Economic Outlook

Thai Economic Performance in Q1 and Outlook for 2009

NESDB

- The Thai economy contracted by 7.1 percent on the year in Q1/2009, deteriorated further from a 4.2 percent contraction in Q4/2008. The sharper-than-expected contraction was primarily attributed to the collapse in global demand that has caused the Thai exports to fall severely and also discouraged household consumption and private investment. The impact of export-led-contraction was seen across sectors of the Thai economy.
- The private sector reduced investment activities quickly, especially in the manufacturing sector where there has been a sharp fall in export demand and large rise in excess capacity. The unemployment rate adjusted higher and employment growth fell as a resultant consequence of a reduction in production.
- On the quarter, however, the economy contracted by 1.9 percent, moderated from a 6.1 percent decline in Q4/2008. That seems to imply that the Thai economy is in a stabilizing process at the low level and positive quarterly growth should return in H2/2009 due to the inventory cycle as well as global and local policy stimulus. Other supporting factors for growth are low oil and consumer prices and low interest rates. However, the bottoming out process could be protracted if the recovery in global economy delay or domestic political disruption takes over.

Economic Forecast year 2009

(% YOY)	2008		2009	
	Year	Q4	Q1	Year_f
GDP (at 1988 price)	2.6	-4.2	-7.1	(-3.5) – (-2.5)
Total Investment (at 1988 price)	1.1	-3.3	-15.8	-6.2
Private	3.2	-1.3	-17.7	-9.7
Public	-4.8	-10.2	-9.1	5.0
Total Consumption (at 1988 price)	2.2	3.3	-1.8	2.0
Private	2.5	2.1	-2.6	0.4
Government	0.4	11.0	2.8	11.3
Export of Goods, Value (US$)	16.8	-9.4	-19.9	-15.0
Volume	5.5	-13.6	-19.5	-11.0
Import of Goods, Value (US$)	26.4	5.3	-38.3	-19.6
Volume	12.0	2.9	-35.0	-11.6
Current Account to GDP (%)	-0.1	-3.1	14.8	3.7
Inflation	5.5	2.4	-0.3	(-0.5) – (0.5)
Unemployment rate	1.4	1.3	2.1	2.0– 2.5

- NESDB expects that the Thai economy will contract (-3.5)-(-2.5) percent for 2009 as a whole, contributed by sharp contraction in H1 and a turnaround to positive growth in H2. Effective implementation of government stimulus packages and sustained recovery in global economy will be key factors to ensure the turnaround in H2. In turn, the effectiveness of the government policy is conditional upon two very key factors, namely public confidence and political stability.
- Lower oil and other commodity prices in a midst of fragile demand suggest much softer CPI inflation in 2009 than in 2008; NESDB expects the inflation to average (-0.5)-(0.5) percent. The current account surplus will soar to 9.3 billion USD or 3.7 percent to GDP on the back of large trade surplus during the economic downturn and improved service account driven by tourism income.
- Risks associated with the economic outlook are fragile recovery of the world economy, low public confidence, and domestic political uncertainty.
- Economic management in the remaining months of 2009 should focus on enhancing policy effectiveness to promote sustained recovery into the longer term. Disbursement of public funds and implementation of public projects must be promptly executed.

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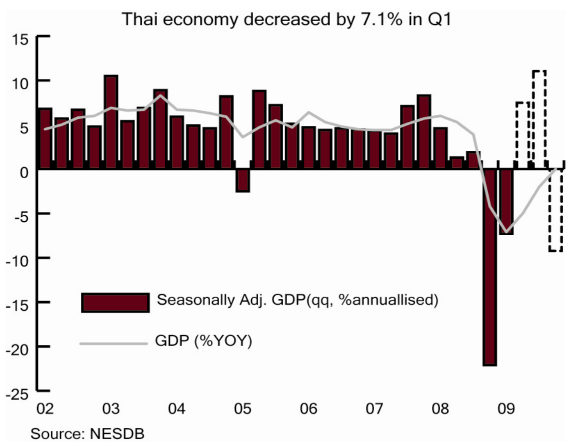
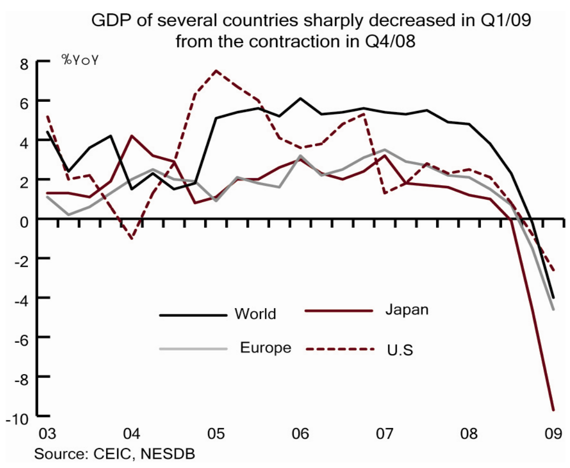
1. Economic Conditions in the first quarter of 2009

1.1 In the first quarter of 2009, the Thai economy was hit by deep global economic recession that had caused Thailand's export and tourism incomes to fall sharply. The fall consequently eroded household consumption expenditures and investment. The sharp drop in exports of goods and services and resultant decline in private consumption and investment, therefore, contributed to marked GDP contraction in 10 years.



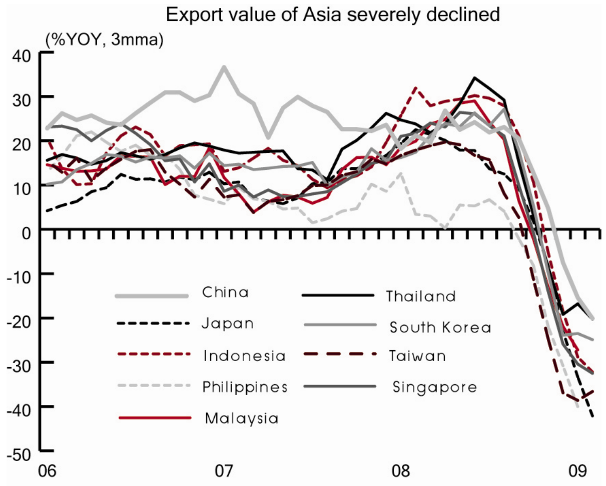


Key Highlights

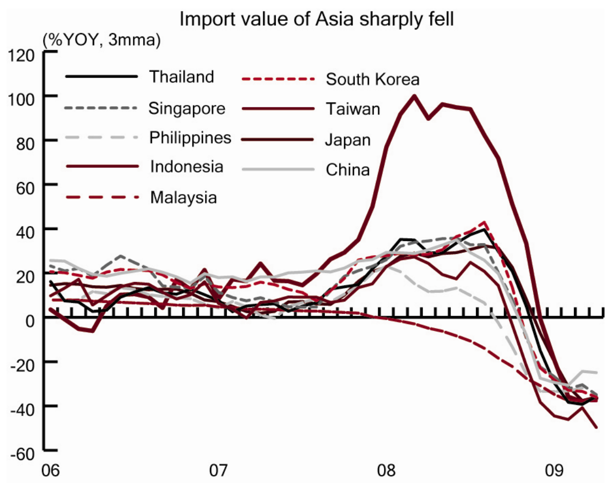
- **The World economy**, in the first quarter of 2009, plunged notably by 4.0 percent but recently there have been signs of stabilizing which seem to suggest that worst synchronized collapse in global demand might be already behind. The sharp and broad-based contraction in the first quarter followed the small contraction started in Q4/2008. However, the world financial crisis that has already caused tight credit condition and liquidity problem in financial institutions, and loss of wealth and confidence has inevitably affected the real sector where its impacts are felt more clearly in the second quarter. The impacts in the real sector were seen in sharp decline of consumption, investment, and production. The cut in production has left the world economy with growing excess capacity and higher unemployment rate. Demand for goods and services in major economies have dropped. As a result, the world trade volume fell significantly and contagious effects via international trade have prevailed more clearly in various countries in the first quarter of the year, especially in the major exporters in Asia where their exports fell tremendously and the contraction has lingered for several months. Most countries affected by the global crisis have launched similar recovery and stimulus measures. These include, for example, drastic cut in interest rate cut, liquidity injection into the financial system using conventional and unconventional quantitative easing methods, eased and expansionary fiscal policy ranging from tax cut, government budget expansion both in terms of current and capital spending. In this respect, most countries have given priority to public investment for improving quality of infrastructures to increase productivity and long term competitiveness. It is expected that accommodative monetary and fiscal measures would be increasingly effective in the second half of this year as the multiplier effects kick in. The policy impacts in each country shall, in turn, spillover and enhance the recovery process of each other through international trades. In this way, the global recovery would be sustained into the longer term.
- **However, on the positive notes**, in March and April 2009, there were some encouraging signs suggesting that the world economy is being in the stabilization process at the low level and the bottoming out of the recession is approaching. The improvement has been seen in consumer confidence, moderate contraction in manufacturing goods production and de-stocking. Moreover, the results of the stress tests on 19 large banks indicate that that several large banks are ordered to plump up their equity cushions to the lesser extent than expected. The test results point to less capital required to be raised for the banking system

and, therefore, has eased the financial sector in the US and Europe. Hence, the Fed's stress tests of large financial innovation should help restore confidence that systematic risks can be managed.

- **For the Thai economy, real GDP plunged by 7.1 percent** in the first quarter, continued from a contraction of 4.2 percent in the last quarter of 2008. The sharper-than-expected economic contraction in this quarter was contributed by sharp decline in exports and along with private consumption and investment contraction driven in part by the export slump. On top of the hit from the global demand shock, political uncertainty is set to exert a nagging drag on spending and investing activities. The impacts of global financial crisis on real sectors have been felt in many countries and thus resulted in a drastic fall in global trade. Sharp drops in export volume and value were seen in various countries in the first quarter of this year, following the contraction already started in the last quarter of 2008. Similarly, consumption and investment spending have been ebbed and declined in many countries; the contraction was in part led by the slump in export sector. This adverse feedback loop has spurred the global downturn in the last quarter of 2008 into the worse-than-expected economic contraction in the first quarter. Inevitably, Thailand's export dropped markedly both in volume and value terms, and in all major export destinations. Main export goods which experienced large falls are auto and parts, electronics, electrical appliances, including key agricultural products ranging from rice, tapioca, rubber, and maize. Rapid decline in export has led to production cut down and large rise in excess capacity. As a result, working hours and employment has been reduced and the layoffs risen. Household incomes and purchasing power have been eroded and consumer and business confidences in Thailand deteriorated and were exacerbated further by domestic political disorder. The first quarter, therefore, recorded a large decline in private consumption expenditures and investment albeit the falling oil prices and inflation. In sum, the sharp contraction in real GDP experienced in the first quarter was mainly driven by export related and its adverse impacts on private investment and consumption.



Source: CEIC



Source: CEIC

On the quarter, the economy contracted by 1.9 percent (QOQ, sa), less severe contraction as compared to 6.1 percent decrease in the last quarter of 2008. To this end, the Thai economic contraction was full-fledged technical recession. However, the slower pace of quarter on quarter economic contraction implies that the Thai economy is passing through stabilization process and likely to be bottoming out of recession in the second quarter of 2009.

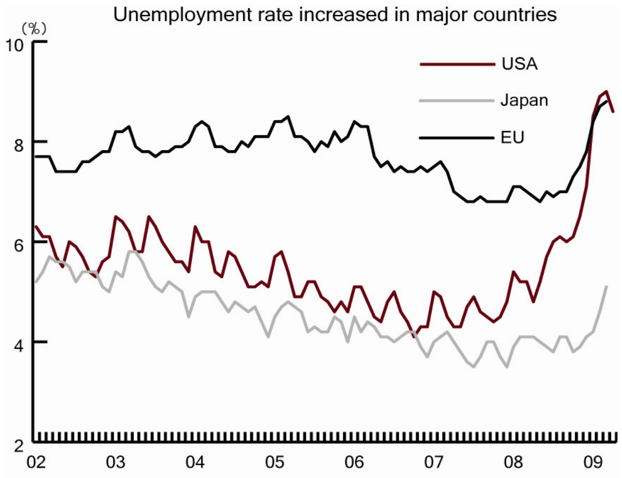
❑ **The driving forces underling the sharper-than expected contraction of real GDP in the first quarter are as follows:**

(1) **The contagious effects stemmed from global economic recession have caused Thailand's export and tourism incomes to fall more severely than that already experienced in the last quarter of 2008.**

- The negative impacts of global financial crisis on real sectors in various countries were stronger than in the last quarter of 2008. The world economy contracted at a faster pace of 4.0 percent compare to that of 0.2 percent in the fourth quarter of 2008 due to the decline of confidence, wealth destruction and credit crunch condition. These factors substantially lowered consumption, investment and export demand in various countries. Its contagious effects affected the world economy through international trade which is a key driving engine of the world economic growth in the past 3-4 years before. The slump in international trade has, therefore, become a challenging threat for most countries to manage in order to prevent sharp contraction of their economies. However, the first quarter saw worsened economic contraction in various countries.

The major economies that experienced with a sharp economic contraction included the US (-2.6 %), UK (-4.1%), Japan (-9.7%), Euro zone (4.6 %), Singapore (-10.1%), South Korea (-4.3%) and Taiwan (-10.2%). Meanwhile Chinese, Indian and Vietnamese economies slowed down further from the downturn in previous quarter. The large contraction in these economies reflected the impact of the global financial turmoil on global trade that was significant and heightened in the first quarter.

Up to present, these impacts seem to linger for the months to come. The March figures showed that export of many countries continued to decline markedly. The continued sharp fall in exports were seen in Japan (-46.2%), China (-17.1% and -22.6% in April), South Korea (-22% and -19% in April), Taiwan (-36.1%), Singapore (-28.1%) and Malaysia (-26%). The contraction of production and export elevated excess production capacity and layoffs. Therefore, unemployment rate adjusted higher, namely to 8.5[1] percent, 4.8 percent and 8.9 percent in the US, Japan and Euro zone respectively.



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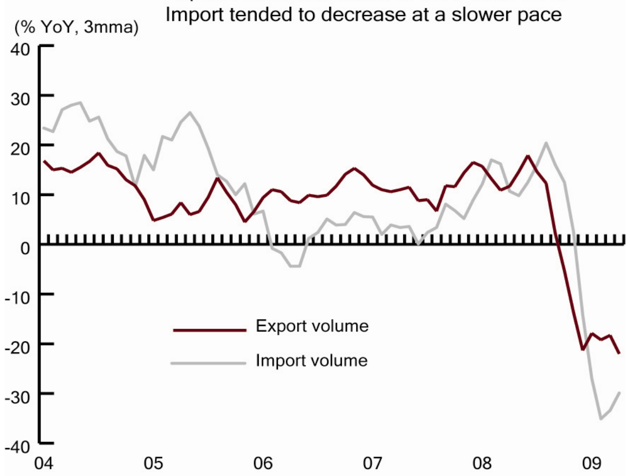


Source: Bank of Thailand

[1] Unemployment rate in USA increased by 8.9 percent in April 2009

- **The global recession, consequently, resulted in the sharp decline of Thailand's export and tourism incomes in the first quarter,** which was a continually contraction from the last quarter of 2008. Export volume fell by 17.9 percent, worsened than the 8.9 percent fall in Q4/2008. In USD value terms, exports shrank by 19.3 percent, more severely than 9.4 percent decline in the last quarter of 2008. The number of foreign tourists totaled 3.7 million persons, plunged by 15.2 percent from the same period of last year, but improved slightly when compared to the 19.4 percent decrease in the last quarter of 2008. This implied the confined and subsiding negative impacts of Airport shutdown. In addition, the worsening global recession, declining consumption demand and softening oil prices has lowered export prices of Thailand's agricultural commodities, in particular, export price of corn, cassava, rubber and oil palm (farm prices declined by 18.4 percent, 44.1 percent, 45 percent and 37 percent respectively). Therefore, on average, farm income increased sluggishly by only 0.9 percent, substantially slower than that of 19.7 and 59.3 percent in the third and fourth quarter of last year. On the average last year saw an impressive increase in farm income, namely 33 percent rise.

(2) **Private consumption and investment spending dropped by 2.6 and 17.7 percent respectively, as compared to 2.1 percent increase and a decline of only 1.3 percent respectively in the fourth quarter of 2008**. This was attributable to the spillover from global recession that resulted in export and production contraction which has elevated excess production capacity and massive layoffs. The increase in unemployment rate and the decline in export prices of key agricultural commodities together with weakening consumer confidence had eroded consumption spending. Investment in business sector continued to decline due to the uncertainty in global economic condition, falling global demand, domestic political uncertainty, stricter credit standards, more cautious practices in extending credit by the banking sector, and unattractive conditions for raising funds in the capital market.

- **Production sector output contracted rigorously in various sectors** including manufacturing sector, construction, transportation & communication, wholesales & retails trade, and hotels & restaurants. However, financial sector continued to expand but at a slower pace in line with the slowdown in credit extension and interest rate incomes of commercial banks that was reflected by the reduction of the ratio of net interest rate incomes to assets (NIM) from 3.46 percent per annum to 2.95 percent per annum.

(1) **Manufacturing production contracted by 14.9 percent compare to 6.8 percent contraction in the fourth quarter of 2008.** Both domestic and export-oriented production declined. In the first quarter manufacturing production with export to total production ratio of more than 60 percent and of 30-60 percent contracted markedly by 22.3 percent and 15.9 percent respectively compared to that of 11.5 percent and 10 percent in the fourth quarter of 2008**.** The manufacturing production that recorded a marked decline are electronics products including integrated circuits, television, air conditioners and automobile & parts thereof.

An average capacity utilization rate was reduced to 57.8 percent, much lower than that of 73.5 percent in the same period last year. This reflected the substantial excess production capacity in manufacturing which will delay new investment expansion in the remaining of 2009. The production sector with capacity utilization rate of lower than 50 percent included, for example, electronic products (45.6%), electrical appliances (42.9%) automobile and transportation equipments (43.6%), iron and steel products (35.6%),leather and leather products (26.1%), footwear (39.6%), and furniture (26.5%).

(1) **Construction sector output was down markedly by 7.9 percent, marking the fourth consecutive quarter of contraction** but slightly improved compare to the contraction of 12.8 percent in previous quarter. The strong contraction of construction sector was attributable to the decline of consumer confidence and stricter credit standard. In the first quarter, private investment spending on construction retreated by 8.2 percent while government investment spending on construction declined by 9.4 percent. However there was supportive factors for construction expansion which included the reduction in price of construction materials of 9.1 percent, the first decline in 11 quarter that mainly attributable to 28.1 percent and 0.1 percent reduction in the price of metal and cement products respectively.

(3) **Hotels and restaurants contracted by 5.5 percent due mainly to the reduction in number of foreign tourists, but the degree of contraction was lessened compare to that of 7.7 percent in the previous quarter.** Transportation and communication sector remained subdued in the first quarter led by the reduction in international transportation of exported and imported products. The decline in transportation related to surface shipping as well, so the weakness of this sector in the first quarter was no longer the consequence of political turbulence. All in all transportation and communication sector output fell by 6.5 percent, showing sign of slight improvement as compared to the 10.6 percent decline in the previous quarter when the airport was shut down for a brief period

- **Economic stability remained favorable but there is growing concern over the increasing unemployment.**

(1) **Domestic economic stability** remained in check but unemployment situation needs to be monitored closely.

- Average inflation rate was at -0.3 percent in the first quarter, down notably from positive 2.1 percent inflation in the last quarter of 2008. In April, inflation rate declined to -0.9 percent and resulted in an average inflation rate of -0.4 percent in the first four month of 2009.

  However, foods prices continued to increase significantly for all items. In the first quarter, foods & beverages price[2] index picked up by 10.0 percent. Meanwhile nonfood price index declined by 6.9 percent due to the extension of "5 months 6 measures" under the stimulus package to help reduce cost of living for low income earners. On the downside, domestic retails petroleum prices also declined continually in line with declining crude price in the world market. The fall in oil prices together with the impacts of the measures to reduce utility bills has resulted in the decline of price index of transportation, energy, electricity and water supply.

- Average unemployment rate stood at 2.1 percent, picked up from an average rate of 1.4 percent in 2008, reflecting the increase in layoffs driven by production cut down and investment contraction.

- Public debt to GDP ratio rose to 39.9 percent, as of February 2009, up slightly from 38.1 percent at the end of last year. The downside was the shortfall of government's revenue collection by 13.5 percent below the planned target. The revenue collection also decline notably by 6.5 percent from the same period of last year owing to the downturn of economic activities.

(2) **External stability remained favorable: current account registered a large surplus while international reserves stood at high level**

- The current account surplus soared to high level of 9,112 million USD, which is equivalent to 32,580 million baht. Of this large surplus are trade account surplus of 7,800 million USD and service account surplus of 1,312 million USD. The upturn in the service account surplus was due primarily to the substantial lower outbound tourism expenditures amid economic contraction while the inbound tourism receipts increased during high season. Moreover, the rise in trade account was an outcome of sharp declines in imports, driven by lower energy and raw material imports, an as well as capital goods imports.
- At the end of April, foreign reserves stood at 116.83 billion USD (with the net forward position of 3.58 billion USD) which is equivalent to 4.9 times short-term debt and 12.6 months of imports.
- Exchange rate was averaged at 35.31 baht per USD, depreciated by 1.54 percent from the last quarter of 2008 and 8.09 percent from the same period of last year. The movement of baht currency was in line with that of other regional currencies. In part, the depreciation was explained by the net capital outflows of 2,953.65 million USD in the first quarter of 2009, driven by demand for foreign assets holding by banking sector and debt payment by private sector.

- **Key themes of the Thai Economic Outlook for the remaining of 2009:**

The economy should bottom out in Q2 as the latest. The real output is expected to begin growing again in H2/2009 but full recovery to trend growth is unlikely before late 2010. The full-fledged recovery is not expected before 2010 because of the weak global backdrop and depressed sentiment. Moreover, the stimulus package phase 2, which focuses on medium term investment, will likely to kick in more concretely in 2010. That said the U-shaped recovery is characterized as the recovery path for the Thai economy.

[2] share of consumption expenditure on food was averaged at 33.0 percent of the total consumption expenditure.

(1) **The sharp contraction of the Thai economy in the first quarter is likely to be followed by a continued decline in the second quarter, given that the global economy will continue to be in recession. However, H2/2009 will likely to see an upturn of economic activities on the back of more favorable conditions both global economy and progress and effectiveness of government stimulus packages.** Despite the expected recovery, NESDB considers that H2/2009 is too early for a strong domestic-led recovery, and a long bottoming out process is expected given that the global economy will still be a stabilizing process in Q2/2009-Q3/2009 after the worst synchronized collapse in demand in H1/2009. That implies a yet fragile recovery of the world economy. As a whole, the Thai economy is likely to register a contraction of (-3.5) - (-2.5) percent, a downward revision from (-1) – (0) percent growth in the previous forecast released in February, 2009. The downward revision is due mainly to worsened-than-expected global economic conditions that caused exports to drop severely and dragged along private consumption and investment. On the investment front, rapid rise in excess capacity will discourage new investment expansion to the greater extent than earlier predicted. Overly cautious lending behaviors and tightening of credit standard by financial institutions will also delay a recovery in private investment. Therefore, private investments are expected to contract continuously throughout the year, especially in industrial, construction, retail and transportation sectors. Key highlights of economic issues in the remaining 2009 are as follows:

(1.1) **The Thai economy will continue to contract in the second quarter, but to a lesser extent that experienced in the first quarter due mainly to lingering global economic recession. Meanwhile, the implementation of stimulus packages will still be in an early stage so that their effectiveness will be limited.** On the positive note, however, the contraction in the second quarter is likely to be less severe than that in the first quarter, provided that stimulus packages will prevent private consumption to fall further and, to some extent, will stimulate private consumption expenditures in Q2 when the cash handout and other subsidy grant are fully delivered. The expected more moderate contraction in Q2 is judging based on the following assumptions and assessments:

(i) The fiscal stimulus enacted earlier this year implementation of stimulation measure will support and prevent private consumption from contraction further as well as the expedition of budget disbursement to meet the targets.

(ii) With the recent signs of world economic stabilizing, the worst collapse in world demand is expected to be behind.

(iii) Given the moderate growth rate in the second quarter of 2008, the less sever contraction in the second quarter will be in part a result of technical low base effect.

(1.2) **However, it is expected that real output of the Thai economy will begin growing in H2/2009, but full recovery to trend growth is unlikely before late 2010. The positive growth is possible especially in terms of sequential growth, i.e., quarter on quarter growth basis.** The recovery will be supported by following factors: (i) global economic recovery (ii) the disbursement of supplementary budget of 116.7 billion baht and implementation of government stimulus measures; (iii) the implementation of public projects under medium and long term investment plan; and (iv) an accommodative monetary policy, liquidity management and soft-loans extension and guarantee provided to SMEs.

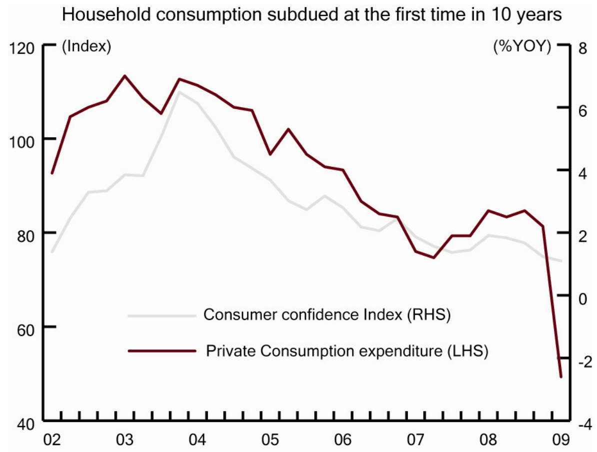
(1.3) **In the context of significant excess capacity, the growth turnaround in H2/2009 will be driven primarily by the domestic and global inventory cycle together with domestic and global stimulus measures.** The faster pace contraction of import and production than that of consumption and export indicated the rundown of inventory. The massive rundown of inventory of 156,209 million baht in the first quarter indicated that it is necessary for business sectors to increase capacity utilization to rebuild inventory to a strategic level. However, it is not expected that the H2/2009 recovery will stimulate corporate confidence robustly for investment in new capacity. Despite the stock building in H2, all in all the change in inventories will be negative contribution to economic growth in 2009 as ap-posed to its large positive contribution to growth in 2008. On the contrary, net export is likely to con-tribute positively to real GDP growth thanks to faster contraction in imports than that in exports.

(1.4) **Nevertheless, the strong recovery in production and investment in Thailand will be crucially conditional upon the growth momentum of global economy. Unless the world economy recovers to its full potential, the Thai economy will be on a sub-potential growth path for a prolonged period.** In most countries strong policy responses should combine with self-equilibrating mechanisms of economies to avert a depression and create positive externalities to the world. That said the main downside risks for the Thai economic outlook are global growth, effectiveness and efficiency of policy implementation, public confidence, and political stability. In turn, the main downside risk for the world economy is that financial distress worsens again, triggering more negative feedback with real economy and vice versa, meaning that adverse negative feedback loop remains a concern over the world economic outlook in the months to come.

(1.5) **Inflation in Thailand** is set to keep falling throughout H1/2009 but NESDB sees a limited risk of deflation. The subsiding inflation from a historical level in 2008 will be driven by low oil and commodities prices along with soft demand. This is in line with global inflation prospect where unprecedented slack in the global economy will likely restrain inflation pressures throughout 2009-2010.

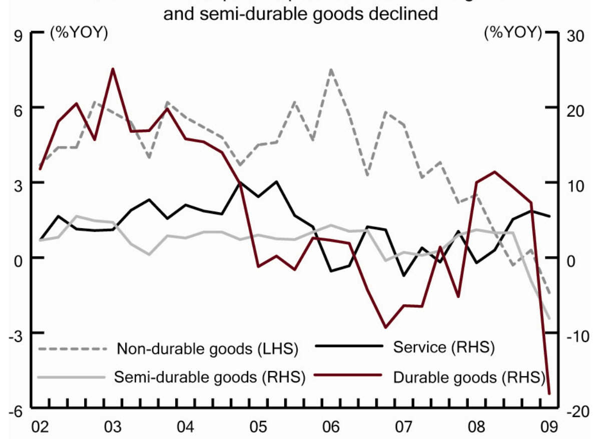
Economic performance in the first quarter of 2009

Household consumption subdued at the first time in 10 years



Source: NESDB, UTCC

Private consumption expenditure on durable goods and semi-durable goods declined



Source: NESDB

- **Household consumption expenditures declined, marking its first decline in ten years[3].** On the year, household consumption dropped by 2.6 percent in the first quarter, following the stagnation prevailed throughout 2008. The sharp fall of private consumption into negative territory can be explained by the following underling factors. They are (i) the decrease in labor incomes led by the rise in layoffs, particularly in manufacturing sector; (ii) the decline in working hours and annual bonus in business firms; (iii) the rapid slowdown in farm incomes, from 31.5 percent expansion in 2008 to merely 0.9 percent increase in the first quarter; (iv) low confidence in economic situation and growing concerns over income and employment prospects amid economic recession. In addition, the decrease in household expenditure is partly attributable to a high based effect of passenger car sales in the first quarter of 2008, the period when the benefit from tax incentives was granted.

Although the "6 months 5 measures" stimulus package, which helps reduce living costs of people, was extended for another 6 months and consumer prices has continuously fell, overall purchasing power of people did not improve favorably. In particular, purchasing power of labors and farmers was eroded by income reduction and the increase of food prices. Nevertheless, real purchasing power of salary-based workers picked up as the result of declining cost of living led by the drop in oil and consumer prices.

Consumption expenditure declined markedly on a broad-based basis, ranging from spending on semi-durable goods, non-durable goods, to spending on non-food products. Consumption spending on durable goods dropped

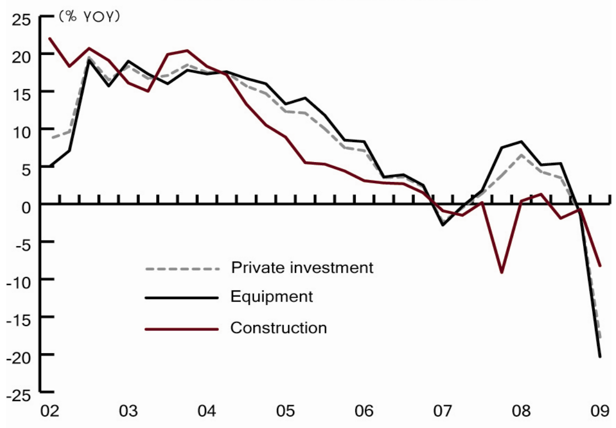
[3] The last decline of household consumption expenditure was 3.3 percent since the first quarter of year 1999

Private Consumption

(%YOY)	2008					2009	
	Year	Q1	Q2	Q3	Q4	Q1	share
Private Consumption	2.5	2.7	2.5	2.7	2.1	-2.6	100.0
Durable goods	9.5	10.0	11.4	9.4	7.3	-18.1	9.5
Semi-durable goods	1.7	3.7	3.3	3.3	-3.1	-8.1	12.6
Non-durable goods	0.9	2.5	1.0	-0.3	0.3	-1.4	52.7
Food	1.4	2.6	0.8	-0.1	2.4	2.5	23.7
Non-food	0.6	2.4	1.2	-0.4	-1.1	-4.4	29.0
Services	3.0	-0.7	1.0	5.1	6.2	5.5	25.1

Source : NESDB

Private investment severely plunged



Source: NESDB

by 18.1 percent; the large drop was seen, in particular, in spending on cars, motorcycles and electrical appliances. Consumption spending on semi-durable goods, non-food and non-durable goods decreased by 8.1 and 4.4 percent respectively. On the contrary, consumption spending on food picked up by 2.5 percent which was partly attributable to the long weekend during a New Year festival. Furthermore, consumption spending on services increased by 5.5 percent.

- **Private investment continued to contract, and at a faster pace than that in previous quarter.** In the first quarter, private investment decreased by 17.7 percent, worsened from the 1.3 percent decline in the fourth quarter of 2008. This sharp contraction was contributed by the decline in investment in construction and, machinery and equipment by 8.2 and 20.3 percent respectively.

Investment in machinery and equipments declined substantially in amidst of deteriorating global economic condition. Under such conditions, entrepreneurs run down their stocks at the expense of production cut and reduction of capacity utilization and investment. This has been reflected in the decline in capacity utilization rate declined to an average of only 57.8 percent in the first quarter. Furthermore, new investment projects which were approved by the Board of Investment in the previous year were down by 6.6 percent in terms of its number and 32.6 percent in terms investment value. Therefore, demand for investment in machinery and equipments declined.

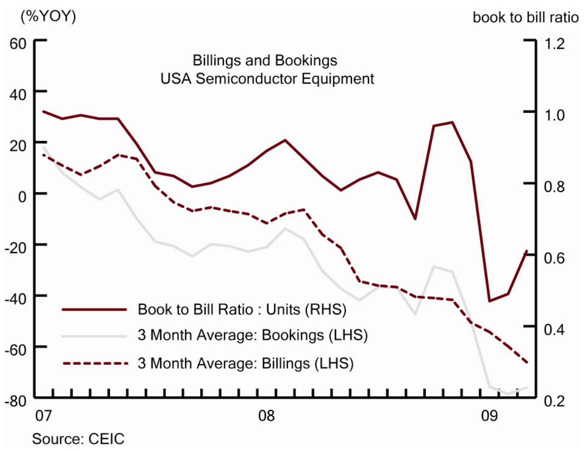
Investment in residential construction shrank quite sharply by 10.4 percent, due to dampening housing demand provided declining purchasing power and consumer confidence. Although interest rate continually declined and there exist incentives from tax exemption on transfer fee and housing purchase expenses, concerns over income prospects seems to have taken over and thus deferred buyers' decision. On the supply side, housing supply remained buoyant in particular the supply of condominiums in secondary market that was stemmed from speculative incentive. In addition, the stricter credit standards has caused liquidity shortage problem among contractors and real estate developers, particularly small scale enterprises as has been indicated by numbers of business shutdown of 402 and 119 companies in the first quarter of 2009. Amid unfavorable economic condition in the first quarter, investment in housing construction plunged by 10.4 percent while investment in commercial building construction and industrial plant construction declined by 9.8 and 3.4 percent, respectively.

- **Exports continued to contract in the first quarter, driven primarily by deeper global economic recession.** In the first quarter, export value in US dollar terms dropped by 19.9 percent. Export volume declined by 19.5 in line with the fall in other exporting countries while export price, on average, shrank by 0.5 percent concurrently with the decline in main agricultural prices. In addition, export prices of manufacturing products significantly softened due to increasing bargaining power of importers during the slump of demand. Moreover, importers have delayed of payment and acquirement of products which had been order during the high production cost period. This situation has spurred fierce price competition. In term of Thai baht, export value dropped by 12.6 percent while export price continued to increase by 8 .5 percent, reflecting the value gain supported by the baht currency depreciation.

Export of Agriculture

(%YOY)		2007	2008					2009
		Year	Year	Q1	Q2	Q3	Q4	Q1
Rice	Value	34.2	121.8	108.1	155.8	134.2	-18.0	-13.7
	Price	9.4	5.5	13.6	91.0	88.4	59.6	28.6
	Quantity	22.7	110.2	82.7	35.1	23.4	-48.6	-32.8
Rubber	Value	4.5	51.1	33.6	30.5	47.1	-21.3	-45.5
	Price	7.8	40.4	33.8	26.9	43.8	-3.1	-42.5
	Quantity	-3.0	7.7	0.0	2.9	2.4	-20.9	-5.7
Cassava	Value	23.1	-2.2	13.5	20.0	23.3	-35.2	-45.6
	Price	18.6	61.1	58.9	61.9	39.3	13.1	-15.1
	Quantity	3.8	-39.3	-29.3	-25.5	-11.8	-40.6	-34.1
Corn	Value	48.6	110.3	229.6	-6.6	201.4	27.4	-48.7
	Price	-7.0	64.3	15.0	186.1	27.2	-1.9	-14.1
	Quantity	22.7	79.1	181.1	-43.5	136.6	22.1	-40.0

Source : Ministry of Commerce

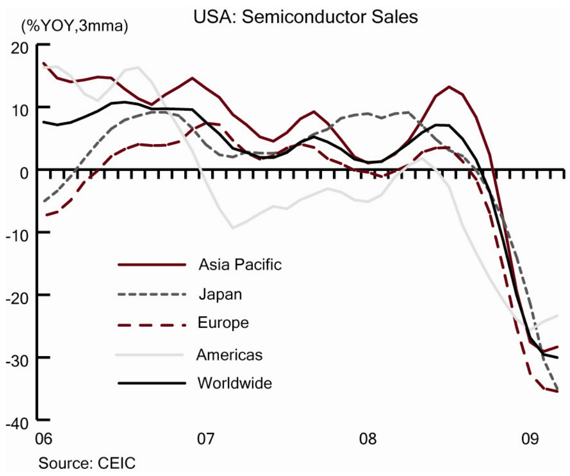


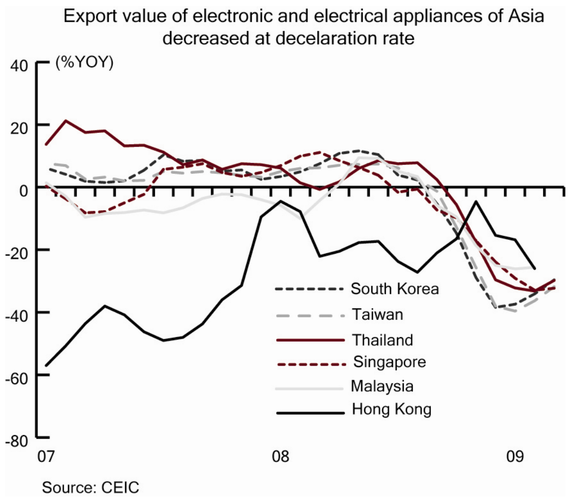
Source: CEIC

- **Agricultural commodity: export volume and price dropped significantly in the first quarter.** Export volume and price of agricultural products dropped by 21.2 percent and 13.1 percent respectively and resulted in the decline of export value by 31.4 percent. The decrease in agricultural export was partly attributable to high base effects both in terms of volume and price as the year 2008 experienced record high performance of agricultural exports. The 2008 peak was supported by the world's inventory reduction and strong demand for energy crops. Major agricultural exports that recorded its volume reduction include, for instance, (i) rice (-32.8%) as other exporting countries have resumed their exports and importing countries had more alternatives to import from countries that offer lower prices such as Vietnam, India, Myanmar and Cambodia; (ii) Cassava (export volume decreased by 34.1 percent) which was attributable to downturn in global paper industry and most orders were made on the short-live basis to reduce cost of stock carrying. In addition, demand from China declined due to the reduction in ethanol production in an attempt to cut subsidies for ethanol and alcohol production; (iii) Rubber (-5.7 percent), with the support of stimulus package for automotive industry that have been employed in various countries, export volume of rubber declined only slightly in comparison to other crops. However strong demand for rubber is unlikely to fully recover in any time soon as producers and consumers remain concerned over global economic prospects.

- **Manufacturing products: Export volume and value decreased**. Export value of manufacturing products decreased by 19.3 percent with a decrease of export volume of 19.6 percent and the increase in export price of 0.4 percent. Export value of technology-intensive products (which is accounted for 62 percent of total manufacturing export and 55 percent of total export value) declined at an alarming rate of 30.9 percent. Similarly resource-based manufacturing products retreated by 6.5 percent. Export value of labor-intensive products picked up by 44.4 percent but mostly due to the strong increase in the export value of unwrought gold that was imported to satisfy speculative demand. Therefore, the increase in export value of labor-intensive products is likely to be temporary.

  - **Export of electronics and electrical appliances contracted at an alarming pace but recently signs of recovery in the global market have emerged. This encouraging development will contribute positively to exports of electronics in the remaining months of the year.** In the first quarter, export value of electronics and electrical appliances





declined at an alarming rate of 32.4 and 30.4 percent respectively. The major products that recorded sharp contraction in its value were computer and parts thereof (-31.1 percent), integrated circuit (-38.9 percent), radio-broadcast receiver, television receiver and parts (-30.0 percent), air conditioner and parts (-39.9 percent), and refrigerator and equipments (-18.5 percent).

However, the signs of recovery have emerged in the global market, including (i) book to bills ratio of US semi-conductor picked up to 0.61 in March from its lowest level of 0.47 in January 2008 (ii) export value of electronics goods from Asian countries such as Singapore, Taiwan, Hong Kong, South Korea, and Malaysia declined at a slower pace than in previous periods and indicated that the slump in electronic market has bottomed out and is likely to recover in the latter half of 2009. However, risk factors to the recovery are the fluctuation in global economy; particularly in major importing countries of electronic goods such as the US and China.

- **Gems and Jewelry: Import value expanded robustly driven by the surge in export of unwrought gold.** Export value increased by 106.3 percent, mainly attributed to export of unwrought gold where its export value rose by 351.6 percent. The increase in export value of unwrought gold coincided with the rise of gold price in global market which indicated the short term increase of speculative export. Excluding unwrought gold, export value of gems and jewelry picked up by 20.9 percent.

- **Vehicles, Parts, and Accessories:** Export value dropped by 35 percent due to the reduction of orders from the major importers, such as Australia, Indonesia, Malaysia, Philippine and Japan. The decline in export was mainly attributable to the worsening economic condition and tighter credit condition. Against this development, producers drained their stockpile on the expense of production reduction.

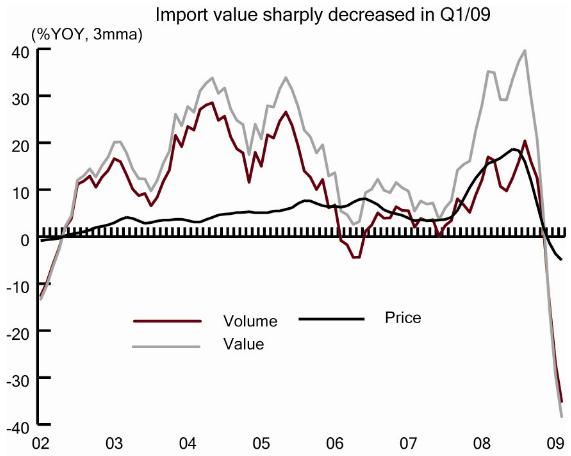
- **Food Products (excluding sugar):** Export value decreased by 5.1 percent due to worsening economic condition in the major importing countries (such as US, Japan and EU) and stricter rules and regulations that are enforced on importers. The major products which recorded a reduction of its export value are including canned, frozen, and processed crustacean (-8.3%t) fresh, frozen, and processed vegetables and fruits (-12.4 %t). In contrast, export value of frozen and processed chick en increased by 7.9 percent.

Major Export Market

(%YOY)	2007	2008					2009	
	Year	Year	Q1	Q2	Q3	Q4	Q1	Share
U.S.	-1.3	5.6	8.2	9.7	15.7	-10.2	-27.0	10.6
Japan	9.7	11.8	7.7	21.0	25.0	-4.7	-26.1	10.4
EU (15)	15.5	9.1	16.1	13.0	15.7	-7.5	-32.7	11.0
Asian (9)	20.2	23.6	32.8	48.4	39.4	-15.9	-31.6	18.6
Hong Kong	19.7	17.1	49.9	37.6	12.5	-16.7	-14.2	6.6
Taiwan	-1.5	-18.5	-26.0	-12.3	-3.3	-29.9	-42.5	1.2
South Korea	11.1	23.7	17.2	15.4	63.6	1.1	-24.6	1.8
Middle East	29.9	27.8	26.4	33.2	48.1	5.4	6.7	6.4
India	47.1	27.8	24.5	32.4	25.5	28.7	-17.0	1.8
China	26.4	9.2	34.7	22.1	14.7	-24.2	-27.6	8.9

Source : Bank of Thailand

Import value sharply decreased in Q1/09



Source: Bank of Thailand

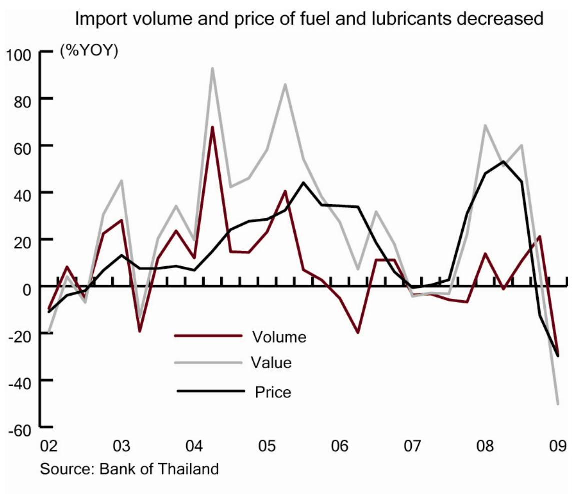
- Export **markets: Thai exports declined sharply across its major markets.** Export to major markets, for instance the US, Japan, EU (27) and ASEAN decreased by 27.0,26.1, 30.8, and 31.6 percent respectively. Likewise, export to other markets also declined, such as China (27.6%t), Hong Kong (-14.2%), Taiwan (-42.5%), etc. In contrast, export value to Australia and Middle East increased by 15.5 and 6.7 percent respectively.

❑ **Imports: Import price and volume dropped substantially, faster than the fall in export and domestic demand.** In the first quarter, import value in dollar terms decreased by 38.2 percent, marking its first contraction in 7 years[4]. Import volume declined by 35 percent concurrently with export and domestic demand contraction underling such drastic decline. Import price, on average, decreased by 5.0 percent due mainly to falling oil prices. In term of Thai baht, Import value retreated by 32.6 percent while import price increased by 3.6 percent.

- **Import of capital goods contracted both in terms of volume and price.** Import value of capital goods contracted by 23.2 percent as a result of ebbing demand for machinery investment in the presence of excess production capacity. In the first quarter, import goods that recorded a strong contraction in its import value were industrial machinery and components, electrical machinery and parts, computer and parts, scientific and medical equipment, and other capital goods. Import volume and price decreased by 21.9 and 1.7 percent respectively.

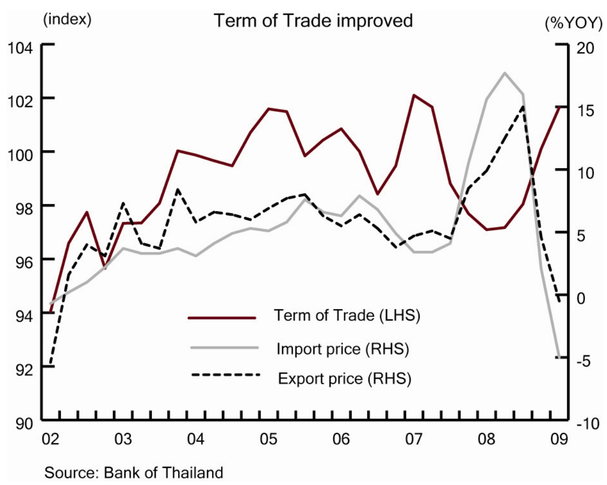
- **Semi-finished goods and raw materials: Import value and volume decreased in line with the cut down in production.** In the first quarter, import value of semi-finished goods and raw materials continued to decline by 44.1 percent from the last quarter and was attributable to contraction in production. Import goods that recorded a contraction in its import value were electrical and electronic appliances, chemicals products, iron and steel, jewelry including silver and gold bars, fertilizer and pesticides. Import value of iron and steel declined substantially by 52.0 percent due to the decline in construction and the reduction of iron demand in automobile industry as well as massive inventories accumulation over last year. Moreover import value of gold contracted by 58.9 percent as a result of higher gold price in the world market and the massive import over last year. Import volume of semi-finished goods and raw materials contracted by 45.2 percent whereas price increased by 2.1 percent.

[4] The last last import value contracted since the first quarter of 2002.



- **Fuel and lubricant: Import value and price declined.** Import value of fuel and lubricant decreased by 50.2 percent. Import volume of fuel and lubricant declined by 29.1 percent in line with the contraction of economic activities. Import price declined by 29.8 percent in line with oil prices reduction in the world marker. In the first quarter, import value of crude oil decreased by 56.4 percent owing to the decrease in volume and price of 8.7 and 52.2 percent respectively. Moreover import value of petroleum products decreased by 26.3 percent.
- **Import value of consumer goods decreased significantly:** Import value of consumer goods contracted by 16.0 percent owing to more cautious consumption behavior, especially in luxury goods consumption and due also to high base effect of last year when the imports of consumption surged. Import goods that record a contraction in its import value are household electrical appliances, miscellaneous goods, gems and jewelry, clothing, shoes, other garments, and watch and parts. Likewise, the weakening of Thai baht was reduced consumption of imported consumer goods. In sum, import volume and import price of consumer goods decreased by 15.1 and 1.1 percent respectively, but its was the decline from high base last year.

❑ **Term of trade continually improved.** Export price in dollar terms decreased by 0.5 percent, whereas an average import price declined by 5.0 percent. Thus, term of trade in the first quarter continuously increased by 4.7 percent, from 2.5 percent in the fourth quarter of 2008. This suggests a positive income effect of international trade.



❑ **Trade balance recorded a surplus of 7,800 million** USD (which is equivalent to 275,434 million baht) in the first quarter, as an import contracted at a faster pace than export. However, on the caveat, this was the surplus that accumulated over the period of economic recession.

❑ **Production Side**

- **Agricultural:** In the first quarter of 2009 agriculture sector expanded by 3.5 percent, accelerated from 1.6 percent expansion in the previous quarter. The expansion of agriculture production was attributable to the increase in the production of major crops such as rice and cassava, which increased by 99.0 and 14.3 percent respectively. Rice and cassava production was hastily harvested to meet government's pledging scheme, as February was the deadline. On the other hand, rubber increased by 1.2 percent and palm oil production contracted severely by 18.7 percent. The key factors for the reduction of rubber and palm oil production were unusual weather condition and natural disaster, for example, higher temperature, heavy rain and flooded in the Southern region. Moreover, prolonged economic recession and the reduction in world oil price reduced demand for agricultural crop especially palm oil for both consumption and bio-diesel production purpose. Rubber demand slowed down due to the contraction in the automobile and related production.

At the same time, the downward trend of agricultural price in the world market caused domestic price to expand sluggishly by 1.1 percent, compared to 14.2 percent increase in the last quarter of 2008. The downward trend is attributable to the slowdown in crop demand in both domestic and international market as a result of economic contraction, especially palm oil and rubber price decreased by 37.0 and 45.0 percent respectively.

The declined in agricultural production and price lowered farm incomes, in this quarter farm incomes expanded sluggishly by 0.9 percent, compared to 31.5 percent over the whole year of 2008.

- **Industrial sector** continued to contract for two consecutive quarters. In the first quarter, industrial sector contracted by 14.9 percent. This was attributable to the reduction in demand from trading partners as world economic condition gotten worse and domestic consumption declined. In addition, producers increasingly concern about domestic political situation. In the first quarter, export oriented production contracted by 22.3 percent, particularly in the production of integrated circuits, hard disk drive**,** televisions and air conditions; with the decline in export values of 46.1, 49.5, 52.0, and 54.7 percent respectively. Likewise, domestic oriented production recorded a 16.7 percent contraction, especially in passenger cars which decreased by 42.8 percent. Furthermore, the delay in mega projects investment caused some construction related industries to contract; for example concrete products, clinker and steel bar and **shape steel** contracted by 11.4, 16.5 and 53.2 percent respectively. However, the production of necessary consumption commodities has improved including soap, shampoo, detergent and, pulp and craft paper.

  Production capacity utilization was at 57.8 percent, significantly declined from 73.5 percent in the first quarter of last year. This reflected the sharp increase in excess capacity in manufacturing production, which could become obstacle for investments expansion in the future. Major industries that utilized their capacity under 50 percent were electronic products (45.6%), electrical appliances (42.9%), vehicle and equipment (43.6%) and iron and steel products (35.6%)

- **Construction sector** continued to slow down for three consecutive quarters. In the first quarter, construction sector contracted by 7.9 percent, mainly attributable to the spillovers from world economic contraction. The negative spillovers are including 1) slowdown in private investment, 2) the delay of consumer's buying decision, and 3) stricter lending practices adopted by financial institutions which eventually negatively affected both consumers and entrepreneurs. The impact of these spillovers was reflected in (i) the reduction of residential, commercial and industrial building areas permitted of 20.0 percent, 41.9 percent and 23.0 percent respectively (ii) constructions approval in Bangkok area and other regions declined by 17.6 and 20.6 percent respectively.

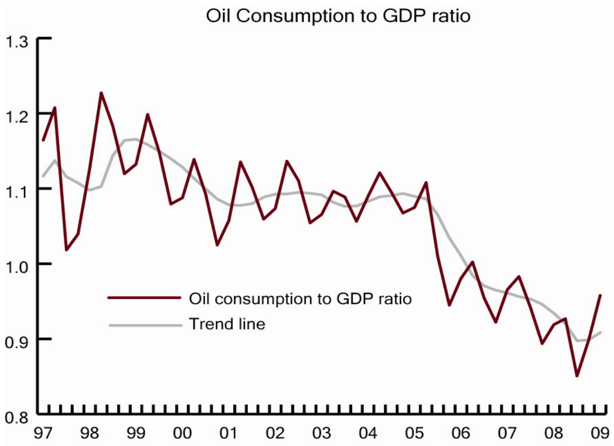
  Public construction contracted by 9.4 percent, less severe than 26 percent contraction in the last quarter of 2008. This was attributable to the acceleration of government investment budget disbursement under stimulus package. However, the decline in price of construction materials of 9.1 percent (first time in 11 quarters) could be view as positive factor as price of steel and concrete products fell by 28.1 and 0.1 percent respectively.

- **Real estate sector** contracted by 0.4 percent**.** The contraction was caused by: 1) decline in consumer purchasing power, 2) uncertainty both in domestic and international economic condition, 3) stricter lending practices, which negatively affected liquidity of small to medium size entrepreneurs and home buyer, and 4) consumer postponed their buying decision. Nevertheless, listed companies continually launched new projects. In the first quarter, selling unit of all real estate projects in Bangkok and vicinities area can be separated into: condominiums (36.5 percent), townhouse (28.0 percent), single house (22.7 percent), and others (12.8 percent). These records show that demand for low price condominium and townhouse surrounding Bangkok mass transit system continued to increase.

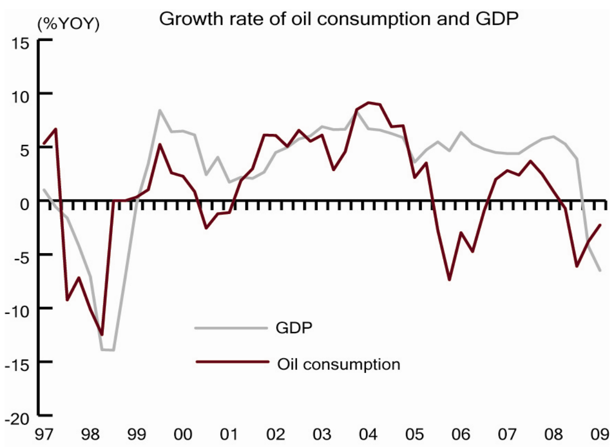
- **Hotel and Restaurant** contracted by 5.0 percent compared to the same period in last year. The contraction mainly attributable to **reduction** of tourist number amid worsening world economic condition and, the spillover from Airport shutdown and domestic political condition. Domestic traveling costs declined in the first quarter particularly accommodation cost as average hotel cost dropped by 2.4 percent and Bangkok accommodation cost plunged by 1.5 percent.

The number of foreign tourists in the first quarter dropped by 15.2 percent, or approximately 3.67 million persons, compared to the first quarter of 2008, particularly Asian tourists; such as tourists from China, Korea and Japan that dropped by 34.2, 30.2 and 46.6 percent respectively. Meanwhile, Malaysian tourists increased by 2.6 percent, slowed down from 53.9 percent, 21.7 percent and 3.2 percent during the second quarter through to fourth quarter of last year. The average occupancy rate recorded at 53.0 percent, dropped from 67.9 percent in the same period of last year, which is equivalent to 22.0 percent reduction. The occupancy rate reduction occurred in all areas around the country, especially in Bangkok which declined from 77.2 percent to 55.6 percent. While, the Northern region occupancy rate was at 44.9 percent, down from 53.4 percent owing to smoke hazard problem from a forest fire.

- **Financial sector** expanded by 4.2 percent, slowed down from the last quarter. This was owing to significant slow down in credit extension (excluded repurchase position with the central bank) from 10.2 percent in the previous quarter to 8.0 percent. Private and personal credits decelerated from 9.3 percent and 11.2 percent expansion in the fourth quarter to 5.9 percent and 5.4 percent respectively. The slowdown in credit expansion partially attributable to stricter lending practices. Meanwhile, the proportion of non-performing loans (NPL) to credits outstanding was at 3.1 percent, accelerated from 2.9 percent in the last quarter. This implied that the ability to repay has declined as a result of economic contraction, which will eventually reduce revenues of financial institutions.



Source: NESDB, Ministry of Energy



Source: NESDB, Ministry of Energy

❑ **The overall energy efficiency remained improved**

- **The ratio of oil consumption to GDP** in the first quarter of 2009 stood at 0.9579 percent, increase from 0.8980 percent in the fourth quarter of last year and 0.9189 percent in the same period of 2008. This was attributable to seasonal effects and domestic retails petroleum price that has been adjusted downward in line with the world market. The reduction in petroleum prices resulted in higher oil demand especially for personal car usage. However, the average ratio of oil consumption to GDP in the long term continued its downward trend.

- **Domestic consumption of petroleum products: Alternative energy consumption continued to grow.** In the first quarter of 2009, daily gasohol usage was at 12.5 million litre (59 percent of benzene consumption), increased from 11.6 million litre in the fourth quarter of last year and 7.50 million litre in the same period of 2008. While bio-diesel (B5) increased by 240.2 percent, with average daily usage of 20.4 million litre. Likewise, consumption of natural gas expanded by 184.2 percent. On the contrary, consumption of traditional benzene 95 and 91 and high speed diesel declined by 68.0, 21.1 and 30.7 percent respectively. Moreover consumption of LPG slightly increased by 0.7 percent.

Consumption of traditional benzene continued to decline as the structure of energy consumption shifted towards the alternative energy such as gasohol and bio-diesel in which prices are evidently lower than those of the traditional energy. In addition to prices incentive, the increase in alternative energy consumption is also attributable to the government anti-inflation measure ("6 months 5 measures" economic package) to encourage gasohol usage by reducing the excise tax on gasohol 91 and 95 by 3.30 baht per litre, high speed diesel by 2.30 and 2.10 baht per litre (effective on 25 July 2008 – 31 January 2009). After the end of this measure, the alternative energy usage continued to expand as seen in the increase of energy-saving vehicles production such as gasohol usage car. This confirmed the shift in the structure of energy consumption towards the alternative energy consumption in broad-based.

Petroleum Consumption

(%YoY)	2007	2008					2009
	Year	Year	Q1	Q2	Q3	Q4	Q1
Benzene	1.69	-2.95	-1.92	-5.22	-7.27	2.67	7.34
Octane (91+95)	-6.10	-33.11	-26.42	-32.01	-40.14	-34.60	-28.44
Gasohol	37.79	92.41	111.95	94.07	91.27	81.51	65.08
Diesel	2.13	-5.74	-0.37	-3.99	-14.40	-4.78	-1.29
HSD+LSD	-1.22	-23.28	-10.23	-20.44	-33.92	-30.06	-31.48
B5	1360.62	502.41	787.29	645.00	498.98	384.62	240.20
LPG	14.30	16.57	17.59	20.82	27.13	1.79	0.71
NGV	11738.	22976.	192.38	220.18	268.89	224.16	184.24

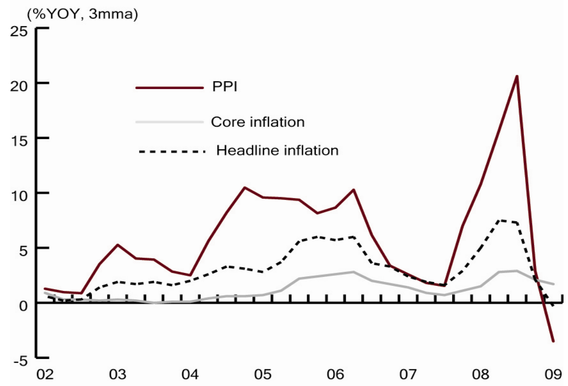
Source : EPPO

❑ **Economic stability, inflation declined whereas unemployment rate accelerated. External stability, current account registered a substantial surplus together with the increase of international reserves.**

- **Internal Stability**

♦ **Headline inflation**[5] dropped to -0.3 percent in the first quarter, from 2.1 percent in the previous quarter and average of 5.5 percent in 2008, due to 1) extension of "6 months 5 measures" program, and 2) steep decline in world oil price, which in turn lowered domestic retail petroleum price. Food and beverage price index increased by 10.0 percent, especially in rice, flour and cereal product, meat, egg and dairy product. The increase in food and beverage price negatively affected consumption spending on foods which is the necessary consumption goods. Non-food and beverage price index decreased by 6.9 percent, as a result of the decline in transportation and communication price index of by 13.0 percent (particularly motor fuel price sharply decreased by 26.5 percent). Moreover, housing and furnishing price index plunged by 5.8 percent (particularly water supply and electricity price sharply dropped to 27.7 percent).

Headline inflation decreased by 0.3 percent in Q1/09



Source: Ministry of Commerce

Moreover pressure on producer price index also declined. In the first quarter, producer price index decreased by 3.5 percent, due to the decline in price of mining and manufactured products by 18.4 and 5.5 percent respectively. Price of agriculture products continued to increase by 8.5 percent, as a result of the increase of paddy, rice and fruit[6] prices

♦ **Average employments in Q1/2009 were** 36.50 million people, increased by 1.9 percent from the same period last year. Numbers of employment in agricultural sector were 12.90 million people, which

[5] Headline inflation contracted by 0.9 and 0.4 percent and core inflation increased by 1.0 and 1.4 percent in April 2009 and in the first three months, consequently

[6] Producer price index contracted by 3.0 percent in April 2009 and 3.4 percent in the first four months

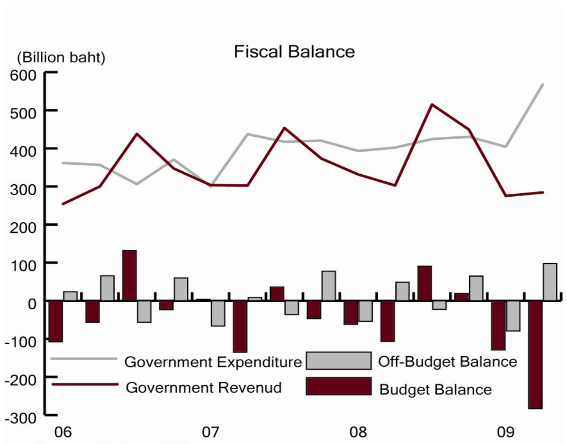
increased by 0.8 percent. Numbers of employment in non-agricultural sector were 23.60 million people, increased by 2.5 percent. Employment in manufacturing sector decreased by 3.7 percent due to the negative impacts from economic recession that resulted in a continual decline in employment for four consecutive quarters. Production sectors with the decline in employment were electronic, vehicle, textile, base Metal, and transportation equipment industries. Numbers of average unemployment in this quarter were 779,000 people, increased by 174,000 people from the same period last year or 28.7 percent increased. The unemployment rate was at 2.1 percent. Some laid-off workers from industrial sector moved to service sector especially in hotel and restaurant, transportation, wholesale and retail trade and construction sectors, which was witnessed by the increase of employment in those sectors by 7.7, 5.5 , 4.4, and 3.4 percent respectively. Even though the overall employment rate increased, the labor working hour declined, which notably seen in the amount of overtime-work group (more than 50 hours per week) decreased by 1.7 percent while the labor group that works 30 – 49 hour per week increased by 1.3 percent.

With the deep contraction of global economy, orders from foreign countries were lessen; some entrepreneurs shut down their factories and lay off workers. The number of insured persons claimed for unemployment benefit increased from 82,000 people in the same period of last year to 245,000 people or increased by 198.8 percent. The main reasons for layoff were business losses, decline of orders, end of production season, business downsizing, and end of employment contract. The top-five production sectors that recorded high layoff were: textile, electronic, mineral product, computer maintenance, and garment.

In the first quarter of 2009, there were 385,460 corporations registered with Social Security Office which increased by 0.5 percent. Also, there were 8.64 million people insured under social security program, decreased by 2.1 percent from the same period last year. The world financial crisis and Thai political situation were unfavorable factors to the investment environment which also discouraged the opportunity to find a new job. This was witnessed by the increase of new job applicants of 52.8 percent, while available job positions decreased by 32.5 percent. Thus, the ratio of vacant jobs to applications at the end of March 2552 dropped to 0.36 from 0.71 and 0.55 at the end of September and December 2551 respectively, indicating that unemployment likely to increase further.

- **External stability**
  - **Current account registered a large surplus.** In the first quarter, inbound tourism receipts increased at it normal pace over tourism season. However, outbound tourism expenditure substantially declined and thus resulted in a marked service account surplus. Combined with the high surplus in trade balance, current account recorded a surplus of 9,112 million USD which is equivalent to 32,580 million baht.
  - **Foreign reserves remained in check**. At the end of April, foreign reserves stood at 116.83 billion USD (with the net forward position of 3.58 billion USD), increased from 111.01 billion USD at the end of December 2008 (with the net forward position of 6.96 billion USD), which is 4.9 times of external short-term debt and equivalent to 12.6 months of import value in March (which was at 9.26 billion baht).

- **Fiscal balance continued to record deficit for two fiscal quarters in row due to the shortfall in revenue collection.** In the second quarter of FY 2009 (January – March 2009), the total government revenue collection was at 284,362 million baht, declined from the same quarter of FY 2008 by 6.5 percent and lower than its target by 44,440 million baht (or 13.5 percent). The shortfall of revenue collection was attributable to the decline in revenue from consumption-base tax, particularly value added taxes that declined by 20.7 percent as import and consumption contracted. Personal income taxes declined by 3.0 percent from the same quarter last year. The shortfall of revenue



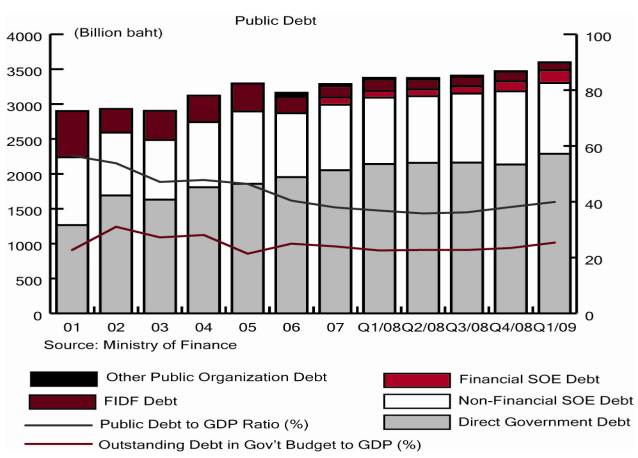
Source: Ministry of Finance

from income tax was attributable to change in tax policy such as the increase of tax exemption bracket from 100,000 baht to 150,000 baht and the reduction of excise rate for gasoline of 9.1 percent due to the extension of "6 months 6 measures" stimulus package.

On expenditure side, the total disbursement was at 567,441 million baht, increased by 41.1 percent from that of in the same period last year. Budget disbursement can be categorized into annual budget disbursement of 523,041 million baht and carry-over budget disbursement of 44,399 million baht. Therefore, budget balance recorded a deficit of 283,079 million baht, compared with 98,029 millions baht in the same period of last fiscal year. With surplus of non-budgetary balance of 97,466 million baht (from principal repayment account and from an issuance of government bonds and treasury bills of 175,530 million baht), cash balance (after borrowing) registered a deficit of 10,083 million baht.

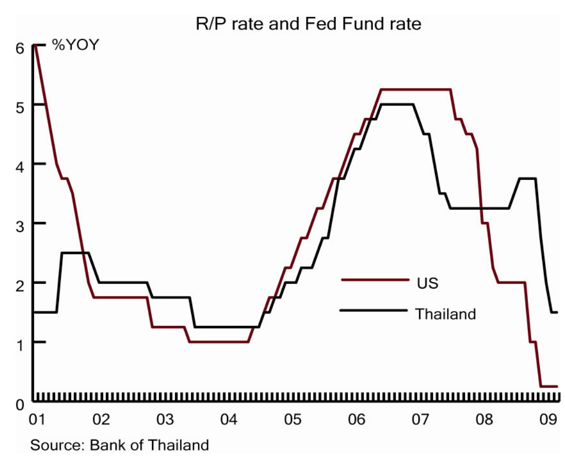
In the first half of FY 2009 (October 2008 - March 2009) total disbursement was at 885,713 million baht which is 54.4 percent of total expenditure budget of 1,957,700 million baht (including supplementary budget of 116,700 million baht). The disbursement of supplementary budget was at around 36,729 million baht under major programs namely: "2,000 baht cash handout" (amount 16,231 million baht), "15 year free education" (14,005 million baht) and "6 months 5 measures" package (6,392 million baht). Capital budget disbursement was at 128,178 million baht equivalent to 31.2 percent of total capital budget, lower than 39.5 percent disbursement rate in the first half of FY 2008.

Public Debt at the end of February 2008 stood at 3.6 trillion baht, which is equivalent to 39.9 percent of GDP, slightly increased from outstanding debts at the end of December 2008 of 38.1 percent of GDP. In February, direct government debt was at 63.6 percent of total debt outstanding. Public outstanding debt increased by 127,050.2 million baht at the end of February, which is equivalent to 3.7 percent increase from outstanding debt in December. The increase in public debt was mostly due to the increase of direct government domestic debt.



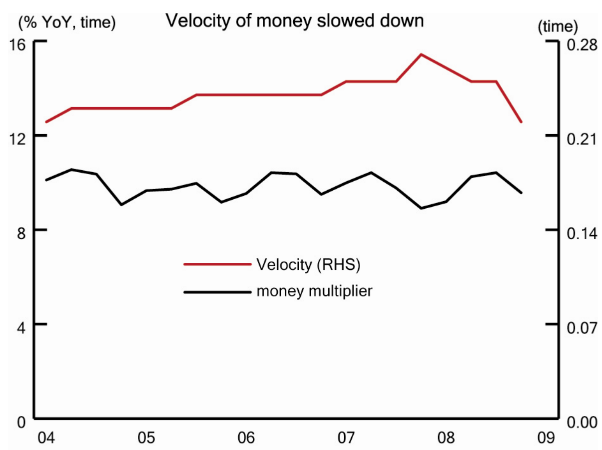
- **Financial conditions: Policy rate lowered continuously and money market interest rate declined accordingly, Real interest rate decreased throughout the quarter, before increase slightly in April. Deposit and loans growth rate slowed down significantly, while excess liquidity rose constantly. Thai baht depreciated. Stock market index and trading volume continue to fall with recovery sign at the end of the quarter. Bond market expanded slightly.**

  - **Policy Rate**: The Monetary Policy Committee (MPC) lowered the policy rate twice, total of 1.25 percent, from 2.75 percent at the end of the fourth quarter to 1.50 percent at the end of the first quarter. The decision was made on the basis of: 1) current economic contraction, 2) bearish economic outlook from further contraction in export, 3) weakening domestic consumption and investment, and 4) negative inflationary rate. Policy rates in oversea market, especially for major economic countries, were kept unchanged from multiple reductions taken during the fourth quarter of last year. US and Japan policy rate remained almost 0 percent throughout the quarter. However, there were some countries that decided to lower its policy rate to stimulate economic activities. ECB cut its policy rate by 1 percent to 1.5 percent per annum; Bank of England lowered its policy rate three times in the first quarter to 0.5 percent; Bank of Indonesia lowered its policy rate to 7.75 percent; Bank of Korea and the central bank of Philippine cut their policy rate twice to 2 and 4.75 percent respectively. **In April**, most of the countries kept their policy rates unchanged except Thailand and European Union. Both countries decided to lower their policy rate further by 0.25 percent, ending their rate in the same level at 1.25



World Policy Rate								
	2008				2009		Present	Inflation
Country	Q1	Q2	Q3	Q4	Q1	Apr	rate (%)	rate (end of Apr09)
Thailand	-	-	0.5 ↓	1.00 ↓	1.25 ↓	0.25 ↓	1.25	-0.9
United State	0.75 ↓	0.25 ↓	-	0.75 ↓	-	-	0.25	-0.4 (Mar)
Euro	-	-	0.25 ↑	1.75 ↓	1 ↓	0.25 ↓	1.25	0.6 (Mar)
China	-	-	0.27 ↓	1.89 ↓	-	-	5.31	-1.5
Japan	-	-	-	0.4 ↓	-	-	0.10	-0.3 (Mar)
Taiwan	0.125 ↑	0.13 ↑	0.125 ↓	1.5 ↓	0.75 ↓	-	1.25	-0.5
Malaysia	-	-	-	0.25 ↓	1.25 ↓	-	2.00	3.5 (Mar)

source: CEIC



Source: NESDB, Bank of Thailand

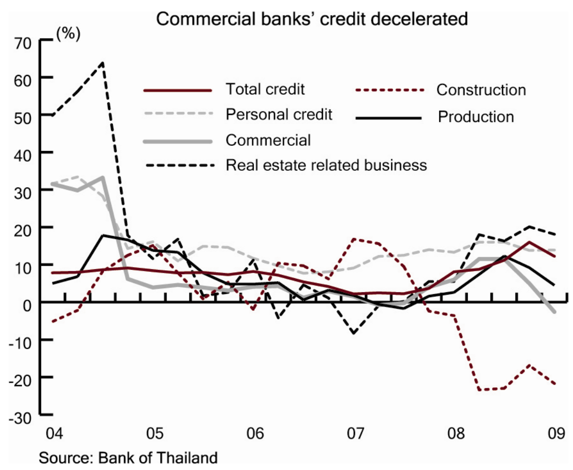
percent per annum.

- **Commercial banks' deposit and lending rate declined in tandem with a reduction of policy rate, while the real interest rate slightly decreased.** At the end of the first quarter, an average 3-month and 12-month time deposit rates of the five commercial banks declined from 1.62 and 1.88 per annum to 0.75 and 0.88 per annum respectively, while MLR lending rate decreased from 6.88 to 6.25 per annum. During the first quarter deposit had declined due to: 1) policy rates cut proven to have higher impact toward deposit rate than MLR lending rate which resulted in rapid decline of deposit rate, 2) weakening income, and 3) higher return can be generated from alternative investment like bond market and bill of exchange (B/E). Real 12-month deposit rate decreased from 1.48 to 1.08 per annum, in correlation with policy rate cut. Meanwhile, real MLR lending rate remains stable at 6.45 compared to 6.48 per annum at the end of last quarter. All owe to a small reduction in MLR lending rate, around 0.6, and negative inflation rate, recorded at negative 0.2 percent. In April, real deposit and MLR lending rate were increased from significant drop in the inflation rate; recorded at negative 0.9 percent. This will pose limitation on effectively carrying out monetary policy, especially in the present time where financial institutions have high caution about credits expanding.

- **Money multiplier and Velocity of money evidentially declined.** This retraction reflect limitation on effectively carrying out monetary policy, especially in the present time where economic still in recession, confidence level remains low and financial institutions have high caution about credits expanding.

- **Commercial Banks' deposits growth rate slowed down**. At the end of the first quarter of 2009, commercial banks' deposits increased by 3.9 percent, compared with 7.8 percent of expansion in the forth quarter of 2008. Commercial banks' deposits expanded at slower rate in all account type and in all deposit size; especially in fix account which increased by 4.7 percent compared to 12.7 percent expansion at the end of the forth quarter 2008. Depositors' saving preference was gear toward higher return instrument like bill of exchange (B/E). Thus, demand for bill of exchange had significantly increased from 17.6 percent expansion in the last quarter to 44.2 percent expansion. On the other hand, this reflects the depositors' confidence on the stability of Thai Commercial Banks.

- **Business credits expanded at a slower pace, while personal credits slightly increased.** Loans extended



by Depository Corporation expanded slowed down from 10.2 percent in the forth quarter of 2008 to 8.0 percent at the end of the first quarter of 2009. Incorporate with reduction in lending rate, it reflected 1) stricter loan standard to better manage default risks that usually rise during the period of economic slowdown, and 2) lower demand for credits under weakening consumption and investment. Loan to all business sectors had slowed down to 5.37 percent, compare to 11.2 percent expansion in the forth quarter of 2008. While, household credits increased slightly from expansion in housing loan by commercial banks' and Specialized Financial Institutions (SFI). Credit card spending and cash withdrawal declined owing to concern over income prospects and deteriorating economic condition. Credit card outstanding balance slowed down to 3.7 percent, compare to 5.5 percent expansion in the previous quarter.

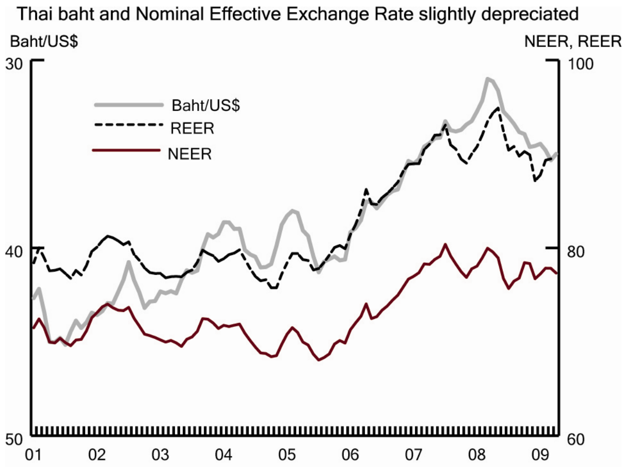
- **Liquidity and excess liquidity in commercial banking system[7] accelerated**. Credits (exclude repurchase position with the Central Bank) to deposit (include bill of exchange) ratio decreased form 87.3 percent to 83.4 percent, resulted from slow down in credits that was greater than slow down in deposits. This is consistent with acceleration of excess liquidity in commercial banking system (include repurchase position with the Central Bank) which was approximately at 1.39 trillion baht at the end of the first quarter, equivalent to 26.8 percent expansion compare to the same period last year. This was mainly attributed to expansion of repurchase position with the Central Bank. However, the liquidity in commercial banking system will be tightened at the end of the year because: 1.) greater demand on capital by central government; higher budget deficit and investment capital needed for investment program under stimulus package 2, and 2.) improvement of economic status; create higher demand for both business and personal credits.
- **The ratio of NPLs to credit outstanding increased.** NPLs in financial institutions (excluding BIF and credit fanciers) had increased to 230.18 billion baht at the end of first quarter, equivalent to that private sector started to experience liquidity shortage from reduction in sale volume and earning.
- **Commercial banks earning increased.** Net profit of commercial banking system was at 19.5 billion baht, increased by 7.3 billion baht from the last quarter. The advance in earning were attributed to 1) an increase in non-interest earning, especially in foreign exchange transactions and 2) reduction in reserve requirement for bad debts from decline in credit outstanding. However,

[7] Bank of Thailand has define definition of excess liquidity as follow: summation of 1) 50 percent of commercial banks' investment in government and Bank of Thailand bond, 2) 90 percent of repurchase position (RP), and 3) 40 percent of net foreign assets

interest revenue was decrease; confirmed by decline in net interest margin (NIM) from 3.36 percent to 2.95 percent annually. Net profit in the first quarter of 2009 compare with the same period of last year decreased by 6 billion baht from lower income, both interest income and dividend account and non-interest income account.

- **Thai baht depreciated both in nominal and real effective terms.** An average exchange rate in the first quarter of 2009 was at 35.31 baht per Us Dollar, depreciated by 1.54 percent from the previous quarter. While, deeper depreciation was recorded, 8.09 percent, if compare with the same period of last year. Depreciation of Thai baht and regional currencies caused by shift in investment toward safer currency, like US dollar. This movement was intensified as US financial situation had improved and promptly action by US government to stimulate economic activities and address liquidity problem. Comparing Thai baht against other currencies, Thai baht significantly appreciated against Pound Sterling and most regional currencies except Japanese yen, Hong Kong dollar, Philippine peso, EURO and Chinese RMB. Therefore, average nominal effective exchange rate (NEER) and real effective exchange rate (REER) slightly depreciated by 0.25 and 0.28 percent respectively regarding the forth quarter of 2008. **From April to 15th May**, the average exchange rate was at 35.20 baht per US dollar, slightly appreciated from the average in the first quarter. Partially from surplus in current account and the increase in net buy from foreign investors in SET index.

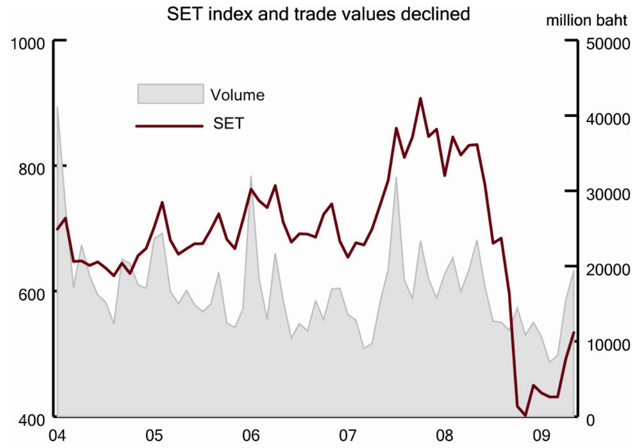
Thai baht and Nominal Effective Exchange Rate slightly depreciated



Source: Bank of Thailand

- **SET index and trading volume continually declined.** In the first quarter, average daily trading value was 8.65 billion baht, declined from average 12.61 billion baht in the fourth quarter last year. Throughout the first quarter, SET index fluctuated in range of 411.27 – 478.69 points inline with oversea stock markets. During January through to February, SET index continued to drop as fear of steep contraction in world economic had increased. This perception has dampened investors' confidence, which drive investor toward safer assets like US dollar, bond, and gold. In the first quarter, foreign investor recorded a net sale of 5.55 billion baht declined from 37.22 billion baht in previous quarter owed to net buy position in March. The switch in investment pattern in March caused by: 1) investors believed that the financial crisis has bottomed out and the world economic recovery will faster than previously expected, as many economic indicators has improved, and 2) US financial bailout package and stimulus packages, release by both developed and developing countries, had shed light over investors' confidence. Both factors mention above remain a key driver till now. At the end of the first quarter, SET index closed at 431.50 points slightly dropped from 449.96 points at the end of the fourth quarter last year. **At 15 may 2009**, SET index closed at 533.92 points equivalent to 24 percent spike from the end of March. Average trading volume (1 April – 15 May, 2009) increased to 19.4 billion baht.

SET index and trade values declined



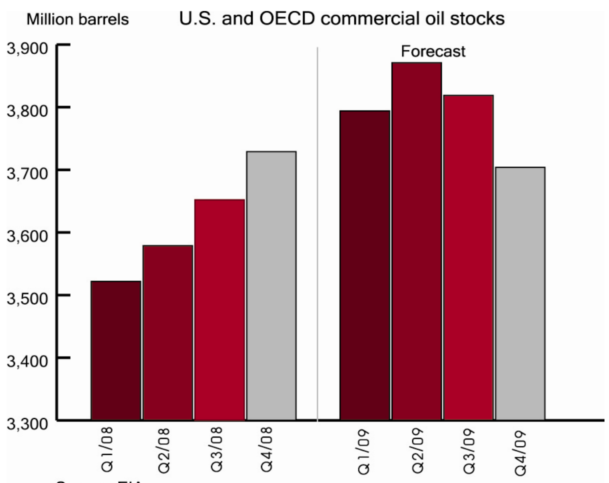
Source: The Stock Exchange of Thailand

- **Bond trading increased**. Daily average outright trading in the first quarter slightly increased to 68.1 billion baht from 65.7 billion baht in the forth quarter of last year. Slight escalation in trading volume caused by increasing amount of government bond in primary market and rearranging of portfolio investment from stock markets and saving accounts. Government bond yield spread fluctuated in narrower range. Bond yields for maturity was less than 3 years declined by 9 - 48 basis points concurrent with policy rate cut. However, medium - long

Capital Flow and Trading value of Foreign investors

End of period	2006	2007		2008				2009
	Year	H1	H2	Q1	Q2	Q3	Q4	Q1
Net Capital Flow (billions of USD)	5.72	-1.97	-1.01	13.16	-3.13	0.69	1.64	NA.
Net value of Foreign investor in SET (billions of Baht)	55.02	66.90	-40.29	-13.89	-36.07	-74.78	-37.23	-5.55
Net value of Foreign investor in BEC (billions of Baht)	35.53	-18.66	4.61	29.08	26.48	8.78	4.04	-1.95

Source : BOT, SET, ThaiMBA



Source: EIA

terms maturity bonds yields increased by 8 – 36 basis points as investors expect increase in issuance of government bond to support government investment in the second quarter onward. Thus, medium – long terms bonds investment was deferred in the first quarter. Net sell of foreign investors recorded at 1.95 billion baht, compared to net buy of 4.04 billion baht in the last quarter. **During 1st of April to 15th of May 2009**, daily average outright trading was at 69.6 billion baht resulted from higher trading volume by foreign investors.

- **Corporate fundraising decreased significantly from the same period of last year, while role of debt security had increased**. In the first quarter private fundraising was at 199.8 billion baht, compared to 317.4 billion baht in the same period of last year. Fundraising through equity securities declined from 22.5 billion baht to 10.5 billion baht. On the other hand, debt securities issuance notably increased to 79.59 billion baht from 39.92 billion baht in the previous quarter. This is due to credit rating of large corporation still remaining high and tighter lending practices by financial institution. Most debt securities issuances were from energy and real estate sector. Meanwhile, financial sector fundraising had declined because of sound cash flow and high level of disposable liquidity.

❑ **Trend of oil price**

- **World crude oil price: continue to decline.** In the first quarter of 2009, average world crude oil price (Dubai, Brent, Oman, and WTI) was at 44.3 US dollar per barrel, declined by 53.2 percent from the same period of previous year, which was decreased for four consecutive quarters[8]. Reflecting the impact of the economic turmoil, many countries confronted with economic recession, as global demand has contracted in parallel with global oil production in the first quarter decreased further than expected. According to the increasing in the oil production of non OPEC country such as North Sea countries, Former Soviet Union (FSU), and Latin America. In this quarter, non OPEC country produced oil at the average of 50.28 million barrel per day, more than EIA estimated by 0.7 million barrel per day. Moreover, the declined in OPEC oil production was not reached the target of the consensus of the OPEC meeting[9]. In the first quarter, OPEC (11)[10] produced oil at the average of 25.92 million barrel per day, while the set target was at 24.85 million barrel per day. This affected to a surplus in crude oil stock.

[8] The Dubai crude oil price was averaged at 44.27 US dollar per barrel, decreased by 51.6 percent. The average Oman oil price was at 44.60 US dollar per barrel, decreased by 51.7 percent. Together with Brent and WTI oil price were averaged at 45.43 and 43.07 US dollar per barrel respectively, declined by 53.0 and 56.1 percent consecutively.

[9] In OPEC meeting on 17th December 2008, OPEC made a consensus to reduce oil production of OPEC (11) in September 2008 to 4.2 million barrel per day from 29.05 million barrel per day, effective on 1st January 2009. The latest meeting on 15th March 2009, OPEC decided to maintain the level of oil production at 24.85 million barrel per day.

[10] OPEC country (12): Algeria, Angora, Ecuador, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, United Arab Emirates, and Venezuela. OPEC country

- **Domestic retail petrol prices decreased in tandem with world oil price.** In the first quarter of 2009 domestic retail price of all petroleum products decreased. Retail Benzene 95 and 91 prices were at 32.95 and 25.22 baht per litre, decreased by 1.3 percent and 21.7 percent in the same period of previous year respectively. Gasohol 95 and 91 prices stood at 20.88 and 20.06 baht per litre, decreased by 28.9 percent and 29.8 percent respectively. High speed diesel and bio-diesel (B5), average price were 19.74 and 17.90 baht per litre, decreased by 33.7 and 38.3 percent respectively.

Crude Oil Price

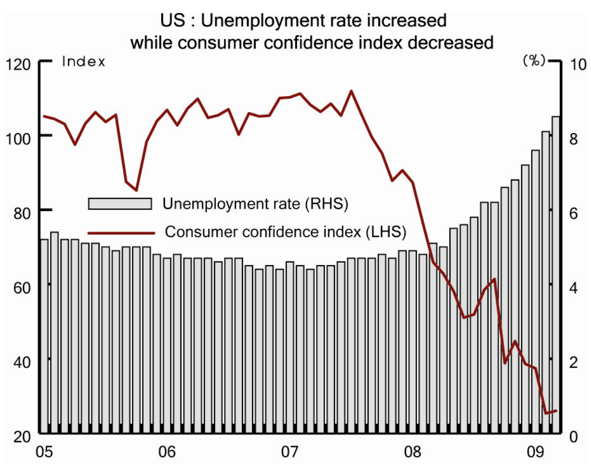
US$/Barrel		OMAN	DUBAI	BRENT	WTI	Avg.
2007	Year	68.75	68.83	72.60	72.64	70.70
2008	Q1	92.34	91.50	96.72	98.03	94.65
	Q2	117.75	117.02	112.21	124.02	120.25
	Q3	114.16	113.32	116.24	117.85	115.39
	Q4	53.21	52.75	56.54	58.89	55.35
	Year	94.37	93.65	97.93	99.69	96.41
2009	Q1	44.60	44.27	45.43	43.07	44.34
	Apr.	49.77	49.71	51.13	49.88	50.12
	4 M	45.76	45.49	46.69	44.60	45.64
	1-21 May	56.79	56.68	57.04	57.69	57.05

Source : Reuter

Retail Petrol Price

Baht/ litre		ULG95	UGR91	Gasohol			HSD	HSD B5
				95E10	95E20	91E10		
2007	Year	29.18	28.32	26.17	-	25.62	25.66	24.95
2008	Q1	33.39	32.22	29.38	27.47	28.57	29.78	29.04
	Q2	38.43	37.26	34.12	32.22	33.29	36.35	35.47
	Q3	39.72	37.87	31.37	30.05	30.56	36.21	35.52
	Q4	29.79	26.35	21.01	19.72	20.20	22.70	21.55
	Year	35.33	33.43	28.97	27.37	28.16	31.26	30.39
2009	Q1	32.95	25.22	20.88	19.36	20.06	19.74	17.90
	Apr.	37.08	29.45	25.65	23.35	24.85	23.05	20.05
	4 M	34.36	26.22	22.02	20.33	21.22	20.56	18.43
	1-22 May	37.87	30.27	26.47	24.17	25.67	23.50	20.50

Source : EPPO



Source: CEIC

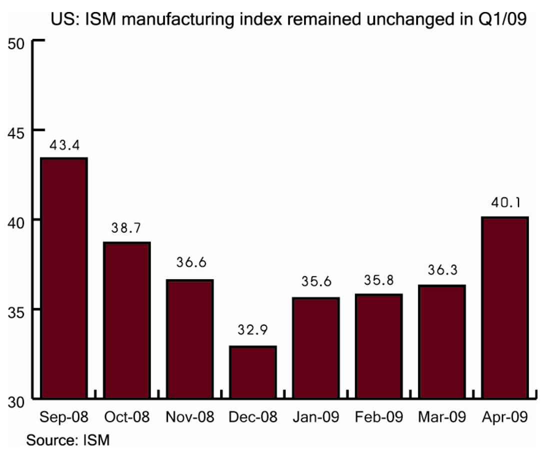
1.2 World Economic Performance in Q1/2009

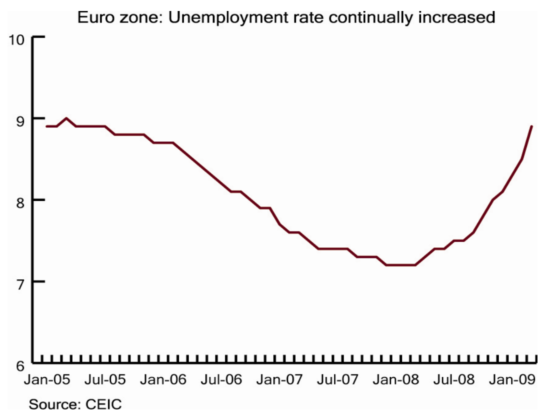
In Q1, global recession was deepening and turned the world economy into the worst crisis in 80 years. GDP in the US, Europe and Japan declined at an alarming rate. Global trade and manufacturing production contracted at a faster pace and resulted in severe economic recession in NIEs and other ASEAN export-dependent economies. Other countries faced with either sharp slowdown or contraction. Overall, the global economy in the first quarter was heading to a broader base downturn. Some emerging countries in Central Europe and Latin America experienced with financial difficulties due to the reduction of capital inflow that coincided with capital flight as well as the tighter condition in international financial market. The severely global crisis led Brazil, Russia India and China (BRIC countries), which once seem relatively immune to global recession, to serious slowdown (China and India) and economic contraction (Russia and Brazil). The developments in major economies in the first quarter can be summarized as follows:

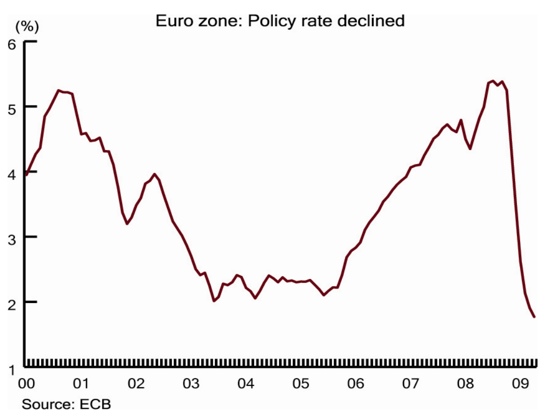
- **The US economy contracted for three consecutive quarters.** In the first quarter, the US GDP plunged by 2.6 percent, a faster pace of economic contraction than that of 0.8 percent in the last quarter of 2008. In term of quarter on quarter, the US economy plunged by 6.1 percent compare to 6.3 percent in previous quarter, indicating continued severe contraction of economic activities in the first quarter. The contraction led by the sharp reduction of inventory accumulation and a strong investment contraction both investment in machinery and construction. Government spending declined due to the reduction of expenditure on defense. However, consumption spending increased.

  Supported by tax withheld and a better credit market condition, private consumption expanded by 2.2 percent in the first quarter, compare to a contraction of 4.3 percent in the fourth quarter of 2008. Consumption of durable goods increased by 9.4 percent compare with 22.1 percent contraction in the last quarter of 2008. Export and import declined by 30.0 and 34.1 percent respectively while private investment declined at an alarming rate of 51.8 percent.

  On production side, though ISM manufacturing index slightly picked up to 36.3 percent, it pointed to a further contraction of economic activities. Housing market remained weak although existing and new home sales increase in February. Unemployment rate continued to increase, from 7.6 percent in January to 8.5 percent and 8.9 percent in May an April respectively. The layoffs are particular high in services sector, manufacturing sector and construction sector. Against this development, the Federal Reserve extended its qualitative easing measure worth 1.25 trillion USD to







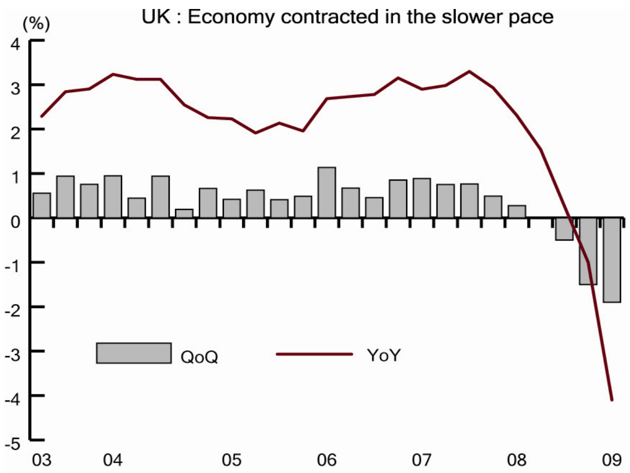
purchase up to 300 billion USD of long-term Treasuries and up to 750 billion USD of agency mortgage-backed securities while kept its policy rate unchanged at 0 - 0.25 percent.

- **The Euro Zone Economy (16) contracted for four consecutive quarters.** In the first quarter of 2009, Euro zone economy contracted at a faster pace of 4.6 percent (YOY), compare to that of 1.4 percent in the last quarter of 2008. In terms of quarter on quarter, Euro zone GDP plunged further by 2.5 percent, accelerated pace of contraction compare to that of 1.6 percent in the fourth quarter of last year. The sharp economic contraction led by severely downturn in major members such as Germany (contracted by 3.8 percent (QOQ), the fastest pace since 1970), Italy (contracted by 2.4 percent (QOQ), the fastest pace since 1980), and France (contracted by 1.2 percent (QOQ).

The sharp economic contraction in Euro zone is due to the deepening production contraction and tightening financial conditions that caused domestic demand to decline. Although several countries have launched economic stimulus packages, in particular measures to support automobile production in Germany, France, Italy and Spain, industrial production in March continued to retreat by 20.2 percent, from the same period last year, the fastest contraction pace since 1976.

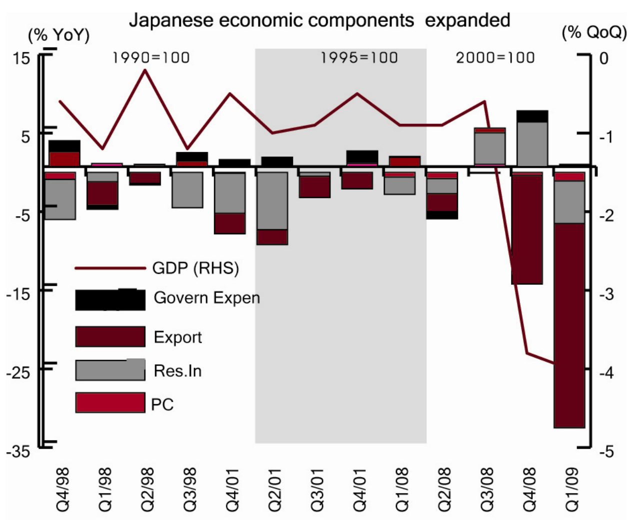
Likewise, construction production index in February markedly declined by 11 percent. Meanwhile export sector which is the main growth driver shrank by 20.3 and 17.0 percent in February and March respectively. The sharp contraction in production and export raise layoff pressures. Unemployment rate continually escalated to 8.9 percent in March, the highest level since July 2005. Domestic demand continued to decline in tandem with production contraction and the rise in jobless rate. In March, retail sales retreated by 0.6 percent from the previous quarter and 4.2 percent from the same period last year. Against this negative development, the European Central Bank lowered its policy rate further by 0.50 percent in March, 0.25 percent in April, and another 0.50 percent in May. As a result, lending and deposit rate declined to 1.75 and 0.25 percent respectively.

- **The UK Economy plunged for three consecutive quarters.** In the first quarter of 2009, UK economy plunged from the same period last year by 4.1 percent, compared to that of 1 percent in the previous quarter. In terms of quarter on quarter, the UK economy contracted at a faster pace of 1.9 percent, compare to 1.5 percent in the last quarter of 2008, which is the fastest pace of economic contraction since 1979



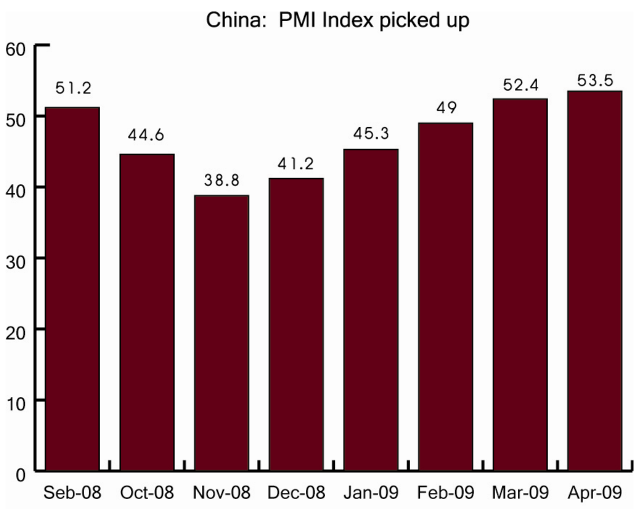
Source: CEIC

The sharp contraction of economic activities negatively effected labor market. Jobless rate picked up gradually from 5.3 percent in the fourth quarter last year to 7.1 percent in the first quarter of 2009. Manufacturing and service sector contracted severely. Manufacturing sector shrank by 5.5 percent in the first quarter led by 6.2 percent contraction of industrial sector, 3.4 percent contraction of mining and quarrying sector while electricity, gas & water production declined by 1.9 percent. Nevertheless, real estate sector expanded 4 percent due to strong expansion of business transaction in London. Meanwhile, the decline in export caused current account to record a deficit of £ 8.3 billion in the first quarter, slightly higher than the deficit £ 8.0 billion in the fourth quarter last year. To stimulate economic activity, the Bank of England cut its policy rate further by 0.5 percent in March



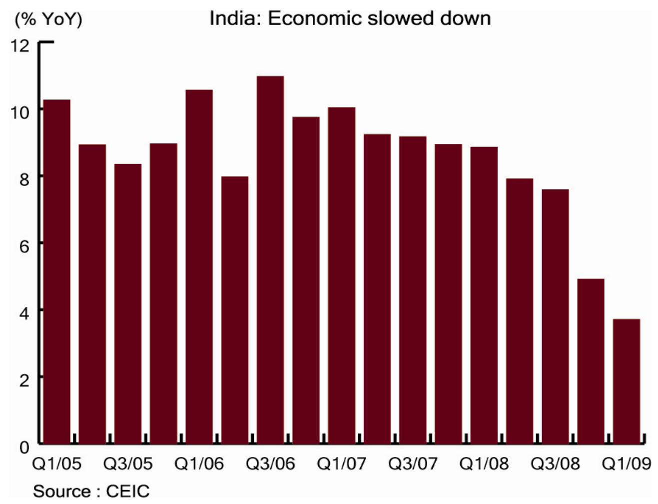
Source: CEIC

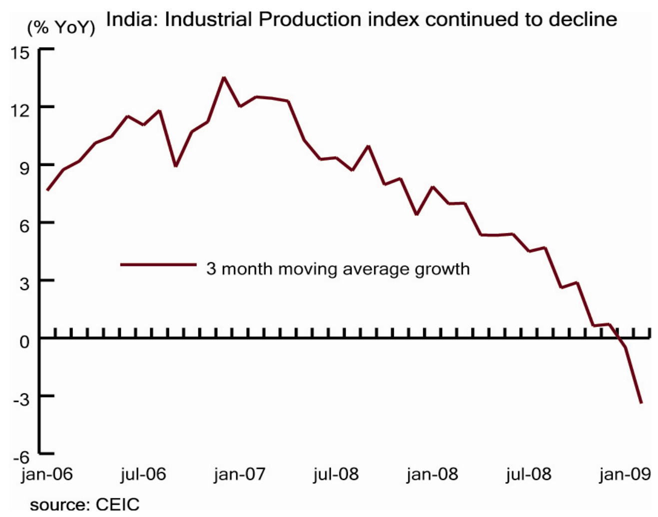
- **Japan: the deepest contraction among G-7 countries.** Japanese economy contracted by 9.7 percent (YOY), compare to 4.3 percent in the forth quarter of 2008. In terms of quarter on quarter, the Japanese economy plunged by 4.0 percent, compare to 3.8 percent contraction in the last quarter of 2008, which is the first 4 consecutive quarters contractions since 2002. The severely contraction of Japanese economy is mainly attributable to the decline in global demand as well as and Yen appreciation which resulted in 26.0 percent contraction of export in the first quarter. The trade spillovers seriously affected manufacturing production as indicated by the reduction of an average of industrial production index of 33.9 percent in the first quarter. The number of business foreclosures picked up by 14.0 percent in March. Jobless rate increased in tandem with production and investment contraction, and recorded its 4-year high at 4.8 percent in March. Together with the weak confidences, domestic demand shrank as indicated by the historically decline of retail sale index of 5.7 percent in February. 2009.

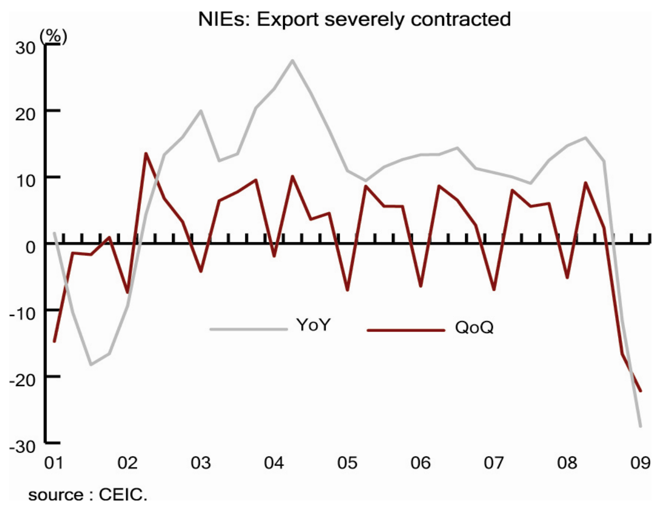


Source: CLSA

- **The Chinese Economy** grew by 6.1 percent (YOY), the slowest pace in 10 years. In the first quarter, the Chinese economy expanded by 6.1 percent, slowed down from 6.8 percent in the last quarter of 2008, which is the weakest expansion in a decade. The slowdown led by the weakening external demand. Export retreated by 19.7 percent with the sharp decline in export to US, EU, and Japan of 14.8 percent, 22.1 percent, and 16.1 percent respectively. Meanwhile import declined markedly by 30.7 percent. However, the domestic demand which is the main growth driver of Chinese economy continued to expand robustly which is attributable to implementation of government stimulus package worth 4 trillion RMB (586 billion USD) as well as credit expansion extension by government banks. In





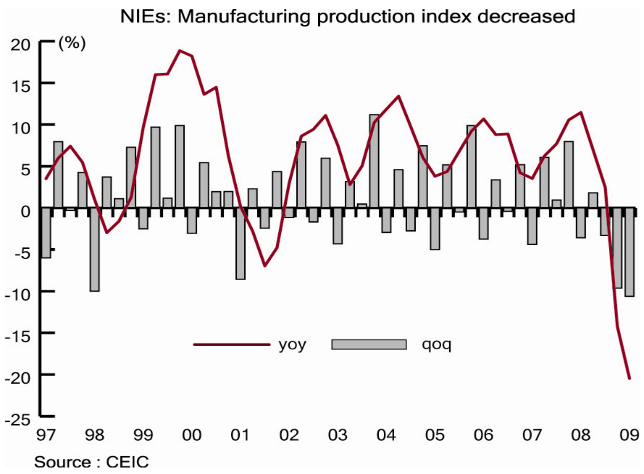


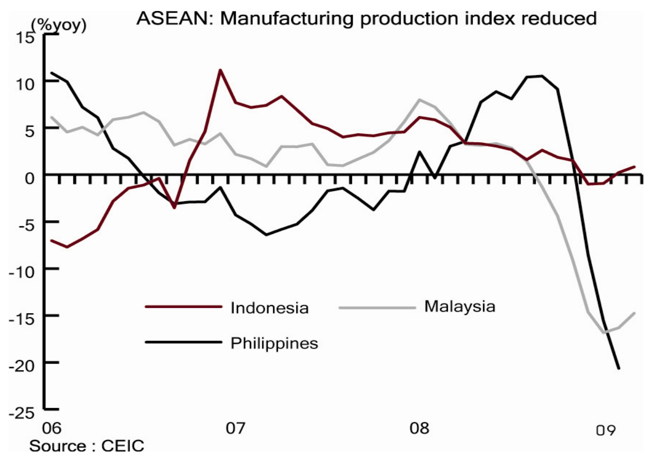
the first quarter, credit extension recorded 34.95 billion RMB, a 27.1 percent expansion from the same period last year. These measures helped relief the negative effects of export contraction and stimulate domestic economy to recover. Investment picked up by 28.8 percent, the fastest pace expansion since the second quarter of 2006. Retail sales index increased by 14.7 percent in March, accelerated from 11.6 percent in February. Purchasing Managers Index (PMI) continued to rise to higher than 50 points in March.

- **The Indian Economy** in first quarter of 2009 likely to expand by 3.7 percent (YOY), slowdown from 4.9 percent in previous quarter, which is the slowest pace since 1997. The weaker performance of Indian economy was mainly attributable to export demand reduction in particular demand for electronic goods and automobile. Export markedly declined by 21.7 and 33.0 percent in February and March respectively. Against this development, the Indian government announced the economic stimulus package worth 14 billion USD. Meanwhile, in order to stimulate economic activity, the Reserve Bank of India (RBI) has continually cut its policy rate since October 2008. The Repo rate and reserve Repo rate was lowered from 9.0 percent to 4.75 and from 6.0 percent to 3.25 percent respectively. In addition the legal reserve ratio was lowered from 9.0 percent to 5.0 percent to foster the credit and money supply expansion.

- **The NIEs Economies experienced with severe production contraction.** NIEs countries confronted with the drastically downturn due to export collapsed. In the first quarter, South Korean, Taiwanese, Hong Kong, and Singaporean economies drastically fell further by 4.3, 10.2, 7.8, and 11.5 percent respectively compare to the last quarter which declined by 3.4, 8.4, 2.6, and 4.2 percent respectively. Overall NIEs' export in this quarter decreased markedly by 21.2 percent (QOQ) and 27.5 percent (YOY) compare to 16.6 percent (QOQ) and 11.61 percent (YOY) in the previous quarter. Export to US, Japan, EU and China decreased by 26.9, 24.8, 30.0 and 31.3 percent (YOY) consecutively. The sharp fall in export substantially lowered capacity utilization. Manufacturing production plunged into a critical situation as indicated by a historically declined in industrial production index of South Korea and Taiwan in January by 25.47 and 43.31 percent. Similarly to Singapore, industrial production index decreased in February by 33.8 percent which is the fastest pace decline in its history.

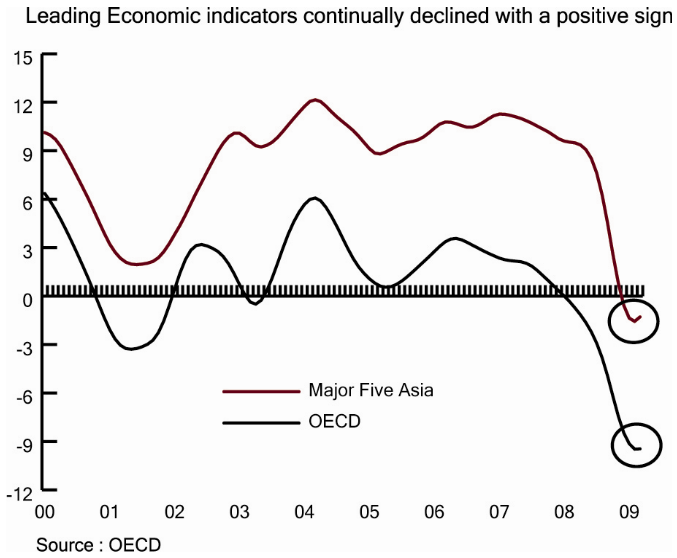
Reflecting the impact of industrial sector, labor market and domestic demand have been weakened markedly. Therefore, unemployment rate of South Korea, Taiwan, Singapore and Hong Kong in March increased to 3.7, 5.8, 3.2 and 5.2 percent respectively, ascended from 3.3, 8.3, 2.5 and 4.6 percent in January. In March, retail sale index of Taiwan and Singapore contracted by 4.5 and 7.7 percent compare with declined by 1.0 percent and expanded by 7.4 percent in January.





- **The ASEAN economies** faced with a severe negative impact from global economic downturn that resulted in foreign trade reduction as in NIEs economies. In the first quarter, the Vietnamese economy expanded by 3.1 percent (YOY) compare to 5.6 percent in the previous quarter and 7.5 percent in the first quarter of 2008. The Indonesian economy expanded by 4.4 percent, decelerated from 5.6 percent in the last quarter and 6.7 percent in the same quarter last year. While, the Malaysian economy is forecasted to contract by 4.0 percent compare to the expansion of 0.1 percent in the previous quarter and 7.1 percent in the same quarter last year. The Philippines' economy is likely to encounter with GDP contraction for the first time since 1998. Export downturn of ASEAN economies was largely attributable to the decline in manufacturing production, reflecting the spillover from global economic recession. The value of non-oil export of ASEAN economies (Malaysia, Indonesia, the Philippines and Vietnam) decreased by 24.9 percent in the first quarter. Industrial production index of each country continued to fall although the governments of ASEAN countries introduced the economic stimulus policies both in fiscal stimulation by spurring government expenditure and monetary stimulation by lowering interest rate.

2. Economic Outlook in 2009



2.1 The world economic outlook in 2009

Economic indicators in major countries indicated that the global economy will be in stabilizing process with tentative signs of recovery and likely to bottom out in Q2 and Q3. The expectation of economic recovery in the latter half is bolstered. On average, the global economic condition in the second half will be better than in the first half.

At the end of Q1 and in the early of Q2, economic indicators in major economies pointed out that the global economic activity is heading to stabilization process. In particular, leading indicators in the US and China pointed to a slower pace of economic contraction which is contributed by massive fiscal and monetary stimulation. However, Euro zone and Japan posted only little signs of recovery. The key development can be summarized as follows:

- **The US:** while most of indicators continued its downward trend in the first quarter, consumer confidence index and manufacturing activity substantially improved and is likely to bottom out. Consumer confidence index rose from its historic low of 25.3 in February to 39.2 in April. The improvement of confidences will accommodate and raise the efficiency of stimulation measures. However, the impetus of recovery remained fragile and the process of recovery can be protracted and volatile as witnessed by the decline of retail sales by 0.4 percent in April. Manufacturing ISM index picked up from 36.3 in March to 40.1 in April but remained bellow 50 and reflected continued recession. Meanwhile, ISM index for services rose from 40.8 to 43.8 over the same period. New home sales and existing home sales bounced off all-times lows of 285,000 and 4,490,000 units in January February to 331,100 and 4,710,000 units in February before slightly declined in March. The improvement in housing market reflected the historic low mortgage rates and house price as well as tax rebate for first time home buyers. Non-farm payroll continued to decline in April, but at slower pace. In addition, supported by QE measure and policy rate reduction, financial condition was significantly improved. Several large banks started to issue bonds. Fixed mortgage rate fell to a record-low level. Equities bounced by 25 percent from early March. Commodity price picked up and thus reduced the risks of deflation.

- **China:** ISM index rose for 5 months in row to higher than 50 for the first time in April to 50.1, indicating the upturn of economic activity. All sub-indexes for output, new orders, employment and quantities of purchases returned to expansion territory for the first time since July 2008. Consumer confidence declined but at a slower pace of an average 0.49 percent in the first quarter, compare to that of an average 2.2 percent in the last quarter of 2008. Investment in factory and real estate picked up from 28.6 percent in the first 3-month to 30.5 percent in the first 4-month, indicating an accelerate rate of investment expansion. These improvements were largely contributed by a massive fiscal stimulus package and credit extension by state banks..
- **Euro zone: Economic** confidence index picked up for the first time in 11 months, from 64.4 in March to 67.2 in April. PMI index for manufacturing and services showed the largest increase, from 33.9 and 40.9 to 36.8 and 43.8 over the same period. Meanwhile, export increased by 5.8 percent in February. The ECB continued to cut its refinance rate by another 0.25 percent in April and is likely to extend its lending facility. Against this background, the pace of economic contraction tends to slow down in the rest of 2009.
- **Japan:** PMI index increased for 4 consecutive months to 41.4 in April, the highest level since October 2008. Industrial production index started to pick up by 1.8 percent, after its 5 consecutive months contraction. Export showed a sign of recovery in March but still lower than that of in the same period last year by around 35 percent. Inventory declined for 3 months in row by 3.3 percent. In addition, Japanese government lunched additional stimulation package worth 15.4 million Yen (153 billion USD) to revive the economy from recession.
- **NIEs:** Exports to US and China in March, expanded 26.7 and 16.3 percent respectively, compare to the previous month.

The world economic outlook for 2009

The world economy in 2009 is forecasted to contract by (-2.0)-(-1.5) percent led by the sharp contraction of advanced economies. With the supporting of massive fiscal and monetary stimulus measures, the global economic condition is likely to improve in the latter half of 2009. The recent positive adjustment of leading indicators has bolded the confidence that the major economies will bottom out in the second or third quarter of 2009 and gain its momentum afterward. However, there are some downside risks to advanced economies to cause the process of recovery to be protracted, in particular, the massive and rising layoffs, de-leveraging in private sector, wealth destruction as well as strong and continued private investment contraction. Among the major economies, the US and China are likely to be the first economies out of recession due to massive fiscal and financial stimulation, while Japan and UK are likely to be the laggards. In addition, the recent signs of recovery remained fragile and their momentum in the rest of 2009 will be largely depend on stimulus measures in major countries. In addition, several countries including the US are likely to be more cautious about toxic assets caused by economic contraction and adverse feedback loop of excessive easing monetary condition. In this respect, the synchronized and self-reinforcing global recovery will be delayed until housing market condition, confidence, labor and credit market condition, and business profit are sufficiently improved as well as saving rate become more stable. The outlook for the remaining of 2009 can be summarized as follows:

- The major industrialized economy is forecasted to contract by 3.8 percent compare to an expansion of 2.7 percent in 2008. The US economy, in the base case scenario, is forecasted to contract further but at a slower pace of 1.7 and 1.3 percent in the second and third quarter before picking up by 1.7 percent in the last quarter. However, given recent improvements in leading indicators and financial condition as well as a sharp fall of inventory accumulation vis-à-vis consumption expansion in Q1, with the effective and timely fiscal stimulation (up to date, only 8 percent of 787 billion has been spent), flat GDP in Q3 and a stronger than base case recovery in Q4 can be expected. Supporting factors and conditions for a more robust recovery than in the base case scenario are including (i) effective and timely tax rebate to elevate real purchasing power against income reduction and rising layoffs as envisaged in the first quarter (ii) massive government spending expansion and (iii) sharp decline in inventory accumulation against the upturn of consumption sufficiently accommodate production expansion. Nevertheless, the sign of recovery in the last quarter remained fragile and subjected to the timeliness and the effectiveness of stimulus measures. Against this

World Economic Growth					
% yoy	2008				2009
	Q1	Q2	Q3	Q4	Q1
World	4.8	3.8	2.3	-0.2	-4.0f
U.S.	2.5	2.1	0.8	-0.8	-2.6
Euro zone	2.1	1.4	0.6	-1.5	-4.6
United Kingdom	2.3	1.6	0.0	-1.0	-4.1
Japan	1.3	0.6	-0.1	-4.6	-9.7
China	10.6	10.1	9.0	6.8	6.1
India	8.8	7.9	7.6	4.9	3.7f
South Korea	5.5	4.3	3.1	-3.4	-4.3
Taiwan	6.25	4.56	-1.0	-8.4	-10.2
Hong Kong	7.3	4.2	1.7	-2.5	-7.8
Singapore	6.7	2.5	0.0	-4.2	-10.1
Malaysia	7.1	6.3	4.7	0.1	-4.0f
Philippines	4.7	4.4	5.0	4.5	-1.0f
Vietnam	7.5	5.6	6.5	5.6	3.1

Source : CEIC, Public agencies and average value from many sources and NESDB Forecast

World Economic Growth					
% yoy	2006	2007	2008	2009f	2010f
World	5.3	5.2	2.8	(-2.0) - (-1.5)	3.0
U.S.	2.8	2.0	1.2	(-3.0) - (-2.5)	1.6
Euro zone	3.0	3.0	0.7	-4.2	0.2
United Kingdom	2.8	3.1	0.7	-4.3	0.2
Japan	2.1	2.4	-0.7	(-6.0) - (-5.0)	0.6
China	11.6	13.0	9.1	6.5	8.0
India	9.7	9.3	7.3	4.8	6.5
South Korea	5.1	5.1	2.2	-3.5	3.6
Taiwan	4.8	5.7	0.1	-7.7	3.1
Hong Kong	7.0	6.4	2.6	-5.0	3.0
Singapore	8.4	7.7	1.1	-8.5	3.5
Malaysia	5.8	6.3	4.6	-3.5	4.3
Philippines	5.4	7.2	4.6	0.0	4.2
Vietnam	7.9	8.2	6.3	3.5	5.6
Indonesia	5.5	6.3	6.1	3.0	5.0

Source : CEIC, Public agencies and average value from many sources

background, the US economy is forecasted to contract by 2.5 - 3.0 percent.

- **Euro zone is** likely to face with prolonged recession than the US due to the contraction of external demand, the rise in inventory accumulation without a clear sign of significant reduction and, high and rising unemployment that reached 8.9 percent in March. Nevertheless, problems in housing market are less serious than in the US and UK while business sectors are less reliance on debt market. With massive policy measures that have been taken and better prospects in export markets as well as currency depreciation, the pace of contraction is likely to slow down and the turning point to recovery can be expected in the last quarter of 2009. Against this background, the Euro zone economy in 2009 is likely to contract by 4.2 percent.

- **The UK** economy is likely to contract by 4.3 percent in 2009, due to high and rising unemployment, high leverage both in private and household balance sheets, and heavy reliance of economic structure on financial services. However, supported by quantitative easing that has relief tight credit condition and the British Pound depreciation that will support net trade, the sluggish recovery is likely to emerge at the end of 2009.

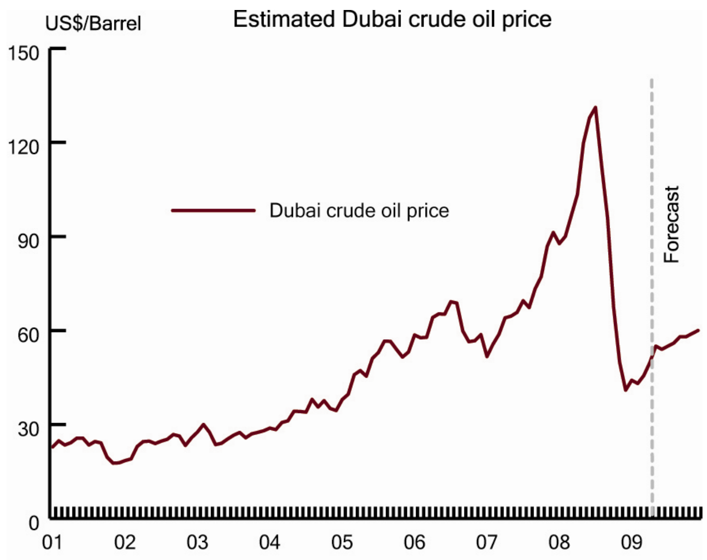
- **Japanese** economy is likely to contract by 5.0-6.0 percent. Without serious problems in financial sector, but taking into account that trade has been the biggest drag on Japanese GDP growth (contributed about five-sixths to 3.2 percent contraction in Q1) and the fact that they are expensive manufacturing goods exporter, the significant turnaround of economic activity is less likely without synchronized global recovery.

- **Growth in Asia** is forecasted to slow down substantially, due to the sharp slowdown in China and India, the contraction of advanced economies in Asia (NIEs) and other export-dependent ASEAN countries. Growth in China and India is forecasted to slow down to 6.5 percent and 4.8 percent respectively compare to that of 9.0 percent and 7.3 percent in 2008. Supported by massive fiscal stimuli, robust credit extension and better global demand condition in the second half, Chinese economic recovery is expected in the second quarter.

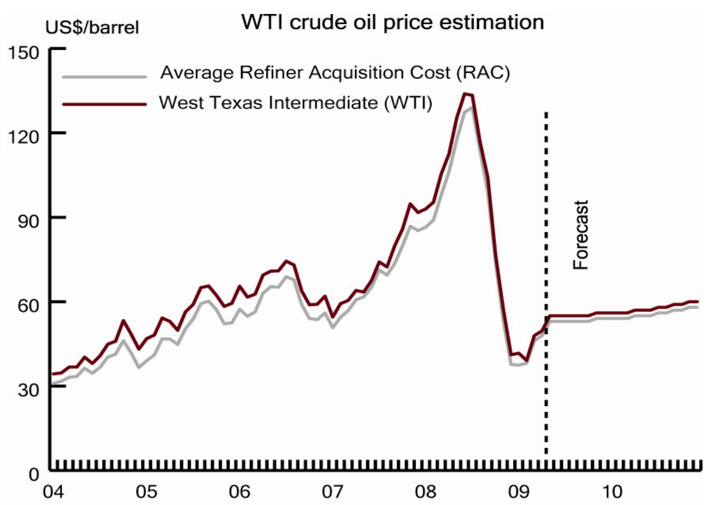
- **NIEs** will contract by 5.6 percent compare to the expansion of 1.3 percent last year. With their high external exposure, Singapore and Taiwan are likely to contract by 8.5 percent and 7.7 percent respectively while Korean economy is likely to contract by 3.5 percent due to the tight credit condition, high leverage consumer and business sectors as well as export contraction. Growth for ASEAN-4 is forecasted to be flat, as the Thai and Malaysian economies contract while growth in Indonesia and Philippines tends to slow down substantially to 3.0 percent and 0 percent respectively.

- **Latin America** is forecasted to experience with a contraction of 1.5 percent compare to the expansion of 4.2 percent in 2008, due to the decline in capital flow and tighter external credit condition. In particular, growth rate for Brazil, Mexico Argentina, Chile and Columbia is forecasted to be in negative territory. Africa and Middle East are expected to experience with a marked slowdown from 5.2 percent and 5.9 percent in 2008 to only 2.0 and 2.5 percent in 2009 due to the decline in demand and price of primary commodities as well as the slowdown in capital inflow. In addition, with balance of payment crisis in some countries, Eastern Europe and CIS economies are likely to experience with severe contraction in particular Russia and other Baltic countries.

2.2 Oil price trend in 2009



Source: Ministry of Energy, NESDB



Source: EIA

- **The average Dubai crude oil price in 2009 is expected to be around 50-60 USD per barrel, lower than an average of 93.65** USD **per barrel in 2008.** The average price in first-four months of 2009 was at 45.49 USD per barrel. Average price increased from 44.27 USD per barrel in the first quarter to 49.71 USD per barrel in April and continued its upward trend to an average of 56.68 USD per barrel during 1st -21st of May 2009 with its peak at 59.32 USD per barrel on 21st of May.

  In the second half of 2009, crude oil price is likely to be higher than the first half. This upward trend is attributable to the better signs from major economies which are likely to bottom out in the second quarter, in particular, China, the US and major economies in Asia. The continued improvement in these economies will raise global oil demand.

  According to the report on crude oil inventory, US crude oil inventories on 15 May 2009 were at 368.5 million barrels, declined by 2.1 million barrels which was larger than the forecast of 0.2 million barrels. The sharp reduction was due to the reduction of crude oil import. Meanwhile, US gasoline inventories decreased by 4.3 million barrel to 204 million barrel, larger than an expectation of 1.2 million barrel because. The large fall of gasoline inventories was attributable to the increase in demand in preparation for the upcoming of Memorial Day weekend (between 23-25 May). Furthermore, confidence of world economic recovery is likely to persuade OPEC countries to kept oil production unchanged in their meeting on 28th of May as global recovery will drive crude oil price to a suitable level in the range of 70 – 80 US dollar per barrel.

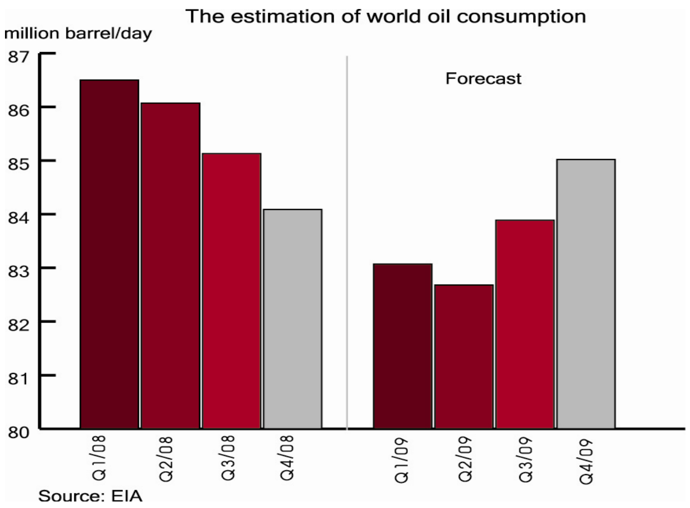
Crude Oil Prices Forecast 2009

EIA (May 09)	WTI = 51.70 USD/Barrel
UBS Securities LLC (March 09)	WTI = 47 USD/Barrel
Barclays Capital (March 09)	WTI, BRENT = 60 USD/Barrel
Merrill Lynch (March 09)	Brent = 52 US$/Barrel in 2009 and 62 USD/Barrel in 2010
Citigroup Inc. (March 09)	WTI = 48 USD/Barrel

World Oil Consumption

(million barrels per day)	Year			2009_f			
Consumption	**2007**	**2008**	**2009_f**	Q1	Q2	Q3	Q4
OECD	**49.13**	**47.33**	**45.35**	**46.19**	**44.25**	**44.92**	**46.05**
U.S. (50 States)	20.68	19.42	18.85	18.94	18.64	18.79	19.02
U.S. Territories	0.32	0.27	0.25	0.23	0.25	0.25	0.25
Canada	2.36	2.32	2.21	2.25	2.13	2.23	2.23
Europe	15.30	15.20	14.65	14.70	14.28	14.72	14.90
Japan	5.01	4.74	4.20	4.74	3.84	3.90	4.32
Other OECD	5.46	5.39	5.20	5.33	5.10	5.03	5.32
Non-OECD	**36.67**	**38.11**	**38.32**	**36.89**	**38.43**	**38.97**	**38.97**
Former Soviet Union	4.28	4.34	4.19	4.12	4.17	4.20	4.27
Europe	0.79	0.80	0.80	0.77	0.77	0.83	0.81
China	7.58	7.95	8.05	7.53	8.09	8.27	8.32
Other Asia	8.78	9.20	9.16	9.14	9.21	8.95	9.32
Other Non-OECD	15.24	15.82	16.13	15.33	16.19	16.73	16.24
Total World Consumption	**85.80**	**85.44**	**83.67**	**83.07**	**82.68**	**83.89**	**85.02**

Source : Energy Information Administration (EIA)



- **Most analysts estimated that** average WTI crude oil price in 2009 will be in its low range with the higher average price in the second half than in the first. However, with fragile global recovery, the strong upward pressure is unlikely. On average, the forecasted crude oil price in 2009 is in the range of 40-60 USD per barrel.
- **The average crude oil price in 2009 will be notably lower than** in **2008, although** the global economic recovery in the latter half of 2009 put upward pressures on oil price to be higher than in the first. The supporting factors oil price to be lower than last year are as follows:
  - **Economic recession in 2009 will significantly lower oil consumption demand.** According to the EIA's report on Oil Market Situation in May 2009, global oil demand in 2009 is forecasted at 83.67 millions barrel per day, decline by 1.77 millions barrel per day from 85.44 millions barrel per day in 2008. OECD oil consumption demand in 2009 is estimated at 45.35 millions barrel per day compare to 47.33 millions barrel per day in 2008. The reduction of OECD demand is due to sluggish demand in Japan which is forecasted to decline by 0.5 millions barrel per day. Nevertheless, the consumption demand in non-OECD countries is forecasted to increase by 0.2 millions barrel per day, from 38.1 to 38.32 millions barrel per, which is attributable to the growing demand in China, India and Middle East.
  - **An enforcement of Stop Excessive Energy Speculation Act of 2008 in USA** is expected to reduce oil price speculation. In addition, the operation of U.S. Commodity Futures Trading Commission (CFTC) is expected to close loopholes in anti-speculative rules of futures trading market.
  - **US Dollar is expected to appreciate.** The US dollar has tends appreciate further in 2009 because as foreign investors shift their investment from other regions, likes EU and Asian countries, back to the US, especially amid the signs of economic recovery. In addition, the recovery of financial sector from the crisis is likely to stimulate demand for US dollar with will eventually dampen long position in crude oil and other commodities.

2.3 Thai Economic Outlook in 2009

2.3.1 Key Assumptions for 2009 Projection

- **The world economy is expected to contract by (-2.0) – (-1.5) percent, much worsen from the expansion of 2.8 percent in 2008.** The assumption of world economic growth is revised downward from the earlier assumed growth in the range of (-0.5) – (0.5) percent which was used in the previous projection. The downward revision is due to the shaper-than-expected contraction of major economies in the first quarter, including the US, Euro zone, Japan and NIEs. Meanwhile the growth outlooks for China India, Asean-5 and other major trading partners of Thailand are downgraded, reflecting the severe negative spillovers of global crisis on international trade, manufacturing production, employment, capital flows and liquidity in global financial market.
- **Average Dubai crude oil price in 2009 is expected to be in the range of 50-60 USD per barrel, revised upward from an average 45 – 55 USD per barrel** assumed in the previous projection and higher than an average 44.47 USD per barrel in the first 4 months of 2009. This upward revision reflected the rising trend of oil price due to improving global economic prospect in the remaining of the year and the rise of speculative demand amid the signs of global recovery and improved international financial market.
- **Export price in terms of US dollars is likely to decline by 4 percent while import price will decrease at a faster pace of 8.0 percent.** This asymmetric decline will improve term of trade, and coherence with a sharper decline in import price of oil than export price of agricultural and manufacturing products.

2.3.2 Economic outlook for 2009: The Thai economy is forecasted to contract in the range of (-3.5) – (-2.5) percent with (-0.5) – (5.0) percent of headline inflation and a current account surplus of 3.7 percent of GDP.

(1) In the previous release on the 23rd of February 2009, the Office of National Economic and Social development Board (NESDB) projected that the Thai economic growth would be in the range of (-1.0) – (0.0) percent with (-0.5) – (5) percent of headline inflation and a current account surplus of 0.9 percent of GDP.

(2) In this release on the 25th of May 2009, NESDB revised the growth projection downward to a contraction in the range of (-3.5) – (-2.5) percent according to the following reasons:

(2.1) Export volume is likely to decline by more than what has been previously forecasted in the press release on the 23rd of February 2009at 6.5 percent, in line with the downward revision of global economic contraction that is likely to be worsen than that assumed in the previous projection.

(2.2) Private consumption and investment are revised downward due to the stronger-than-expected spillovers from export contraction and the negative effects from domestic political condition that aggravated economic sentiments further on top of the hit on incomes. As a result, private consumption and investment has already contracted quite significantly as witnessed in the first quarter. In this projection, private investment and consumption are forecasted to recover in the latter half of 2009 as in previous projection. However, downward revision in this projection takes into consideration their decline in the first half of the year.

(2.3) Number of foreign tourists is expected to increase at a slower pace than the target. For the whole year of 2009, the total number of foreign tourist is estimated at 13.6 million, a downward revision from an estimate of 14 million in the previous projection. This revision reflected the facts that (i) the number of tourists in the first quarter was only 3.67 million which is a 15.2 percent decrease from the same period last year (ii) in the second quarter, the tourism sector was directly affected by political unrests during Songkran holidays with possible slight effects in the second half of the year (iii) Job losses in major tourism markets continued to rise and (iv) the epidemic of 2009 flue is likely to defer traveling decision.

2.3.3 Projected Growth Components in 2009

(1) Total consumption expenditure is projected to grow by 2.0 percent, slightly decelerate from 2.2 percent in 2008. However, private consumption is revised downward to 0.4 percent, from 2.2 percent in previous projection. This downward revision is due to spillovers of export slump on household incomes and spending which are likely to persist in the remaining of 2009. However, the impacts tend to ease in the latter half due to a better performance of export and production under the conditions of global economic improvement and replenishing of inventory level. Therefore, with the support of stimulus measures, private consumption is forecasted to recover in the second half of 2009.

Government consumption is projected to expand by 11.3 percent, an upward revision from 8.3 percent in previous forecast. The upward revision of government consumption reflected an acceleration of government budget disbursement in the remaining of the year, in particular the budget disbursement of SPI which is likely to be rigorous in the second and third quarters, as well as the expedition FY 2010 budget disbursement and the preparation of development projects under SPII to be ready for budget disbursement in the fourth quarter.

(2) Total investment is forecasted to decline by 6.2 percent compare to 1.1 percent expansion in 2008, which is a downward revision from 0.4 percent contraction in previous forecast. Private investment is revised downward from 3.0 percent contraction in previous projection to 9.7 percent contraction. This downward revision reflected the sharp decline of private investment in the first quarter and its tendency to decline in the remaining of the year due to excess production capacity, sluggish and fragile recovery of global demand, weak investor and business confidences as well as lower foreign direct investment and tight international credit market condition. Public investment is, however, projected to expand by 5.0 percent, a downward revision from 8.0 percent in previous projection, reflecting its strong contraction in the first quarter.

(3) Value of export in US dollar terms is projected to decline by 15 percent, a downward revision from 13.1 percent contraction in previous forecast. Growth of export volume is downgraded from 6.5 percent contraction to 11.1 percent contraction to take into consideration its sharper-than–expected decline in the first quarter and the revised global growth assumption of (-2.0) – (-1.5) percent, compared to that of (-0.5) – (0.5) percent assumed in previous projection. Export price is revised from a decline of 6.5 percent to a reduction of 4.0 percent due to the signs of commodity price recovery in international market.

(4) Import value in US dollar terms is forecasted to decline concurrently with the contraction of export and investment, the slowdown of consumption spending and the downward revision of import price assumption. Import volume is projected to decrease by 19.6 percent, compared to 14.0 percent in previous projection, reflecting the sharper decline in production, export and investment than in previous forecast. In addition, the assumption of import price is revised downward from 7.0 percent reduction to 8.0 percent.

(5) Trade balance is forecasted to record a surplus of 8.3 billion USD. Combined with surplus in service account, current account balance is projected to register a large surplus of around 9.3 billion USD which is equivalent to 3.7 percent of GDP, an upward revision from previous projection of 0.9 percent of GDP. The surge in current account surplus is mainly due to the downward revision in both import quantity and price to the greater extent than those of exports.

(6) Inflation is projected to be in the range of (-0.5) – (0.5) percent, unchanged from previous projection. Although oil price tends to increase in the latter half of 2009, the weak labor market condition and domestic demand will help suppress price pressure in the remaining of 2009.

(7) Unemployment rate is forecasted to be in the range of 2.0 – 2.5 percent which is equivalent to approximately 7.8hundred thousand unemployed persons, a downward revision from 2.5-3.5 percent in previous projection. This revision is attributable to the sign of labor market bottoming out reflected in the highest claims for unemployment benefit in January-February. Moreover, new recruitment has been seen in various industries; for example, electronic industry that started to recruit more workers in April and early May.

2.3.4 Production side: Overall production in 2009 tends to contract, comparing with 2008. Production side outlook is as follows:

(1) **Agriculture Sector:** In 2009 agricultural production tends to decline from that of in 2008 due to (i) the contraction of the global economy that drags on demand for agricultural commodity (ii) the strong increase in agricultural price in 2008 induced importing countries to expand their production to foster food security system (iii) tougher price competition with the rising bargaining power of importing countries that will lower agricultural prices in global market. The slower pace expansion of agricultural price and production will reduce the pace of farm income expansion in 2009 to lower than in 2008. However, government measures such as pledging scheme for agriculture products and measures to foster agricultural product development to market need. These measures will positively contribute to agricultural production. Outlook for major agricultural production is as follows:

- **Rice:** Rice production both in the first and second crops tends to decline both in terms of quantity and plantation areas as farmer increased rubber and cassava plantation area at the expense of rice plantation area. In addition, farmers in Northern and Central part of Thailand reduced their plantation outside irrigation area due to insufficient water for rice cultivation as well as the government does not encourage second crop cultivation. With respect to price, rice price in 2008 was high as exporting countries such as India and Vietnam cut their export quota due to the contraction in their production in contrast with the increase in demand from China. In 2009, rice price is expected to decline from its high in previous year. However, the price decline is unlikely to be a sharp fall as production in Vietnam declined and China faced with drought weather condition. Therefore import demand from China is expected to increase vis-à-vis the decline of rice supply from Vietnam. In addition, there is government scheme to support rice price.

- **Rubber:** In 2009, rubber production is likely to increase by 2.0 percent. Both plantation area and crop yield are expected to increase and stimulate production expansion. This is because the government encouraged farmers to replace their old rubber trees with high yield rubber trees. With respect to price and market condition, in 2009 demand in global market and major trading partners such as the US, China and Japan are expected to decline amid tight credit condition and the contraction of consumption and investment. Domestic demand is likely to decrease from that of in 2008 due to the contraction of domestic rubber product and tire industry. Meanwhile, due to oil price reduction, an average rubber price is likely to decline from its unusually high in 2008 to be in the range of 50-60 baht per Kilogram.

- **Cassava:** In 2009 the harvesting area and production are likely to be higher than in 2009, due to incentive from high cassava price in 2008 that induced plantation area expansion. Export of cassava is likely to be in the range of 5.2-5.4 million tons. The decline in cassava price as well as the enforcement of countervailing measure in China on the export of cassava powder from EU will positively contribute to Thailand' s cassava export. Domestic demand is also expected to rise due to the increase in demand from animal food and ethanol industry.

- **Livestock:** The production in 2009 will be relatively stable; partially due to the ebbing global economic condition. Therefore demand for foods tens to slow down which will eventually drag on Thailand's export of livestock products. However, the exporter of processing foods should pay more attention on production standard and improve their production efficiency. Meantime, government should focus on cost saving measures by locating better source of animal nutrition, cheap animal vaccine, and finding new export markets, in particular in neighboring countries and Middle East.

- **Fishery:** Fishery production is expected to slow down due to the Thai-China and ASEAN Free Trade Area which resulted in a massive inflow of low cost fishery products. The export of shrimp products in 2009 is also expected to decline due to global economic downturn and the rising trend of trade policy. In addition, competition is likely to be tougher in major market such as the US, EU and Japan as market size getting smaller. Meanwhile, export to new market will also face with high competition. Therefore, domestic producers reduce shrimp production to avoid over supply condition and to maintain product price.

(2) **Manufacturing sector:** Manufacturing production in 2009 is likely to decline. In the first half of the year, manufacturing production contracted (from it high base in 2008) in tandem with the decline in export, consumption and investment. However, the situation is likely to improve in the latter half of the year, with the support of government stimulus measure. In addition, with the massive fiscal stimuli in various countries, the world economy is likely to recover which will positively contribute to manufacturing exports in the latter half of 2009. Production sectors that are expected to recover in the second half are including electric appliances and electronic production that orders started to rise especially hard disk drive production that stated to recruit workers and clothing production. Food production will benefit from Japan-Thailand Economic Partnership Agreement (JTEPA). Canned foods production is likely to benefit from a better global demand condition. Iron and steel production tends to slow down due to ebbing private investment demand. However, in the second half, iron and steel production tends to recover due to a better condition in importing countries, in particular

orders in Q3 and Q4 started to increase, as well as the current low level of inventory that will stimulate production.

Housing Development Sentiment Index : HDSI

	2008				2009
	Q1	Q2	Q3	Q4	Q1
Listed Companies	72.6	60.7	63.1	42.8	57.7
Non-Listed Companies	64.0	51.0	53.8	37.6	43.1
Expectations Index	68.3	55.9	58.4	40.2	50.4

Source : Real Estate Information Center

(3) **Construction and real estate** sector is projected to contract due to spillover from global economic recession that reduced purchasing power and confidences, and led to stricter credit standards. Stocks of new houses in the market are also burden on entrepreneurs to find some way to drain out. However, there are some support factors for this sector especially the decline in price of consumption materials, the reduction of interest rate, the extension of tax measure for economic stimulation and the expedition of mega projects. Meanwhile the stricter credit standard is among negative factors for this sector. With respect to price, in 2009, house price tends to decline due to lower cost of production both price of construction materials and interest rate. In addition housing development sentiment index show that the next 3 months expectation index increased from 40.2 in the fourth quarter of 2008 to 50.4. This indicates housing and real estate developers believe that the economic and political condition in the latter half will recover.

(4) **Tourism:** Tourism sector is expected to slow down in 2009 due to global economic contraction and concerns over unfavorable political condition. Number of tourists in 2009 is forecasted at 13.6 million persons, a 4.8 percent decline from 2008 and lower that TAT's target of 14.0 million persons. However, the development of tourism sector over the first 4 months of 2009 indicate that the recovery in tourism sector recover at a faster pace than what was previously expected. Notably, the main conditions encouraging the target achievement are 1) vigorous cooperation between government and private sector 2) governmental budget supports to drive traveling marketing 3) improving Thai tourism image and providing mutual benefits for travelers such as exemption of visa fees and reduction of landing fees 4) launching policies enforcing government units to domestically organize seminars and meetings. Also, the shortage of liquidity issue is already relieved by minimizing taxes and fees for tourism entrepreneurs for this year. The master plans heavily stimulated the external and domestic tourism demand are implicated for example, value traveling encouragement to drive internal demands, by the slogan "Amazing Thailand: Amazing Value" and "Thailand: Super Deals and Find Thailand's Best Deals". It should be expected that security confidential reestablishment for foreigners, stability of domestic politics as well as many fabulous tourist locations in Thailand will still attract tourists to come to Thailand. All positive strengths might be the significant factors supporting the improvement of tourism sector on second half of the year.

2.3.5 Projection Conditions for High and Low cases

(1) **The high case scenario:** The Thai economy in 2009 is projected to contract by less than 2.5 percent under the following conditions (i) the improvement in global economic condition that emerged at the end of the first quarter and the beginning of the second quarter continue its trend and develop into stronger and broader recovery of major economies in the latter half of 2009 which will result in the global economic contraction of less than 1.5 percent. This global growth scenario will support Thai's exports and production to start its recovery path at the end of second quarter (ii) the implementation of stimulus measures under the stimulus package in phase 1 both in terms of disbursement of supplementary budget and agricultural price stabilizing program successfully meet the targets such that it can sufficiently alleviate the spillover from production contraction on household incomes and prevent private consumption from contraction. Similarly, the implementation of tax measures meets its targets in order to alleviate trade spillovers on business and entrepreneurs (iii) the budget disbursement of at least 94 percent of planned budget for the government and at least 80 percent of the planned state-enterprise's investment funds; and (iv) the yearly average Dubai crude oil price is not higher than 60 USD per barrel.

(2) The low case scenario: The Thai economy in 2009 is projected to contract by more than 3.5 percent under following conditions (i) the recent signs of improvement in global economic condition discontinued and the process of global recovery are protracted. In this case, export and tourist number tends to decline at a faster pace than the forecast. (ii) budget disbursement rate fall bellow 94 percent (iii) the implementation of stimulus measures under the framework of SPI is unable to

reach its targets and fail to prevent private consumption from further contraction and (iv) yearly average Dubai crude oil prices increase to higher than 60 USD per barrel.

3. Economic Management for 2009

There is a downside risk that the world economic recovery in the latter half could be sluggish and fragile with a sharper-than-expected contraction which is already experienced in the first quarter of 2009. The second quarter will continue to see world economic that lingers before a picking up could prevail in the second half of the year given that the stimulus packages will kick in more fully and be more effective. The world recession has continued to dampen international trade since the latest of 2008, and its impacts aggravated in the first quarter of this year when the impacts were more broad-based. The impacts of the world economic recession and sharp contraction of the international trade has already driven the Thai economy into technical recession considering from two consecutive quarters of (quarter on quarter) negative growth. Considering that the world economy will continue with deep recession in the second quarter of this year while the prospect of its recovery in the second half of the year remains fragile, it is, therefore, imperative for the Thai government to expedite the effective action of government measures in order to mitigate the adverse effects from global recession while stimulating the economy to grow more strongly into the longer term. Economic policy management guidelines for the second half of this are as follows:

(1) Accelerate budget disbursement in FY 2009 and the mid-term supplementary budget worth of 116,700 million baht. In parallel with such acceleration, preparation for budget allocation in FY 2010 should be prepared to be ready for front-loaded disbursement of the budget promptly in the first quarter of the FY2010 and avoid the delay of budget execution. In this respect, project prioritization and details must be laid out as soon as the FY 2010 budget is passed the first reading by the parliament. The implementation of key public investment projects under the government budget, the state-owned enterprise budget, and under the framework of the second phase economic stimulus package must also be expedited concertedly.

(2) Accelerate, the implementation of measures to provide cushion for the laid off workers. The acceleration must be carried out in compliance with efficiency and effectiveness of the policy execution which includes the scheme for unemployment compensation / welfare and training for the unemployed to improve skills in order to create opportunities for new jobs.

(3) Monitor and improve prices guarantee scheme for major crops, other subsidy schemes established as a support mechanism for farmers, and the scheme of comprehensive development in agriculture sector to ensure their efficiency, effectiveness, transparency, and accountability of their implementations.

(4) Ease monetary conditions further and support private sector to have sufficient liquidity. Soft loan and credit guarantee for SMEs will also be provided by the specialized financial institutions. The monitoring and following up of the implementation of soft loan and credit guarantee for SMEs on loans should also be carried out.

Economic Projection of 2009

	Actual Data			Projection_2009f	
	2006	2007	2008	23 Feb. 09	25 May 09
GDP (at current prices: Bil. Bht)	7,841.3	8,493.3	9,105.0	9,012.8	8,831.8
GDP per capita (Bht per year)	120,933.0	128,686	135,895	135,531	131,426
GDP (at current prices: Bil. USD)	206.9	245.8	273.4	251.8	248.8
GDP per capita (USD per year)	3,190.8	3,723.6	4,081	3,785.8	3,702.1
GDP Growth (at constant prices, %)	5.2	4.9	2.6	(-1) - (0)	(-3.5) - (-2.5)
Investment (at constant prices, %)	3.9	1.3	1.1	-0.4	-6.2
Private (at constant prices, %)	4.1	0.6	3.2	-3.0	-9.7
Public (at constant prices, %)	3.3	3.4	-4.8	8.0	5.0
Consumption (at constant prices, %)	2.9	2.7	2.2	3.1	2.0
Private (at constant prices, %)	3.0	1.6	2.5	2.2	0.4
Public (at constant prices, %)	2.4	9.2	0.4	8.3	11.3
Export volume of goods & services (%)	9.1	7.1	5.4	-6.2	-9.8
Export value of goods (Bil. USD)	127.9	150.0	175.3	152.3	147.2
Growth rate (%)	17.0	17.3	16.8	-13.1	-15.0
Growth rate (Volume, %)	11.2	11.0	5.5	-6.5	-11.0
Import volume of goods & services (%)	3.3	3.4	7.5	-5.4	-9.9
Import value of goods (Bil. USD)	126.9	138.5	175.1	150.6	140.7
Growth rate (%)	7.9	9.1	26.4	-14.0	-19.6
Growth rate (Volume, %)	1.3	3.6	12.0	-7.0	-11.6
Trade balance (Bil. USD)	1.0	11.6	0.2	1.8	8.3
Current account balance (Bil. USD)[/1]	2.3	14.0	-0.2	2.3	9.3
Current account to GDP (%)	1.0	6.1	-0.1	0.9	3.7
Inflation (%)					
CPI	4.7	2.3	5.5	(-0.5) - (0.5)	(-0.5) - (0.5)
GDP Deflator	5.1	3.2	4.5	(-0.5) - (0.5)	(-0.5) - (0.5)
Unemployment rate (%)	1.5	1.4	1.4	2.5 - 3.5	2.0 - 2.5

Source: Office of National Economic and Social Development Board, 25 May 2009

Note: [1/] Reinvested earnings has been recorded as part of FDI in Financial account, and its contra entry recorded as income on equity in current account.