



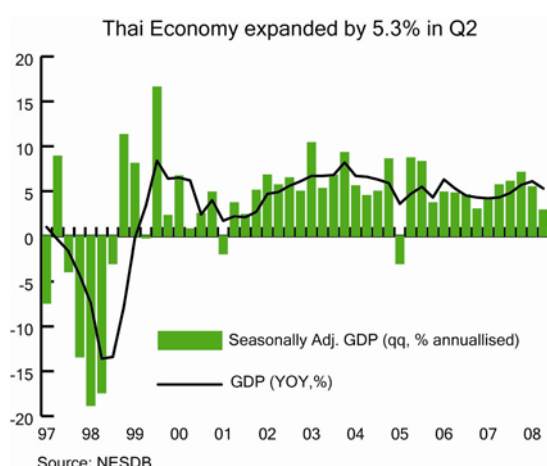
ECONOMIC OUTLOOK

THAI ECONOMIC PERFORMANCE IN Q2 AND OUTLOOK FOR 2008

- ❑ **The Thai economy in the second quarter of 2008 expanded by 5.3 percent, softened from 6.1 percent in the first quarter as a result of weakening domestic demand.** In the first half of 2008, the economy grew by 5.7 percent. Export volume performed better than earlier expected and provided a strong impetus to growth. Nevertheless, domestic demand showed a slowdown and remained vulnerable. In real term, government consumption and public investment plunged, while private spending and investment moderated.
- ❑ **Overall economic stability remained positive, however inflationary pressure continued to elevate and current account recorded a deficit.** In the second quarter, headline inflation was 7.5 percent and hit 9.2 percent in July. Current account registered a deficit of 308 million USD compared to a surplus of 3,068 million USD in the first quarter. This was due to rising oil import prices and higher spending of Thais on traveling abroad as well as the high repatriation of investment income by foreign investors. Unemployment rate remained low at 1.4 percent.
- ❑ **Nominal interest rates, on baht deposit and loan, adjusted upward. However, higher inflation has resulted in declining real interest rate and remained negative. Credits accelerated, while deposits dropped,** resulting in continued lower liquidity in the financial institutions. However, overall liquidity still remained sizable and ample. Nominal exchange rate of Thai baht vis-a-vis USD depreciated steadily since mid April, similar to the trend of nominal effective exchange rate. SET index on average dropped and remained periodically volatile following foreign capital movement amid global financial turbulence due to the Sub-prime crisis and oil and commodity prices fluctuation.
- ❑ **Fiscal balance recorded surplus on both budget and cash balance basis after experiencing deficits during the previous three quarters.** This resulted from higher revenues but slight increase in expenditures. Public debts to GDP at the end of June 2008 were 35.8 percent, slightly down from 37.97 at the end of 2007.
- ❑ **Supporting factors associated with the economic growth in the second half of the year** include (i) Tax stimulus policies (ii) Budget disbursement acceleration during the last quarter of fiscal year 2008 and the first quarter of fiscal year 2009. (iii) Rising farm income due to increase in production despite a slowdown in agricultural products' prices compared to the first half. (iv) Low unemployment rate (v) Low real interest rates and (vi) Continued expansion of exports though at a lower pace than in H1, provided that economies of major trading partners are likely to register decent growth.
- ❑ **In 2008, the Thai economy is expected to expand by 5.2-5.7 percent with a downward trend in the latter half** due to export deceleration compared to the first half. Moreover, private expenditure and investment are not expected to fully recover under constraints of high oil price and high inflation despite subsided trend. Consumer and Business confidences also remained weak due to high cost of production, high living expenses and political uncertainties.
- ❑ **Key risk factors which required well-managed measures include** (i) Impacts from the global downturn on exports (ii) Narrowing current account surpluses. It is likely that current account will be in surplus of 2.6 percent to GDP. (iii) Impacts from higher production cost and cost of living. (iv) Energy efficiency which required to be constantly promoted. (v) Agricultural products' price stabilization during the harvest season and (vi) Acceleration on public infrastructure projects.

1. Economic performance in Q2

1.1 The Thai economy expanded by 5.3 percent in the second quarter, slightly slowed down from 6.1 percent in the first quarter. The slower pace of economic expansion was attributable to the impacts of rising oil prices, higher raw material and intermediate input costs which resulted in accelerated inflation acceleration. This upsurge took a toll on domestic spending. However, the stronger-than-expected export expansion, both in agricultural and manufacturing commodities, helped offset the domestic-led slowdown and thereby supported a satisfactory rate of economic expansion. Overall, the Thai economy expanded by 5.7 percent in the first half of 2008.



Key Highlight

(1) A satisfactory rate of economic expansion in the second quarter was driven by the stronger export expansion than previously expected, both in agricultural and manufacturing commodities. Q2 also recorded strong growth in agricultural sector. Meanwhile, the production of manufacturing, hotel & restaurant, and financial sector continued to expand at a favorable rate.

□ In the second quarter, export volume increased by 9.7 percent, accelerating from 6.9 percent in the first quarter. Services incomes continued to expand favorably and export prices in dollar terms continued to increase as a result of rising world market price of agricultural commodities (in particular, rice, corn, tapioca and rubber). Together with favorable manufacturing export expansion, both in terms of price and quantity, the total value of exports increased at a robust rate of 26.3 percent, accelerated from 22.9 percent in the first quarter (**July figures showed that export values expanded by 43.9 percent and resulted in 27.4 percent expansion of export values in the first 7 months of 2008**)

□ Export commodities posting a strong and accelerated rate of expansion included rice (export quantity and prices rose by 35.3 and 89.2 percent respectively), tapioca products (export quantity continued to decline by 25.5 percent, but price increased by 20 percent), rubber (quantity rose by 2.9 percent and price increased by 26.8 percent) and foods (quantity and price increased by 20.1 and 13.9 percent respectively)

The export values of electronic products, vehicles and parts showed further signs of slowdown. Export values of electronics products rose by 7.4 percent (compare to 5.6 percent in the first quarter and 12.8 percent in 2007). Total exports of electrical appliances increased by 12.3 percent (almost at the same pace of 12.2 percent in the first quarter but slightly slowed down from 15.0 percent in 2007) which was attributable to the slowdown in the exports of air-conditioners and refrigerators & parts). Export values of vehicles & parts thereof

increased by 16.3 percent, decelerated from 21.5 percent expansion in the first quarter. However, other commodities such as plastic products, jewelry, soap and cosmetics revealed a satisfactory rate of export expansion.

Robust export expansion in 2008 was driven by the strong increases of export values to new markets and intraregional markets while the share of exports to main markets including the US and Japan market continued to decline. In the first half of 2008, export values to new markets increased robustly by 31.1 percent (export values to China, Middle East and Eastern Europe increased by 27.4, 27.8 and 31.8 percent respectively) while export to ASEAN(5) expanded by 32.9 percent and export to EU rose by 10 percent (decelerated from 15 percent in 2007). Nevertheless, driven by higher export prices of foods and agricultural commodities, exports to the U.S. and Japan increased at a faster pace than last year (exports to the U.S. and Japan in the first half of 2008 increased by 6.7 and 13.0 percent respectively compare to -1.3 and 9.7 percent in 2007).

Exports classified by markets (%)

	1995	1997	2002	2006	2007	2008		
						Q1	Q2	H1
USA	17.8	19.4	19.8	15.0	12.6	11.7	11.0	11.3
Japan	16.8	15.1	14.6	12.6	11.8	11.3	11.4	11.3
EU 15	15.1	15.9	15.0	13.0	12.8	12.8	11.6	12.1
ASEAN (9)	21.7	21.8	19.9	20.8	21.4	21.6	24.8	23.3
Middle East	4.5	3.3	3.6	4.4	4.9	4.8	5.1	5.0
Australia	1.4	1.6	2.4	3.4	3.8	4.0	4.0	4.0
China	2.9	3.0	5.2	9.0	9.7	9.9	9.3	9.6
India	0.5	0.5	0.6	1.4	1.8	1.7	1.9	1.8
Hong Kong	5.2	5.9	5.4	5.5	5.6	6.1	5.6	5.9
South Korea	1.4	1.8	2.1	2.1	1.9	1.9	1.7	1.8
Taiwan	2.4	2.7	2.9	2.6	2.2	1.7	1.6	1.7
South Africa	0.4	0.4	0.5	0.8	0.9	0.9	1.0	0.9
Others	9.9	8.3	8.0	9.3	10.4	11.6	11.0	11.3

Sources: BOT

- **The expansion of agricultural production accelerated** to 6.5 percent, compare to 3.5 percent in the first quarter and 3.9 percent in 2007. For major crops, rice, sugarcane, palm and rubber showed stronger rate of production expansion while prices of rice, tapioca, corn

and rubber continued to rise. Export quantity of rice increased by 61.43 percent and 56.1 percent in the second quarter and the first half of 2008 respectively.

- **Manufacturing production increased by 8.0 percent, slightly decelerated from 9.9 percent in the first quarter.** This was attributable to the slowdown in domestic spending and weakening export performances of major manufacturing commodities such as electronic products, electrical appliances, vehicles and parts.
 - **The number of foreign tourists increased by 15 percent, accelerated from 13.3 percent in the first quarter, and contributed to the expansion of hotel & restaurant sector of 5.0 percent.** However, compare to 8.3 percent in the first quarter, hotel & restaurant sector showed a weaker performance due to rising oil prices and higher travel costs that eroded tourists' real purchasing power. In addition, Thai baht appreciation encouraged outbound tourism especially during the long holidays of Songkran festival.
 - **Financial sector expanded by 8.9 percent,** supported by credit expansion, higher interest rate spread receipts and higher returns from investment in debt markets. Nevertheless, compare to an expansion rate (from a low base in 2007) of 9.6 percent in the first quarter, financial sector slowed down slightly.
- (2) Constraints and concerns: weakening domestic demand**
- **Household expenditures expanded by 2.4 percent, almost at the same pace of 2.6 percent in the first quarter.** However, its recovering remained at a slower pace than previously expected as higher living costs and weakening consumer confidences took a toll on household expenditures. In the second quarter, household consumption spending in nominal terms increased by 10.2 percent, accelerated from 8.7 percent in the first quarter. Nevertheless, driven by the increases in prices of agricultural commodities, consumption expenditures of rural households

showed a sign of recovery as seen by the increase of motorcycle sale of 16.2 percent

- **Private investment obviously softened with its rate of expansion of 4.3 percent**, compare to 6.5 percent in the first quarter. The hindrances to investment expansion included rising costs of production, domestic demand deceleration, expectation on the slowdown of the world economy, and weakening business sentiments.

- **Government consumption and public investment in real terms declined by 2.4 percent and 5.2 percent respectively.** Although government budget disbursements met the target in the quarter of April-June, with higher disbursement values than that of the same period last year, the increase in prices and debt repayment eroded the real government spending both on investment and consumption. Public investment spending on construction declined as construction cost increased to higher level than it was previously estimated at the stage of project and budget preparations. In the second quarter, prices of construction materials substantially increased by 24.6, compare to 13.9 percent in the first quarter, in particular price of steel and iron, cements and woods. This upsurge has delayed the procurement process and resulted in adjustment of project costs. In the second quarter, the number of construction projects of central government, state enterprises and local administration declined by 8.0 percent.

- Disbursement rate of government budget was slightly higher than its target (24.6 percent compare to the target of 23.5 percent). In the second quarter (April – June 2008), the disbursement of government budget registered at 407,569.8 million baht (compare to that of 400,256.5 million baht in the same period last year) of which 321,033.7 million baht was current budget disbursement (increased from 313,614.9 million baht) and 86,536.2 million baht was investment budget disbursement. The disbursement of carry-over budget amounted to 17,576.7 million baht (higher than 16,147.2 million baht in the same period last year). Overall, the budget disbursement met

the target and the disbursement rate for the whole year is projected at 94 percent of planned budget. Disbursement of public enterprises including Petroleum Authority of Thailand during April-June registered 63,916.34 million baht (increased from 44,529.07 million baht in the same period last year).

- (3) **Over all, economic stability remained in check in the second quarter but inflationary pressures have increased heightened.** Together with current account deficit and the decline in balance of payment surplus, this situation resulted in the depreciation of Thai baht value.

- **Unemployment rate in the second quarter was at 1.4 percent, lower than that of 1.6 percent in same period last year** and 1.7 percent in the first quarter of 2008. Meanwhile, employment increased by 2.8 percent.

- **However, in response to the surge in oil and foods prices, inflationary pressures have increased** and drove headline inflation from 5.0 percent in the first quarter to 7.5 percent in the second quarter (headline inflation in July was at 9.2 percent and an average rate in the first 7 months was at 6.6 percent). In addition, the surge in oil prices and prices of grain and rice, vegetables, and eggs resulted in higher prices of food products and higher cost of travel as well as transportation costs. This hike has put an upward pressure on core inflation to accelerate from 1.5 percent in the first quarter to 2.8 percent in the second quarter (core inflation in July was at 3.7 percent and its average rate in the first 7 months of 2008 was at 2.4 percent).

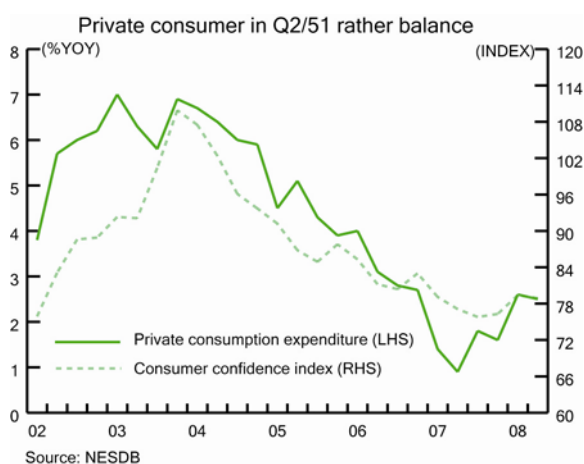
- **Current account registered a small deficit while trade balance reversed from deficit to surplus.** Trade balance reversed from a deficit of US\$ 108.6 million in the first quarter to a surplus of US\$ 425 million and helped maintain current account surplus in the first half of the year. Oil balance registered a deficit of US\$ 6.90 billion but it was compensated by surplus of trade in other commodities. Service balance registered a deficit of US\$ 700 million

as a result investment earnings transfer and the increase in the number of outbound Thai tourists during a long holiday season. Therefore, current account balance registered a deficit of US\$ 308 million. Together with a deficit of US\$ 1.327 billion in capital account (which was a result of capital outflow to compensate financial losses from sub-prime crisis), balance of payment in the second quarter registered a deficit of US\$ 2.5 billion, compare to a surplus of US\$ 18.5 billion in the first quarter. Lower balance of payment, therefore, put downward pressure on the Thai baht value, which depreciated from an

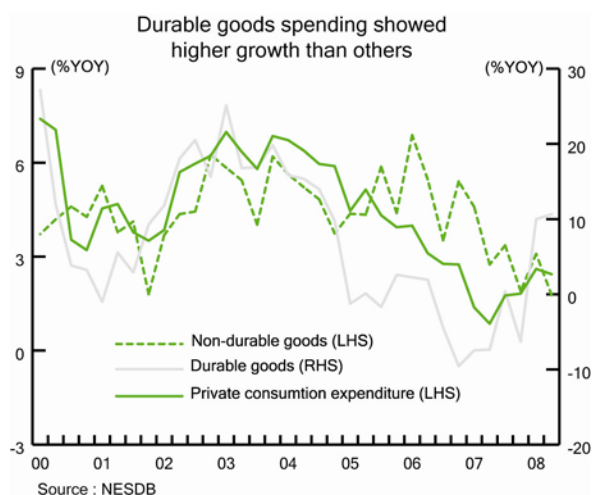
average of 31.46 baht per US\$ in March and 31.59 baht per US\$ in April to 32.11 baht per US\$, 32.20 baht per US\$ and 34.026 baht per US\$ in May, June and on August 21th respectively.

- **Oil and energy prices strongly increased and raise import values of oil and lubricants by 50.24 percent as oppose to the decline in its import quantity of 1.2 percent.** Oil balance continued to register a deficit which was at US\$ 6.9 billion in the second quarter and US\$ 13.7 billion in the first half of 2008.

Economic Condition in the second quarter of 2008 by sectors

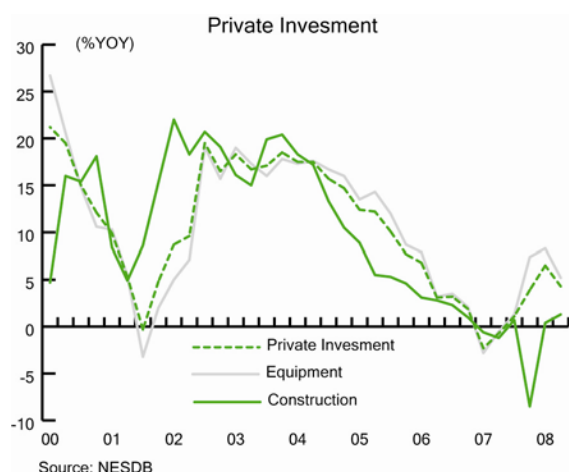


- **Expansion in household expenditure was stable**, growing by 2.4 percent in the second quarter, compared with 2.6 percent in the previous quarter. Supporting factors include (i) Buoyant farm income increasing by 53.2 percent as a result of higher volume and prices of agricultural products (ii) Raise in minimum wage and government officials' salary since 1 January 2008, and tax measures to enhance income under tax policies scheme for economic stimulus. This also included an upward adjustment in government salaries to support living cost during the last quarter of last year. However, the dampening factor was the mounted inflationary pressure that averaged to 7.5 percent in this quarter. Consumer confidence also declined as a result of concerns over future income, political uncertainties and the southern unrest which hindered the full-fledged recovery of household consumption.



In this regard, spending on durable goods remained strong, expanding robustly by 10.6 percent, comparable to that in the first quarter. Key items which expanded well included passenger cars, motorcycles, household electrical appliances (namely washing machine, rice cooker, electric fan and refrigerator). Meanwhile, spending on semi-durable and foods increased by only 3.3 and 1.9 percent respectively, lower than those in the previous quarter due to soaring inflation, mainly in food items. Expenditure on services expanded at about the same rate as that in the previous quarter.

All in all, in the first half of 2008, private expenditure grew by 2.5 percent, attributable to the expansion of expenditures on durable goods, semi-durable goods and foods of 10.3, 3.5 and 2.6 percent respectively. On the contrary, expenditure on services declined by 0.9 percent.



□ **Private investment: slowed down amid mounting production cost and weakened business sentiment.** Private investment grew by 4.3 percent in the second quarter, lower than 6.5 percent in the first quarter. Cost pressure rose steadily fueled by higher prices of oil, raw materials, construction materials, and labor wage. Political uncertainties also affected investors' confidence. Nevertheless, there were several factors fundamentally supporting private investment including low real interest rate and nearly production capacity utilization in various industries such as paper, petrochemical product, chemical product, hard disk drive. In addition, measures for supporting investment of community enterprises and small and medium-sized enterprises (SME), tax measures for stimulating investment and measures for enhancing competitiveness are also important drivers for investment¹.

Production Capacity Utilization							
(Percent)	2007				2008		
	Total	H1	Q3	Q4	Q1	Q2	H1
Total Production Capacity	74.4	73.9	73.7	76.1	76.7	72.3	74.5
Beverage	81.5	81.4	76.5	86.8	87.6	81.1	84.4
Paper	90.8	90.1	91.0	91.9	92.0	91.5	91.7
Chemical Product	95.9	90.4	101.0	101.8	92.6	95.8	94.2
Petrochemical Product	88.2	87.5	90.8	87.1	88.8	89.8	89.3
Construction Material	78.4	78.4	80.6	76.1	79.7	73.1	76.4
Automobiles and Auto Parts	72.6	68.9	75.7	76.9	78.0	76.9	77.4
Electronic Product	79.3	72.2	81.5	91.1	81.0	79.3	80.2
Export <30% of total output	79.4	78.4	80.6	80.1	82.8	81.9	82.4
Export 30- 60% of total output	69.6	71.4	65.9	69.7	80.7	64.5	72.6
Export >60% of total output	71.1	70.0	69.7	74.6	67.6	65.0	66.3

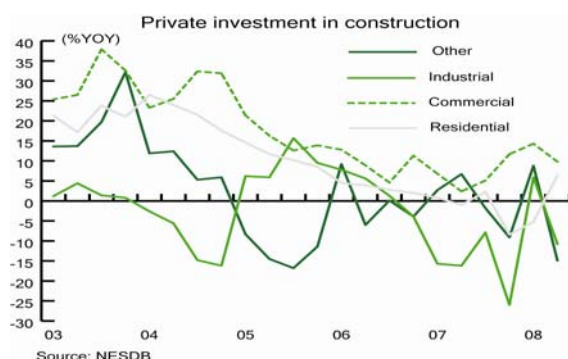
Source: BOT

¹ Measures on 4th March 2008, (1) Tax measures for supporting local economy and small and medium-sized enterprises comprising of personal income tax exemptions for individual and small and medium-sized enterprises whose earning less than 1.2 million baht per year, corporate tax exemption for 150,000 baht of initial profit (formerly pay 15 percent) for companies whose have registered capital not less than 5 million baht. (SMEs would be able to reduce cost by 22,500 baht.) (2) Tax measures for stimulating investment and enhancing

Investment in machinery and equipment expanded by 5.2 percent. Import of capital goods rose (at 2000 prices) by 8.9 percent especially investment in electrical machinery, industrial machinery, computer parts and metal equipment import that continuously increased. Domestic machinery sales (at 2000 prices) increased by 2.7 percent during April to May. However, commercial car sale dropped by 5.7 percent stemmed from concerns over rising diesel prices.

Investment in private construction grew by 1.3 percent, slightly improving from 0.4 percent in the first quarter, contributed by the acceleration of construction in commercial building which increased by 9.8 percent. In addition, housing constructions improved to grow by 6.4 percent after contractions in the last 2 quarters, as a result of improvement of housing construction in Bangkok and vicinities particularly condominium located close to mass transit rail routes. Low real interest rates were also favourable factors. Meanwhile, construction of industrial plant and other projects declined by 10.8 and 14.9 percent, respectively.

During the first half of the year, private investment grew by 5.4 percent contributed by 6.7 percent investment growth in machinery and equipment and 0.8 percent investment growth in construction, classified into growth of commercial building construction and residential construction of 12.1 and 0.6 percent respectively. Meanwhile industrial plant construction and other construction fell by 2.5 percent and 3.1 percent respectively.



competitiveness were the higher rate of deductibility of machinery depreciation, income tax exemption for energy-saving equipments, the full depreciation of computer software within 3 accounting period, specific business tax reduction for sale of property from 3 percent to 0.1 percent and fees reduction for the

□ **Export growth remained buoyant following continued substantial increase in price, while export volumes edged up slightly.** In the second quarter of 2008, export value in US dollar terms expanded notably by 26.3 percent contributed in part by strong increase of export price by 12.5 percent, accelerated from 9.9 percent rise in the previous quarter. Export volumes increased by 12.3 percent, comparable to 11.8 percent growth in the first quarter. However, in baht terms, export value and price increased at smaller rates of 16.7 and 4.9 percent respectively as Thai baht had appreciated by 6.9 percent from the same period last year.



■ **Agriculture commodity: export price accelerated notably and supported a robust expansion of export value.** Export value of agricultural commodity grew by 64.2 percent, compared to 45.9 percent growth in the first quarter of 2008. Export price increased to 52.5 percent up from 26.5 percent in the last quarter. Prices of most major agricultural export rose, including those of rice, corn, cassava and rubber. This is in tandem with the windfall of rapid increased in global commodity prices and concern over food crisis. Export volume increased by 7.7 percent, softened from 15.3 percent growth in the previous quarter due to a slowdown in rice exports and a declines in cassava and corn export under the condition of supply constraint.

transfer and mortgage of property from 2 percent to 0.01 percent.

Export of Agriculture							
Export (%YOY)	2007				2008		
	Year	H1	Q3	Q4	Q1	Q2	H1
Rice	Value	34.2	16.9	59.4	108.1	156.0	134.7
	Price	9.5	7.3	4.2	13.6	90.9	51.7
	Quantity	22.7	7.7	53.1	82.7	35.3	56.1
Rubber	Value	4.5	-6.4	17.8	33.6	30.5	32.1
	Price	7.1	-7.2	27.0	33.8	26.9	30.1
	Quantity	-3.0	0.6	-7.4	0.0	2.9	1.3
Cassava	Value	23.1	-1.1	13.0	13.5	20.0	16.3
	Price	24.5	40.5	55.4	58.9	61.9	60.6
	Quantity	3.8	-29.7	-27.2	-29.3	-25.5	-27.8
Corn	Value	48.6	296.4	-9.7	229.6	-6.6	110.8
	Price	-7.0	-41.4	37.9	15.0	186.3	110.3
	Quantity	22.7	395.3	-34.4	181.1	-43.5	82.6

Source: MOC

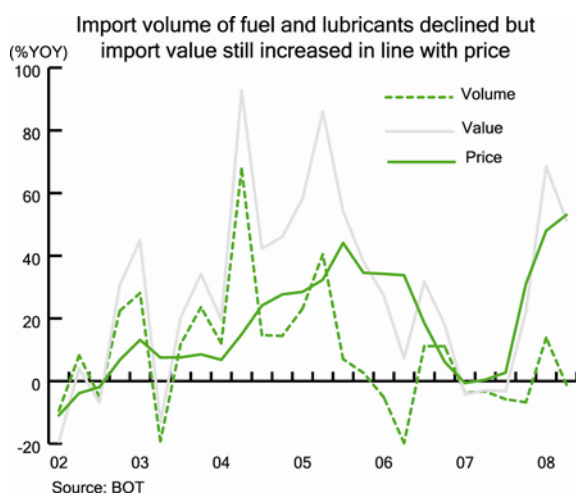
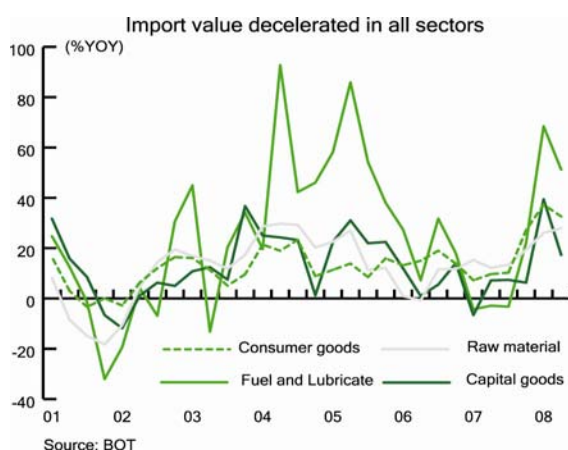
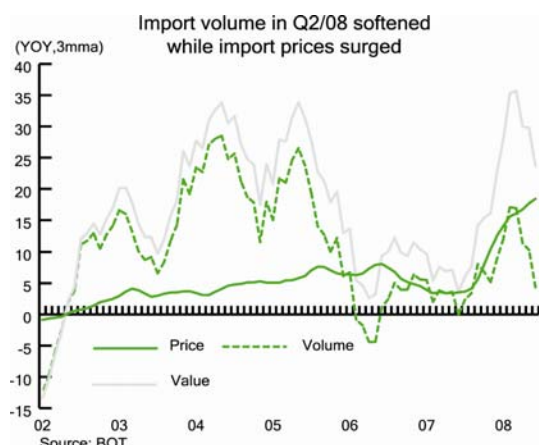
■ **Manufacturing products: Both export volume and price continuously increased with more broad base expansion.** Export volume of manufacturing products grew by 24.3 percent, with volume and price growth of 8.3 and 14.8 percent respectively. Main drivers of manufacturing exports were automobile and parts, gems and jewelry, machinery and parts, refrigerators and parts, air-conditioner and parts, computer and parts, and food products which continue to grow albeit on a slower pace. Encouragingly, some others products, for instance petroleum products, petrochemical products, rubber products, toiletry products, and lens, had also shown solid growth which help compensate for some slowdowns in major export products. As expected, integrated circuit, furniture and metal products experienced a contraction in export value.

■ **Export markets: the second quarter saw quite a broad base expansion across markets.** Export value to major markets grew by 20.7 percent in which exports to Japan and ASEAN 5 significantly increased by 19.8 and 42.9 percent respectively. Exports to the US also expanded by 6.2 percent. Nevertheless, exports to EU market moderated with growth rate of 8.3 percent due partly to contagious effects from the US sub-prime crisis. In addition, export to other markets continued to grow satisfactorily with total growth of 31.1 percent, including exports to China, Hong Kong, Australia, Middle East, Africa, and East Europe.

■ **In the first half of 2008, export value in US dollar terms increased substantially by 24.7 percent** with export price and volume growth of 11.2 and 12.0 percent respectively. In baht terms, export value and price increased by 17.8 and 4.9 percent respectively.

Key Export Market							
Export (%YOY)	2007				2008		
	Year	H1	Q3	Q4	Q1	Q2	Share
Major Market	10.9	2.4	17.3	12.2	20.7	16.5	52.7
US	-1.3	-9.3	5.2	7.2	6.2	6.7	11.0
Japan	9.7	1.9	11.9	6.3	19.8	13.0	11.4
EU (15)	15.5	10.4	7.6	11.7	8.3	10.0	11.6
Asean (5)	19.6	8.5	41.3	21.8	42.9	32.9	18.8
Other Market	25.6	22.2	30.8	31.7	30.6	31.1	47.3
Hong Kong	19.7	23.6	39.3	46.3	34.0	39.9	5.6
Taiwan	-1.5	-22.4	-5.4	-26.7	-13.3	-20.5	1.6
South Korea	11.1	5.1	12.1	13.9	12.2	13.0	1.7
Middle East	22.0	11.4	42.2	58.4	55.6	57.0	6.0
India	29.0	31.7	32.2	23.9	31.3	27.8	5.3
China	26.4	25.8	25.4	34.2	21.5	27.4	9.3

Source: MOC



■ **Imports slowed down.** Import value in term of US dollars expanded by 29.3 percent, slightly lower than 35.1 percent growth in the previous quarter while all import categories experienced downturn, except raw materials and semi-finished products which expanded at similar rates registered in the previous quarter following increased demand for export-oriented production. Import prices continued to rise by 17.7 percent mainly due to higher oil prices. Import quantity increased by 9.9 percent, significantly dropped from 16.9 percent in the first quarter in tandem with weakened domestic investment and demand for oil import. In baht term, import value expanded by 20.4 percent with an increase of 9.6 percent in baht price.

■ **Capital goods:** Import value expanded by 17.3 percent, slowing down from 39.4 percent in the previous quarter following a slowdown in domestic investment. Import quantity of capital goods grew by 11.1 percent while import prices went up by 5.6 percent.

■ **Raw material and Semi-finished goods:** Import value slightly accelerated from 26 percent in the previous quarter to 27.9 percent in accordance with solid export growth. Their quantity and price increased by 14.2 and 12 percent respectively.

■ **Fuel and lubricant:** Import value increased by 51.2 percent, moderated from 68.5 percent in the previous quarter. Import prices rose by 53.1 percent as a result of higher crude oil prices with 70.24 percent growth in the second quarter. However, import volume decreased by 1.2 percent which was mainly due to 8.1 percent decline in crude oil import volume following high imports of crude oil in the first quarter.

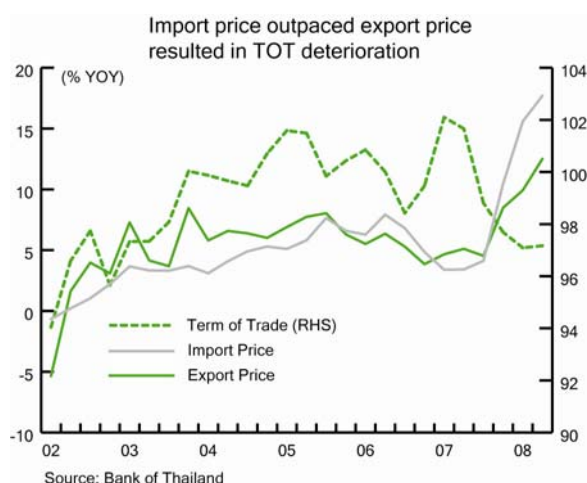
■ **Consumer goods:** Import value expanded by 32.6 percent while import quantity and price rose by 26.1 and 5.2 percent respectively. Continued appreciation of Thai baht had encouraged consumer with high purchasing power to spend in imported products. Low real deposit rate also induce big savers to spend more.

■ Import goods with high growth of import value included crude oil, machinery and parts,

electrical machinery, chemical products, rubber products, petrochemical products, iron and other steel, jewelry and gems, fertilizers and pesticide, textile yarn and fiber, paper products, ceramics products, household electrical appliances, medicine and pharmaceutical products and watches and parts

- For the first half of 2008, value of import in dollars term expanded by 32 percent with 13.3 and 16.7 percent increased in quantity and price respectively. In term of baht, import value increased by 21.7 percent while baht price rose by only 7.4 percent.

□ **Term of trade continued to deteriorate.** In second quarter of 2008 import prices in US dollars term increased by 17.7 percent, a faster pace than 12.5 percent increase of export prices. This was mainly underpinned by substantial increase in oil prices which offset an increase in prices of agricultural products as oil import has a larger proportion in total import compared with proportion of agricultural products to total exports. The second quarter, therefore, continued to face with term of trade loss.



□ **Trade balance registered a surplus of 425 million US dollars (or 15,542 million baht) compared with a deficit of 109 million US dollars (or 3,834 million baht) in the previous quarter. For the first half of 2008, trade balance recorded a surplus of 316 million US dollars which was equivalent to 11,708 million baht.**

□ **Current account registered a deficit as** a result of 733 million US dollars deficit in net service income and transfer during the second quarter which was mainly due to higher number of Thai tourists who traveled abroad during the long holidays combined with an increase in repatriation of investment income. Accordingly, current account in the second quarter registered a deficit of 308 million US dollars (8,246 million baht). However, current account remained in surplus of 2,760 million US dollars (91,411 million baht) for the first half of 2008.

□ **Production side:**

■ **Agricultural sector expanded by 6.5 percent,** notably picked up from 3.5 percent in the first quarter of 2008, and average expansion of 3.9 percent in 2007. Increased production of major agricultural products included rice, sugar cane, palm and rubber. As a result of rising price of rice since the beginning of the year, farmer expanded plantation area. Oil palm production increased as a result of good weather. Crop with increased price included rice, cassava, corn, and rubber. Due to decline in world rice production and tighter regulation on exporting country as well as concern of importing country on food security, demand on import continued to rise. As a result, Thai rice export accelerated to 61.43 percent growth in the second quarter, and 56.1 percent in the first half of 2008. Energy crop price also significantly increased spurred by greater demand for alternative energy. Sharp rise in agriculture prices associated with continued expansion of products, farm income rose impressively by 53.2 percent in the second quarter. All in all in the first half, agricultural production grew by 4.9 percent.

■ **Industrial sector expanded by 8.0 percent,** decelerating from 9.9 percent in the first quarter of 2008 stemmed from a slowdown in domestic spending and main export-oriented industries such as electronics, electrical appliances and automobile and parts. Slumping industries included wood furniture for export to the US market, hampered by real estate crisis. In the second quarter of 2008, capacity utilization rate was at 72.3 percent, slightly lower than 73.5

percent in the same quarter of 2007. The first half of 2008, industry sector expanded by 9.0 percent.

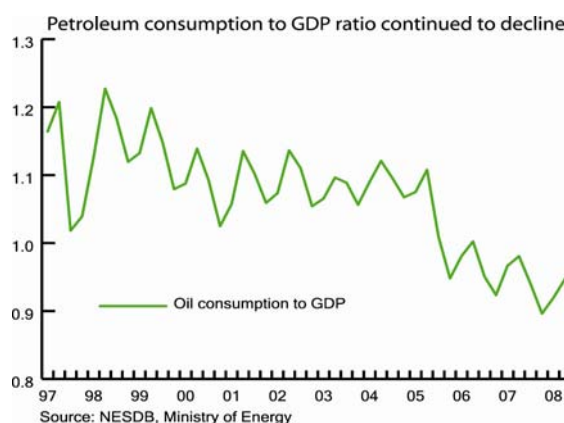
- **Construction sector in the second quarter of 2008 contracted by 3.9 percent**, worsen further from the expansion of 1.1 percent in the first quarter of 2008. The declining was a result of a contraction in government construction. However, private investment in construction slightly expanded in housing and commerce building construction. Unfavourable factors for construction sector were mainly the sharp rises in prices of construction materials, especially steel prices which increased markedly by 61.5 percent. Rising wage also fuelled construction cost.

- **Hotel and restaurant sector expanded by 5.0 percent** in the second quarter of 2008, slowing down from 8.3 percent in the first quarter of 2008. Numbers of foreign tourists registered 15.0 percent growth, accelerating fairly from 13.3 percent in the first quarter. Nevertheless, occupancy rate was at 54.5 percent, the same rate as that in the same quarter of last year. This slowing trend of this sector was due to soaring oil price, traveling costs and higher inflation, which hampered spending of both foreign and Thai tourists. Moreover, appreciation of the Thai baht stimulated overseas traveling of Thai tourists.

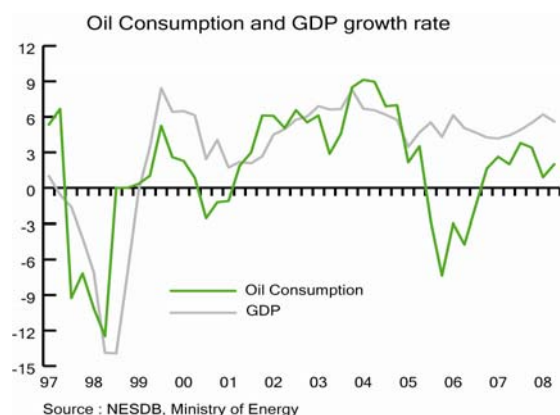
- **Financial sector grew by 8.9 percent**, thanks to credit expansion, especially for business sector. This reflected higher demand for working capital as raw materials and transportation cost increased, growing consumer loans mainly in housing and car leasing, which led to increase in net interest income, and returns on investment in debt securities market. However, the financial sector slowed down from 9.6 percent in the first quarter which expanded from very low base in the first quarter of 2007.

□ **The overall energy efficiency continued to improve with a more balance and flexible energy structure.**

- A continuous decline in the ratio of petroleum used to GDP indicated that overall energy efficiency had been improved. In the second quarter of 2008, the ratio stood at 0.9498, though slightly increased from 0.9196 in the previous quarter, but relatively lowers than that in the same period of last year. The improvement was also seen in a significant shift towards consumption of alternative energy which is currently available at lower cost than traditional benzene and diesel. Effectively, GDP was generated at lower cost as the utilization of petroleum products became more efficient and more concentrated in cheaper fuel.

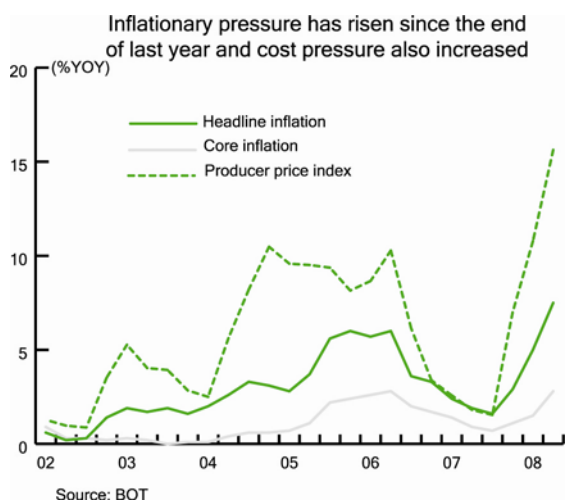


- **Domestic consumption of petroleum products: Gasohol and bio-diesel consumption rose sharply.** During the second quarter, consumption of gasohol increased by 94.7 percent with average daily usage of 8.4 million litre while bio-diesel consumption recorded its significant growth at 645 percent from the low base with average daily usage of 9.7 million litre. Consumption of LPG and NGV similarly expanded by 20.8 and 220.2 percent respectively. On the contrary, consumption of traditional benzene 95 and 91 and diesel continued to decline sharply by 70.3, 22.4 and 20.5 percent respectively. The figures showed a fuel shift of consumers towards the alternative energy of which prices are evidently lower than



(% YoY)	2007				2008		
	Year	H1	Q3	Q4	Q1	Q2	H1
Benzene	1.69	2.11	4.39	-1.71	-1.92	-5.22	-3.58
Octane(91 + 95)	-6.10	-0.20	-4.70	-18.78	-26.42	-32.01	-29.17
Gasohol	37.79	12.91	46.23	77.03	111.95	94.07	102.15
Diesel	2.13	0.73	5.61	1.81	-0.37	-3.99	-2.15
HSD+LSD	-1.22	-1.17	1.78	-4.15	-10.23	-20.44	-15.22
B5	1360.62	1081.61	1768.31	1391.93	787.29	645.00	693.64
LPG	14.30	12.59	13.59	18.15	17.59	20.82	19.24
NGV	117.61	102.92	113.29	139.80	190.52	220.18	206.97

Source : EPPO

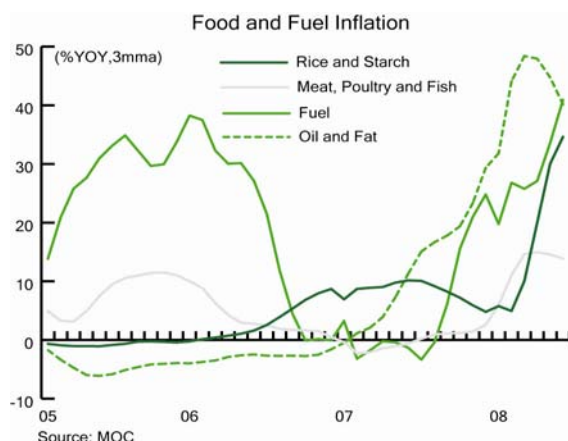


those of the traditional energy. Continued soaring prices of oil to new historical records have encouraged such significant change. Higher oil prices also favorably led to a more balance of energy structure used in production sector. For example, diesel price was previously subsidized by the government as diesel was mainly used for commercial and transportation purpose. As a result, sales of pick-up truck had continually grown up during that period, however, the behavior has recently changed since the government decided to float the diesel price. In particular, sale of pick-up truck has dropped dramatically during the last two quarters as diesel price continued its upward spiking. This indicates that consumption behavior has been shifted toward more appropriate and reasonable structure. However, the government is required to manage energy structure to reduce structural distortion and promote appropriate use of energy types among different user groups especially the use of LPG which is currently required a substantial import.

□ **Economic stability:** Unemployment rate remains low but inflationary pressure mounted while current account turned deficit in the second quarter.

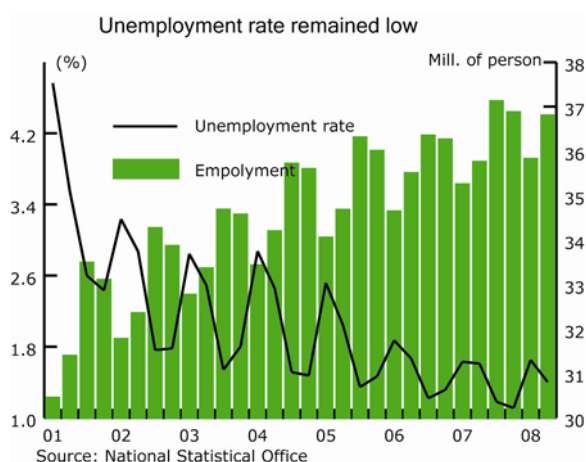
■ **Inflationary pressure was fuelled by continued and sharp increase in food and fuel prices.** In the second quarter, headline inflation was 7.5 percent higher than 5.0 percent in the first quarter, mainly due to rapid surge in prices of food as well as transportation and communication cost which increased at accelerating rates of 11.0 and 12.5 percent respectively. Substantial increases were seen in food category such as cooking oil, rice, flour, meats, eggs and seasoning. In the category of transportation and communication, fuel prices were significantly lifted up by 33.6 percent. For the first half year, headline inflation was averaged at 6.3 percent.² The latest July figure exhibited a 9.2 inflation rate suggesting that concern over rising cost of living will not disappear for anytime soon.

² Headline inflation was 9.2 percent in July and 6.6 percent for the first seven months.



	Employment growth (%YOY)					2008	
	Avg.	Q1	Q2	Q3	Q4	Q1	Q2*
Employment	1.6	1.8	0.7	2.1	1.7	1.6	2.8
Agriculture	1.0	2.8	-0.5	1.2	0.6	0.4	2.7
Non-agriculture	2.0	1.2	1.5	2.9	2.5	2.3	2.9
Manufacturing	2.1	0.2	1.3	5.4	1.7	0.4	-1.5
Construction	-0.1	1.6	1.5	-4.9	1.0	0.5	3.1
Hotel and Restaurant	3.0	4.3	2.0	4.0	1.8	1.2	1.7
Unemployment Rate	1.4	1.6	1.6	1.2	1.1	1.7	1.4

Source: NSO
* 3 months average



Core Inflation continued to accelerate. In the second quarter, core inflation was 2.8 percent continued to increase from 1.5 percent of the previous quarter. This was due to higher prices of various products such as processed food, construction materials, miscellaneous appliances, drug and medical care commodities, personal care expenditures and education expenditures at university level. For the first half year, core inflation was averaged at 2.2 percent.³

Producer price index, in the second quarter, continued to rise by 15.6 percent increasing from 10.8 percent of the previous quarter. The price index went up in raw materials and final goods by 27.7 and 24.0 percent respectively. In additional, the price of final goods increased 9.2 percent similar to the previous quarter, this was mainly due to the up surge of food prices such as rice, starch and meat. For the first half year, producer price index increased 13.3 percent.⁴

- **The average employment in the second quarter of 2008** was 36.80 million people, increased by 2.8 percent from the same period of last year. Agricultural sector employed 13.69 million people, increased by 2.7 percent while non-agricultural sectors employment were 23.12 million people, increased by 2.9 percent. Employment in the construction, trade and hotel and restaurant sector grew by 3.1, 3.5 and 1.7 percent respectively. Regarding manufacturing sector, employment dropped by 1.5 percent in response to production slowdown. The unemployment rate remained low at 1.4 percent. By the end of the second quarter, there were 381,828 establishments registered for social security. The insured persons increased by 1.0 percent from the same period last year to the total of 8.79 million people. Up until the end of second quarter of this year, Social Security Fund was accumulated to 569,113 million baht, and has

³ Core inflation was 3.7% in July and 2.4% for the first seven months.

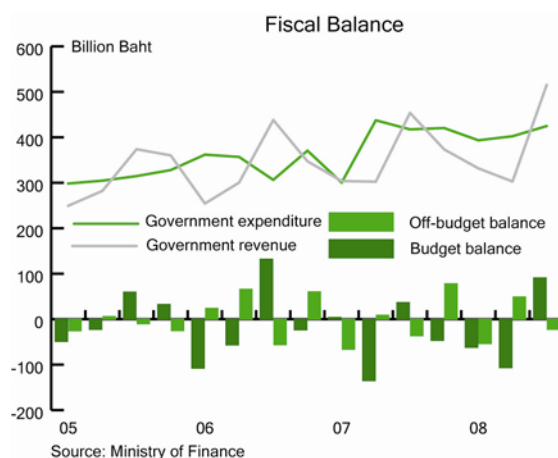
⁴ Producer price index increased 21.2 % in July and 14.4% for the first seven months.

provided services to 1.79 million members or around 20 percent of insured persons. Despite economic slowdown, working opportunity slightly improved, as job vacancy to applicants' ratio rose to 0.84 times, compared to 0.76 times in the same quarter last year.

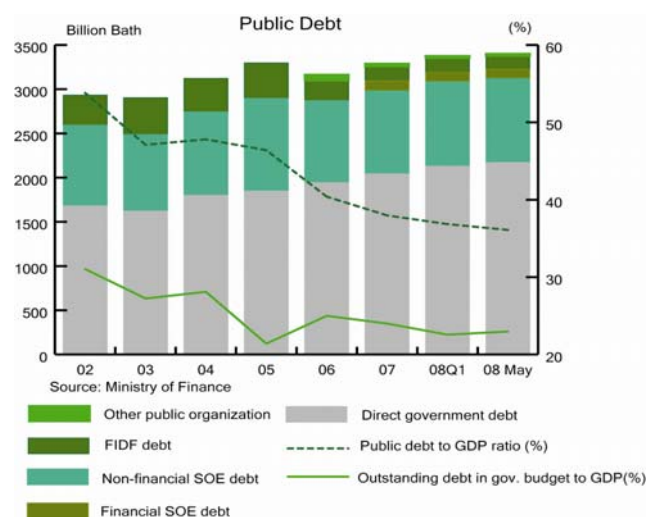
- **External stability remained in check:** International reserve stood at 106.018 billion US dollars at the end of June (Net Forward Position, 18.264 billion US dollars) declined from 109.678 billion US dollars at the end of March 2008, equivalent to 3.8-4.2 times of short-term foreign debts or 7.4 months of imports.
- **Fiscal balance turned surplus for the first time in FY 2008.** In the third quarter of fiscal year 2008 (April – June 2008), the total of government revenue was 515,122.75 million baht, increased by 12.6 percent from the same quarter of last year, whereas the government expenditure was 424,600.94 million baht, increased by 1.75 percent. This resulted in a surplus of 90,521.81 million baht, 50,502.06 million baht increase from the same period of last year. Including non-budgetary deficit of 22,538.15 million baht, the government cash balance gained a surplus of 67,983.66 million baht, compared to 268.32 million baht deficit in the same quarter of FY 2007.

During the first three quarters of the fiscal year 2008 (October 2007 – June 2008), government revenue was totaled at 1,149,865.85 million baht, grew by 7.5 percent from the same period of last fiscal year, owing to larger tax collection particularly corporate income tax, value added tax, petroleum income tax, and import duties. Regarding government expenditure, the total disbursement was 1,220,082.43 million baht, 5.7 percent increased from the same period of last fiscal year. As a result, budget balance registered a deficit of 70,216.58 million baht, declined by 17.1 percent from to the same period of last fiscal year. Together with non-budgetary deficit of 35,587.94 million baht, budget cash balance before borrowing fell to a deficit of 105,804.52 million baht, lower than a deficit in the same period of FY 2007 by 44.2 percent. Government bond and T-bill in total of

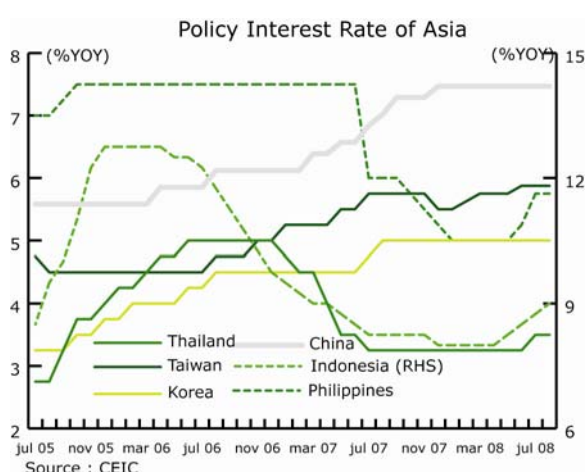
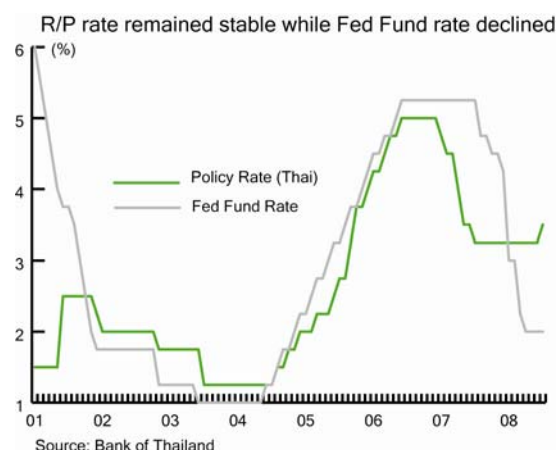
151,891.33 million baht were issued to finance budget deficit.



- **Public debt at the end of June stood at 3.4 trillion baht, a 2.4 percent increase from the outstanding at the end of the year 2007,** mainly due to increasing government domestic debt to balance budget deficit. However, public debt to GDP ratio slightly declined to 35.82 percent, compared with 37.97 percent at the end of the year 2007.



- **Financial conditions:** In the second quarter policy interest rates remained unchanged but money market interest rate increased, from lower liquidity and higher demand for capital in private sector especially for working capital. Capital raised from capital market and bank credits still expanded. Household credit increased from the increase demand for consumption expenditure especially on housing and car leasing. Meanwhile bank deposit declined in response to negative real interest rate. On quarterly average, Thai baht appreciated in nominal terms, but depreciated in effective terms. SET index had declined with greater volatility, while debt securities market had gained popularity from foreign investors.



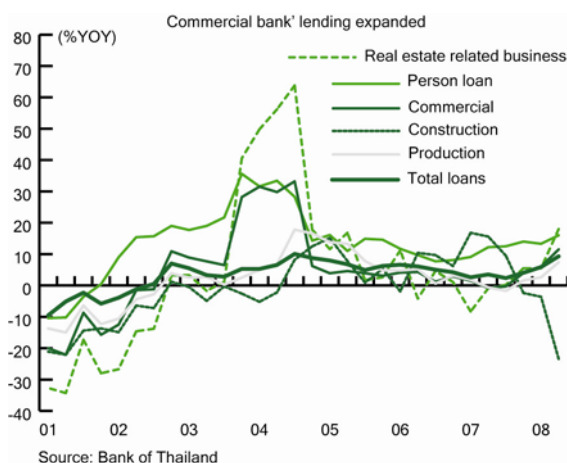
- **Policy rate was kept unchanged at 3.25 percent per year throughout second quarter while the tendency to rise had increased.** On the 16th of July the Monetary Policy Committee (MPC) decided to raise the policy rate to 3.50 percent per year in a bid to fight against upward inflationary pressure. The movement of policy rate was in concordant with regional trend. In the US the Federal Reserve Board put Fed Fund Rate on hold at 2 percent per year in the second quarter, as the concern over economic growth had outweighed inflationary hike. Euro zone maintained policy rate at 4.0 percent throughout the second quarter before a 0.25 percent raise in July. Japan had kept policy rate unchanged at 0.5 percent per year.

- **Commercial banks' deposit and lending interest rates were adjusted upward. However, real interest rate declined due to inflation hike.** Average 3-month and 12-month time deposit rates of five major commercial banks increased from 2.13 and 2.32 percent per year at the end of first quarter to 2.50 and 2.88 percent per year at the end of the second quarter respectively. The MLR lending rate accelerated from 6.99 percent per year to 7.38 percent per year in the second quarter. Adjusted by accelerated inflation rate at 8.9 percent in June, the real 12-month time deposit rate turned to negative of 6.03 percent per year

while the real lending rate declined to 1.50 percent per year.

In July, inflation rate edged higher to 9.2 percent, and the real 12-month time deposit rate and the real lending rate thus lowered to negative of 6.33 percent and 1.8 percent per year respectively.

- **Commercial banks' deposits decreased.** Commercial banks' deposits contracted by 1.0 percent at the end of the second quarter compared to that of 2.5 percent growth at the end of the first quarter, due to acceleration in inflation rate which in turn push down real interest rate further. Thus, total saving and time deposit account have declined in all sizes of accounts. While, alternative saving instruments such as bill of exchange (B/E) gained popularity over traditional form of saving, due to its higher rate of return.



Loan classified by sector

	2007				2008	
%YOY	Q1	Q2	Q3	Q4	Q1	Q2
Production	1.8	-0.6	-1.7	1.6	2.6	7.4
Construction	16.8	15.6	9.5	-2.4	-3.6	-23.4
Commercial	1.5	-0.8	-0.3	4.0	6.0	11.5
Finance and Banking	-9.8	1.2	15.6	9.0	93.2	65.0
Real Estate	-8.3	-0.9	0.2	5.5	5.5	18.0
Personal Consumption	9.1	12.2	12.5	14.0	13.3	16.0
Residential Acquisition	14.5	10.6	8.9	13.2	12.0	13.7
Purchase & Car Leasing	-6.3	22.7	21.6	24.4	25.1	29.8

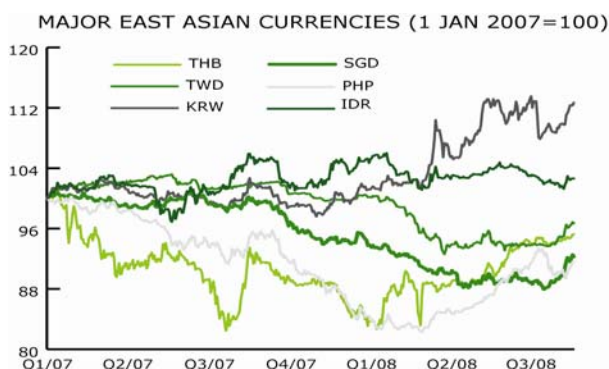
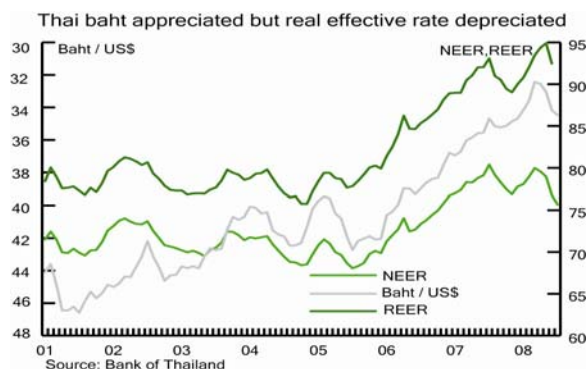
Source: BOT

- **Commercial banks' credits accelerated from greater demand.** Commercial banks' credits expanded by 12.1 percent from the same period of last year; increase from 11.1 percent expansion in the first quarter. Credit extended by depository corporations⁵ expanded by 9.3 percent (compared with 6.0 percent at the end of the first quarter). of which loans to corporate sector expanded by 7.7 percent. Considering by sectors, loans to production, wholesale and retail and real estate sectors increased by 7-18 percent, whereas loans to agriculture and construction sector declined. Especially, loan to construction sector contracted greatly by 23.4 percent, as the sector continually slowed down since fourth quarter of 2007, hampered by higher cost of doing business. Furthermore, loans to financial intermediations slightly decreased. Household credits expanded by 9.8 percent, resulted from housing credits and credit for purchasing or hire purchasing cars and motor-cycle. Credit card spending slightly decreased from the preceding quarter, from tighter credit situation. While credit card outstanding balance expanded by 6 percent.

- **Liquidity in banking system has decreased.** Continued acceleration in commercial bank credit and a decline in banks' deposit have shifted the credit to deposits ratio upward to 102.5 at the end of June 2008, which indicate tighter liquidity situation. While excess liquidity in banking system, estimated as disposable liquidity, was approximately 911 billion baht at the end of June, lower than 1,035 billion at the end of March.

- **NPLs ratio showed little movement compare to that in the last quarter.** NPLs in financial institutions (excluding BIBF and credit fanciers) at the end of the second quarter equaled 231.8 billion baht, which was equivalent to 3.77 percent of total credits.

⁵ Depository Corporations comprises of all depository corporations excluding the Bank of Thailand, namely, domestically-registered commercial banks, branches of foreign banks, international bank facilities, finance companies, specialized banks, thrift and credit cooperatives, and money market mutual funds.



■ **Listed companies earning reported higher growth.** Listed companies on SET showed net profit of 161.6 billion baht, increased by 67.7 percent from the same period last year. Most profitable sectors were energy, agriculture and industrial sectors. Thai commercial bank also reported 349.2 percent growth in net profit, which resulted from low net profit in the second quarter last year. (which was caused by burden on higher provision for loan loss under the new rate. Capital adequacy ratio (CAR) in the second quarter had increased to 15.2 percent from 14.7 percent in the first quarter.

■ **On average in the second quarter Thai baht appreciated in nominal term as compared to the US dollar but effective exchange rate weakened.** Average exchange rate in the second quarter was at 32.28 baht per US dollar, appreciated slightly by 0.32 and 6.81 percent from the first quarter and the same period of last year respectively. During May through to June, Thai baht had significantly depreciated due to 3 major factors: 1) the US. economic indicators showed that the US. had avoided recession in the first half of the year. Moreover, its expansion was higher than expectation, whereas other countries, especially Japan, Euro-zone and United Kingdom, faced adverse effect from oil price and slow-down of export than market expectation. Therefore, some investors considered the US. as safe-haven as compared with Japan and Euro-zone. 2) the deterioration of balance of payment which caused by trade deficit and the decrease of current account surplus, that reflected weak domestic economic structure, and net capital outflow from foreign investors capital transfer in order to cover financial losses in Japan and the US. In addition, private sectors increased their payback to foreign debt while profit repatriation also increased. Furthermore, Thai baht was expected to continually depreciate from high inflation, high dependence on import oil and trend of the weaken current account and 3) downward trend of regional currency (especially for Korean Won, Philippine Peso and Indian Rupee), from upward inflationary

pressure, surge in oil price and weakening trade balance. These factors induced expectation of regional currency depreciation, and Thai baht is no exception.

Considering the movement of Thai baht against other currencies, it appreciated against some major and regional currencies but depreciated against Japanese Yen, Chinese Yuan, Euro and Singapore Dollar. Therefore, average nominal effective exchange rate (NEER) depreciated by 0.72 percent but real effective exchange rate (REER) appreciated by 1.98 percent underlined by relatively more rapid increase in Thai CPI. In July, an average exchange rate was 33.45 baht per US dollar, depreciated by 0.91 percent from June, resulting from high demand of US dollar by Thai importers and foreign investors, while depreciation of regional currency still played vital role.

- **Stock market tumbled.** Average daily trading value was 20 billion baht, increased from 18.8 billion baht in the first quarter. SET index closed at 768.6 points, down from 817 points at the end of previous quarter. Net sale of foreign investor was recorded at 36.1 billion baht. SET index rose to 884.19 points (highest level in the second quarter) in the first half of the quarter, from better-than-expected earning of energy and banking sector. During the latter half of the quarter, SET index plunged, caused by massive net sale of foreign investors spurred by 3 main concerns: 1) domestic political uncertainty 2) world economic slowdown and 3) price surges on oil and commodity goods. While, less volatile market like debt securities market had attracted more funds. SET index drop in line with regional performance but to the lesser extent. In July, SET index continued to fall from the same concerns as the second quarter.

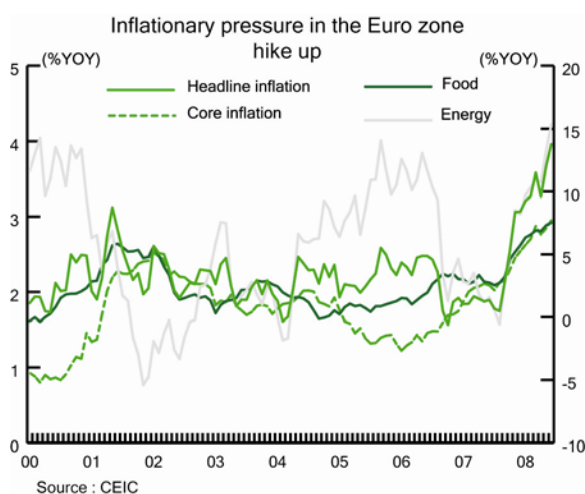
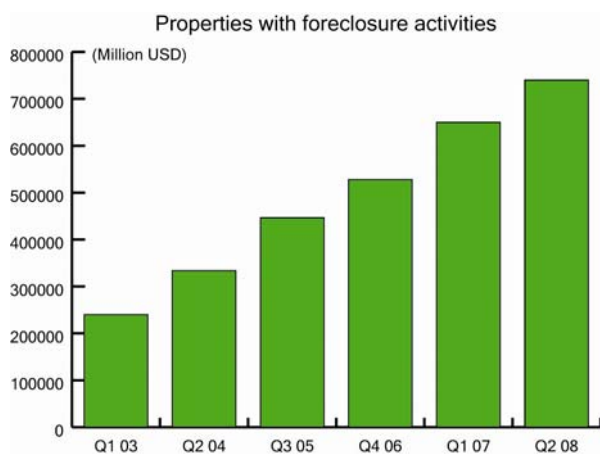
- **Bond trading accelerated.** Daily average outright trading increased from 62.8 billion baht in the first quarter to 78.2 billion baht in the second quarter. Net buy of foreign investors was recorded at 26.5 billion baht declined from 29.08 billion baht in the first quarter. Bond price index decreased slightly. Government bond

yields increased, particularly those of medium-term maturity with average increased around 174 – 198 basis points. This, reflected market expectation on the Bank of Thailand decision' to raise policy rate in order to handle acceleration in core inflation. In July, daily average trading volume was 77.2 billion baht, with net buy from foreign investor of 2.17 billion baht.

- **Corporate funding increased from the same period last year but slowed down from last quarter,** in line with private sector investment direction. Corporate funding (excluding short-term bond) in the second quarter was 56.0 billion baht compared to 101.9 billion baht in the first quarter and 49.6 billion baht in the same period last year. Fund raised by financial and non-financial sectors registered 0.625 and 17.7 billion baht respectively. The issuance of initial public offering (IPO) accounted for 82.37 percent of total transaction. Total issuance of debenture record at 37.7 billion baht, with 20.5 billion baht from financial sector and 17.3 billion baht from non-financial sector.

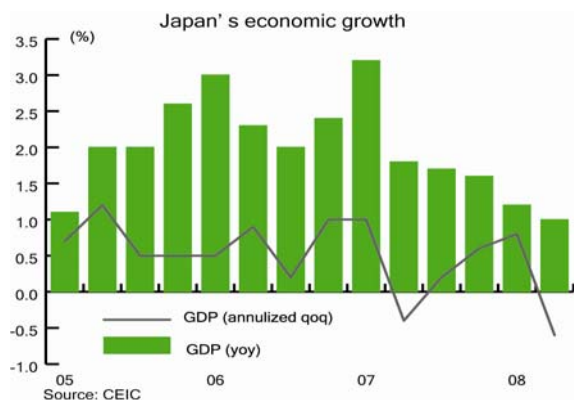
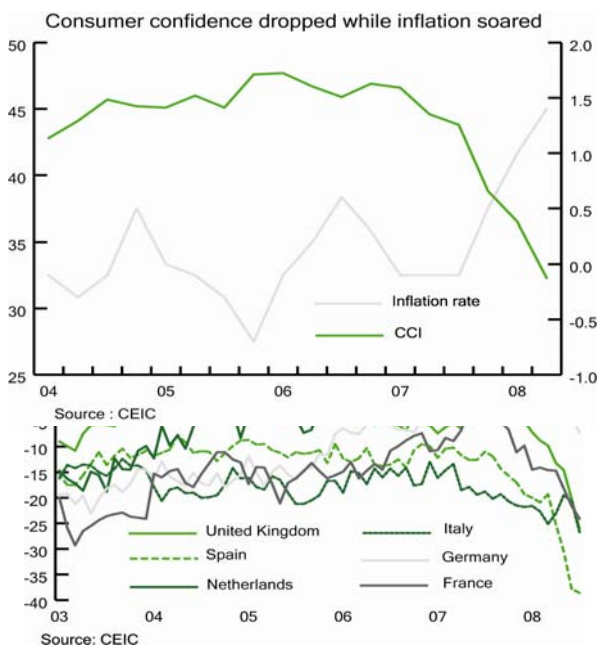
1.2 The World Economic Performance in Q2/2008

The global economy in the second quarter of 2008 noticeably slowed down. Further losses in financial sector from the sub-prime mortgage will remain a significant downside risks to global growth. The US economy remained sluggish due to a contraction in residential investment and fragile consumption. Impacts of the sub-prime crisis also spilled over to the financial market and deteriorated overall economic sentiment in the EU. The Japanese economy showed clear sign of moderation following weakened domestic demand and exports. The Chinese economy softened somewhat due to higher imports. Economic growth in Asian remained rather resilient, supported by a strong expansion of intraregional trade and domestic demand recovery.



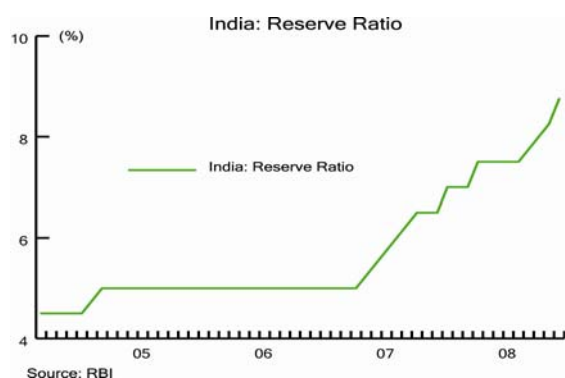
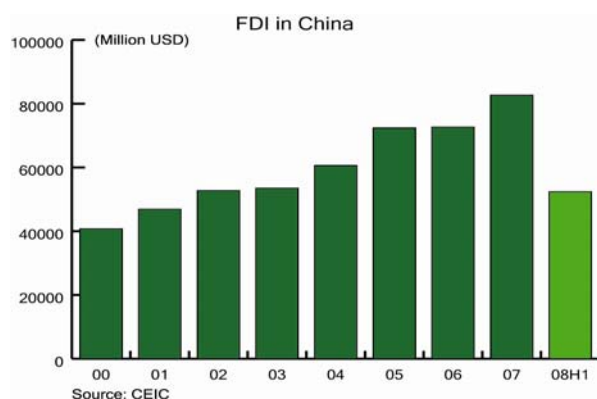
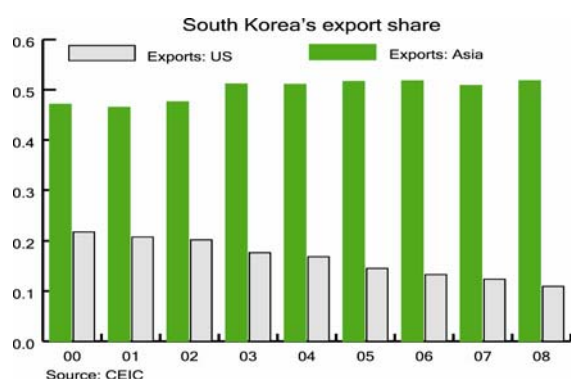
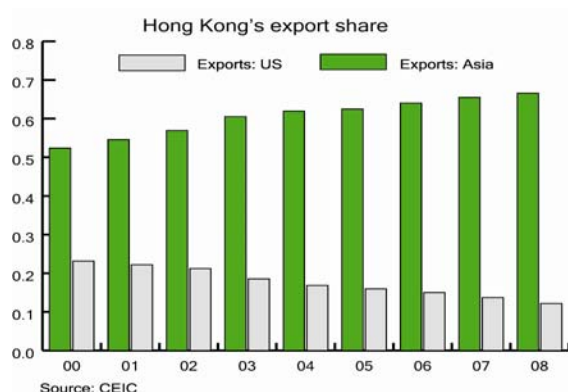
□ **The US Economy** moderated to 1.8 percent from 2.5 percent in the first quarter (1.9 percent, annualized qoq) due to slowing domestic demand. Private consumption was dampened by rising oil and food prices and tight credit conditions. Spending on durable goods such as vehicles was lacklustre. Nevertheless, spending on non-durable and services still held up well, helped partly by the boost from the stimulus payments in late April. Residential investment continued to fall in line with real estate sector. Home sales steadily declined particularly related to new houses, while existing home sales started to level off a bit. New housing starts slipped since builders needed to cut back construction to stabilize inventory. This was in accordance with a contraction in housing construction. However, it is expected that housing inventory will continue to rise further because sales are dropping and foreclosures are rising which consequently put downward pressure on price of new home sales. Overall inventories in this quarter were run down significantly, concentrated in the manufacturing sector due to declined production of vehicles. In the mean time, the improvement in exports and the decline in imports put net exports to be key drivers of the economy in this quarter and help countervailing the negative effect of inventory reduction. In the first half of 2008, the US economic growth came in at 1.4 percent (qoq) and 2.2 percent (yoy). On the stability front, inflationary pressure has kept mounting. In the second quarter, headline inflation averaged 4.4 percent and hit the highest level in 17 years at 5.6 percent in July. Core inflation was 2.3 percent, compared with 2.4 percent in the first quarter.

□ **The Euro Zone Economy** grew by 1.5 percent, down from 2.1 percent in the first quarter (or contracted by 0.2 percent, qoq). It was clearly evident that the slower growth prospects were observed in every member countries, particularly in Germany, France,



Italy and Spain due to weaker domestic demand affected by higher inflation. In addition, the sunken confidence and tight loan condition also weakened business investment. Germany, France and Spain economy grew by 1.7, 1.1 and 1.8 percent, dropped from 2.6, 2.0 and 2.7 percent respectively. Italian GDP growth was only flat in the second quarter, which was the lowest level in nearly five years. Inflationary pressure continued to heighten following higher food and fuel prices. In the second quarter, average inflation of the Euro zone was 3.6 percent, up from 3.4 percent in the previous quarter. In July, headline inflation moved up to 4.0 percent. Elevated inflation constrained the option for policy easing to help stimulate the slower growth. The European Central Bank previously decided to raise interest rates for the first time since mid 2007 from 4.0 percent to 4.25 percent on 3 July.

- ❑ **The Japanese Economy** grew by 1.0 percent, lower from 1.2 percent in the previous quarter. Consumption and investment had clear sign of slowdown especially in residential construction which declined by 15.6 percent. Moreover, export growth also stepped down from 11.1 percent in first quarter to 6.4 percent impacted by a downturn of the US economy, one of key export market. Inflation rate accelerated due to rising oil price, but still low compared to others Asian countries since the economy previously experienced deflation for a long period. Meanwhile, consumer confidence index (CCI) dropped to 32.2, the lowest level since 1982.
- ❑ **The Asian Economy** was weaker than the previous quarter but the growth still remained high. Despite facing with higher inflation boosted by elevated energy and food prices, particularly in emerging countries, consumption and investment still improved as well as exports which provided a strong drive to growth. Although export to the US market dropped as US demand weakened, the intra-regional exports still increased.



This supported overall export performance within the region.

■ **The South Korean Economy** expanded by 4.8 percent, softened from 5.8 percent in first quarter. Exports grew strongly by 12.2 percent. Although exports to the US were on a downward trend but exports to Asian market increased significantly. Inflation in July recorded 5.9 percent, the highest rate in the past 10 years, which dampened domestic demand and squeezed corporate profits. Private consumption in this quarter dropped by 0.1 percent (qoq).

■ **The Chinese Economy** continued to expand favourably by 10.1 percent, though somewhat moderated from 10.6 percent in the first quarter due to higher inflation and the world slowdown. Large and well-performed domestic economy help cushion the Chinese economy and lessened the effect of the global downturn. Moreover, the Government could continue the tightening monetary policies, in order to, cool down the economy, including raising interest rates and tightening credit conditions. The Sichuan earthquake in May caused only limited impact on the overall economy since the damaged area was relatively small compared with the whole country's area. On the trade side, despite accelerated imports, exports still remained robust which led to a trade surplus. At the same time, foreign direct investment (FDI) continued to rise. In the first half of 2008, FDI increased to 52,388 million USD, compared to 82,658 million USD of last year.

■ **The Indian Economy** performed well, though slowing down like other countries in the region, dampened by soaring inflation following rising oil prices and Rupee depreciation. The inflationary pressure exacerbated the economy of all regions. Although the government raised oil price by 10 percent, domestic prices were still lower than the world price. As a result, the government needed to provide

large amount of subsidies on domestic oil prices and energy cost. Moreover, the Central Bank of India raised policy rates and also reserve requirement to remain at 8.75 percent in order to easing inflationary pressure. Nevertheless, the inflation rate continued to climb up to 11.9 percent in June.

- **The Indonesian Economy** grew at a solid pace by 6.4 percent, up a bit from 6.3 percent in the earlier quarter, boosted by strong exports growth of 16.7 percent. Inflation in July hit the peak at 11.9 percent, while averaged 7.4 percent in the first half of the year comparing with 2.1 percent in the first half of last year. To dipping its and inflationary expectation, the Bank Indonesia decided to lifted policy rate for 3 times during June to August to stay at 9.0 percent.
- **The Malaysian Economy** softened somewhat due to elevated inflationary pressure and the slowdown in global economy. Inflation rate in June was 7.7 percent. Although Malaysia was the oil exporter, the restructure of energy price on 4 June has kept domestic prices closer to international prices and consequently put more pressure on production costs and living expenses. The Bank Negara Malaysia decided to keep policy rate unchanged at 3.5 percent sine April 2006 because the central bank expected that inflation would decline in second half of 2008.

- **The Vietnamese Economy** expanded by 5.8 percent, lower than 7.5 percent in the first quarter. Inflation in June spiked to 26.8 percent, the highest rate in the region. This owed to mounting fuels, food and residential prices. Moreover, current account and trade balance were also in deficit which consequently caused Dong currency to depreciate. The State Bank of Vietnam put much effort to defend the Dong until international reserves depleted drastically. In June, the currency was devalued by 1.96 percent to 16,461 Dong/USD. Moreover, the central bank also decided to lift up the interest rate by 2 percent to 14.0 percent.



2. Economic Projection for 2008

2.1 The world economic outlook: the global economy tends to decelerate further

World Economic Growth
(% YOY)

	2006	2007					2008		2008f	2008f
		Q1	Q2	Q3	Q4	Year	Q1	Q2	APR	AUG
World	5.3	4.6	5.0	5.3	4.7	5.1	4.8	n.a.	3.8	4.0
United State	2.9	1.5	1.9	2.8	2.5	2.0	2.5	1.8	1.0	1.6
Eurozone	2.8	3.1	2.5	2.6	2.2	3.0	2.1	1.5	1.4	1.6
Japan	2.4	2.8	1.6	1.9	1.8	2.1	1.2	1.0	1.4	1.2
Singapore	9.4	6.4	8.7	8.9	5.4	7.7	6.9	2.1	4.0	4.0
Korea	5.1	4.0	4.9	5.2	5.7	5.0	5.8	4.8	4.2	4.8
Philippines	5.4	7.1	7.5	6.6	7.4	7.2	5.2	n.a.	5.8	5.6
Malaysia	5.9	5.5	5.7	6.7	7.3	6.3	7.1	n.a.	5.0	5.5
China	11.6	11.1	11.9	11.5	11.2	11.9	10.6	10.1	9.3	10.0
Vietnam	7.9	7.7	8.8	8.7	9.3	8.2	7.5	6.5	7.3	6.8

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

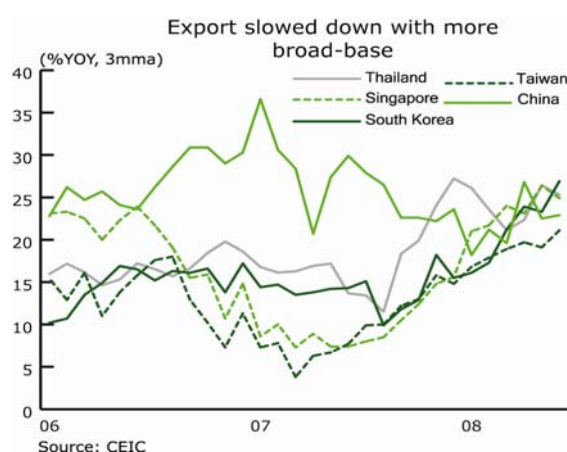
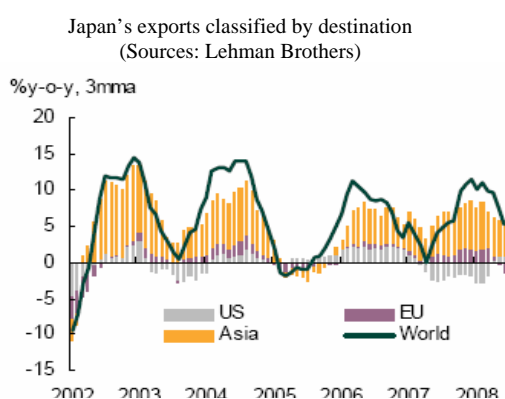
Key issues of the world economy in the second half of 2008

(1) The U.S. economy has not yet bottomed out and tends to decelerate further in the remaining of 2008. The most recent indicators showed that the slump in property market has not yet bottomed out. In July, housing starts and building permits continued to decline by 11 percent and 17.7 percent respectively, more than market expectation. The repercussion effects from financial and property markets are likely to drag on real economic activities as credit standards have been more tightened. Against this background, the U.S. economy is likely to grow by 0.5 percent and 0.2 percent (annualized qoq) in the third and fourth quarters respectively which will generate the rate of economic expansion of 1.6 percent for the whole year of 2008, slow down from the 2.0 percent growth in 2007. Household spending and investment are likely to slow down as:

- The impacts of tax rebate on consumption spending dissipate in the third quarter.
- Household wealth will continue to decline in response to falling property prices, and weak labor market with high unemployment rate of 5.3 percent in the second quarter.
- Credit standards have been more stringent. Tightened credit conditions are likely to hinder the expansion of consumption and investment spending. In the face of rising defaults and stricter credit standard, the existing tight credit market condition will be aggravated by the recent problems at Fannie Mae and Freddie Mac. This situation likely to curb credit growth further.
- High oil prices have taken a toll on consumption and business profits.
- Consumer confidence has deteriorated.
- In the first half of 2008, the stronger rate of economic expansion than market expectation was partly driven by the increase of net exports. However, the slowdown of economic activities in Asia and Europe tends to limit the

Central banks raise policy rate this year

Q1		Q2		Q3
Australia (2)	Poland (3)	Brazil (2)	Pakistan	Eurozone
Chile	Romania (2)	Chile	Peru (2)	Brazil
Czech Republic	Russia	Denmark	Philippines	Philippines
Columbia	Serbia (2)	Hungary (2)	Poland	Thailand
Iceland	Sweden	Iceland	Romania	India
Israel	Taiwan	India (2)	Russia (2)	
Moldova	Ukraine	Israel	Serbia (2)	
Peru		Mexico	South Africa (2)	
		Moldova	Turkey (2)	
		Norway (2)	Ukraine	



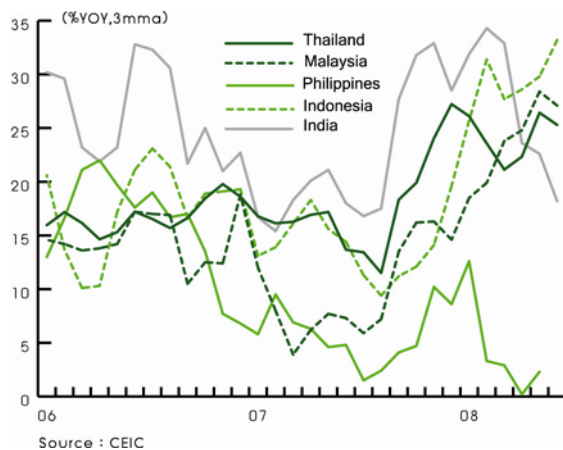
U.S. export expansion in the remaining of 2008.

- (2) The economies in Asia are likely to slow down. Recent indicators pointed to stronger corrections of Asian economies in the second half of 2008, as demand for their exports weakened. Accordingly, Singapore revised its forecast for non-oil exports from an expansion to a contraction of 2-4 percent; meanwhile Malaysia reported its lowest industrial production growth in 10 months. In addition, the continue inflation acceleration has shifted monetary policy in various countries from easing/neutral to neutral/tightening biases. This situation tends to curb global economic expansion in the remaining of 2008.

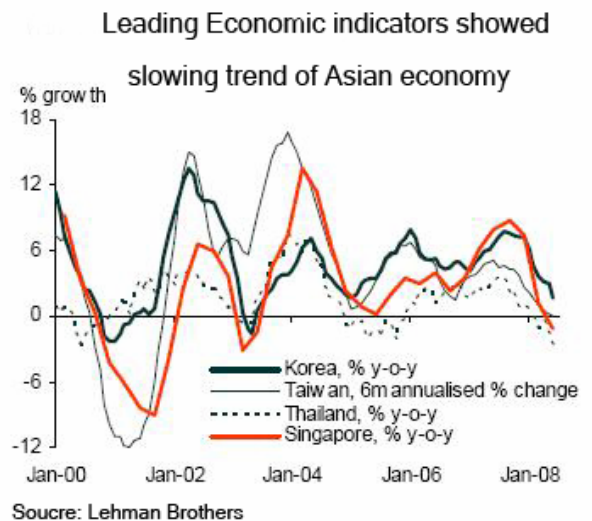
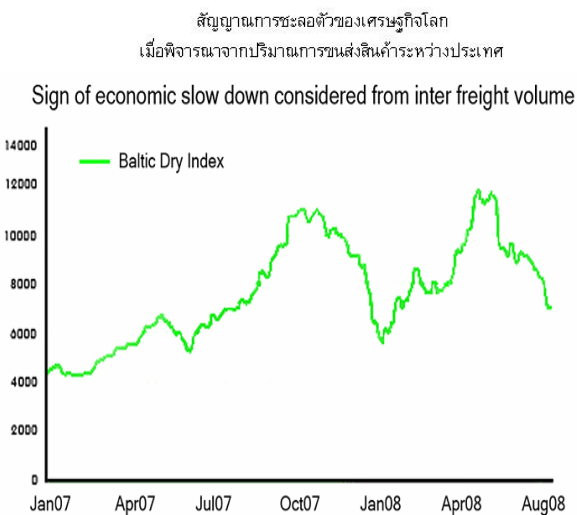
In the second quarter, Japanese economy shrank to its worst performance in seven years and is likely to lose its momentum as oil prices remained high and consumer confidences has weakened. In addition, emerging Asian economies which have been the main engine for its export expansion are likely to slow down. Overall, the Japanese economy is expected to decelerate from 2.1 percent in 2007 to 1.2 percent in 2008.

Chinese economy has decelerated since the second quarter of 2007. Investment and exports slowed down. In the face of rising labor costs, higher rate of interest and high oil prices, business profits and sentiments are negatively affected, in particular under the pressure of excess production capacity. Therefore, the Chinese economy is expected to grow by 10 percent, slow down from 11.9 percent in 2007.

- (3) In the remaining of 2008, the Euro zone economy is likely to decelerate further. In the second quarter, Euro zone GDP contracted (annualized qoq) for the first time since the launch of the single currency in 1991. As sentiment and purchasing indicators remained particularly weak, the economic activities are expected to decelerate further, particularly in the face of inflation acceleration and the slowdown of economic activities in its export markets such as the U.S. and other European countries. Therefore, the Eurozone economy is expected to slow down from 3.0 percent in 2007 to 1.3 percent in 2008.



The slowdown of major economies and monetary policy tightening are likely to slow down economic expansion in emerging countries. In particular, China and India which are expected to decelerate from 11.9 percent and 9.2 percent in 2007 to 10.0 percent and 8.5 percent respectively. Therefore the global economic expansion is likely to cool down from 5.1 percent in 2007 to 4.0 percent in 2008.



2.2 Economic outlook in the second half and the whole year of 2008: The Thai economy is likely to moderate in the second half as exports expansion tends to soften in tandem with prospect of world economic slowdown while private consumption and investment spending are unlikely to fully recover. However, the solid growth pace in the first half of 2008 has provided economic momentum and strongly contributed to the annual growth, which is projected at 5.2-5.7 percent.

2.2.1 Key themes

- In the first half of 2008, the Thai economy expanded at a faster pace than previously expected which helps provide the growth momentum to the economy, but the expansion of domestic demand remained sluggish. However, in the second half, there are several supporting factors to support the recovery of domestic demand.
- In the second half of 2008, the Thai economy is projected to grow at a slower pace than in the first half (with growth rate of 5.7 percent). The slower pace of economic expansion is attributable to the trend of slowing down in export expansion in accordance with the deceleration of the global economy. Meanwhile domestic demand is expected to continue with further recovery. However, the recovery will not yet be full-fledged within this year. In addition, economic growth rate in the last quarter will be the expansion from a high base in the latter half of 2007 (4.7 percent in Q3/07 and 5.8 percent in Q4/07) while the third quarter is likely to face with the peak of inflation.
- Export of goods and tourism services tends to moderate due to the global economic deceleration, in particular, exports of electronic products, vehicle & transport equipment, and electrical appliances that showed signs of slowing down in the second quarter. The expansion of tourism sector will be subjected to the slowdown of global economy, and the increase in transportation and travel costs that are stemmed from oil prices and inflation acceleration. The domestic uncertainty would also cause tourists some concerns and thus hamper a robust growth.
- In the second half of 2008, the government packages to retrieve the economy and to alleviate the impact from high oil price and inflation (6 measures for relieving economic crisis within 6 months) are expected to contribute to the expansion of private consumption and investment. However, growth rates of private consumption and investment are likely to be moderate as their expansion subjected to the following limitations; (i) High oil prices despite relatively lower than in the first half of the year (ii) Inflation is expected to reach its peak of around 8.0-9.0 percent in the third quarter and decelerate in the last quarter. (iii) Business sentiments remained weak and the growth of investment will be the increase from its high base in the latter half of 2007.
- In the second half of 2008, measures to manage risks that are stemmed from high oil prices and its associated inflationary pressures remain in need. At the same time, the upward cost pressures remained persists reflected in the 14.4 percent rise in producer price index in the first 7 months. Moreover, there are a number of consumption commodities in the process of price adjustment consideration after some postponements.

2.2.2 Supporting factors for economic recovery.

The expansion of consumption and investment in the second half of 2008 will be underpinned by the following supportive factors:

- (1) The implementation of the government measures to support the recovery of consumption and investment as well as to strengthen competitiveness in private sector, which are including tax measures to raise disposable income and support disadvantaged people, tax measures to stimulate investment and strengthen

competitiveness, financial measures for supporting SMEs to increase their production efficiency, measures to provide credit and financial capital for people and grassroots economy, tax measure to stimulate real estate sector, and measures to alleviate the negative impacts of high oil prices and to increase disposable income of low-income group for 6 months.

(2) The increase in prices of major crops (rice, cassava, rubber, oil palm) will contribute to farmers' incomes expansion.

Price of major crops remained higher than last year. Average farmers' income increased by 23 percent in the first quarter and followed by the much stronger growth of 53.2 percent in the second quarter of this year. Major crop prices are expected to continue with decent rises in the second half as the world supply will still be under constraint despite some already supply responses of some crops such as rice and maize while oil prices still remain solid and thus benefiting energy crops.

(3) Provisional raise in government officials and employees' salaries as well as compensation for other workers in public sector effective since 1st May 2008. Also, increase in minimum wage since June 2008. Therefore, the impacts of those raises should be effectively pronounced in the second half of the year.

(4) Real interest rates remained low. Despite tighter monetary policies, with increased both the policy rate and the interest rate in the market, the higher increasing rate of inflation has led to low and declining real interest rate. More rapid rise in prices of goods and services as compared to that of financial cost or deposit rates would stimulate demand. That said low real interest rates will induce higher consumption and investment.

2.2.3 Risk factors associated with growth prospects of the Thai economy in the second half of 2008

(1) The global economy expected to slowdown, which subsequently will affect Thai export in the later half of the year. Global economic slowdown is expected to be more broad-based covering Asia, namely re-coupling of the world. Therefore, Thai's exports will face more impacts in the second half. Accompany with rise in export volume of agriculture products as many country had increased their supply and thus eased market condition somewhat. In addition, drainage of rice stock, by China and Vietnam, and rubber stock, by China, will adversely affect Thai export.

(2) Slow recovery of investment especially for government investment that contracted in the second quarter, while private investment has tendency to slow down. Particularly in such an environment of high cost of production with demand decreased and domestic market slowdown.

(3) Oil price is likely to level off but volatility remained, from level of production, natural disaster, and unrest violence in oil exporter country. This in turn could trigger volatility in price of consumer goods.

(4) Weakening current account from trade deficit, from import of crude oil. Accompany with net capital outflow, which partially are portfolio reshuffling tactics of foreign investor to compensate losses from sub-prime crisis. Thus, balance of payment has tendency to weaken caused Thai baht to depreciate further.

(5) Consumer confidence and business sentiment declined from higher living expense and domestic political uncertainty. With news on global economic slowdown and damage to the global financial sector have also play a vital role.

2.3 Key Assumptions for 2008 Projection

(1) **The global economy is expected to grow by 4.0 percent, an upward revision from the assumption of 3.8 percent in the previous projection. The revised growth assumption of the world economy of 4.0 percent remained lower than the growth rate of 4.9 percent in 2007 which reflected the deceleration of economic expansion in the US., Japan, East Asia and Southeast Asia. The reasons for upward revision from 3.8 percent in previous projection is attributable to stronger economic expansion in the US., China and Malaysia and South Korea than previously expected. This offsets the less than expected growths in Hong Kong and Eurozone. The stronger growth of the world economy than previously forecasted resulted in a stronger expansion of Thai exports in the first half of the year than previous projection.**

(2) **Dubai crude oil price in 2008 remains the same as in previous projection of 110-120 U.S. dollars per barrel, up 67 percent from an average price in 2007 which was at 68.83 USD per barrel. In the second quarter, average Dubai crude oil price was at 117.02 USD per barrel, up 77.8 percent from the same period last year, and accelerated from an average 91.5 USD per barrel in the first quarter. Nonetheless, crude oil price leveled off in the latter half of July as world economic deceleration becomes more materialized. On August 13, Dubai crude oil price dropped to 109.6 USD per barrel, from its peak of 138.97 USD per barrel in July. In addition, crude oil price is likely to be more moderate in the remaining of 2008, in line with the global economy deceleration and the more stable value USD.**

(3) **Export price in term of US dollar is expected to increase by 9.3 percent, up from previous projection of 7.0 percent. Meanwhile, import price is projected to rise by 14.6 percent, higher than 11.0 percent in previous projection.** This revision is in line with recent data that suggested a faster pace of export prices increase than previously expected. However, commodities and oil prices are likely to be moderate in the latter half due to the

slowdown in demand and supply response in early 2008. However, the increases in import at a faster pace than export price will deteriorate term of trade further, in line with the stronger increase in import prices of oil and raw materials than the increase in prices of agriculture and export-oriented manufacturing commodities.

2.4 Economic outlook for 2008: Thai economy is expected to grow at 5.2-5.7 percent with 6.5-7.0 percent of headline inflation and a current account surplus at 2.6 percent of GDP

(1) In the press release on the 26th May 2008, Office of the National Economic and Social Development Board (NESDB) projected that the Thai economy will grow at 4.5-5.5 percent with 5.3-5.8 inflation rate and a current account surplus at 2.0 percent of GDP

(2) In this release on the 25th of August 2008, NESDB has revised the GDP forecast to 5.2-5.7 percent upward from the previous projection of 4.5-5.5 percent. The upward revision is underlined by the following reasons:

(2.1) Higher-than-expected economic growth in the first half will offer a springboard for further growth. Thus, probability for economic growth of less than 5 percent is unlikely.

(2.2) Thai exports remain solid with a better performance than expected in the first 7 months of the year. The robust performance in the first 7 months suggests that expected export slowdown in the later half will be smaller than earlier anticipated. Better-than-expected export growth will help compensate for slowdown in domestic demand.

(2.3) Domestic demand are likely to accelerate in the later half of the year from various supporting factors including 6 measures to solve economic problems, upward salary and minimum wage adjustment, implementation of tax measures to boost consumption and investment, credit measures for grassroots economy and high agricultural prices. Meanwhile price of oil

and consumer products are likely to soften and help ease inflationary pressure especially in the last quarter. However, all in all for the year, domestic demand in 2008 will remain weak and softened than earlier forecast.

2.5 Economic growth components in 2008

2.5.1 Demand side

- (1) Total consumption expenditure is expected to grow by 3.5 percent, downwardly revised from the previous projection of 4.7 percent. Both government and private expenditure were revised down due to higher than expected inflation rate. The slower-than-expected of domestic demand was already prevailed in the first half.
- (2) Total investment is likely to expand by 6.2 percent, revised down from 8.5 percent in the earlier projection. The downward revisions were observed in both public and private investment. Private investment and public investment expanded by 7.3 and 3.0 percent respectively. The revision of private investment stemmed from a slowdown in investment in the second quarter. Meanwhile, imports of capital good tend to moderate whilst production cost remain high. Market opportunities are also restrained by risks from the global downturn.
- (3) Value of exports in USD terms is projected to increase by 16.8 percent, revised upwardly from 13.3 percent in the previous forecast, attributable to an upward revision of export volume to 8.0 percent following the latest export performance in the first seven months which exhibited higher-than-expected volume and price of exports. Nevertheless, it is likely that export volume for the rest of this year will be moderate due to the world slowdown and also high base effect of last year. Moreover, export price is also revised up following rising oil and agricultural products' prices. Potential export products expected to grow strongly include rice, cassava, food, electronics and

vehicles and parts. Export volume of goods and services is projected to grow by 8.5 percent, higher than 7.1 percent in 2007.

- (4) Value of imports is likely to accelerate in the second half of the year in line with domestic investment and consumption. Total value will increase by 23.6 percent, notably up from 9.1 percent in 2007. This projection was revised upwardly from 22.0 percent in the previous projection. The revision is a result of the downward adjustment in volume following the slower growth in the second quarter. However, import price was revised upwardly in line with the recent rising trend of commodity prices particularly faster-than-anticipated increase in prices of iron and gold. Oil prices also remain high as expected.

Import volume of goods and services is forecasted to increase by 8.4 percent, speeding up from 3.5 percent in 2007.
- (5) Trade balance is expected to register a surplus of 3.6 million USD. Combined with a surplus in service account, it is expected that current account will be in surplus of around 7.5 billion USD, or accounted for 2.6 percent of GDP, slightly higher than the previous projection due to upward revision on export value.

2.5.2 Production side: Overall production in 2008 tends to expand at a higher rate than 2007. Production side outlook is as follows:

- (1) **Agriculture sector** is expected to improve especially in key products, for example:
 - (1.1) **Rice:** Production of rice tends to improve, especially off-season rice which is expected to increase by 29.3 percent due to incentive from favourable price in the first half of this year that encouraged farmers to expand planting area and improve crop yields. However, as new crop year output increase and Vietnam has removed embargo on rice export, and China release rice stock to market in the latter half of this year, world supply would increase and world

price tends to soften. However, government's off-season rice pawning scheme since 15 June 2008 helps maintain domestic price at a more stable level. In addition, the government approved "Thai rice strategy" in order to improve quality and varieties of "Thai rice product". This strategy aims to strengthen consumer confidence which will lead to better farmer income.

(1.2) **Cassava:** Output of cassava is likely to decrease by 3.6 percent in 2008 with early year front-loaded of output delivery. Meanwhile high gasoline price shifted consumer demand toward alternative energy, especially gasohol 95 and 91. Cassava price is expected to remain at high level as a result of higher demand for ethanol production and related industries, and additional demand from China and Korea for cassava chips and pellets while supply is limited.

(1.3) **Rubber:** Production of rubber is expected to increase by 5.59 percent in 2008. Rubber price tends to slow down as a result of increasing world supply and decreasing trend of oil price. However, natural rubber demands from Europe, America and Japan still expand, and would maintain export growth potential. In addition, domestic demand for the production of tire and rubber glove industry tends to increase.

(1.4) **Fishery:** In 2008, Shrimp production is expected to decline by 15.0 percent as unpredictable weather dampened production. Another contracting factor is higher production cost, including price of animal food and gasoline. Export potential tends to grow as Thailand overcame a threat of trade barrier from the US (Dumping market, and Continuous bond), which is a favorable signal for export to US market. Furthermore, demand for Thai shrimp in EU market tends to expand, shrimp export is, therefore, expected to continuously increase.

(2) **Industrial sector:** In the latter half of 2008 industrial sector tends to slow down, due to slow recovery of domestic consumption and downward trend of exports especially to key trading partners. Nonetheless, production in 2008 is likely to expand more than last year, supported by a high growth of 9.0 percent in the first half of 2008. Particularly, main industries such as electronic, automobiles and parts, especially motorcycle, alternative energy vehicle, and alternative energy industry, are on the positive trend. Vulnerable industries are leather, and furniture industry which are depressed by economic slow down and strong competition from low price foreign products. Therefore, entrepreneurs need to improve their standards and quality of products due to continuously changing in structure of global production with strong competition from low cost producers (e.g. China, India and Vietnam)

(3) **Construction sector:** In the first half of 2008, the construction sector contracted by 1.4 percent. However, it is expected to be on positive trend, in the latter half of this year. This would be supported by continuation of Mega project, and tax privilege measure for real estate sector which will end in March 2009. Moreover, The Deposit Protection Act is another factor to stimulate real estate sector as financial investment shifts from bank deposit to higher yield investment in property in term of buying for providing rental or sell after project have completed. However, risk factors in 2008 are construction material price and rising cost of living, which have significant impact on entrepreneurs' investment decision and consumers' purchasing power.

(4) **Tourism sector:** The target of foreign tourists is set at 15.7 million people, increased by 9.8 percent. This year expected income from tourists is 600,000 million baht, which is greater than 506,435 million baht in 2007. In the first half of 2008, there are 7.9 million foreign tourists,

or 50.3 percent of target. Tourism promotion plan targets on major markets such as Europe, East and Middle East Asia, which are high purchasing power groups. Strategies try to maintain old market base and attract new potential market which are Vietnam, Philippine, Russia, East Europe, and Middle East. During 2008-2009 government launches "The Year of Tourism in Thailand" with the approaches to develop tourism quality and standard as well as to promote new geographical tourism such as "The Royal Coast" and "Thailand Riviera". Moreover, the government aims to upgrade Thailand to be "World Class Destination", and also promote Small and Medium Enterprises (SMEs) by establishing tourism investment loan scheme, to be further developed into a tourism bank in the future.

2.5.3 Inflation trend. In 2008, headline inflation is forecasted to be in the range of 6.5-7.0 percent, higher than previous forecast at 5.3-5.8 percent. High inflation is due to price increase in raw materials, food and agriculture products while oil price still remains high. Furthermore, upward salary and minimum wage adjustment which has been effective since May will also add more inflationary pressure.

Headline inflation in the first 7 month was 6.6 percent. Given the 9.2 percent inflation rate in July, the third quarter is likely to record the peak of inflation before it cools down slightly in the last quarter. Inflation is foreseen to ease in the last quarter of the year based on the following reasons:

- Soften crude oil price led by slowdown in global demand
- High base in the last quarter of 2007 will result in lower percentage increase in price in Q4.
- The reduction of 3 baht per litre of excise tax imposed on bio-fuel including gasohol and bio-diesel will help curb down monthly inflation by approximately

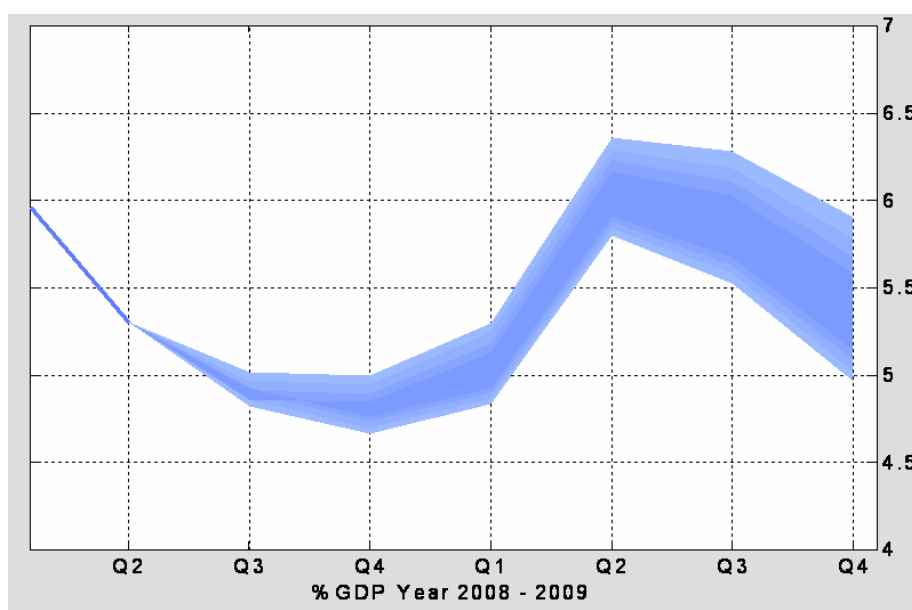
1 percent, or around 0.41 percent for the annual average of inflation.

2.6 Economic projection for High case

The Thai economy in 2008 will be able to expand at the minimum rate of 5.5 percent under conditions that (i) The world economy expands not lower than 4.0 percent. Exports sector can adjust and compete along with the higher cost of production. Export volume of goods and services has to increase at least by 8 percent. Given above conditions, export value is likely to grow by a minimum of 16 percent and tourism revenues will increase by approximately 8-9 percent. (ii) The budget disbursement has to be at least 85 percent of overall budget for government and state owned enterprises. (iii) Consumer and business confidences recover after plummeted in the second quarter. (iv) Crude oil prices subside in the second half of the year owing to increases in OPEC's oil supply and lower oil demand in the world market. Moreover, oil prices are likely to adjust from the higher than fundamental price during the seven months. Average Dubai prices for 2008 should not exceed 110-115 USD per barrel.

Base on the assessment of supporting and risk factors as well as higher-than-expected growth in the first half of 2008, the Thai economy is likely to expand by 5.2-5.7 percent with 85 percent probability.

Probability Forecast in 2008



3. Economic Management in the remaining of 2008

In the remaining months of 2008, the government needs to continue with the risk management of high oil prices and inflation which are expected to continue with some volatility. Exports and tourism promotion should also be continued. Disbursement of government budget for projects to empower and develop grassroots and community economy needs to be accelerated and to ensure that budget reach the target as planned. Such measures should be implemented in parallel with the measures to continuously promote an improvement in energy efficiency, and the use of alternative energy in order to achieve the planned target. Meanwhile, the government should expedite the implementation of long-term measures, particularly projects for infrastructure development, transportation and logistic system development and mass transit system in Bangkok and its vicinities, and hasten financial measures to strengthen production and management efficiency for small and medium scale enterprises. Management guidelines are as follows:

- (1) Although oil prices have been eased since August, mounted upward pressures on production costs still await for price adjustment accordingly. Thus, pressure on cost of living remains. Therefore, it is imperative for the government to alleviate the excess burden from the rising cost of living.
- (2) In response to twin shocks from sub-prime and oil prices crisis, the global economic prospects are deteriorating. The slowdown in the world economy has become broad-based and covered Asian economies; in particular Japan and China which are important export markets for Thailand. In this respect, it is necessary to continuously enhance competitiveness of export sector and promote new markets.
- (3) Expedite budget disbursement of government and state enterprises to support economic activities, particularly SML projects, and disbursement of local authority budget in order to help alleviate the impacts from rising costs of living.
- (4) Stabilize price of agricultural commodities during the harvesting season in the last 4 months of 2008. The government also needs to ensure the sufficiency of energy crop supply to meet the demand for gasohol production.

- (5) Implement marketing measure to promote tourism especially for the coming high season of tourism beginning from September. In the first half of the year, tourism was constrained by high oil prices, rising air fare and the competition from the Olympic Game in China.
- (6) Monitor oil market closely so that the government could timely adjust oil price stabilization policy when necessary. In this respect, as the oil prices moderate to a stabilized level, the exemption of petroleum excise tax and oil fund surcharge should be reviewed in order to ensure and promote continuous energy saving.

Economic Projection of 2008

	Actual Data			Projection 2008	
	2005	2006	2007	May 26_f	Aug 25_f
GDP (at current prices: Bil. Bht)	7,095.6	7,830.3	8,469.1	9,418.6	9,410.4
GDP per capita (Bht per year)	109,440.9	120,763.4	128,319	142,705.6	142,577.1
GDP (at current prices: Bil. USD)	176.2	206.6	245.4	292.5	284.3
GDP per capita (USD per year)	2,715	3,186.40	3,718.2	4,431.9	4,307.5
GDP Growth (at constant prices, %)	4.5	5.1	4.8	4.5-5.5	5.2-5.7
Investment (at constant prices, %)	10.6	3.8	1.4	8.5	6.2
Private (at constant prices, %)	10.6	3.7	0.5	9.3	7.3
Public (at constant prices, %)	10.8	3.9	4.0	6.0	3.0
Consumption (at constant prices, %)	5.3	3.0	2.7	4.7	3.5
Private (at constant prices, %)	4.5	3.2	1.4	3.8	3.2
Public (at constant prices, %)	10.8	2.3	10.8	10.0	5.0
Export volume of goods & services (%)	3.9	8.5	7.1	7.3	8.5
Export value of goods (Bil. USD)	109.4	127.9	150.0	171.3	174.8
Growth rate (%)	15.2	17.0	17.3	13.3	16.5
Growth rate (Volume, %)	7.4	11.2	10.9	6.3	8.0
Import volume of goods & services (%)	8.7	2.6	3.5	10.0	8.4
Import value of goods (Bil. USD)	117.6	126.9	138.5	169.8	171.2
Growth rate (%)	25.8	7.9	9.1	22.0	23.6
Growth rate (Volume, %)	18.4	1.3	3.5	11.0	9.5
Trade balance (Bil. USD)	-8.3	1.0	11.6	1.5	3.6
Current account balance (Bil. USD) ^{1/}	-7.6	2.2	15.8	6.0	7.5
Current account to GDP (%)	-4.3	1.0	6.4	2.0	2.6
Inflation (%)					
CPI	4.5	4.7	2.3	5.3-5.8	6.5 – 7.0
GDP Deflator	4.5	5.0	2.7	5.5-6.0	5.5-6.0
Unemployment rate (%)	1.8	1.5	1.4	1.5	1.5

Source: Office of National Economic and Social Development Board. August 25, 2008

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.

Oil price in 2008

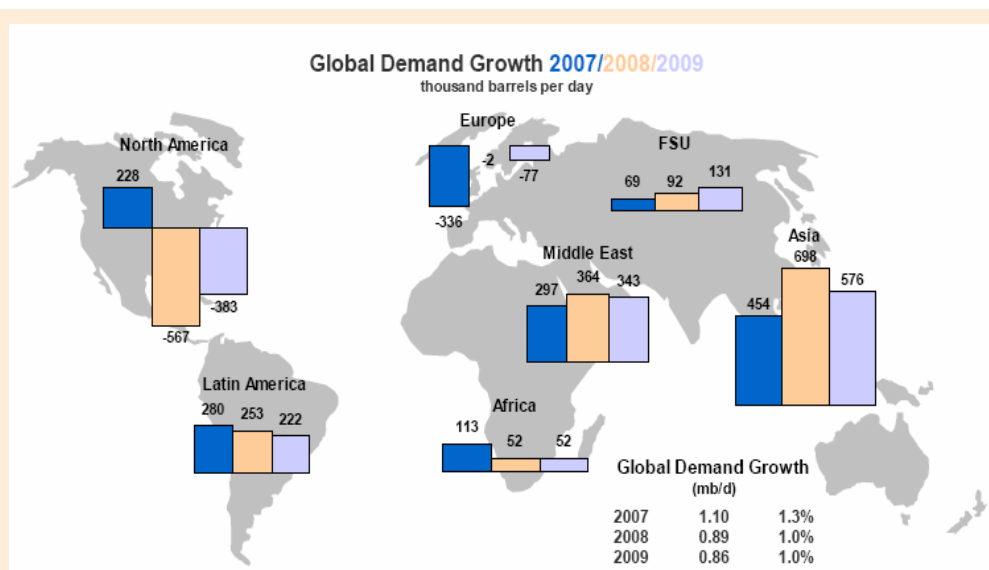
During the first half of 2008, average oil prices continued to increase from 90.4 US dollar per barrel in January to 133.04 US dollar per barrel in July while an average price of the first seven months recorded a significant growth of 76.5 percent compared to the same period of last year. This was a result of tight market condition as demand continued to grow particularly those from Asian and Middle-East countries while world supply remained stable. Moreover, a continued depreciation of US dollars has encouraged the investment funds to reallocate its investment portfolio toward consumer products mainly oil and agricultural products.

In July, oil prices continued to rise sharply and reached its highest at 140.77 US dollar per barrel (Dubai price) on 4th of July. Fortunately, oil prices started to decline since the middle of July and currently stood at 109.45 US dollar per barrel. Recently, analysts from several institutions have projected that oil prices are likely to fall toward the rest of this year with several underlying factors as follows:

1. World oil demand is expected to decline as a result of a potential downturn in world economy. The International Energy Agency (IEA) forecasted that global oil demand in 2008 will expand by 1 percent slightly lower than 1.3 percent in 2007. In addition, oil demand in North America and Europe is expected to decrease by 2 and 1 percent respectively. On the other hand, demand in Asia/Pacific will continue to grow by 3.9 percent with Japan and South Korea as the major contributors.
2. World oil supply is expected to accelerate as a result of expansion in oil production capacity from both OPEC and Non-OPEC countries. According to the latest IEA report, the difference between supply and demand in the forth quarter was revised downward from 1.7 million barrel per day to 0.88 million barrel per day. However, it is expected that the overall demand in 2008 will exceed supply by 0.52 million barrel per day.

unit: million barrel per day

	2005	2006	2007					2008_f				
			Q1	Q2	Q3	Q4	Year	Q1	Q2f	Q3f	Q4f	Year
Quantity	84.6	85.3	84.20	84.41	84.45	85.59	84.66	85.68	85.85	87.16	87.22	86.48
Non-OPEC	50.4	51.1	49.19	49.31	49.04	49.40	49.24	48.91	48.98	49.65	49.95	49.38
OPEC Crude	29.7	29.7	35.01	35.09	35.41	36.19	35.43	32.17	32.28	32.72	32.12	32.32
NGL	4.5	4.6	4.57	4.51	4.48	4.54	4.53	4.59	4.59	4.79	5.14	4.78
Supply Demand –	0.7	0.6	-1.90	-0.69	-1.15	-1.51	-1.34	-0.92	-0.35	0.56	-0.88	-0.52



3. The US dollar started to appreciate since the beginning of July as a result of market expectation that Fed will increase its policy rate during the last quarter of this year after a continuous reduction since the burst of sub-prime crisis. Moreover, capital investment in other regions such as EU is expected flow back to US as a result of downward expectation in EU economy. Several institutions have also suggested that US dollar might be currently undervalued thus it would encourage investors to swap their positions toward US dollar. Since the U.S. dollars started to appreciate, world oil prices have entered its downward trend which is expected to remain throughout the rest of this year.

According to factors mentioned above, NESDB projects that Dubai oil price will fall in the range of 110-120 USD with a potential slow down in demand as underlying assumption. It is expected that the average price of the latter half of this year will fall in the range of 115-125 USD per barrel

- a. EIA forecasted that WTI price will average 127 US dollar per barrel and 133 US dollar per barrel in 2008 and 2009 respectively (adjusted upward from at 122 US dollar in the previous projection)
- b. Lehman Brothers expected Brent to average at 115 US dollar per barrel (72.60 US dollar in 2007) and lower to an average of 93 US dollar in 2009

\$/bbl	2007	2008					Max.	Min.
	Year	Q1	Q2	Q3f	Q4f	Year f		
WTI	72.64	98.03	124.02	142.67	145	127.39	147.79	87.150
Brent	72.6	96.72	122.21	130	110	115	145.51	87.86
Dubai	68.83	91.50	117.02	125	110	110	140.77	84.13

Commodity prices have been on the downtrend since July and are likely to slow down further in the remaining month: not so-safe heaven

- Commodity prices have increased steadily since early 2007, and surged rapidly in 2008. Surges in commodity prices, therefore, have raised concerns over their impacts on the costs of living, especially for low-income earners.
- According to Asian Development Bank's report, between January 1st, 2007 and August 22nd, 2008, various commodities enjoyed robust increases. Crude oil price, led the group, with the strongest increase of 98.3 percent and followed by rubber, oil palm, gold, copper and sugar with the price increases of 43.02 percent, 40.08 percent, 31.44 percent 26.40 percent and 23.13 percent respectively
- However, since the beginning of July, commodity prices have been in a freefall as focuses are increased on global not just US economic weakness. CRB Index (Commodity Research Bureau Index: CRB Index) of 19 commodities fell by 10 percent in July, biggest monthly decline since 10.5 percent drop in March 1980, when the US was in recession. Crude oil prices declined from their July peak of USD 147 per barrel to USD 112.7 per barrel on August 18. Natural gas plunged 32 percent. Precious metals have borne the increase of dollar strength with gold price falling from USD 923 a troy ounce in the first quarter to USD 896 a troy ounce in the second quarter. Gold price continued on its downward trend to lower than US\$ 800 a troy ounce in July, for the first time since December, 2007 and price of silver falling rapidly. Rice price, another essential commodity in the developing world is down by 40 percent since May. The same with wheat, copper and cooking oil.
- Underlying factors for the steadily decline in commodity prices over the last 1-2 months are including,
 - ❖ Demand destruction has led to a correction in energy prices. Demand for crude oil and raw materials have been eased in response to the slowdown of global economic expansion, global slowdown fears, a reduction of speculation demand on the back of stronger US dollar, fund liquidation as well as speculative unwinding and de-leveraging.
 - ❖ The decline in oil prices has resulted in lower inflation pressures and helped suppress speculative demand for gold. In August, the net long position decreased significantly with the liquidation of long position of around 4-5 million troy ounce per week.
 - ❖ A stronger dollar and a flight from commodities compounded falling prices. The expectation about shifting in monetary policy stance to tightening biases in a bid to contain inflation together with US dollar appreciation and also the tight credit conditions resulted in capital outflows from future commodity market, namely out of commodity indices. It has been estimated that approximately USD 24 billion has flown out of commodity indices in this third quarter, as compared to net inflows of USD 25.8 billion and USD 0.5 billion in the first and second quarter, respectively.

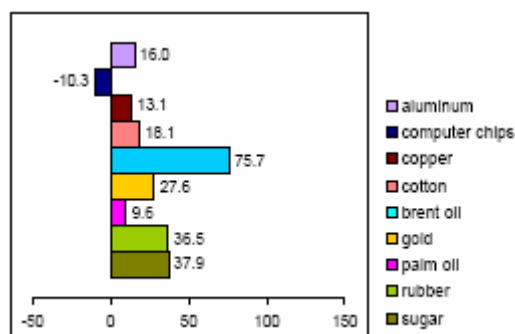
The supply response help suppressed upward pressures on price of some commodities such as industrial metals, agricultural commodities (i.e. rice, wheat and corn). In general, agricultural prices have corrected significantly based on improved crop conditions and concerns regarding increased regulation of

commodities markets in the US. The yield of corn in the US is expected to increase to 155 bushels per acre, for instance.

CRB Index of 19 commodities fell

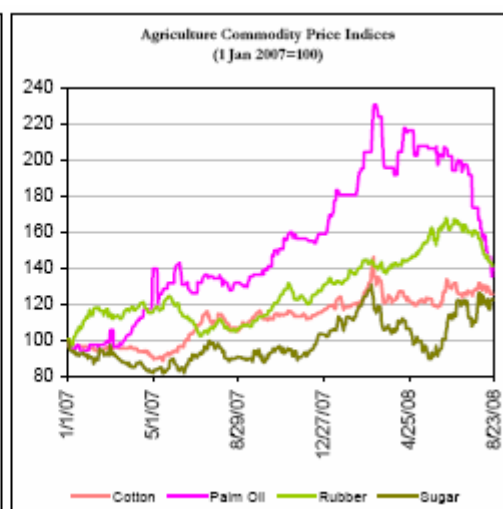
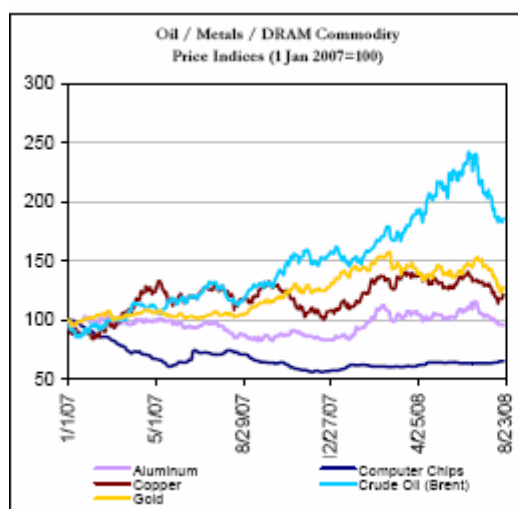
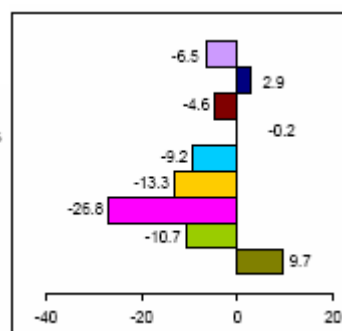


One-year change (% ending August 22, 2008)



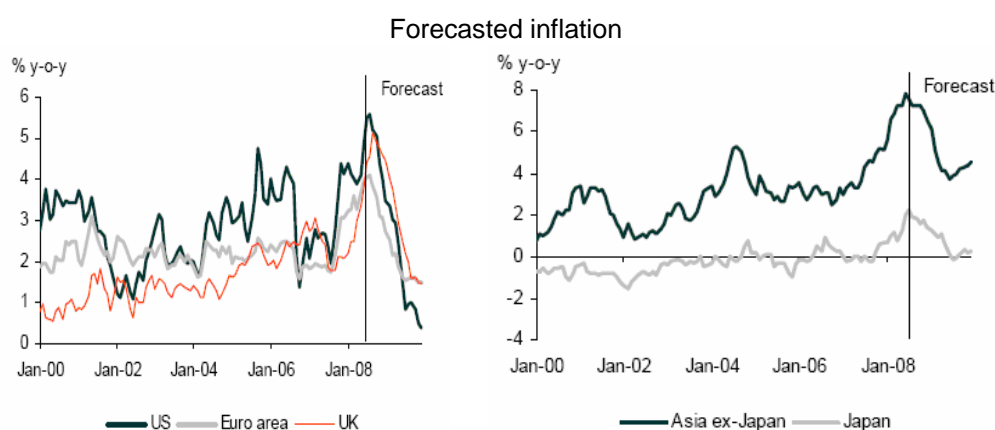
(Sources: Reference from <http://airc.adb.org>)

One-month change
(%, ending August 22, 2008)



(Sources: Reference from <http://airc.adb.org>)

- On the outlook, commodity prices are expected to trend down further in the remaining of this year under the following supporting factors:
 - ❖ With economic slowdown across the board, including in China, and demand for raw materials easing, many analysts say commodity markets' high will be challenged. The reduction in demand for crude oil and raw materials led by cooling down of global economic expansion tends to put the downward pressures on commodity prices.
 - ❖ However, volatile commodity prices could easily rise again especially if geopolitical problems arise or unforeseen weather disasters emerge.
 - ❖ The fact that commodities are falling does not necessarily mean food prices will also follow a free fall. Food supply and demand balance remains quite tight.
- In the face of deteriorating global prospects, the decline of crude oil and other commodity prices will help suppress inflationary pressures and reduce the need for further monetary policy tightening. Sharp drop in commodity prices could mean inflation figures are close to peak in most of the emerging economies; especially Asia and thus providing welcome relief for the fragile global economy. If the trend of falling commodity prices holds, there will be less pressure on central bank to raise interest rate to fight against inflation—a move that would have slowed economic growth further. Lower commodity prices also mean lower import bills for developing countries and smaller outlays for subsidies to shield consumers from expensive food and fuel. In this respect, global inflation is, therefore, expected to peak in the third quarter and trend down afterwards. Under such outlook, the US, Eurozone and Japan are likely to maintain their policy rate in the remaining of 2008.



(Sources: Reference from Lehman Brothers)