



**Weekly Economic News
[13th to 19th January 2014]**

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➤ **Internal**

MICE industry suffered during political unrest

Organizers of MICE (meetings, incentives, conventions and exhibitions) activities in the protest-hit areas of Bangkok are facing postponements or even cancellation of events in the month of January, 2014. In the Queen Sirikit National Convention Centre (QSNCC) about 10 major events have been postponed until March, 2014. The total business loss is projected at more than Bt100 million. Central Plaza Hotels, operator of the Centara Grand chain, confirmed that it had lost about Bt70 million in conference-room bookings from November to early January, 2014 due to political chaos. Travel inconvenience, safety concerns, and lack of sentiment on business negotiations are cited as reasons for QSNCC cancellations and postponements.

Worries about protests' impacts on exports

Mr. Kittiratt Na-Ranong the caretaker finance minister said that prolonged anti-government protests could be a blow to the economy as purchasing power drops and volatility of the baht affects exports and foreign investment. He also said that revenue targets this quarter could be jeopardized. He also noted that although the baht had weakened, normally welcomed by exporters, that sector could suffer if the currency were destabilised by long-term political uncertainty. The Commerce Ministry has said that the current "Bangkok shutdown" could slow exports somewhat. However, logistics firms have been persuading their clients to use Laem Chabang Port in Chon Buri to avoid the road blockades in Bangkok. Ms. Srirat Rastapana, permanent secretary of the Commerce Ministry, said that traders had begun to question Thailand's ability to deliver exports.

Rice sale to China delayed

Thai caretaker government is likely to face a new threat of more protests by farmers, who have suffered from the delay of payments for their pledged rice. The sale of 1 million tonnes of rice to China has been delayed while a Bt130-billion loan is awaiting approval from the Election Commission (EC). The Commerce Ministry has delayed its plan to sell 1 million tonnes of rice to China. It is afraid of breaching the laws limiting the functions of a caretaker government after receiving vague guidance from the Election Commission. The deal agreed by the Foreign Trade Department was to ship one million tonnes of rice to China over the course of this year. However, in its reply to the ministry, the EC said that it should not make long-term commitments that would affect the incoming government.

Investment projects above 1 trillion Baht reached Board of Investment

According to Thai Board of Investment (BoI), the combined value of projects seeking Board of Investment (BoI) privileges in 2013 was 20% higher than the target and remained slightly above 1 trillion baht. In 2013, a total of 2,237 projects worth 1.11 trillion baht applied for privileges, slightly lower than 2,437 projects worth 1.18 trillion in 2012. Secretary-General of BoI, Mr. Udom Wongviwatchai said that most applications came from companies involved in services and infrastructure, agricultural products and electronics and electrical appliances. Even though the number of applications and value of investment fell by 5-6%, the value was greater than 1 trillion baht. He added that the delay of the government's infrastructure and water management projects would also cause investors to postpone their plans. Foreign direct investment in 2013 accounted for applications for 1,132 projects worth 524.77 billion baht, down from 1,584 projects worth 647.97 billion in 2012. The top five investors were Japan (562 projects worth 282.85 billion baht), mainland China (45 projects worth 42.53 billion), Malaysia (35 projects worth 29.19 billion), Singapore (93 projects worth 22.78 billion) and Hong Kong

(39 projects worth 20.18 billion). Further, he said that factors like world economic recovery, more exports, low interest and inflation rates and the expiry of applications for the second phase of the eco-car project would accelerate investments.

Political rallies no deterrent on investment

According to Board of Investment (BoI), despite the ongoing political conflicts, many companies applied for incentives, forging ahead with their investment plans in Thailand. There is a concern that the political unrest that has begun late last year would cause investors to think twice, especially those who had applied for the privileges before the rallies began. However, most of these investors were still committed to invest in Thailand. The BoI recorded 20% higher-than-expected investment applications in 2013. There were 82 large-scale project applications worth at least 1 billion baht approved by BoI during January-November 2013. The BoI committee was disbanded when the parliament was dissolved, hence no new incentives could be approved until a new committee is appointed, which is unlikely in near future due to the political conflict in Thailand.

Thai Bond market overview for 2013 and outlook for 2014

Year 2013 was deemed relatively volatile for investing in various types of financial assets. However, for the Thai bond market, it is viewed as having been another good year, witnessing both higher new bond issuance in the primary market and an increasing trading value in the secondary market. In the primary market, there was about Bt520 billion-worth of government bonds issued in 2013, slightly lower than in 2012 but still in line with the government's fund-raising plan, while newly issued corporate bonds totaled around Bt420 billion. For the secondary market, daily average trading value went up from Bt80 billion in 2012 to Bt90 billion in 2013. As to the outlook for 2014, the primary market is expected to grow continuously. There is likely to be more corporate companies' fund-raising through the bond market due to recovering Thai economy. For the secondary market, a major factor likely to impact on the investment environment in the bond market is still an international issue, namely, QE tapering in the US, which is anticipated to affect foreign capital outflow in the year ahead.

Auto production hits 20-month low

According to the Federation of Thai Industries' Automotive Industry Club, Thailand produced 158,893 vehicles in December 2013, the lowest output in 20 months and down 28.22 per cent from December 2012, affected by discontinuation of the government's first-car scheme. However, total production of vehicles during 2013 was 2,457,086 units, the highest in 52 years, making Thailand one of the top 10 automotive producers in the world. Production was up 0.14 per cent 2012. Production for export in December 2013 was 81,329 units, representing 51.18 per cent of total production and up 1.26 per cent from the same month in 2012. Total production for export in 2013 was 1,121,303 units, accounting for 45.64 per cent of the total and up 9.75 per cent from 2012. Production for domestic sales in December, 2013 was 77,564 units or 48.82 per cent of the total, down 45.01 per cent from December 2012. For the full year 2013, production was 1,335,783 units or 54.36 per cent of the total and down 6.72 per cent from the previous year. The total export value of complete cars, engines, auto parts and spare parts in 2013 was more than Bt754.225 billion, up 6.26 per cent from 2012.

Economic growth forecast cut again

Thai Finance Ministry has lowered its 2014 economic growth forecast for the second time in less than a month, while Moody's Investors Service warned that the prolonged political protest would weigh heavily on economic expansion. According to Mr. Somchai Sujapongse, Director-General of the Fiscal Policy Office, Gross Domestic Product (GDP) might grow by only 3.1% in 2014. The ministry had lowered its growth forecast to 4% from 5.1% on Dec 26, 2013. He warned that the ongoing anti-government protests could well trim gross domestic product growth in 2014 to less than 2%. He also added that about 10% of the 400 billion baht planned investment budget was scheduled but could not be disbursed by a caretaker administration, which has limited financial powers. Under the law, the caretaker government has no authority to push ahead with large investment projects. Only the new government could allow the large investment projects.

Thai Foreign reserves declined

Thailand's foreign reserves have been falling as a result of capital outflows. According to the Bank of Thailand's data, the reserves stood at US\$166.5 billion (Bt5.469 trillion) as of January 10, 2014. Combined with the net forward position of \$23 billion, the reserves stood at \$183.5 billion. A week earlier, the foreign reserves were at \$166.6 billion while the net forward position was \$22.6 billion. The recent downward trend started in November, 2013, when reserves fell below \$170 billion. The all-time high was registered on April 29, 2011, when the reserves were \$189.9 billion.

Delay to mega-projects hits construction

The ongoing political turmoil has affected the construction sector, particularly when the government's planned massive spending on new state mega-projects would now be further delayed. According to Mr. Chakporn Oonjitt, Director of Construction Institute of Thailand, state spending - especially on new transportation routes - contributed 50 per cent to the construction industry per year. The political chaos has caused a further delay of the government's plans to spend massively on its mega-projects, such as the Bt350-billion water-management scheme and the Bt2-trillion transportation project development scheme. Regular state spending has also been put off, given that the signing of the projects, budget spending and the opening of bidding documents have all been delayed. This delay of government projects could cause the private sector to slow down its investment accordingly.

➤ **External**

Asia will drive global recovery

During the Asian Financial Forum held in Hong Kong, most of the participants believed that Asia would be able to strengthen the recovery of the global economy that started last year. Asian financial communities remain confident that the region would further power the global economy despite worries about US monetary policy and the possibility of China's economy making a hard landing. However, the president of the Asian Development Bank (ADB) has warned that political instability will dampen economic growth.

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[Inputs for this Report have been garnered from various media reports, press releases and communications issued by various government and private agencies]