects to start operations, including enacting the new investment promotion act.
- (5) Restoring investor confidence by accelerating investment in key infrastructure projects, In addition, it is crucial to clarify and to make a public relation about the operational plan including investment value, timeframe and sources of fund of key remaining infrastructure projects as well as the development of the Special Economic Zone.
- (6) Implementing accommodative monetary policies which can facilitate the economic recovery and maintain the stability of the Baht currency, which may be volatile by the uncertainty of global economy and investors' expectations on the U.S. monetary policies.

Economic Projection for 2014

| | Actual Data | | Projection 2014 | |
|---------------------------------------|-------------|---------|-----------------|-----------|
| | 2012 | 2013 | 19 May 14 | 18 Aug 14 |
| GDP (at current prices: Bil. Bht) | 11,375 | 11,899 | 12,424 | 12,364 |
| GDP per capita (Bht per year) | 167,501 | 174,337 | 181,077 | 180,203 |
| GDP (at current prices: Bil. USD) | 366 | 387 | 382 | 380 |
| GDP per capita (USD per year) | 5,389 | 5,673 | 5,572 | 5,545 |
| GDP Growth (at constant prices, %) | 6.5 | 2.9 | 1.5-2.5 | 1.5-2.0 |
| Investment (at constant prices, %) | 13.2 | -2.0 | -1.3 | -2.0 |
| Private (at constant prices, %) | 14.4 | -2.8 | -0.2 | -2.9 |
| Public (at constant prices, %) | 8.9 | 1.3 | -5.0 | 1.0 |
| Consumption (at constant prices, %) | 6.8 | 1.1 | 1.0 | 1.3 |
| Private (at constant prices, %) | 6.7 | 0.3 | 0.8 | 0.8 |
| Public (at constant prices, %) | 7.5 | 4.9 | 1.8 | 3.7 |
| Export volume of goods & services (%) | 3.1 | 4.2 | 3.6 | 1.7 |
| Export value of goods (Bil. USD) | 225.9 | 225.4 | 233.8 | 229.9 |
| Growth rate (%) ^{1/} | 3.1 | -0.2 | 3.7 | 2.0 |
| Growth rate (Volume, %) ^{1/} | 2.5 | 0.2 | 4.2 | 3.0 |
| Import volume of goods & services (%) | 6.2 | 2.3 | 1.3 | -3.1 |
| Import value of goods (Bil. USD) | 219.9 | 218.7 | 220.2 | 208.1 |
| Growth rate (%) ^{1/} | 8.8 | -0.5 | 0.5 | -4.9 |
| Growth rate (Volume, %) ^{1/} | 7.1 | 1.6 | 1.0 | -4.4 |
| Trade balance (Bil. USD) | 6.0 | 6.7 | 13.6 | 21.8 |
| Current account balance (Bil. USD) | -1.5 | -2.5 | 1.9 | 9.9 |
| Current account to GDP (%) | -0.4 | -0.5 | 0.5 | 2.6 |
| Inflation (%) | | | | |
| CPI | 3.0 | 2.2 | 1.9-2.9 | 1.9-2.4 |
| GDP Deflator | 1.3 | 1.7 | 1.9-2.9 | 1.9-2.4 |

Source: Office of National Economic and Social Development Board, 18th August 2014

Note: ^{1/} Export and import base on the Bank of Thailand's data.

