



- ❑ The Thai economy contracted 4.9% on the year, less severe than 7.1% contraction in Q1. H1/09, all in all, registered 6.0% decline, attributed primarily to the impacts of the world economic recession, domestic political unrest, and the Swine Flu 2009 epidemic. These hampering factors have led exports, tourism, private consumption and investment to fall sharply.
- ❑ On the quarter, however, seasonally adjusted real GDP in Q2 expanded by 2.3% after 5.9% and 1.8% contraction in Q4/2008 and Q1/2009, suggesting that the Thai economy has already bottomed out and the worst is behind Thailand. Moreover, some improving signs prevailed in Q2. Towards the end of Q2, encouraging signs were seen in unemployment, production of manufacturing exported goods, capacity utilization, imports of raw materials and parts, and public investment.
- ❑ The Thai economy will likely to continue on its recovery trajectory in H2/2009 and, on the year, positive quarterly growth looks very likely to return in Q4 due to the inventory cycle as well as global and domestic policy stimulus. On the quarter, expansion is likely to continue from Q2, thanks to these supporting factors for growth; recovery in the world economy and its benefits on the Thai exports and tourism, increased government spending and public investment under stimulus packages 1 and 2, restoring of public confidence, low interest rates, and credit expansion by special financial institutions (SFI).
- ❑ NESDB expects (-3.5 %) - (-3.0 %) real GDP growth, revised down from a (-3.5%)-(-2.5%) projection range in the previous forecast, in lieu of sharper-than-expected fall in exports, private consumption and investment in H1. Headline inflation is likely to be (-1.0%)-(-0.5%), partly reflects the result of government measures in reducing cost of living in a midst of fragile consumer demand. Unemployment rate should subside to an average of 1.8%-2.0%. Current account surplus will soar to 5.6% to GDP on the back of large trade surplus contributed mainly by faster decline in imports than in exports.
- ❑ Risks associated with the economic outlook are rising and fluctuating oil prices, epidemic of 2009 new strain influenza, and domestic political uncertainty.
- ❑ Economic management to support and sustain the economic recovery in the remaining months of 2009 should focus on these guidelines: (1) Preparation of disease control plan to prevent the outbreak of 2009 new strain influenza; (2) Acceleration of budget disbursement in the remaining months of FY2009, and preparation of budget execution details so that disbursement of FY2010 budget could be timely started in October; (3) Disbursement of public funds and implementation of public projects under the second stimulus package (SP2) must be promptly executed; (4) Facilitation of credit extension by special financial institutions to entrepreneurs and SMEs who encounter liquidity shortage; (5) Implementation of agricultural prices guarantee scheme during period of falling prices; (6) Managing exchange prudently to prevent either sharp depreciation during the period of rising oil prices, or rapid appreciation that could harm exporters and tourism industry. However, exchange rate management should not fuel asset prices.

Economic Forecast year 2009

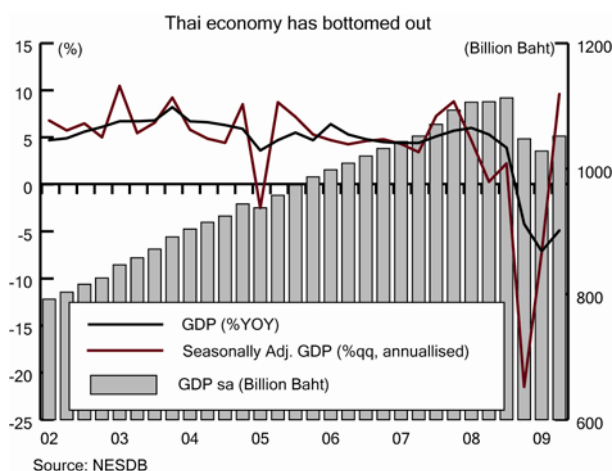
(% YOY)	2009			
	Q1	Q2	H1	Year_f
GDP (at 1988 price)	-7.1	-4.9	-6.0	(-3.5) - (-3.0)
Total Investment (at 1988 price)	-15.8	-10.1	-12.9	-10
Private	-17.7	-16.1	-16.9	-14.8
Public	-9.1	9.6	0.5	5.0
Total Consumption (at 1988 price)	-1.6	-1.2	-1.4	0.7
Private	-2.5	-2.3	-2.4	-0.8
Government	3.6	5.9	4.8	9.4
Export of Goods, Value (US\$)	-19.9	-26.1	-23.1	-16.3
Value (฿)	-12.6	-20.7	-16.8	-14.5
Volume	-19.5	-23.7	-21.6	-13.6
Import of Goods, Value (US\$)	-38.3	-32.3	-35.2	-24.2
Value (฿)	-32.7	-27.3	-29.9	-22.6
Volume	-35.0	-27.5	-31.2	-20.3
Current Account to GDP (%)	14.8	3.7	9.2	5.6
Inflation	-0.3	-2.8	-1.6	(-1.0) - (-0.5)
Unemployment rate	2.1	1.6	1.8	1.8 - 2.0

1. Economic condition in the second quarter and the first half of 2009

1.1 Economic conditions in the second quarter of 2009

The Thai economy contracted by 4.9 percent on the year, less severe than the contraction of 7.1 percent in the first quarter. For the first half of 2009, the Thai economy contracted by 6.0 percent, attributed to the sharp fall in exports and tourism driven by a collapse in global demand during the worst recession, and the impacts of political turmoil and the spread of influenza A (H1N1) that jeopardized consumer confidence and leading to a decline in tourism and consumer spending.

On the quarter, however, seasonally adjusted real GDP in Q2 expanded by 2.3% after 5.9% and 1.8% contraction in Q4/2008 and Q1/2009, suggesting that the Thai economy has already bottomed out and the worst is behind Thailand. Moreover, some improving signs appeared in Q2. Towards the end of Q2, encouraging signs were seen in unemployment, production of manufacturing exported goods, capacity utilization, imports of raw materials and parts, and public investment



Key Highlights

- **Global economy in the second quarter of 2009 has increasingly stabilized and some indicators signaled the end of the recession.** The world economy contracted by 2.5 percent, as compared to the 4.0 percent decline in the first quarter. The improvement of both financial and real sector was mainly driven by economic stimuli in several countries, particularly the fiscal and monetary expansion measures in the US and China. Together with the progress of monetary measures to resolve credit crisis in many countries such as US, UK, and other countries in Europe, the global financial market has improved gradually.

The crucial positive signs in the second quarter are as follows: 1) housing market in the US and Europe had bottomed out and started to recover; 2) the improvement of the consumer confidences in several countries such as US and Europe; 3) on the quarter, manufacturing production index increased steady due to upward adjustment of production activity in response to inventory reduction since the end of 2008; and 4) equity market rallied solidly. Overall, GDP of major industrialized countries contracted at a slower pace than market expectation. Moreover, the Chinese economy grew at an acceleration rate in the second quarter. Economic recovery in major countries particularly the US, Japan, and China, has benefited such export-led-growth economies as NIEs and ASEAN nations.

However, recent adjustment of global economy pointed that the process of recovery could be protracted and susceptible to the fluctuation of fundamental factors due to following seasons:

- (i) High unemployment rate pointed to continue contraction of household spending, a main growth driver of most economies despite the incentives from low interest rates and government stimulus measures.
 - (ii) The recovery of investment will be restrained by significant level of excess capacity in manufacturing sector while market condition remains weak and unattractive.
 - (iii) Unhealthy financial sector and tight liquidity could be worsened by negative feedback loops of economic recession.
- **The Thai Economy in the second quarter fell by 4.9 percent, but less severe as compared with the contraction of 7.1 percent in the first quarter of 2009.** The contraction, however, is less severe due to the improvement in export sector driven by improving global economic condition. For instance, the recovery in the export of electronic and electric appliances was shown in

the slower pace of contraction of 21.2 and 20.6 percent in the second quarter as compared to the reduction of 32.4 and 30.4 percent respectively in the first quarter of 2009s. The improvement of export to China, Japan and South Korea, and the resumption of orders encouraged employment to increase in the second quarter while unemployment rate declined. Together with the effects of stimulus package particularly living cost alleviation measures, household spending started to improve in June.

○ Positive signs in Q2/2009

- (1) The improvement in global economic condition in the second quarter started to benefit Thailand's exports as seen in the resumption of export orders of electronic products and furniture. Notably, Thai exports to China, Taiwan, South Korea, and India have begun to pick up. In the second quarter, seasonally adjusted export volume and value increased slightly from the first quarter by 0.5 and 1.4 percent respectively. In June, the total value of exports increased from May by 2.7 percent, thanks to a 1.4 percent increase in price and 1.5 percent increase in volume.
- (2) Private consumption index started to improve at the end of the second quarter. In June the index picked up by 2.6 percent from month earlier. Moreover, seasonally adjusted index in the second quarter increased by 0.8 percent from the previous quarter and, if excluding foreign tourism spending, the index rose by 1.3 percent. These positive signs of private consumption partially reflected the stimulation effects of government stimulus package which includes cash handout, subsidy provided for elderly and disables, and the scheme to reduce cost of living via free public transportation and utilities for low income earners. Commodities that recorded the increase in consumption demand were foods and durable products such as electronic and electrical appliances. Nevertheless, private consumption index continued to decline from its level in the same period last year by 2.3 percent in the second quarter and 2.5 percent in the first quarter. These indicated that private consumption condition remained fragile and in need of constant policy advocacy, particularly to ensure stable income base and boost consumer sentiment, in order to support consumption recovery.
- (3) Public spending and investment expanded by 5.9 and 9.6 percent respectively, accelerated from 3.6 and -9.1 percent in the first quarter, providing the

speeding up of disbursement process of FY 2009 budget and supplementary budget amount 116,700 million baht. The expedition in budgetary process encouraged current and capital budget disbursement to accelerate, especially the disbursement of budget for construction that severely declined in the previous quarter.

- (4) Manufacturing production improved, value added of manufacturing sector contracted by 8.4 percent in the second quarter, improved from a contraction of 14.4 percent in the first quarter. The improvement were seen in export-oriented manufacturing production that declined by 1.8 percent compare to 22.2 percent in the first quarter. The picking up can be categorized into (i) electronic goods, expanded by 1.5 percent from a contraction of 22.6 percent in the first quarter and (ii) electrical appliances, 16.8 percent contraction compared to 37.7 percent in the first quarter. This resulted from recovery in world demand.
- (5) Construction sector bounced back to positive zone with 2.5 percent expansion in the second quarter, after a successive contraction since the second quarter of 2008. The turnaround of construction sector was attributed by the expansion of public construction. Moreover, the improving investor expectation on economic prospects and government tax incentive program has lifted up private sector construction activities especially in high-end residences. Improving signs are seen in the improvement of (i) investment in manufacturing plant construction that increased by 22.9 percent, (ii) permitted area for industrial plant that grew by 51.9 percent; and (iii) permitted area for commercial building that declined at a slower pace by 13.0 percent, rebounded from 41.9 contraction in the first quarter.
- (6) Imports showed a positive sign. In the second quarter, import volume declined by 27.5 percent revived from 35 percent contraction in the first quarter. Seasonally adjusted import volume in June increased remarkably from the previous month by 21.6 percent, due to the increase in import volume of raw materials and semi-finished goods by 7.4 percent, and the increase by 3.2 percent for the whole quarter.
- (7) Consumer confidence began to improve. The consumer confidence index has started to pick up in June (72.5) and rose further in July (73.4) after a successive decline in the preceding periods. For business sector, business confidence index has improved constantly since May and reached its highest level in 4 years in June. Additionally, industrial confidence index has also improved since

March. Therefore, business sector is unlikely to reduce employment and investment further.

- **Negative signs in Q2/2009:** During the second quarter, there were negative factors that jeopardized consumer and business confidence and resulted in the contraction of several production sectors, which were included:

- (1) Political unrest that developed to increase its intensity in April, when Thailand was hosting ASEAN+3 Summit in Pattaya, has eroded consumer confidence and investment sentiment.
- (2) The spread of influenza A (H1N1) 2009 jeopardized confidence of entrepreneurs and foreign tourists. The number of foreign tourists in the second quarter declined steadily. Combined with the impacts of global recession and political unrest during Songkran festival, hotel and restaurant sector contracted by 5.6 percent, continued from the 6.0 percent contraction in the first quarter.
- (3) Moreover, a decrease in prices and yields of several important agricultural products (rice, maize, and cassava) has deteriorated agricultural income and slowed down the recovery of household spending. In the first quarter, agriculture sector contracted by 2.7 percent.

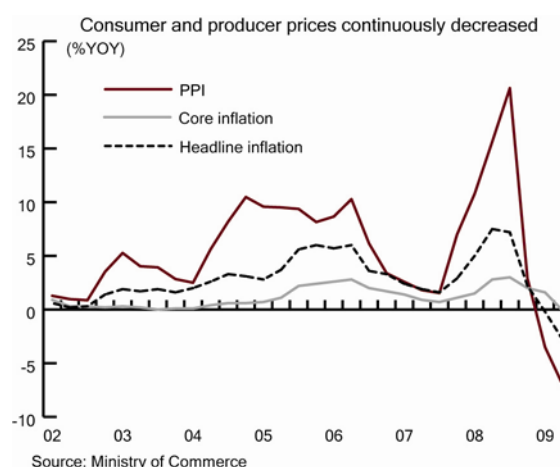
- **Economic stability remained positive:**

- (1) **Domestic economic stability remained favorable but requires a close attention on the impacts of oil price increase**

- **Headline Inflation:** In the second quarter of 2009, average headline inflation was at -2.8 percent compared to -0.3 percent in the first quarter. The deeper decline in the rate of inflation was attributed by (i) the extension of “5 measures 6 months” program and the implementation of “15 years free education” program¹ (ii) a sharp decline in world oil price compared to the same period of last year (iii) a substantial drop in price of food particularly rice flour and cereal products, that was caused by the high-based effect in the previous year and (iv) lower demand in goods and services that resulted in the first time reduction in the price of other goods item (excluding energy and fresh foods). Quarterly average core inflation was at -0.1

percent compared to 1.6 percent in the first quarter. For the first half of 2009, headline inflation and core inflation was averaged at -1.6 and 0.7 percent respectively².

Food and beverages price index increased by 5.0 percent compared to 10.0 percent in the previous quarter. The deceleration of food and beverages inflation was attributable to substantially declined in the price of rice, flour, cereal products, seasonings and condiments, oil, and fat. Non-food and beverages price index continued to decline by 8.2 percent from 6.9 percent contraction in the first quarter, providing (i) vehicles, transportation and communication price index declined by 15.3 percent and fuel price plunged by 24.2 percent; (ii) housing & furniture price index fell by 4.9 percent due to the results of government measures that lessened household burden of electricity and water supply by 22.3 percent, and (iii) education price index declined by 6.4 percent in the second quarter due to 15 years free education program.



Producer price index continued to decline by 7.0 percent, from a contraction of 3.5 percent in the first quarter, owing to the decline in price of mining and manufactured products by 16.3 and 10.2 percent respectively. However, agriculture price index continued to increase by 9.1 percent. For the first half of 2009, producer price index decreased by 5.3 percent³, pointing to lower production cost pressure than in last year.

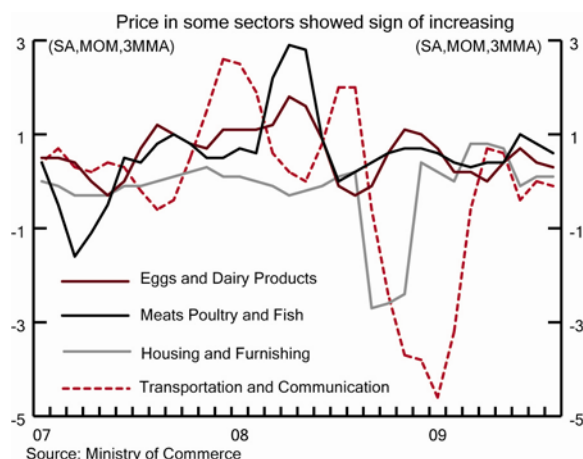
However, seasonally adjusted price tends to increase from the previous month. Price tends to increase in goods items particularly oil, household appliance, food

¹ Inflation rate that compiled by Ministry of Commerce has included the impacts of government measures on price of goods and services such as student uniform, free public transportation, and free public utilities.

² In July 2009, headline inflation was at -4.4 percent and core inflation stood at 1.2 percent. Thus headline inflation for the first seven months was at -1.9 percent while core inflation stood at 0.5 percent

³ In July 2009, Producer price index declined by 12.9 percent and decreased by 6.5 percent for the first seven months.

which includes meat, egg, vegetable and fruits, as well as raw materials.



- **Employment** in the second quarter was at 37.64 million people, increased by 2.3 percent from the same period last year. Employment in agricultural sector was at 14.01 million people, an increase by 2.4 percent. Employment in non-agricultural sector stood at 23.64 million people, picked up by 2.2 percent which was contributed by the increase of employment in hotels and restaurants sector as well as construction sector which increased by 7.3 and 5.2 percent respectively. At the same time, employment in manufacturing sector decreased by 4.6 percent, which was the 5th consecutive quarter of contraction. This is partly reflected the repatriation of labors towards agriculture sector, hotels and restaurants sector, and construction sector. Average unemployment in this quarter was at 673,000 people, increased by 162,000 people from the same period last year or 31.71 percent increased. Therefore, the average unemployment rate was at 1.8 percent.

However, signs of recovery in labour market have emerged which, indicated that unemployment situation had bottomed out. The improvement in labor market was supported by improving global economic condition and government stimulus package that encouraged some industries such as electronic to reemploy workers. The key signs that point to the positive trend are (i) number of insured persons claimed for unemployment compensation were 175,700 people, declined from 247,800 people in the first quarter (ii) unemployment had lessened from 2.0 percent in the first quarter to 1.8 in the second

quarter and (iii) opportunity to find a new jobs started to improve, and pointed to an upward trend in employment situation. This is seen in the ratio of vacant jobs to applicants which was at 0.6 percent at the end of June 2009, compare to 0.79 in the same period of 2008, and 0.55, 0.36 in December 2008 and March 2009 respectively.

(2) External stability remain in positive: current account recorded a surplus with ample international reserve

- Current Account in the second quarter registered a surplus of 2,293 million USD which was equivalent to 79,341 million baht. This was attributed by trade balance surplus of 3,896 million USD in second quarter. However, net service, income and transfer balance recorded a deficit of 1,604 million USD due to sharp decline of net tourist income and passenger fee which was partly a result of the political instability at ASEAN Summit in April and the pandemic of the type A (H1N1) 2009 influenza in June. For the first half of 2009, current account recorded a surplus of 11,405 million USD which was equivalent to 400,920 million baht.
- International reserve at the end of July stood at 123.45 billion US dollars (excluding Net Forward Position of 11.37 billion US dollars), higher than 116.22 billion US dollars at the end of March 2009 (excluding Net Forward Position 3.70 billion US dollars), which was equivalent to 5.6 times of short-term foreign debts or 10.1 month of imports
- An average exchange rate in the second quarter of 2009 was at 34.64 baht per US Dollar, appreciated from 35.31 baht per US Dollar in the previous quarter but depreciated from 32.20 baht per US Dollar in the same period last year which was equivalent to 7.42 percent depreciation. Thai baht continually appreciated against US Dollar from July until present. Monthly average exchange rate in July stood at 33.99 baht per US Dollar and slightly appreciated further in line with other regional currencies to 33.96 baht per US Dollar during August 1–17.

○ Thai Economic Outlook in the second half and for the whole year 2009

- (1) **In the first half, the Thai economy contracted by 6.0 percent** owing to global economic crisis together with the lingering effects of political unrests and the outbreak of 2009 new strain influenza that resulted in a sharp contraction of export and a substantial reduction in number of tourists.

(2) However, in the latter half of 2009, the Thai economy is expected to recover with the positive growth rate in the fourth quarter compare to the last period of 2008 (%YoY). That said, the Thai economy is likely to contract in the third quarter of 2009 as the benefit from improving global condition on export remained limit and high export based in the third quarter of last year as well as sluggish domestic demand recovery. However, the continued improvement is likely to be reflected in seasonally adjusted real GDP that was bottomed out in the first quarter. The supporting factors for the recovery in the latter half are included:

- **The improvement of global economic condition is likely to be more favorable to export in the latter half of the year as global economy was bottomed out in the first quarter and is projected to contract by 1.3 – 1.8 percent, better than the contraction in the range of 1.5 - 2.0 percent in previous projection. This upward revision reflected (i) the better performance of Chinese economy with the trend of accelerated GDP expansion in response to fiscal and monetary stimulation (ii) signs of sooner-than-expected recovery in Japan that are driven by fiscal expansion and stimulation spillovers from its trading partners (iii) upward revision of outlook for NIEs economies that benefit from China-led-recovery in Asia. However, growth outlook for other major trading partners is insignificant different to the assumption employed in previous projection**
 - **The improvement of household spending that is likely to be supported by improving economic sentiment, government stimulus measures, and the increase of household incomes in the latter half (employment rate increase, an improvement of major crops price along with global oil and commodity price, and the increase of return on saving)**
 - **The expedition of budget disbursement from both FY 2008 budget and FY 2009 budget. Liquidity in economic system tends to improve due to (i) the implementation of economic measures under economic recovery plan 2009 (ii) the implementation of investment projects under medium and long term public investment plan (iii) expansionary monetary policy implementation, and (iv) liquidity management and soft-loans extension to SMEs.**
 - **The yearly average Dubai crude oil price in 2009 is forecasted to be less than 65 US dollar per barrel.** The average Dubai crude oil price for the first 7 months was at 53.48 US dollar per barrel and tends to rise in the latter half of 2009 in response to (i) the better signs of global economic condition and the expectation of higher consumption demand in the latter half (ii) speculative demand in oil market amid the signs of global economic recovery and US dollar depreciation. Therefore, the average Dubai crude oil price in the latter half is forecasted to be in the range of 70 – 75 US dollar per barrel. The latest announcement during 1-17 August showed that the average Dubai crude oil price was at 71.40 US dollar per barrel and reached its highest level at 72.90 US dollar per barrel on 6th August.
 - **The implementation of price guarantee scheme for major crops during a plunge period** such as rubber, rice, cassava, oil palm, and maize. This will assist to maintain farmer incomes and the employment rate in agricultural sector.
 - **Loan guarantee and soft loans extension by SFIs to SMEs and the implementation of accommodative monetary policy** will assist private sectors to maintain their business during the period of economic recession as well as to invest and enhance their production efficiency in preparation to revive during the economic recovery.
 - **Improving business confidence and business sentiments.**
 - Moreover, the low base of GDP in the fourth quarter of 2008 will provide a springboard for positive GDP growth rate in the fourth quarter.
- (3) **Economic outlook for 2009: The Thai economy is expected to grow in the range of (-3.5) – (-3.0) percent, revised from the range of (-3.5) – (-2.5) percent** in the press release on the 25th of May 2009 due to the shaper-than-expected contraction in the first half as a result of deeper-than-expect export contraction and the delay of household spending recovery. Headline inflation is forecasted to be in the range of (-1.0) – (-0.5) percent. Export value in US dollar terms is projected to decline by 16.3 percent but the Thai baht depreciation is likely to limit the pace of export contraction in baht terms to 14.5 percent. Current account is projected to record a surplus of 5.6 percent of GDP

- Risk factors and key issues that need to be managed are as follows :

(1) **The rising trend and the fluctuation of oil price.**

Oil price tends to rise in conjunction with improving global economic condition that could put an upward pressure on production costs and jeopardize household spending in the presence of fragile economic condition.

(2) **Tourism market condition and the outbreak of 2009 new strain influenza. In the first half,**

tourism sector contracted due to the adverse impacts of global recession and the outbreak of 2009 new strain influenza which overstated to tourism sector, confidence, and household spending.

(3) **Domestic political condition remained susceptible to fluctuation** and could jeopardize

business and tourists confidences that require a close attention in particular during ASEAN meetings in the remaining of the year.

1.2 Economic performance in the second quarter of 2009:

- **Household consumption expenditure declined but signs of recovery have started.** Household consumption fell by 2.3 percent in the second quarter, but the pace of contraction has slowed when compare to 2.5 percent decline in the first quarter. The slower pace of consumption contraction was attributable to government stimulus measures and the decline in consumption price that boosted real purchasing power, particularly among salary-based workers or fixed income earners. The negative factors that dragged on consumption in this quarter are (i) subdued consumer confidence due to concern over economic prospects, employment condition and the development in political harshness, and (ii) the drop in farm incomes of 21.7 percent.

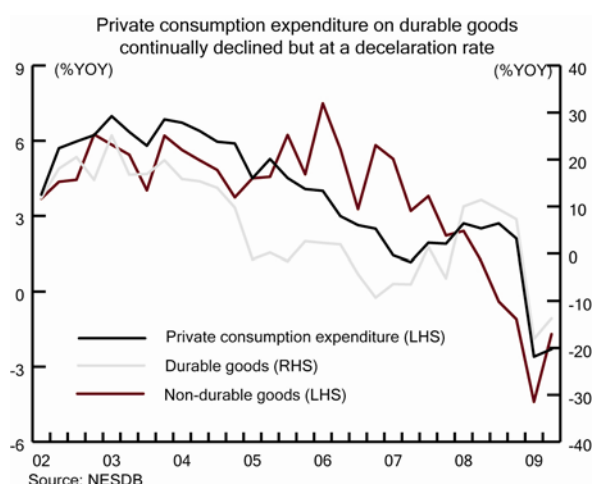
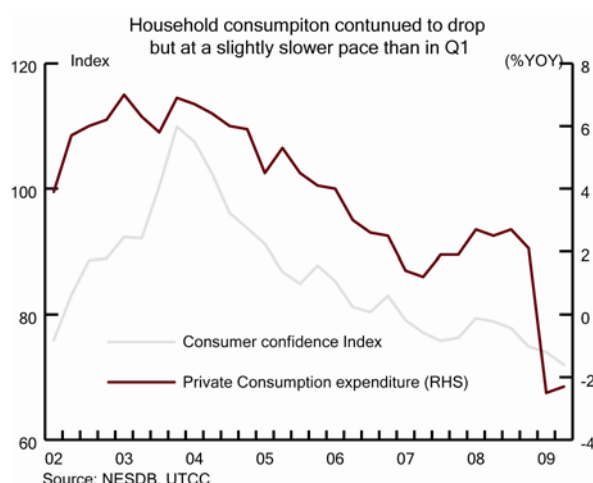
However, some key seasonally adjusted household consumption indicators have pointed to signs of recovery. These indicators included, for example, import volume of consumption goods, real VAT revenue, retail sales of such durable goods as electronics and electrical appliances, and foods items such as sugar and carbonate water, etc.

In the first half of 2009, private consumption expenditure fell by 2.4 percent, owing to the contraction in the consumption of durable goods, semi-durable goods and non-durable goods of 15.9, 8.9, and 1.7 percent respectively. The contraction of non-durable goods was attributable to the decline of non-food consumption of 3.6 percent while foods consumption grew by 0.9 percent.

- **Investment contracted sharply.** In the second quarter, private investment continually declined by 16.1 percent after a contraction of 17.7 percent in the first quarter. The sharp fall of private investment was contributed by the reduction of investment in machinery & equipment by 18.5 percent and the contraction of investment in construction of 7.5 percent.

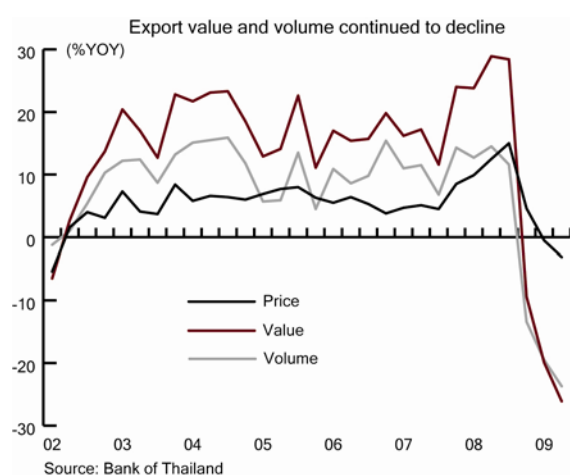
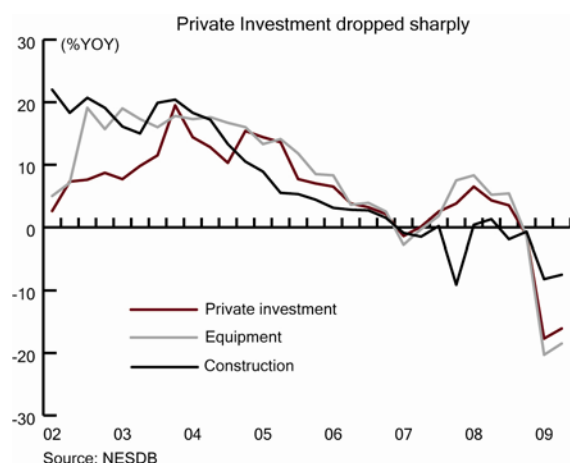
Investment in machinery and equipment continued to decline especially in the manufacturing sector where there has been a sharp drop in export demand and large rise in excess capacity. Meanwhile, firms operated their production in accordance with the need to replenish their stock level after large de-stocking in the last 2 quarters. In addition, the decline of investment in machinery and equipments was also reflected the reduction of number of investment projects which were approved by the Board of Investment in 2008.

Investment in construction declined in accordance with dampening demand for housing and commercial building. The reduction of investment in construction was attributable to (i) concern over income prospects amid unfavorable economic environment which has led consumers to postpone their



Private Consumption								
(%YoY)	2008					2009		
	year	Q1	Q2	Q3	Q4	Q1	Q2	share(%)
Private Consumption	2.5	2.7	2.5	2.7	2.1	-2.6	-2.3	100
Durable goods	9.5	10.0	11.4	9.4	7.3	-18.1	-13.7	10.4
Semi-durable goods	1.7	3.7	3.3	3.3	-3.1	-8.1	-8.4	12.2
Non-durable goods	0.6	2.4	1.2	-0.4	-1.1	-4.4	-1.7	48.3
- Food	1.4	2.6	0.8	-0.1	2.4	2.5	-0.1	20.2
- Non-food	0.6	2.4	1.2	-0.4	-1.1	-4.4	-2.9	28.1
Service	3.0	-0.7	1.0	5.1	6.2	5.5	4.4	29.1

Source: NESDB



Export of Agriculture								
(%YoY)		2008				2009		
		Year	H1	Q3	Q4	Q1	Q2	H1
Rice	Value	78.9	134.6	134.2	-18.0	-13.7	-35.7	-27.0
	Price	63.0	51.8	88.4	59.6	28.6	-19.8	-1.5
	Volume	11.1	56.0	23.4	-48.6	-32.8	-20.5	-26.9
Rubber	Value	20.4	32.1	47.1	-21.3	-45.5	-53.0	-49.1
	Price	24.7	30.1	43.8	-3.1	-42.5	-45.7	-44.2
	Volume	-4.5	1.3	2.4	-20.9	-5.7	-13.5	-9.2
Cassava	Value	3.6	16.3	23.3	-35.2	-45.6	-20.1	-34.0
	Price	40.0	60.6	39.3	13.1	-15.1	-29.1	-22.8
	Volume	-27.8	-27.8	-11.8	-40.6	-34.1	12.9	-15.1
Maize	Value	110.3	-12.4	201.4	27.4	-48.7	68.0	-22.7
	Price	64.3	-2.9	27.2	-1.9	-14.1	-61.2	-49.7
	Volume	79.1	-10.7	136.6	22.1	-40.0	175.5	-10.8

Source: Ministry of Commerce

decision to purchase, despite incentives from low interest, transfer fee reduction, and higher interest payment deductible for personal income tax (ii) postponement of entrepreneurs' new investment projects due to ample stock of housing in the market, particularly low-price-residential such as condominiums, town house and detached house (iii) wait and see policy of entrepreneurs in a bid for new BOI privileges for the investment project of low-income residential⁴.

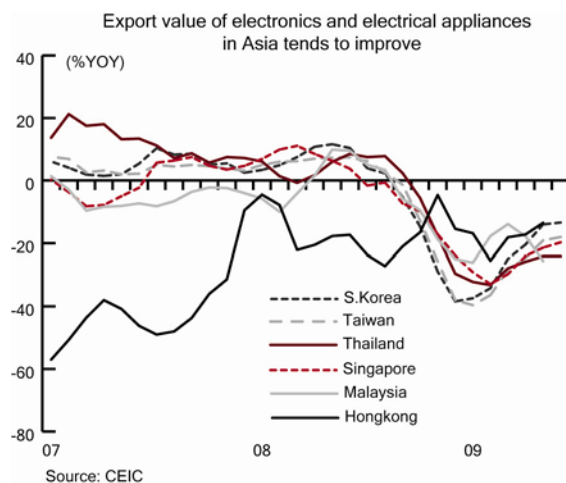
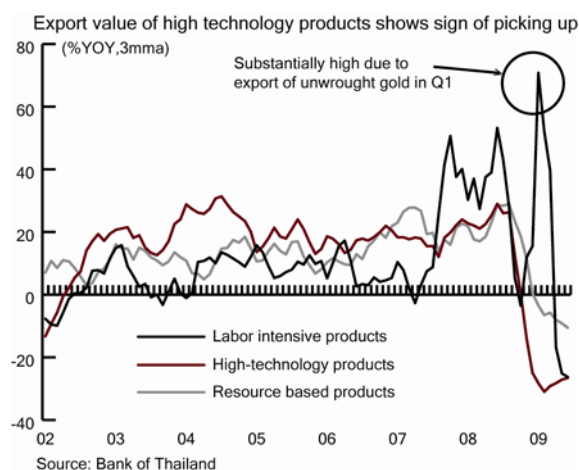
Investment in housing and commercial building construction plunged by 15.1 and 7.3 percent respectively due to unclear signs economic recovery, but industrial plant construction increased by 22.9 percent. In the first half of 2009, private investment declined by 16.9 percent due to the contraction of investment in machinery & equipment and investment in construction of 19.4 and 7.9 percent respectively.

- **Export value and volume continued to contract considerably in the midst of global economic recession.** In the second quarter of 2009, export value in USD terms dropped by 26.1 percent, compare to the contraction of 19.9 percent in the previous quarter. Export volume and price decreased by 23.7 and 3.1 percent respectively. Hampering factors for the exports were: (1) collapse in global demand during global economic recession (2) falling agricultural and manufacturing product prices driven by sluggish demand, price competition, and higher risk aversion in future markets of commodities (3) liquidity shortage of exporters due to more stringent credit standard of commercial banks. However, improving economic conditions in some countries such as China, Japan, and South Korea, contributed to the improvement in exports of some commodities such as electronics and electrical appliances, and chemicals as seen in the decelerated rate of contraction in their export values. Export value in baht term in the second quarter decreased by 20.7 percent while export price increased by 4 percent, supported in part by currency depreciation from the same period last year⁵.

- **Agricultural commodity: export volume and price fell significantly.** In the second quarter 2009, volume and price of agricultural exports dropped by 12.8 and 27.9 percent respectively, which resulted in the reduction of agricultural export values of 37.2 percent. The sharp decline in agricultural export value was partly attributable to the high base effects both in terms of volume and

⁴ The new condition of BOI to stimulate investment in low-income housing project was the 5-years corporate income tax exemption for the buyers who buy the condominiums in Zone 1 at the price of not exceeding 1 million baht (increased from 600,000 baht) and the buyer of house at a maximum price of 1.2 million baht.

⁵ In the second quarter of 2009, the average exchange rate was equivalent to 34.68 baht per US dollars, compared to 32.33 baht per US dollars in the second quarter of 2008.



prices. In 2008, agricultural exports reached their peak fueled by the concerns over food shortage stemmed from unfavorable weather condition as well as commodity price speculation in future markets. Agricultural products that recorded a reduction in export values were: (1) rice (-20.5 percent) due to the resumption of export quantity in export-competing-countries such as Vietnam and India while price of Thai rice was higher than that of in those export-competing-countries (2) rubber (export volume decreased by 13.5 percent) which was affected negatively by unfavorable condition in automotive industry amid global economic recession. In contrast, export volume of cassava increased by 12.9 percent due to oversupply of world's production that pushed its price downward and thereby stimulate demand.

- **Manufacturing products: Export volume and value declined.** Export value of manufacturing products declined by 25.2 percent as its volume contracted substantially by 24.9 percent and export price declined by 0.4 percent. Export value of resource-based products continuously dropped by 9.3 percent whereas labor-intensive products shrank by 25.6 percent⁶. Nevertheless export value of technology-intensive products fell at a slower pace by 27.1 percent from a contraction of 30.9 percent in the previous quarter, which was mostly attributable to the improvement in the export of electronics and electrical appliances.

- **Export of electronics and electrical appliances contracted at a slower pace.** In the second quarter, export value of electronics and electrical appliances declined by 21.2 and 20.6 percent respectively, slightly improved from the contraction of 32.4 and 30.4 percent in the first quarter. This was attributable to the resumption of orders for electronics and electrical appliances from China, Hong Kong, Japan and South Korea amid signs of improving economic condition. Likewise, book to bills ratio of US semi-conductor was at 0.72 in the second quarter, increased from 0.51 in the first quarter, as well as export of electronics goods of Asian countries decreased at a decelerated rate, reflecting better condition US semiconductor market that in line with the resumption of global economic activities.

Major products that indicated improvement in export values were: computer and parts (-21.3 percent), integrated circuit (-21.4 percent), radio-broadcast receiver television receiver and parts (-14.2 percent),

⁶ Compared to an increase of -44.4 percent in the previous quarter, as a result of export value of unwrought gold was returned to normal situation in this quarter

air conditioner and parts (-32.7 percent), and refrigerator and equipments (-15.0 percent)

- **Gems and Jewelry: export value of unwrought gold returned to normal situation.** Export value of gems and jewelry decreased by 26.5 percent compare to an increase by 106.3 percent in the first quarter. The export value excluding unwrought gold declined by 26.2 percent which indicated that export value of gems and jewelry has returned to a normal situation, after substantially expanded by speculative demand in the first quarter.
- **Food Products (excluding sugar): value of export went down.** Export value of food products decreased by 11.5 percent compare to the decrease of 4.8 percent in the first quarter. The faster pace of contraction partly driven by the reduction of export price of frozen and processed chicken and canned crustacean in line with the decline in price of raw materials. The major products which recorded a reduction of its export value are including canned, frozen and processed crustacean (-8.1 percent) canned and frozen fruits and vegetables (-10.8 percent) and frozen and processed chickens (-5.3 percent)

Major Export Market

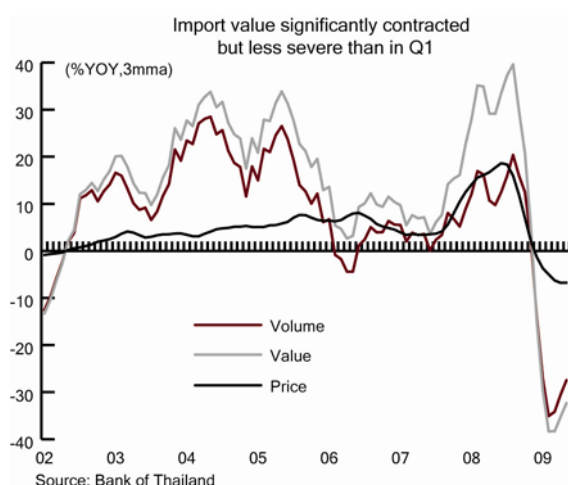
(%YoY)	2008				2009			
	Year	H1	Q3	Q4	Q1	Q2	H1	Share
U.S.	5.6	9.0	15.7	-10.2	-27.0	-27.1	-27.1	10.9
Japan	11.8	14.2	25.0	-4.7	-26.1	-31.1	-28.7	10.4
EU (15)	9.1	14.5	15.7	-7.5	-32.7	-33.0	-32.9	10.7
ASEAN (9)	23.6	41.0	39.4	-15.9	-31.6	-33.0	-32.4	22.3
Hong Kong	17.1	43.5	12.5	-16.7	-14.2	-22.5	-18.4	5.9
Taiwan	-18.5	-19.7	-3.3	-29.9	-42.5	-26.3	-34.4	1.6
South Korea	23.7	16.3	63.6	1.1	-24.6	-18.7	-21.6	1.9
Middle East	27.8	30.0	48.1	5.4	6.7	-17.6	-6.4	5.7
India	27.8	28.7	25.5	28.7	-17.0	-7.5	-12.8	2.3
China	9.2	28.0	14.7	-24.2	-27.6	-9.2	-18.3	11.2

Source: Bank of Thailand

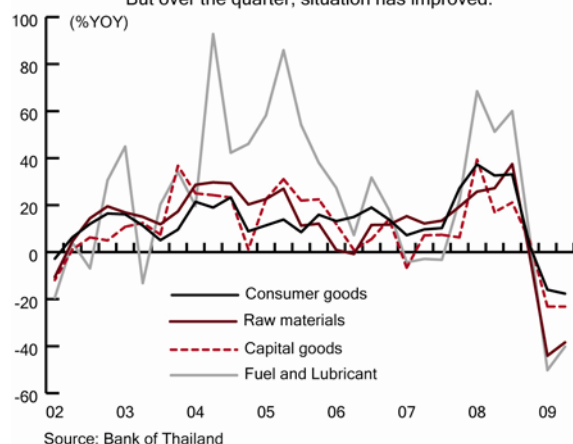
- **Export markets: Export drastically declined in major markets but positive signs have emerged in China, Taiwan, South Korea and India market.** Export to major markets such as USA, Japan, EU (15) and ASEAN declined by 27.1, 31.1, 33.0 and 33.0 percent respectively. Likewise, export to other markets continued to decline sharply, for instance Hong Kong (-22.5 percent) Australia (-28.7 percent), Middle East (-17.6 percent), and Latin America (-40.0 percent). However, there were positive sign in China (-9.2 percent), South Korea (-18.7 percent), Taiwan (-26.3 percent), and India (-7.5 percent).

- For the first half of 2009, export value in US dollar terms decreased by 23.2 percent with a decrease of 1.8 percent in price and 21.7 percent in volume. In term of Thai baht, export value decreased by 16.8 percent while export price increased 6.2 percent resulting from devaluation of Thai baht compared to the same period of the previous year.

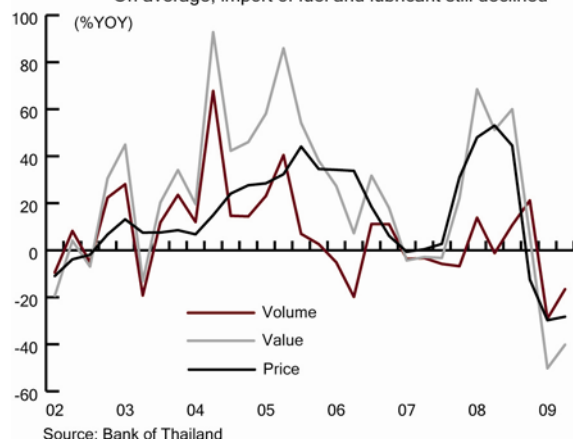
- **Imports: Import value continued to decline but import volume contracted at a slower pace.** In the second quarter, import value in US dollar terms decreased by 32.3 percent, compare to 38.3 percent in the first quarter. Import volume declined by 27.4 percent owing to prolonged



Over the year, import value continued to decline in all sectors.
But over the quarter, situation has improved.



On average, import of fuel and lubricant still declined



Crude Oil Import

(%YoY)	2008					2009		
	Year	Q1	Q2	Q3	Q4	Q1	Q2	H1
Value	47.7	79.4	56.4	60.3	5.5	-56.4	-42.9	-49.5
Price	45.5	63.5	70.2	78.6	-9.5	-52.2	-50.2	-50.6
Volume	1.5	22.7	-8.1	-10.2	16.6	-8.7	14.6	2.2

Source: Ministry of Commerce

domestic demand and export contraction. Nevertheless, import volume of semi-finished goods and raw materials signaled a positive sign, in line with the resumption of orders for electronic products and the increase in production to refill stock that reflected in the increase of parts and raw material imports from the previous period. Likewise, import price declined by 6.7 percent as a result of falling oil price and the decline of raw material prices. Moreover, in terms of baht, import value retreated by 27.3 percent while import price increased by 0.2 percent.

- Import of capital goods retreated both in term of volume and price.** Import value of capital goods contracted by 23.2 percent close to the contraction in the first quarter as a result of continuously economic recession and excess production capacity in the manufacturing sector. In the second quarter, import goods that recorded a strong contraction in its import value were industrial machinery and components, electrical machinery and parts, computer and parts, scientific and medical equipment, and other capital goods, etc. In addition, import volume and price dropped by 20.3 and 3.6 percent consecutively.
- Semi-finished goods and raw materials: import volume and price contracted.** Import value of semi-finished goods and raw materials declined by 38.4 percent in line with the contraction of export and domestic demand. Import goods that recorded a contraction in its value were chemicals products, iron and steel, and fertilizer and pesticides. Import value of iron and steel declined substantially by 64.1 percent due to the contraction of construction sector and the reduction of iron demand in automotive industry as well as massive inventories accumulation over last year. However, import of raw materials in some industries showed a sign of recovery, such as electronic products, gems and jewelry concurrently with the improvement of export of electronic products and the increase in production to compensate for massive rundown stock in the last two quarters. In the second quarter, import volume and price of semi-finished goods dropped by 36.8 and 2.6 percent respectively, compared to a contraction of import volume of 8.1 percent in the fourth quarter of last year and 45.2 percent in the first quarter.
- Fuel and lubricant: Import volume contracted at a slower pace than in the first quarter.** Import value of fuel and lubricant dropped by 40.2 percent due to the reduction of import volume and price of 16.6 and 28.3 percent consecutively. Import volume of fuel and lubricant declined at a deceleration rate, providing

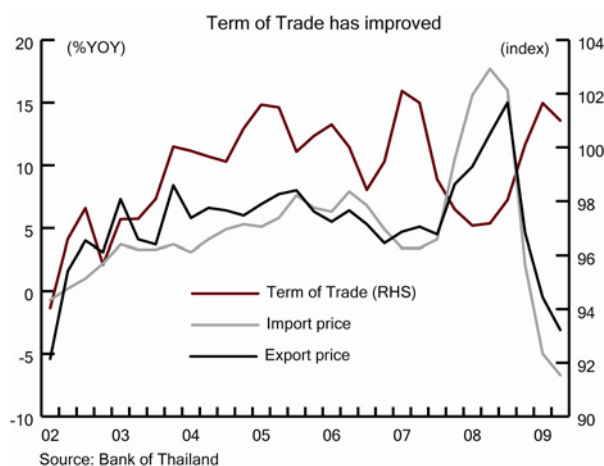
Import (Seasonally adjusted) tended to increase

(% MoM,sa)	2009					
	Jan	Feb	Mar	Apr	May	Jun
Consumer products						
Value	-5.1	-10.8	7.3	-3.0	-4.2	12.1
Price	-0.1	-0.7	-0.8	0.2	0.8	0.4
Volume	-4.8	-10.6	8.7	-3.2	-4.5	10.8
Raw material						
Value	-23.5	-9.0	12.7	11.1	-10.8	6.8
Price	-0.3	0.6	0.4	-0.6	-0.5	0.3
Volume	-24.1	-9.3	12.7	12.6	-10.3	7.4
Capital goods						
Value	-2.3	-4.2	-7.7	-1.4	-1.0	4.8
Price	-0.9	-1.7	-0.8	0.0	1.0	0.5
Volume	-0.6	-3.8	-6.7	-1.0	-1.9	4.3
Fuel and Petroleum products						
Value	-40.2	0.1	23.6	-12.6	-5.9	45.7
Price	2.2	-2.7	3.2	5.2	8.7	10.7
Volume	-46.0	7.0	15.2	-7.6	-12.6	26.8
Total						
Value	-20.3	-12.9	14.4	1.9	-9.7	24.5
Price	0.2	-0.8	0.4	0.9	2.1	2.9
Volume	-18.3	-13.0	14.3	2.3	-10.8	21.6

Source: Bank of Thailand

growing concern over abrupt change in oil price that stimulated stock demand in June to increase as well as the unusual low import in the second quarter of 2008 due to abrupt increase in world oil price. In sum, import value of crude oil price declined by 42.9 percent, with increase in import volume of 14.6 percent and decrease in import price of 50.2 percent. Moreover, import value of petroleum products fell by 56.8 percent.

- **Import of consumer goods decreased both in term of value and price.** Import value contracted by 17.7 percent due to the reduction in household consumption expenditure. Providing concerns over economic recession and income prospect, together with Thai baht depreciation of Thai baht, consumers are more cautious about their consumption spending. Import of consumer goods that recorded a contraction in its import value are household electrical appliances, miscellaneous goods, gems and jewelry, clothing, shoes, other garments, and watch and parts. In sum, import volume and price of consumer goods declined by 15.1 and 1.1 percent consecutively.
- In the first half of 2009, import value in US dollars term fell by 35.2 percent with the decrease in import volume of 31.2 percent and import price of 5.9 percent. In term of Thai baht, import value declined by 29.9 while import price increased by 1.9 percent respectively. However, the seasonally-adjusted import volume increased obviously in June. And import volume in second quarter increased by 4.4 percent from previous quarter.

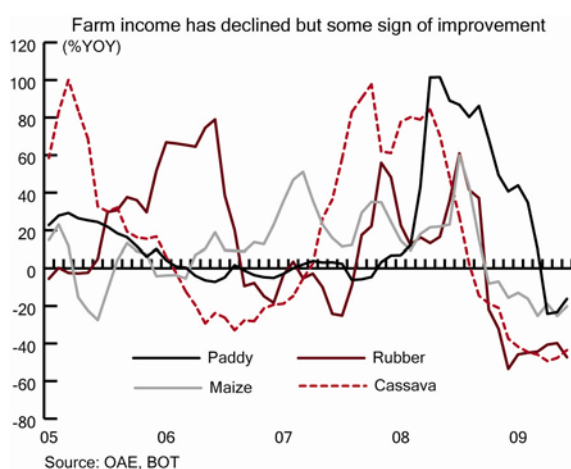
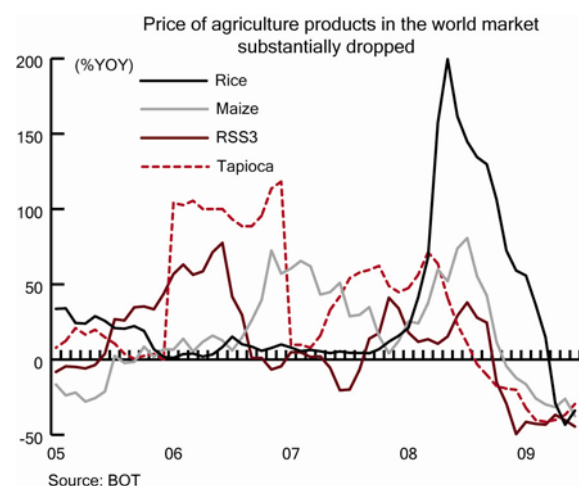


Crop Production Index, Crop Price Index and Farm Income Index

%YoY	2008					2009		
	Year	Q1	Q2	Q3	Q4	H1	Q1	Q2
Crop Production Index	9.0	4.5	16.2	17.9	4.0	-2.1	1.2	-6.3
Crop Price Index	22.0	15.0	23.9	34.2	15.5	-9.1	-0.3	-16.4
Farm Income Index	33.0	23.0	53.2	57.4	17.1	-11.0	0.9	-21.7

Source: Bank of Thailand

- **Term of Trade improved from the same period in last year** as export price declined at a slower pace than import price and therefore asymmetric price reduction improved term of trade in the second quarter by 3.9 percent.
- **Trade Balance recorded a surplus** of 3,896 million USD (which is equivalent to 134,685 million baht), less than a surplus of 7,800 million USD in the first quarter 2009 (which is equivalent to 275,434 million baht). The decline of trade surplus in this quarter was attributable to the faster pace reduction of import value than that of exports. In the first half of 2009, trade balance registered a surplus of 11,696 million USD, which is equivalent to 410,118 million baht.
- **Production side: Production condition improved in the second quarter, particularly construction sector that was attributable to the decline in cost of construction materials. Meanwhile, industrial sector showed a sign of recovery, providing an expansion in export-oriented industry.**



- Agriculture sector** contracted by 2.7 percent, owing to the contraction of main production sectors such as rice, oil palm, sugarcane by 9.6, 23.8 and 36.6 percent respectively. Drought, flood and an unusually long winter season at the beginning of the year adversely affected rice production from off-season paddy fields. Oil palm production declined due to a reduction in demand for alternative energy and a decline of palm oil price. On the other hand, rubber and cassava productions increased by 4.0 and 52.7 percent respectively. The former was attributable to an expansion of rubber plantation area in the North and North-East. In 2008, concerns over world food crisis have led the world agricultural price to reach its 10 years peak. As a result, this year reduction in agricultural price merely reflected an adjustment toward a more normal situation. Crops price in this quarter fell by 16.4 percent, notably for the following crops: 5 percent in-season rice, ribbed smoked sheet No.3, cassava and oil palm which decreased by 21.1, 42.8, 46.9 and 19.7 percent respectively. The drop in both agricultural production and price has lessened farm incomes by 21.7 percent. In the first half of 2009, agricultural production increased by 0.5 percent.

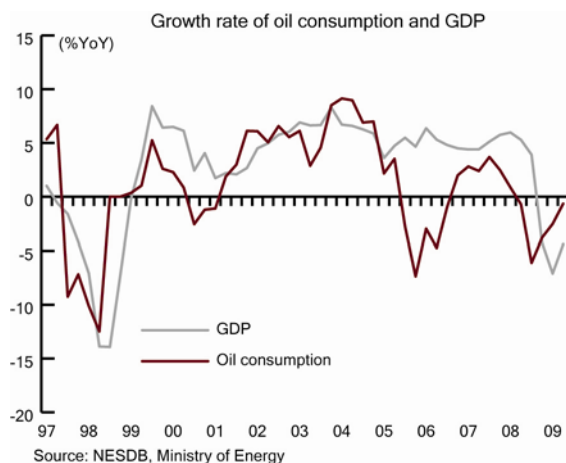
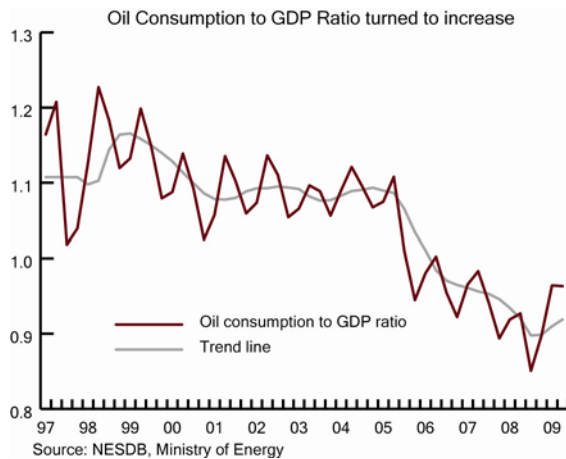
- Industrial sector** contracted by 8.4 percent, an improvement after 14.4 percent contraction in the previous quarter. The most remarkable improvement was seen in export-oriented production which dropped by only 1.8 percent, compared to 22.3 percent contraction in the previous quarter. A sign of global economic recovery has triggered importing countries to increase demand for import of industrial products from their trading partners. Export orders of some industrial products started to flow in from overseas; for examples, orders of hard disk and furniture grew by 4.9 and 4.2 percent respectively. Similarly, production for domestic consumption slightly increased. Industries that showed sign of recovery were foods, passenger cars, petroleum products, and construction materials such as cement, clinker, and concrete product. This partly due to an upward trend in construction sector and an increase in exports to some countries such as Bangladesh, Cambodia, Myanmar, Laos, Vietnam and UAE where construction activities continued to robust in preparing for their economic expansion. However, textiles and garments products decreased because customers had postponed or reduced their orders of branded products, particularly customers from the EU and the US. However, the improvement of productions remained concentrated only in some industries, specifically in export-oriented products.

Production capacity utilization rate was averaged at 59.2 percent, compared to 69.2 percent in the same period last year. This indicated that there remained an excess capacity. Major industries that utilized their capacity under 50 percent were rubber and rubber products (45.8 percent), vehicles and transportation equipments (45.8 percent), iron and steel products (39.9 percent), and furniture (27.8 percent). However, capacity utilization rate in some production such as electronic products, electrical appliances, food products and chemical products were at 59.6, 52.8, 55.0 and 90.4 percent respectively. For the first half of this year, industrial sector production contracted by 11.4 percent.

- **Construction sector** expanded by 2.5 percent, improved from 7.9 percent contraction in the last quarter. The improvement was attributable to an expansion of public construction which grew by 12.9 percent, a leap from last quarter which contracted by 9.4 percent. The main causes behind this dramatic change were an acceleration of government disbursement under stimulus packages. Moreover, an increasing confidence of investors over an upward trend of economy, as well as an improvement in political condition, have led up private sector construction activities. Some crucial indicators are: 1) permitted area for industrial building grew by 51.9 percent; 2) permitted area for commercial building reduced by 13.0 percent, rebounded from 41.9 percent shrinkage last quarter; 3) prices of steels, concretes, and cement products were down by 43.0, 7.2 and 4.5 percent respectively. Conclusively, in the first half of 2009, production in construction sector contracted by 2.7 percent.
- **Real estate sector** expanded slightly by 0.4 percent, a gradual improvement resulting from an upward trend of economy thereby boosting confidence of both entrepreneurs and consumers. This was reflected in an increase of Housing Developer Sentiment Index (HDSI) in the second quarter which was reported at 48.1 percent, compared to 42.2 percent last quarter. Housing demand in Bangkok and vicinities area concentrated in detached houses and townhouses partly because pricing of these types of accommodations continuously declined. Price index for detached houses went down by 3.7 percent and townhouses by 6.0 percent from the same period last year. The reduction in prices and a better tax incentive drove

housing demand to increase. However, financial institutions tightened their lending practice of real estate loan for developers and housing loan for home buyers which were a major obstacle for small and medium size entrepreneurs.

- **Hotel and Restaurant** contracted by 5.6 percent, compared to the same period last year. The contraction was significantly attributable to: 1) global economic crisis 2) domestic political turmoil, particularly the protest in April that caused other countries to issue travel warning about traveling to Thailand 3) the spread of influenza A (H1N1) and Chikun-Gunya outbreak in Southern region. These factors discouraged number of foreign tourists visiting Thailand to fall to 2.9 million persons in the second quarter, which declined from the same period last year by 16.9 percent. Particularly number of tourists from China, South Korea, and Japan declined by 43.0, 42.4 and 27.7 percent respectively. Consequently, the average occupancy rate declined to only 41.4 percent, dropped from 54.5 percent in the same period of last year. The reduction in occupancy rate took place all over the country, with its concentration in Bangkok area where occupancy rate was at 44.0 percent, down from 55.7 percent (YOY), and occupancy rate in Northern region plunged by 27.6 percent, down from 46.0 percent. Nevertheless, country average of room rate was reduced by 3.0 percent, and it was a constant reduction from last quarter in order to attract more tourists. In conclusion, in the first half of the year, hotels and restaurants sector contracted by 5.8 percent, while number of tourists was reported at 6.59 millions, dropped by 16.3 percent compared to the same period last year.
- **Financial sector** expanded by 5.6 percent, improved from an expansion of 4.0 percent in the first quarter. This was mainly a result of better performance of commercial banks that earned larger profits in spite of economic downturn. However, credit extension (excluding repurchase position with the central bank) slowed down from 8.4 percent expansion last quarter and from 10.2 percent expansion in the fourth quarter of 2008 to 6.1 percent expansion in the second quarter, providing stricter lending practice and a reduction in demand for credit. The slowdown in credit extension reduced interest revenues and dividends of financial institutions by 12.1 percent, while interest expenditure decreased by 31.8 percent. This was partly because some depositors withdraw their banking deposit to buy Government Bonds which yielded higher rate of returns than banks' interests. On half yearly basis, financial sector expanded by 4.8 percent.



□ The overall energy efficiency started to decline while an average oil price stood at lower level than last year

- The ratio of petroleum usage to GDP in the second quarter of 2009 stood at 0.9633 percent, declined from 0.9642 percent in the first quarter, but increased from 0.9270 percent in the same period in 2008. The higher ratio of petroleum usage to GDP indicated to un-changed of oil consumption behavior for both travel and other activities. All in all, in the first half of 2009, the ratio of petroleum usage to GDP stood at 0.9638 percent increased from 0.9228 percent at the same period in 2009.
- Domestic consumption of petroleum products: Total energy consumption increased which was high growth continuously of alternative energy consumption. In the second quarter of 2009, daily gasohol usage grew by 48.1 percent, stood at 12.3 million litre (59 percent of benzene consumption), decreased from 12.5 million litre in the first quarter due to increase in domestic petroleum price and weak in household demand for petroleum products, as a result of economic contraction, especially for passenger car usage. However, others alternative energy consumption continued to grow. Bio-diesel (B5) increased by 154.8 percent, with average daily usage of 22.4 million litre compared to usage of 20.4 million litre in the first quarter. Moreover, consumption of NGV and LPG grew by 109.4 and 1.8 percent respectively.

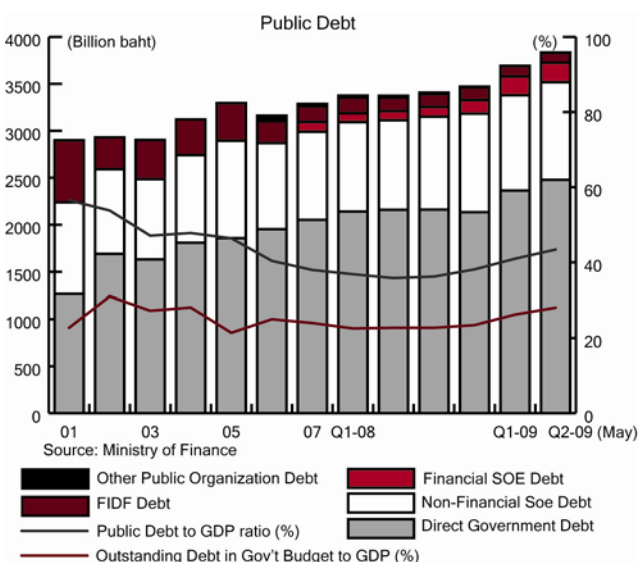
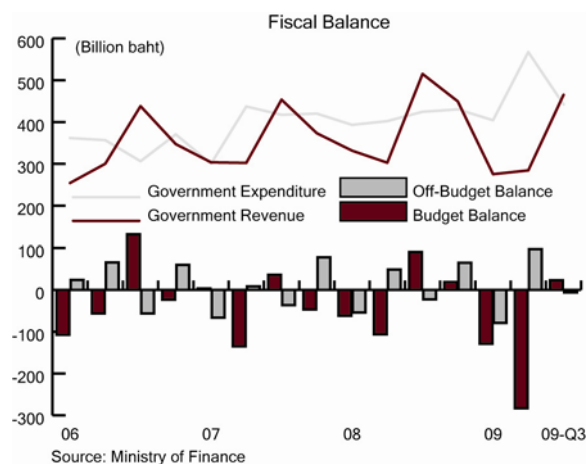
Consumption of traditional benzene 95 and 91 and high speed diesel decreased by 42.1, 19.3, and 31.9 percent respectively. Consumption of traditional benzene continued to decline as the structure of energy consumption shifted towards the alternative energy such as gasohol and bio-diesel in which prices are evidently lower than those of the traditional energy. In the first half of 2009, high speed and low speed diesel declined by 31.7 percent while bio-diesel (B5) increased 187.4 percent. Consumption of traditional benzene 91 and 95 decreased 25.1 percent. On the contrary, consumption of gasohol increased by 53.1 percent. LPG and NGV grew by 1.3 and 140.9 percent respectively.

Petroleum Consumption

(%YoY)	2008					2009		
	Year	Q1	Q2	Q3	Q4	Q1	Q2	H1
Total consumption (Million litre)	57,321	11,850	13,140	15,117	17,215	19,713	19,851	39,564
%YOY	49.68	32.06	42.12	58.21	63.60	66.36	51.07	58.32
Benzene	-2.95	-1.92	-5.22	-7.27	2.67	7.34	8.87	8.10
Octane (91+95)	-33.11	-26.42	-32.01	-40.14	-34.60	-28.44	-21.31	-25.08
Gasohol	92.41	111.95	94.07	91.27	81.51	65.08	48.06	56.13
Diesel	-5.74	-0.37	-3.99	-14.40	-4.78	-1.29	4.08	1.30
HSD+LSD	-23.28	-10.23	-20.44	-33.92	-30.06	-31.48	-31.96	-31.70
B5	502.41	787.29	645.00	498.98	384.62	240.20	154.81	187.44
LPG	16.57	17.59	20.82	27.13	1.79	0.71	1.77	1.26
NGV	229.76	192.38	220.18	268.89	224.16	184.24	109.39	140.92

Source: Ministry of Energy

- **Fiscal Balance:** In the third quarter of FY 2009 (April- June 2009), budget balance recorded a surplus of 22,966 million baht. The first surplus in current fiscal year after recorded deficit for two consecutive quarters. But the surplus was lower than that of 76,587 million baht in the same period of FY 2008. In the third quarter of FY 2009, the total government revenue collection was at 465,152 million baht, declined by 7.2 percent from the same quarter of the FY 2008. The shortfall of revenue collection was attributable to the reduction in income-based tax and consumption-based tax revenue; particularly import duties and value added taxes (VAT) that declined by 29.9 and 18.4 percent as import value slowed down. In addition, corporate income tax collection contracted by 18.0 percent compare to the same period of FY 2008. The contraction of corporate income tax collection was a result of the decline in corporate income during the second half of 2008, which was the base for income tax in FY 2009. On expenditure side, the total budget disbursement was at 442,186 million baht, increased by 4.1 percent compare with the same period of FY 2008. Budget disbursement can be categorized into disbursement of FY 2009 budget of 422,964 million baht and carry-over budget disbursement of 19,221 million baht. Therefore, budget balance recorded a surplus of 22,966 million baht. With surplus of non-budgetary balance of 5,966 million baht and issuance of government bonds and treasury bills of 147,500 million baht, cash balance registered a surplus of 164,500 million baht.

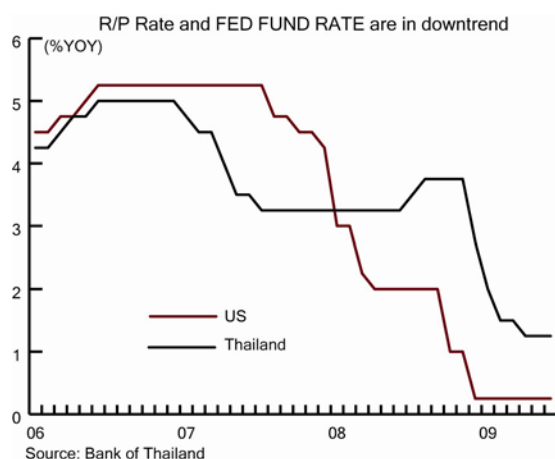


In the first nine-month of FY 2009 (October 2008 – June 2009), total government disbursement was at 1,309,727 million baht, equivalent to 67.11 percent of total annual budget of 1,951,700 million baht (including supplementary budget of 116,700 million baht). The disbursement of supplementary budget amounted to 53,732 million baht under major programs namely: “Income Support Measure to Low Income Earners” or “2,000 baht cash handout” (18,111 million baht), “15 years free education” (15,664 million baht) and “6 months 5 measures” package (9,868 million baht). Capital budget disbursement was at 208,389 million baht, equivalent to 50.7 percent of total capital budget, slowed down from 65.5 percent in same period of FY 2008.

Public debt at the end of June 2009 stood at 3.83 trillion baht, equivalent to 43.4 percent of GDP, slightly increased from outstanding debts at the end of March 2009 which was at 42.0 percent of GDP. In June, direct government debt was at 64.4 percent of total debt outstanding. Public outstanding debt increased by 123,398 million baht at the end of June, equivalent to 3.3 percent increase from outstanding debt in March. The increase in public debt was mainly due to increase in direct government borrowing from domestic market.

- Financial conditions: Policy rate lowered and money market interest rate declined accordingly, Real interest rate increased as inflation retreated further into negative zone. Banks' deposit accelerated especially in saving account, while banks' loans continued to slow down especially for business credits. However, SFIs' loans accelerated. Corporate fundraising continued to decline. Liquidity remained ample. Stock and bond market condition improved due to inflow of foreign investors. Thai baht appreciated against US dollar from previous quarter but depreciated from the same period of last year. Nominal effective exchange rate depreciated.

- Policy Rate:** The Monetary Policy Committee (MPC) lowered the policy rate by 0.25 percent to 1.25 percent during the April meeting and kept unchanged afterward, in order to stimulate the economy and curb deflation risk. MPC decided to kept policy rate at 1.25 percent in the May meeting in response to better economic signals. Policy rates in oversea market, especially in major countries, were kept unchanged after multiple reductions during the forth quarter of last year. However, ECB and Bank of Indonesia lowered its policy rate to stimulate economic activities. In July, most of the countries, including Thailand, kept their policy rates unchanged due to the slowdown in the pace of GDP contraction in major countries, like US and Japan, and promising signs of Asian economic recovery.

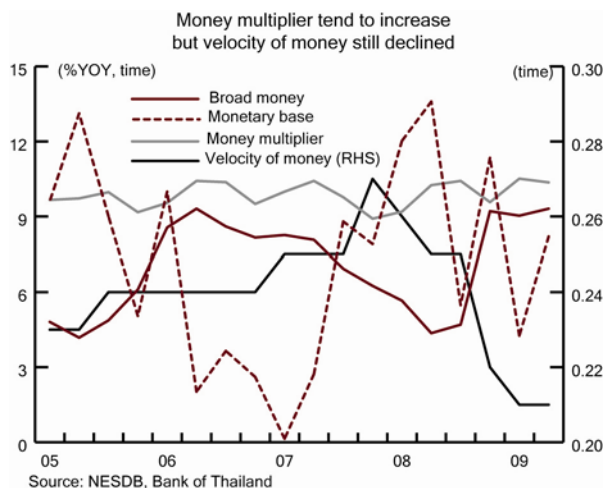


World Policy Rate

Country	2008				2009			Percent rate (%) Jul.09	Inflation Rate (%) Jul.09
	Q1	Q2	Q3	Q4	Q1	Q2	n.a.		
Thailand			0.50	1.00	1.25	0.25		1.25	-4.40
U.S.	0.75	0.25		0.75				0.25	-1.43 (Jun09)
Euro			0.25	1.75	1.00	0.25		1.00	-0.15 (Jun09)
China			0.27	1.89				5.31	-1.80
Japan				0.40				0.10	-1.76 (Jun09)
Taiwan	0.125	0.125	0.125	1.50	0.75			1.25	-2.33
Malaysia				0.25	1.25			2.00	-1.41 (Jun09)

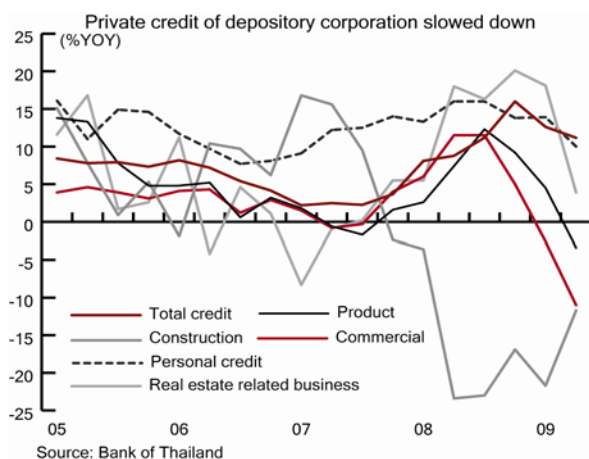
Source: CEIC

- Commercial banks' deposit and lending rate slightly declined.** At the end of the second quarter, an average 3-month and 12-month time deposit rates of the major four commercial banks slightly declined to 0.75 and 0.83 percent per annum respectively in April. Commercial banks' deposit rate was kept unchanged to prevent their deposit from contraction in the presence of rising government bond issuance. Meanwhile, MLR lending rate slightly declined from 6.25 to 5.86 percent per annum. However, real deposit and lending rate continued to increase due to the sharp reduction of inflation rate. In July, commercial banks' deposit and lending rate remained unchanged while inflation rate decelerated further to -4.4 percent. Thus, real deposit and lending rates continued to increase.
- Monetary base and broad money expanded at a faster pace.** At the end of the second quarter, monetary base and broad money expanded by 8.2 and 9.3 percent respectively. Money multiplier slightly picked up, due to the increase in household deposit accounts, while cash



in hand marginally increased. These reflected investor expectation about return on deposit, in line with cautious consumer spending under current economic recession and concerns over income prospects. Compared to previous quarter, velocity of money remained stable in line with continued economic contraction as well as a reduction of investment and household spending.

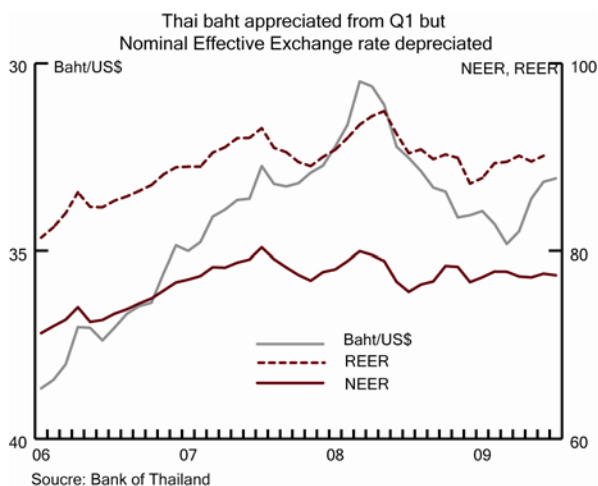
- Commercial banks' deposits accelerated.** At the end of the second quarter, commercial banks' deposits increased by 5.7 percent, compare to an expansion of 3.9 percent in the first quarter. The expansion of deposit was attributable to the increase in saving and current deposit accounts as investors use these two accounts to transit their assets before entering other markets such as government bond private securities and mutual fund. Meanwhile, time deposits and commercial papers expanded at slower pace.
- Depository Corporations' loan decelerated with a reduction in business credits.** Loan extended by Depository Corporation (exclude specialized financial institution) expanded at a slower pace, from 8.4 percent at the end of first quarter to 6.1 percent at the end of the second quarter, owing to a stricter loan approval standard by commercial bank and the slowdown of credit demand from private sector during the period of production and investment contraction. Business credits contracted by 1.3 percent, compared to the expansion of 5.4 percent in the previous quarter, owing to the decline of credit extension to manufacturing and wholesale & retail trade sector. On the other hand, loan extended to depository corporations and real estate sector remained ample. Household credits expanded at a faster pace by 9.2 percent, compared to 8.5 percent in the previous quarter, owing to expansion in housing loan while hire purchased cars loan decelerated. Specialized Financial Institutions' (SFI) loan expanded by 10.5 percent, mainly attributed by the expansion of business loans of 18 percent and an expansion of household loans of 7.8 percent. Credit card spending and cash withdrawal declined due to growing concerns over income prospects. Moreover, expansion of credit card outstanding balance slowed down to 2.0 percent, from 3.7 percent in the previous quarter.
- Liquidity and excess liquidity in commercial banking system accelerated⁷.** Credits (exclude repurchase position with the central Bank) to deposit (include bill of exchange) ratio decreased to 85.8 percent, from

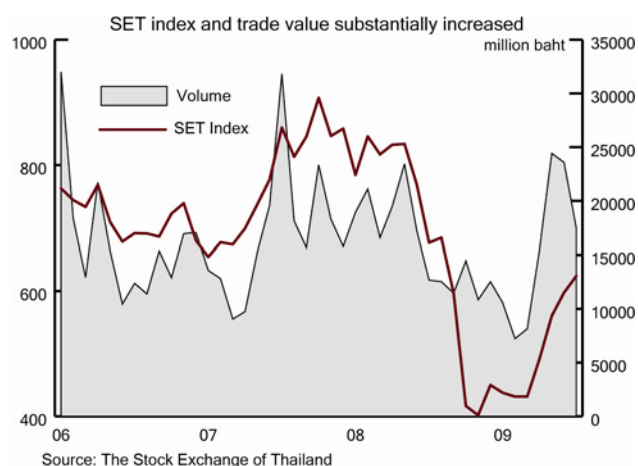


⁷ Bank of Thailand has define definition of excess liquidity as follow: summation of 1) 50 percent of commercial banks' investment in government and Bank of Thailand bond, 2) 90 percent of repurchase position (RP), and 3) 40 percent of net foreign assets

88.5 percent in the same period of last year. This is consistent with the 40 percent increase of excess liquidity in commercial banking system (compare to the same period last year), but declined from previous quarter. In the second half of 2009, liquidity in the commercial banking system is expected to decline further due to (i) improvement of consumption and investment condition in the latter half likely to stimulate demand for business and personal credits, ii) the increase of government bond issuance to finance larger budget deficit and government investment programs will inevitably drain deposit from commercial banking system, and iii) surplus in current account is expected to slow down, while most of capital inflows in the latter half is likely to be short-term capital.

- **The ratio of NPLs to credit outstanding remained stable.** NPLs in financial institutions (excluding BIF and credit fanciers) at the end of second quarter stood at 224.41 billion baht, equivalent to 3.06 percent of the total credit, relatively stable compare to previous quarter. The delinquency ratio declined slightly but remained at its high level of 4.08 percent at the end of second quarter. Therefore, risks of NPLs resurgence remained exist if without economic recovery.
- **Commercial banks earning slightly decreased.** Net profit of commercial banks was at 18.3 billion baht, declined from 19.3 billion baht in the first quarter. The reduction of earning was attributed by 1) the declined in both interest and non-interest earning and 2) increased in reserve requirement for bad debts as credit risk remained persist. However, the reduction in interest revenue was less than the decline in interest expenses and thus net interest margin (NIM) increased to 3 percent per annum, from 2.95 percent per annum at the end of first quarter.
- **Thai baht continued to appreciate since the end of the first quarter, while nominal effective rate depreciated.** An average exchange rate in the second quarter of 2009 was at 34.64 baht per US dollar, appreciated by 1.90 percent from the previous quarter but depreciated from the same period last year by 7.42 percent. The sign of Thai baht appreciation has emerged at the end of last quarter, in line with other regional currencies, due to the US dollar appreciation in response to greater risk appetite amid signs of economic recovery. However, Thai baht depreciated against other regional currencies including that of export-competing-countries. Nominal effective exchange rate (NEER) declined by 0.32 percent. Meanwhile real effective exchange rate





Trading value of foreign investors

End of period (Billion baht)	2007		2008				2009	
	H1	H2	Q1	Q2	Q3	Q4	Q1	Q2
SET	66.90	-40.29	-13.89	-36.07	-74.78	-37.23	-5.55	25.75
BEX	-18.66	4.61	29.08	26.48	8.78	4.04	-1.95	11.69

Source: SET, ThaiBMA

(REER) increased by 1.20 percent as commodity prices increased at a faster pace than that of trading and export-competing countries. In July, Thai baht continually appreciated to an average 33.99 baht per US Dollar, and the average exchange rate over August, 1–17 was at 33.96 baht per US dollar.

- **SET Index and trading volume increased considerably.** In the second quarter, average daily trading value was at 21.2 billion baht, accelerated from 8.7 billion baht in the previous quarter. SET Index at the end of second quarter closed at 597.48 points, increased by 38.5 percent from the first quarter in line with regional market trends, providing growing investor confidences of economic recovery and greater risk appetite. This was apparent in foreign investors' net buy value of 25.8 billion baht, compared to net sell in the previous quarter.

- **Bond trading decreased.** Daily average outright trading in the second quarter slightly decreased to 66.8 billion baht, from 68.1 billion baht in the first quarter and 78.23 billion baht in the same period last year. The declined in trading volume caused by rearranging of investment portfolio toward stock market. Meanwhile, foreign investors turned their position to net buy, which was recorded at 11.7 billion baht. Government bond yield in all maturity increased in the range of 4-78 basis points, owing to government bond issuance in the second quarter and market expectation of additional government bond issuance to finance fiscal deficit in the latter half which will inevitably raise bond yield in the second half. Therefore, investors adjusted their investment position by selling bond in order to cut future losses and prepare for new government issuance.

- **Corporate fundraising decreased significantly from the same period of last year. Meanwhile issuance of debt securities increased, especially by large scale corporation in accordance with investor risk appetite.** In the second quarter private fundraising was at 293.4 billion baht, declined from 414.7 billion baht in the same period of last year. Fundraising through equity securities declined from 12.8 billion baht to 2.7 billion baht. In contrast, debt securities issuance notably increased to 155.8 billion baht, from 107.7 billion baht in the previous year. Most of debt securities were issued by energy and construction sector. Financial sector fundraising declined, providing sound cash flow and ample disposable liquidity.

- **Capital and financial account recorded net outflow⁸.** In the second quarter, capital and financial account

Capital flow

(Billion USD)	2007		2008				2009	
	H1	H2	Q1	Q2	Q3	Q4	Q1	Q2
Net capital flow	-1.61	-0.80	13.16	-3.13	0.69	1.64	-2.69	-1.65
Government	-1.81	-0.42	0.44	-0.28	-0.50	-0.16	-0.16	0.43
Bank	-6.66	5.54	6.12	-0.60	2.06	0.47	-2.23	0.32
FDI	5.55	4.65	2.76	2.30	2.52	1.97	1.99	2.04
Portfolio investment	2.19	-7.91	3.45	-3.71	-2.50	0.59	0.14	-3.56
- Equity	2.56	-0.47	0.33	-0.97	0.39	-0.41	-0.25	NA.
- Debt Securities	-0.37	-7.45	3.12	-2.74	-2.90	1.00	0.39	NA.

Source: Bank of Thailand

⁸ FDI figure at the end of 2nd quarter is preliminary data from Bank of Thailand, which is subjected to change.

Crude Oil Price

US\$/Barrel		OMAN	DUBAI	BRENT	WTI	Avg.
2007	Year	68.75	68.83	72.60	72.64	70.70
2008	Year	94.37	93.65	97.93	99.69	96.41
2009	Q1	44.60	44.27	45.43	43.07	44.34
	Q2	59.01	58.95	59.67	59.64	59.32
	H1	51.80	51.61	52.55	51.35	51.83
	n.a.	64.98	64.73	65.29	64.45	64.86
	7 months	53.69	53.48	54.37	53.22	53.69
	1-17 Aug.	71.83	71.40	73.28	70.26	71.69
	17 Aug.	68.90	68.25	70.54	66.75	68.61

Source: Reuter

Retail Petro Price

Baht/litre		ULG95	UGR91	Gasohol			HSD	HSD B5
				95E10	95E20	91E10		
2007	Year	29.18	28.32	26.17	-	25.62	25.66	24.95
2008	Year	35.33	33.43	28.97	27.37	28.16	31.26	30.39
2009	Q1	32.95	25.22	20.88	19.36	20.06	19.74	17.90
	Q2	37.51	30.93	27.14	24.84	26.33	24.52	21.57
	7 M	35.81	28.78	24.78	22.81	23.96	22.82	20.37
	Jul. 09	39.30	33.00	29.39	27.09	28.59	26.96	24.16
	1-10 Aug.	40.10	34.62	31.02	28.72	30.22	28.57	25.77
	10 Aug.	41.54	35.74	32.14	29.84	31.34	29.69	26.89

Source: EPPO

recorded a net outflow of 1,646 million US dollar, decline from previous quarter. Non-bank sector recorded a net outflow of 2,691 million US Dollar, owing to the increase of investment in abroad by Thais' investors. Foreign direct investment (FDI), government and banking sector accounts continued to recorded net inflow. FDI inflow accelerated from 1,993 million US dollar in the first quarter to 2,037 million US dollar.

□ Trend of oil price

- **World crude oil price: declined from the same period last year but accelerated from previous quarter.** In the second quarter of 2009, average world crude oil price (Dubai, Brent, Oman and WTI) was at 59.3 US Dollar per barrel, declined by 50.7 percent from the same period last year. Similarly, average world crude oil price in the first half of 2009 was at 51.61 US Dollar per barrel, decreased by 51.8 percent from the first half of last year.

Nevertheless, the trend of world crude oil price started to pick up as its accelerated from 44.3 US Dollar per barrel in the first quarter to 59.3 US Dollar per barrel in the second quarter. The acceleration trend continued to August, with July average of 64.9 US Dollar per barrel and August average of (1-17 August) 71.69 US Dollar per barrel. The upward trend was attributed by a clearer sign of recovery in major economies, like US, China and South Korea, and the increase in risk appetite of investors as seen in the escalation of major commodities price such as zinc, copper, gold and oil.

- **Domestic retail petrol prices decreased.** In the second quarter of 2009 domestic retail price of all petroleum products decreased. Retail price of Benzene 95 and 91 declined by 2.4 and 17 percent respectively. Price of Gasohol 95 (E10) and 91 decreased by 20.4 and 20.9 percent consecutively. High speed diesel and bio-diesel (B5) prices declined by 32.6 and 39.2 percent respectively.

Nevertheless, movement of monthly domestic retail petrol prices indicated that the pace of price increase tends to speed up, in line with price escalation during the first half of 2009. The supporting factors for the faster pace of petrol price increase were (i) the faster pace of crude oil price increase in the world market (ii) the reintroduction of excise tax into the structure of petroleum price⁹ (iii) the uplifting of exile tax rate in February to promote energy saving (iv) extend exile tax ceiling from 5 baht per litre to 10 baht per litre in May¹⁰.

⁹ On January 28th, 2009, the cabinet endorsed the rise in excise tax on petrol to promote energy saving and alternative energy, decrease the dependency of import crude oil and stabilize fiscal and economic condition..

¹⁰ The government gazette was announced on May 13th, 2009 to raise the ceiling of petrol excise tax to 10 baht per litre from 5 baht per litre.

1.3 World Economic Performance in Q2/2009

World Economic Growth

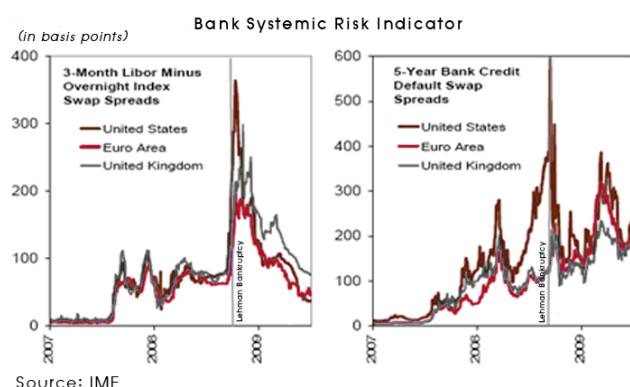
%YoY	2008				2009	
	Q1	Q2	Q3	Q4	Q1	Q2
World	4.8	3.8	2.3	-0.2	-4.0	-2.5
US	2.0	1.6	0.0	-1.9	-3.3	-3.9
Euro Zone	2.1	1.4	0.6	-1.5	-4.9	-4.6
UK	2.3	1.6	0.0	-1.0	-4.9	-5.6
Japan	1.3	0.6	-0.3	-4.3	-8.7	-6.4
China	10.6	10.1	9.0	6.8	6.1	7.9
India	8.8	7.9	7.6	4.9	6.1	6.0f
South Korea	5.5	4.3	3.1	-3.4	-4.3	-2.5
Taiwan	6.3	4.6	-1.0	-8.4	-10.2	-7.5
Hong Kong	7.3	4.2	1.7	-2.5	-7.8	-3.8
Singapore	6.7	2.5	0.0	-4.2	-10.1	-3.5
Malaysia	7.1	6.3	4.7	0.1	-6.2	-5.4f
Philippines	4.7	4.4	5.0	4.5	0.4	-0.1f
Vietnam	7.5	5.6	6.5	5.6	3.1	3.9
Indonesia	6.7	6.9	6.9	5.6	4.4	4.0

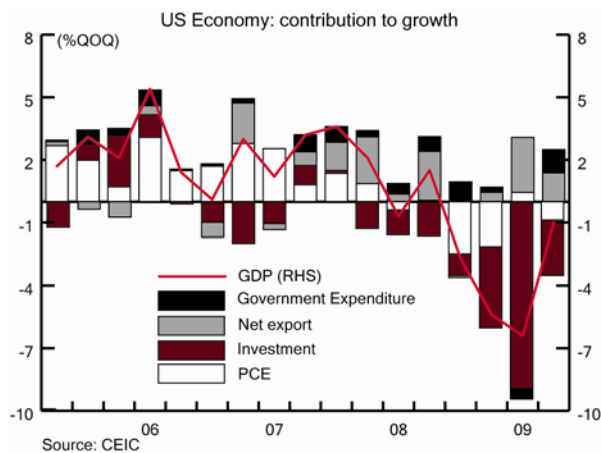
Source: Public agencies and NESDB staffs forecast

In the second quarter, the global economic condition has increasingly stabilized with positive adjustments both in financial market and real economic activity. Financial market condition in the US has improved gradually and housing market posted a sign of recovery. Contraction pace in advanced economy (such as US, Eurozone and Japan) was slower than previously expected. Manufacturing PMI and ISM index rose steadily to its expansion benchmark while stock market bounced back solidly. In addition, with the massive fiscal stimulation and bank credit extension, the Chinese economic growth accelerated and limited the pace of economic contraction in NIEs and ASEAN nations.

Nevertheless, better condition in major economies implied that the economy emerged from a very deep recession with the support of government stimulation and the faster pace contraction of import than export. Meanwhile domestic private demand contracted significantly due to high and rising unemployment and ample excess production capacity.

- US economy** in the second quarter contracted by 3.9 percent on the year compared to a contraction of 3.3 percent in the first quarter. However, on a quarter-on-quarter basis, the US economy contracted by 1.0 percent less severe as compared to a deep contraction of 6.4 percent in the first quarter, signaling the improvement in economic activities. The slower pace of GDP contraction was supported by the positive growth contribution from government spending and net exports (of 1.1 and 1.4 percent respectively) but the negative growth contribution from other components continued to drag on growth in this quarter. Private consumption declined by 1.2 percent compare to 0.6 percent in previous quarter while private investment continued to contract by 20.4 percent but at a significantly slower pace compare to its contraction of 50.5 percent in the first quarter. The pace of contraction in production, both manufacturing and non-manufacturing, decelerated steady. Manufacturing ISM index picked up for a 6 successive months, from 32.9 in December 2008 to 44.8 in June 2009. Meanwhile, the non-manufacturing ISM index rose from 40.5 in March 2009 to 47.0 in June 2009. Housing market bottomed out and indicators pointed to housing market recovery. Existing home sales increased for 3 consecutive months while new home sales increased for a third successive month by 11.0 percent and housing start reached its peak in 6-months. In addition, the Case-Shiller index increased for the first time since the third quarter of 2006.

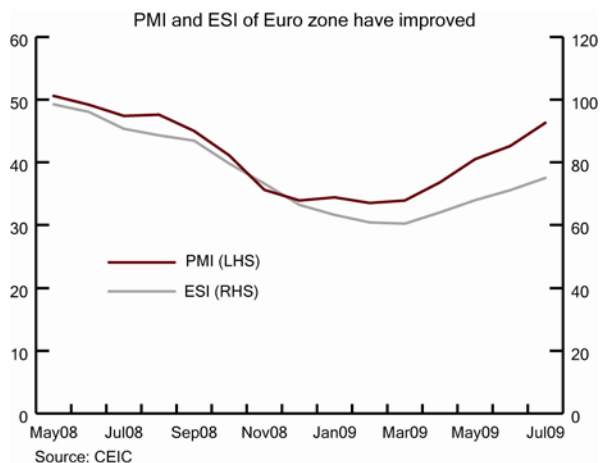




Financial market conditions have improved gradually to pre-Lehman crisis levels. LIBOR-overnight index and credit default swap spreads declined gradually, reflecting easing concerns over liquidity and counter party risks in banking sector. Corporate bond markets functioned more normally though banking credit growth still slowing. Compare to the lowest level in March, equity market rallied from its lowest level in March by 45 percent. Nevertheless, unemployment remained high and continued to increase from 8.5 percent in March to 9.5 percent in June. Against this development, the Federal Reserve Board kept policy rate unchanged at 0-0.25 percent and maintained its target on the purchase of securities. Nevertheless, with the improvement in financial condition, the need for direct intervention declined as reflected in the reduction of Fed balance sheet.

- **Eurozone economy** contracted at a slightly slower pace by 4.6 percent (%YoY)¹¹, compare that of 4.9 percent in the first quarter. On quarter-on-quarter basis, the Eurozone economy fell by 0.1 percent compare to 2.5 percent in the first quarter. The economy of Germany, France and Portugal started its quarter-on-quarter expansion. The better economic condition in major economies was supported by the decline of export at a slower pace than import which turned net-export to positive GDP contributor, in particular in Germany, France and Netherlands. Household spending declined at a slower pace and picked up in some countries with the contribution from government stimulation in particular Cash-for Clunkers measure. Economic Sentiment Index picked up steadily, from 67.0 in April to 76.0 in June. Production index showed a slower pace of contraction in economic activities. Manufacturing PMI increased from 33.9 and 36.8 in March and April respectively to 42.6 in June while Service PMI rose from 40.9 and 43.8 to 44.7 over the same period. However, unemployment rate still high and continued to increase, from 9.2 percent in April to 9.4 percent in June.

- **UK Economy** declined by 5.6 percent (%YoY), compare to that of 4.9 percent in the previous quarter, indicating a continued economic recession as in the US and Eurozone. On a quarter-on-quarter basis, the UK economy contracted by 0.8 percent, increasingly stabilized compare to a contraction of 2.4 percent in the first quarter. Nevertheless unemployment rate rose from 7.1 percent in the first quarter to 7.6 percent in the second quarter, as a result of prolonged recession.

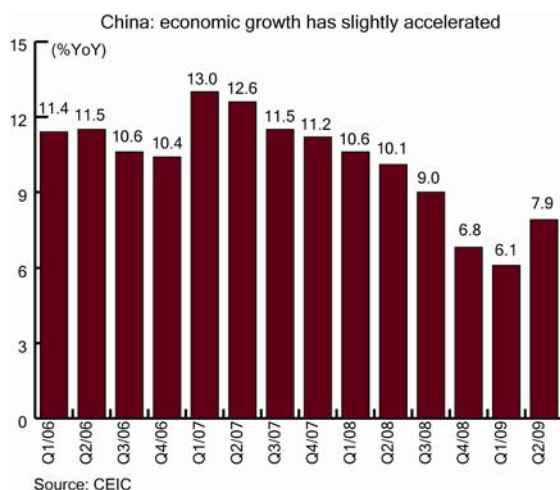
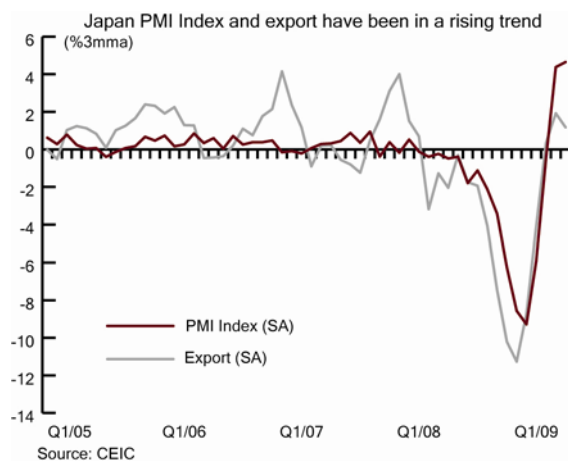


¹¹ Flash Estimate

Manufacturing production continued to contract by 12 percent from the same quarter last year and service production declined by 3.8 percent over the same period. Nevertheless, manufacturing PMI index picked up from 43.1 in April and 45.7 in May to 47.4 in July while service PMI index rose from 48.7 to 51.7 and 51.6 over the same period, indicating a slower pace of manufacturing production and the recovery of service sector. Against this development, the Bank of England maintained its policy rate at 0.5 percent.

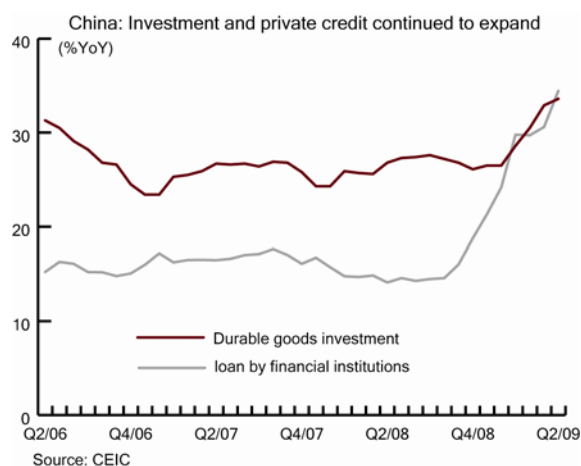
- **Japanese economy contracted** by 6.4 percent on the year, compared to a decline of 8.7 percent in the first quarter. However, on a quarter-on-quarter basis, the Japanese economy recovered by 0.9 percent compared to a contraction of 3.1 percent in the previous quarter. The improvement in Japanese economy was mainly attributable to the recovery in manufacturing production and exports. In particular export to China, NIEs, ASEAN, and the US¹² that picked up from previous quarter by 32.3, 23.6, 19.2, and 15.0 percent respectively compare to the decline of 30.8, 29.6, 39.1, and 41.0 percent in the first quarter. The improvement in exports to major trading partners limited the pace of export contraction from 22.9 percent in previous quarter to only 3.4 percent. Against the import contraction of 6.6 percent, net export contributed positively to GDP expansion. The improvement in export stimulated manufacturing production as seen in the increase of manufacturing PMI index from 41.4 in April to 48.2 in June. However, compare to the same period last year, export and import continued to decline substantially by 33.8 percent and 40.4 percent respectively in the second quarter. Coincided with import contraction, household spending continued to decrease as indicated by a successive reduction of retail sales index by 2.8, 2.7, and 3.1 percent in April, May and June, compare to the same period last year, and a month-on-month decline of 0.3 percent in June. The subdued household consumption was attributable to the rising unemployment rate which reached its 6-year peak at 5.4 percent in June, compare to 5.0 percent and 5.4 percent in April.

- **Chinese economy** expanded by 7.9 percent, accelerated as compare to its 10-year slowest pace of 6.1 percent in the first quarter, and resulted in 7.1 percent economic expansion in the first half of 2009. Domestic demand, the key¹³ growth driver of Chinese economy, continued to expand robustly providing



¹² Export value to China 19.8 percent, NIEs 23.9 percent, ASEAN 13.2 percent and US 16.1 percent of the total value of export.

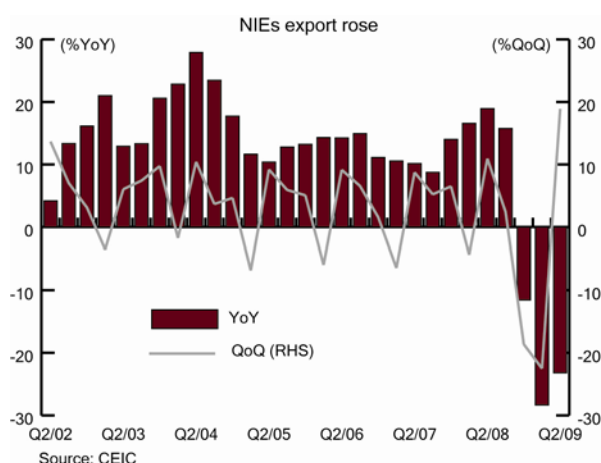
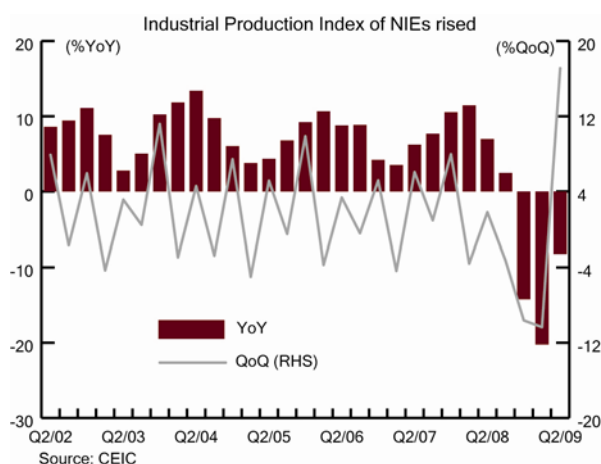
¹³ Contribution to growth: Investment and consumption are the key factor that affect to economic growth in the second quarter, it increased by 6.2 and 3.8 percent respectively. Even though, Export thrust GDP to decline 2.9 percent



spillover from government stimulus package of 4 trillion RMB (586 billion USD) that concentrated primarily on infrastructure investment projects as well as credit extension by government banks. Hence, in the second quarter, new loans soared to 2,789 billion RMB which is equivalent to 37.6 percent of nominal GDP. Stimulated by the government package, investment growth pace accelerated to 33.6 percent in the second quarter, from 28.6 percent in the first quarter. Meanwhile, domestic consumption remained strong. Retail sales in April, May and June expanded by 14.8, 15.2 and 15.0 percent respectively which reflected the impacts of consumption subsidy measures, particularly tax incentive for car buyers. On a quarter-on-quarter basis, export showed a recovery sign as seen in an expansion of export values by 12.4 percent, compare to 30.7 percent contraction in the first quarter. Comparing to the same quarter of last year, however, export still dwindled by 23.4 percent. Alongside with the improvement in domestic demand, PMI picked up from 52.4 in March to 53.5, 53.2, and 53.3 in April, May and June respectively.

- **Indian economy** is likely to expand by 6.0 percent, relatively stable when compared with 5.8 percent in the previous quarter. Export continued to decline by 31.3 percent in this quarter and remained sluggish since the fourth quarter of 2008. However, better signs in industrial sector have emerged as industrial production in June picked up from the same period last year by 7.8 percent. This was largely attributable to the improvement in the production of mining, manufacturing and electricity production which grew by 15.4, 7.3 and 8.0 percent respectively. Moreover, Purchasing Managers' Index (PMI) increased to above its benchmark level for a 4th consecutive month to 55.34 in July.

- **NIEs Economies** benefited from the improving global economic condition, particularly the acceleration of Chinese economic expansion which resulted in a better economic condition in NIEs economies. In the second quarter of 2009, South Korean, Taiwanese, Hong Kong and Singaporean economies contracted by 2.5, 7.5, 3.8 and 3.5 percent respectively, decelerate as compared to that of 4.3, 10.2, 7.8 and 9.6 percent in the first quarter. This improving economic condition was reflected in the improvement of industrial sector. The pace of contraction of industrial production index declined considerably to 8.2 percent, from 20.2 percent in the first quarter. In addition, on a quarter on quarter basis, industrial production index increased by 17.1 percent from the first quarter. Similarly export plunged from the same period last year at a slightly slower pace of 23.2 percent,



compare with 28.4 percent in the first quarter but picked up from the first quarter by 18.9 percent compare to its contraction of 22.5 percent in the first quarter. In contrast, domestic demand remained weak as retail sales index fell from the same quarter last year by 1.5 percent but slower than that of 8.9 percent in February. Besides, unemployment rate in several countries continued to increase, such as South Korea (4.0 percent), Taiwan (5.9 percent), and Hong Kong (5.4 percent).

- **ASEAN economies: Providing a more favorable global economic condition,** the export dependent ASEAN economies adjusted positively in the second quarter. GDP growth of **Vietnamese economy** accelerated from 3.1 percent in the first quarter to 3.9 percent. **Malaysian economy** is expected to declined at a slower pace by 5.4 percent, compare to a contraction of 6.2 percent in the first quarter. However, **Indonesian economy** expanded by 4.0 percent, slightly decelerated from 4.4 percent in the first quarter while **the Philippines' economy** is likely to contract by 0.1 percent compare to an expansion of 0.4 percent in first quarter. In addition, export¹⁴ of ASEAN countries has increasingly stabilized as export values in the second quarter picked up by 12.8 percent on a quarter-on-quarter basis, compare to it contraction of 22.6 percent in the first quarter.

World Economic Growth

% YoY	2007	2008	2009	2010	2009	2010
	Year	Year	Projections 24 August 2009		Previous Projections 25 May 2009	
World	5.2	2.8	(-1.8)-(-1.3)	3.2	(-2)-(-1.5)	3.0
US	2.0	1.2	-2.7	1.8	-2.75	1.6
Euro Zone	3.0	0.7	-4.2	0.4	-4.2	0.2
UK	3.1	0.7	-4.2	0.8	-4.3	0.2
Japan	2.4	-0.7	-5.9	1.4	-6.0	0.6
China	13.0	9.1	7.8	8.7	6.5	8.0
India	9.3	7.3	6.3	7.0	5.8	6.5
South Korea	5.1	2.2	-3.2	3.6	-3.5	3.6
Taiwan	5.7	0.1	-5.5	3.4	-7.7	3.1
Hong Kong	6.4	2.6	-4.5	3.0	-5.0	3.0
Singapore	7.7	1.1	-5.6	3.7	-7.5	3.5
Malaysia	6.3	4.6	-3.5	4.3	-3.5	4.3
Philippines	7.2	4.6	0.5	4.2	0.0	4.2
Vietnam	8.2	6.3	3.7	5.6	3.5	5.6
Indonesia	6.3	6.1	3.9	5.0	3.0	5.0

Source: Public agencies and NESDB staffs forecast

2. Economic Projection for 2009

2.1 The world economic outlook

In the second quarter, the pace of global economic contraction declined, signaling the end of longest recession. The supporting factors for global economic stabilization are including (i) fiscal and monetary stimulation in major economies, particularly US, Eurozone, and China, and (ii) domestic demand contraction in advanced economies that limited the pace of GDP contraction by reducing imports at a faster pace than export.

In the remaining of 2009, the expansionary monetary policy and fiscal stimulation in major economies will continue to support economic condition while economic sentiments have improved gradually.

However, the process of recovery in the latter half tends to prolong and unstable due to (i) without additional stimulus measures, production in major economies is unlikely accelerate to the point where consumption growth kick in and lead to mutual reinforcing positive cycle (ii) private domestic demand contraction in advanced economies, which is a necessary condition for long-run stability, is likely to continue (iii) negative feedback loops of economic recession remain exist, in particular, large and continued increase in unemployment in major economies as well as the faster pace of commodity price resumption than that of real economic recovery which are among key downside risks that could delay the process of global recovery (vi) the momentum of some key stimulation measures that supported the improvement in the first half is fading out. Against this background, the world economy in 2009 is likely to contract between (-1.8) – (-1.3) percent, compare to (-2.0)-(-1.5) in previous evaluation. The upward revision reflected the improvement of economic condition in China, Japan, and NIEs countries. The latest economic situation and outlook for the remaining of 2009 are as follow;

- **The US recovery is restrained by sluggish household demand.** Although data in Q2 pointed to the end of recession, the path of transition remained fragile and susceptible to short-run fluctuation. In July ISM index for non manufacturing fell for the first time in 4 months, from 47.0 in June to 46.4, indicating a faster pace of contraction than at the end of second quarter. The Conference Board index of consumer confidence declined further for a second successive month from 54.8 in May to 49.3 and 46.6 in June and July respectively, indicating that the consumption-led-recovery would not emerge in the Q3. Accordingly, retail

¹⁴ Export of ASEAN: Indonesia, Malaysia and the Philippines (ex. Vietnam)

sales plunged for the first time in 3 months by 0.1 percent, though Cash-for-Clunkers program stimulated new vehicle sales to increase by 2.4 percent. Although, the re-opening of auto industry (such as GM and Chrysler) temporarily cut unemployment rate from 9.5 percent to 9.4 percent in July, job less rate remained large and tends to rise further in the remaining of 2009. Meanwhile, saving rate that increased from 4.0 percent in February to 4.6 percent in June tends to rise further as households attempt to restore their balance sheet. Therefore, the US recovery in the latter half will be restrained by sluggish household demand which is accounted for 70 percent of GDP. Against this back ground, the US economy is likely to contract by 2.7 percent for the whole year of 2009.

- **Eurozone economy is likely flat in the latter half of 2009.** The latest major indicators in July pointed to ongoing improvement in production and consumer confidences. The composite manufacturing and service PMI indicator rose for a fifth successive month from 44.6 in June to its 11-month high of 47.0 in July. Compared to the same period last year, the manufacturing PMI contracted at the slowest pace in 11 months while service PMI declined at its weakest rate in 9 months. Meanwhile, overall economic sentiment index rose for a fourth successive month and reached its 8-month high in July. Nevertheless, the composite PMI index remained below 50, indicating a continued production contraction at the beginning of Q3, while confidence index increased from its historic lowest level in March. For the remaining of 2009, the Eurozone economy will be restrained by sluggish US recovery and domestic currency appreciation as well as sluggish domestic demand that stemmed from high and rising unemployment. Against this background, the Eurozone economy is likely flat in the latter half of 2009 which will result in 4.2 percent of GDP contraction for the whole year of 2009 (Germany -5.3%, France -2.9%, Italy -5.2%, Spain -3.9%, and the Netherlands -3.8%).
- **Chinese economy:** The stronger economic expansion in Q2 was mainly driven by the massive fiscal and credit expansion. The latest data in July pointed to a steady expansion of domestic demand. Investment and retail sale grew by 32.9 and 15.2 percent respectively compared to an average of 32.3 and 15.0 percent in the second quarter. The acceleration in domestic demand expansion

elevated import demand from an average contraction of 25.4 percent in the first half to a decline of 14.9 percent. For the remaining of 2009, the Chinese government will continue to employ proactive fiscal and monetary stimulation to achieve the target growth rate of 8 percent and maintain employment target. Together with growth momentum gained in the first half, the Chinese economy is likely to grow by around 8 to 9 percent in the second half of 2009, which will result in 7.8 percent of GDP expansion for the whole year of 2009.

- **Japan economic recovery sooner than previously expected.** Although the improvement in global economic condition in the first half of 2009 was characterized by the contraction of global private demand, the government fiscal stimulation both in Japan and other major economies significantly benefited Japanese exports. This is attributable to the facts that stimulation measures in major economies are largely concentrated on infrastructure investment projects and household subsidies for durable goods consumption such as energy saving cars. Therefore, the world wide implementation of stimulation measure supports the recovery of Japanese exports and production of durable goods, in particular machinery, cars and electronic products. In June, manufacturing production index rose for a fifth successive month by 2.5 percent while the inventory index fell for a six successive month. In July, manufacturing PMI picked up to higher than 50 for the first time since February 2008, indicating production expansion. Against this background, the Japanese economy is likely to recover sooner than previously expected which will result in 5.9 percent of GDP contraction for the whole year of 2009.
- **NIEs and ASEAN** The improvement in global economy, particularly the faster pace of economic expansion in China and the sooner-than-expected recovery in Japan, is likely to limit the pace of contraction of manufacturing production and exports in NIEs and ASEAN countries. In June exports of NIEs and ASEAN nations declined from the same period of last year by 18.3 and 27.4 percent, but picked up from month earlier by 26.0 and 32.2 percent respectively. However, with the larger share of machinery, cars and electronic goods in their total export and with the closer tide of economic relation, the investment-led recovery in China and the improvement in Japan tend to benefit NIEs countries by more than ASEAN nations. For the whole year of 2009, the economy of South Korea, Singapore, Taiwan and Hong Kong are likely to contract by 3.2, 5.6, 5.5 and 4.5 percent respectively, slightly better than previous

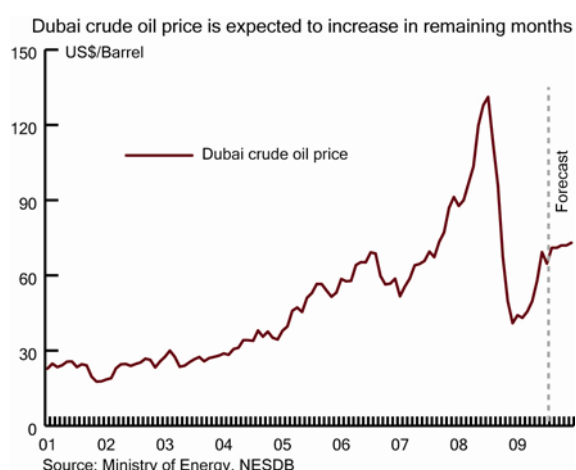
market expectation. For ASEAN economies, the direct benefit from the improvement in global condition tends to limit to only exportation and production of electronics and car & accessories while global demand for agricultural and other consumption commodities remained depress and agricultural prices remained subdued. Against this background, Malaysia, Indonesia, Vietnam, and the Philippines are likely to expand by at a similar pace with previous forecast, by -3.5, 3.9, 3.7, and 0.5 percent respectively.

2.2 Oil price trend in 2009

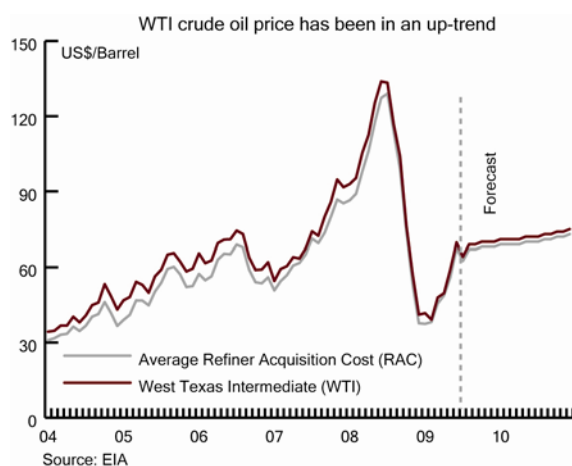
- **In the remaining of 2009, oil price is likely increase to an average 70-75 USD per barrel which will raise the yearly average price to be in the range of 60-65 USD per barrel, but lower than that of 93.65 USD per barrel in 2008.** The average Dubai crude oil price in first seven months was at 53.48 USD per barrel, increased from 44.27 USD per barrel in the first quarter to average 58.95 and 64.73 USD per barrel in the second quarter and July respectively. Moreover, an average price during 1st-17th of August 2009 was at 71.40 USD per barrel with its peak at 72.90 USD per barrel on 6th of August. However oil price continued to fluctuate in the short run and declined to 68.25 USD per barrel on 17th of August.

Recent economic indicators in major countries such as US Euro zone and China indicated that the several economies performed better than expected. This situation restored investor confidences about global economic recovery and higher oil consumption in the second half of the year as well as provided incentives for market stimulation which is another driving force for oil price resumption.

- **But oil price remains susceptible to short run fluctuation, providing market speculation, overflow of world economic and financial information, and US dollar volatility. The short run fluctuation is witnessed in the movement of WTI crude oil price that stood at 70 USD per barrel at the end of June and declined to 60 USD per barrel in the mid of July before rebounded to over 70 USD per barrel at the beginning of August.** Moreover, the data illustrated that the future trade transaction in that period had increased and caused oil price to rise in the following periods. Most analysts estimated that average WTI crude oil price for the whole year will be in the range of 58-65 USD per barrel which is an upward revision from the previous projection. Besides, in the last quarter of 2009, the average WTI crude oil price is expected at 70 USD per barrel.



Crude Oil Price Forecast 2009	
EIA (August 2009)	WTI = 59.94 US\$/Barrel (51.70 USD/Barrel in May)
Merrill Lynch (August 2009)	WTI = 58.50 US\$/Barrel (Increased from 52 USD/Barrel)
Morgan Stanley (July 2009)	WTI = 65 USD/Barrel
Goldman Sachs (June 2009)	WTI = 64 USD/Barrel and 85 USD/Barrel at the end of year



- ❑ The supporting factors for oil price to be lower than average price in 2008 are as follow:

- **The decline of oil demand due to global economic recession in the first half of 2009 and the trends of mild recovery in the latter half.** According to the report from Energy Information Administrators (EIA) in August 2009, daily average global oil demand is estimated at 83.76 million barrels compare with a daily average of 85.47 million barrels in 2008, a reduction of 1.71 million barrels per day. Based on preliminary data, oil demand in first half of 2009 declined by 3.1 million barrels per day from the same period last year. Besides, oil demand from OECD countries decreased by 2.8 million barrels per day while demand from non-OECD countries increased slightly by 0.3 million barrels per day. Nevertheless, with the trends of global recovery in the later half particularly the Chinese economy, EIA forecasted that oil demand in the forth quarter will increase for the first time in 5 quarters and the steady world economic recovery will raise oil demand in 2009 by 0.94 million barrels per day.
- **The oil production has declined at a faster pace than demand and reduced oil inventories.** EIA forecasted global oil production in 2009 at 83.76 million barrels per day, lower than 85.47 million barrels per day in 2008. Moreover, The OPEC oil production is estimated at 33.97 million barrels per day, declined from 2008 by 1.8 million barrels per day. Preliminary data in the second quarter of 2009 showed that OPEC crude oil production was at 28.7 million barrels per day, close to the production level in the first quarter. But compare to the peak level in the third quarter of 2008, oil production dropped by 3 million barrels per day. However, providing higher oil price and the facts that OPEC usually unable to reach its production target, it is likely that OPEC will expand their production in the remaining of the year. Furthermore, EIA projected that the non-OPEC oil production will increase 0.4 million barrels per day due to production expansion in Brazil, US and the Former Soviet Union Countries (FSU) which will compensate the production contraction in Mexico and the North Sea.

World Oil Consumption

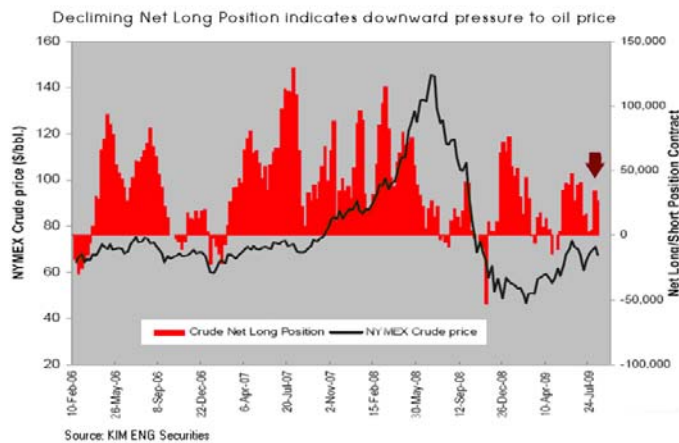
(million barrels per day)	2007	2008	2009_f				
Consumption			Year_f	1st	2nd	3rd	4th
OECD	49.13	47.50	45.45	46.35	44.37	44.94	46.14
U.S. (50 States)	20.68	19.50	18.71	18.84	15.45	18.63	18.91
U.S. Territories	0.32	0.27	0.25	0.22	0.26	0.26	0.26
Canada	2.36	2.26	2.21	2.20	2.13	2.24	2.25
Europe	15.30	15.28	14.72	14.90	14.33	14.74	14.92
Japan	5.01	4.78	4.29	4.72	3.98	4.02	4.46
Other OECD	5.46	5.41	5.27	5.47	5.21	5.06	5.34
Non-OECD	36.67	37.97	38.32	36.83	38.64	39.16	38.61
Former Soviet Union	4.28	4.33	4.18	4.11	4.16	4.19	4.27
Europe	0.79	0.80	0.80	0.77	0.77	0.83	0.81
China	7.58	7.85	8.08	7.55	8.28	8.39	8.09
Other Asia	8.78	9.21	9.16	9.09	9.26	9.05	9.22
Other Non-OECD	15.24	15.78	16.10	15.31	16.16	16.70	16.22
Total World Consumption	85.80	85.47	83.76	83.18	83.01	84.10	84.75

Source : Energy Information Administration (EIA)

World Oil Production

(million barrels per day)	2007	2008_f	2009				
Supply			Year_f	1st	2nd	3rd	4th
OECD	21.46	20.92	20.76	21.19	20.88	20.36	20.60
U.S. (50 States)	8.46	8.51	8.82	8.78	8.90	8.79	8.79
Canada	3.42	3.35	3.41	3.39	3.40	3.40	3.45
Mexico	3.50	3.19	2.93	3.06	3.00	2.85	2.80
North Sea	4.54	4.30	4.03	4.40	3.99	3.73	4.01
Other OECD	1.53	1.57	1.57	1.55	1.59	1.60	1.55
Non-OECD	62.95	64.46	63.28	62.26	62.89	63.93	64.00
OPEC	35.42	35.72	33.97	33.24	33.48	34.58	34.54
Crude Oil Portion	30.90	31.27	29.05	28.71	28.67	29.52	29.31
Other Liquids	4.52	4.46	4.91	4.53	4.82	5.06	5.24
Former Soviet Union	12.60	12.52	12.77	12.60	12.88	12.80	12.79
China	3.90	3.97	3.99	3.92	3.99	4.00	4.03
Other Non-OECD	11.02	12.24	12.56	12.50	12.54	12.55	12.63
Total World Production	84.40	85.38	84.03	83.45	83.77	84.29	84.60
Non-OPEC Production	48.98	49.66	50.06	50.21	50.29	49.71	50.05

Source : Energy Information Administration (EIA)



- **The US dollar tend to appreciate on average:** The US Dollar in 2009 is expected to appreciate from 2008 as investors shift their investment portfolio from other regions, likes EU and Asia, back to the US amid the signs of economic recovery. Together with the improvement in financial sector, the demand for US Dollar is expected to increase. The increase in US dollar demand will dampen long positions of oil and other commodities. This situation will limit the pace of oil price recovery, although the sign of global recovery, that is likely to be clearer in the latter half, will push the oil price to higher than in the first half.

2.3 Thai Economic Outlook in 2009

2.3.1 Key assumptions for 2009 projection

- ❑ **The world economy in 2009 is projected to contract by 1.3 – 1.8 percent, deteriorated significantly from the expansion of 2.8 percent in 2008.** The assumption of the world economic growth is revised upwards slightly from the negative growth of 1.5 - 2.0 percent in previous projection. This upward revision reflects the following developments: (i) the better performance of Chinese economy in response to fiscal and monetary stimulation; (ii) the signs of sooner-than-expected economic recovery in Japan, driven in a main part by fiscal expansion and stimulation spillovers from its trading partners; (iii) upward revision of outlook for NIEs economies that benefit from China-led-recovery in Asia. However, growth outlook for other major trading partners is insignificantly different from the assumption employed in the previous projection.
- ❑ **The yearly average of Dubai crude oil price in 2009 is forecasted to be in the range of 60 - 65 US dollar per barrel, an upward revision from the assumption of 50 – 60 US dollar per barrel used in previous projection.** The annual average price assumed is also higher than an actual average price of 51.61 US dollar per barrel in the first half of 2009; suggesting that crude oil prices are expected to pick up their pace in the latter half as already seen in July and August. The revised assumption took into consideration these changes: (i) rising trend of oil price in response to improving signs of global conditions and thus the expectation of higher consumption demand in the latter half; (ii) increase in risk appetite that has led to speculative demand in oil future market, encouraged by the signs of global economic recovery and US dollar depreciation. Therefore, the average Dubai crude oil price in the latter half tends to be in the range of 70 – 75 US dollar per barrel.

□ **Export and import price in US dollars terms are set to decline by 2.7 percent and 3.9 percent respectively**, revised upward from a decline of 4.0 percent and 8.0 in the previous projection. The revision reflects that oil price tends to be higher than earlier projected and therefore help moderate the pace of import and export price decrease in the later half. Nevertheless, import price is set to decline at a faster pace than export price which will positively contribute to gain in terms of trade as compared to that in the previous projection.

2.3.2 Economic outlook for 2009: Thai economy is expected to grow in the range of (-3.5) – (-3.0) percent with (-1.0) – (-0.5) percent headline inflation and a current account surplus of 5.6 percent to GDP

(1) In the press release on the 25th of May 2009, Office of the National Economic and Social Development Board (NESDB) projected (-3.5) – (-2.5) percent real GDP growth with (-0.5) – (0.5) percent inflation and a current account surplus of 3.7 percent to GDP.

(2) In this press release on the 24th of August 2009, NESDB narrows down the range of growth projection to (-3.5) – (-3.0), as the probability of the Thai economy to grow in the range of (-3.5) – (-3.0) percent tends is much greater than that of (-3.0) – (-2.5) percent in lieu of shaper-than-expected fall in exports, private consumption and investment in the first half of the year which had led to severe contraction of the overall economy during that period. The underlined reasons for this revision are as follows:

(2.1) **In the first half, the Thai economy contracted more than previously expected** due to the sharp fall in export and domestic demand. Despite the fact that the better global economic condition in the latter half will help stabilize export and production, the benefits from better global condition remains limited and confined to a narrow base of production and sectors. In addition, the benefits from improving global condition on the Thai export tends to delay as the recovery from a deep recession in trading partners has yet to contribute to trade expansion. The caution on the Thai export prospect albeit the world economic

recovery is due to: (i) The improvement of economic conditions in most countries was driven by stimulus measures that concentrates on infrastructure investment projects and household subsidies for durable goods consumption. Therefore, the process of recovery requires only a narrow base of imported goods such as machinery & equipments and cars. (ii) The slower pace of economic contraction and the recovery from a deep recession in major economies were characterized by a faster pace of import contraction as opposed to that of export, particularly in the US, advanced economies in Eurozone and Japan. Under such a situation, demand for agricultural and general consumption commodities remains depressed with the exception of Chinese economy where government stimulation clearly boosts private demand to maintain its economic momentum. Therefore, the sharper than expect contraction in the first half and together with the mild trade spillover from global recovery in the latter half will render the probability of the Thai economy to contract by less than 3.0 percent negligible.

(2.2) **Domestic demand tends to weaker than previously expected.** Ongoing depressed incomes and sentiments tend to protract the process of household consumption recovery. The depressing factors for household incomes are including: (i) sharp export and production contraction that has resulted in rising of unemployed workers; (ii) decline in agricultural price and production that has jeopardized farm incomes; (iii) the contraction of key service activities caused by the decline in number of foreign tourisms and domestic consumer concerns over the economic prospect.

The broad base household income reduction dragged household consumption to decline at a faster pace than previously forecasted and thus lack of strong momentum to spur recovery in the remaining of 2009. In addition, signs of private investment recovery from its deep contraction in the first half have yet to emerge as excess production capacity remains high while investors have been waiting for the progress of public investment projects to be materialized before they commit with investment expansion.

However, with the improvement in global economic condition, the impacts of export and production contraction on household spending will be lessened. In addition, the implementation of government stimulus measures is likely to prevent household spending from falling further in the latter half.

Therefore the Thai economy is likely to perform better in the latter half of 2009 under the condition of supporting government measures which include: (i) the implementation of stimulus measures under economic recovery plan 2009 (SPI); (ii) expedition of budget disbursement in the remaining FY2009 and timely preparation of public investment projects under the second phase of economic recovery plan (SPII) to be ready for prompt budget disbursement in the first quarter of FY2010; (iii) implementation of price guarantee scheme to support price of agricultural commodities during the period of falling prices; (v) implementation of accommodative monetary policy to keep interest rates low, provide sufficient liquidity and promote soft-loans extension by SFIs to SMEs.

- (2.3) Number of foreign tourists is expected to increase at a slower pace than the target. For the whole year of 2009, the total number of foreign tourists is estimated at 13.2 million persons, decline from the year earlier by 7.6 percent. This is a downward revision from previous projection assumption which reflects these factors/developments: (i) the number of tourism in the first half of 2009 was at 6.59 million persons, declined from the same period of last year by 16.3 percent; (ii) the unfavorable factors in the latter half remain, particularly the lingering impacts of political unrests and the epidemic of 2009 flu, and the rising jobless rate in major economies which are important tourism markets.

2.3.3 Projected growth components in 2009:

The sources of economic growth in 2009 are mainly from an increase in government consumption spending and investment and net exports which is a result of faster pace of import contraction than export. Meanwhile, private demand contributes negatively to the overall real GDP growth.

- (1) Total consumption spending is forecasted to grow by 0.7 percent, revised downward from 2.0 percent in previous projection. Household spending is projected to decline by 0.8 percent, revised down from the projected expansion of 0.4 percent in the previous forecast. The downward revision of household spending reflects the broad-based household income decline that was dampened by the prolonged contraction in manufacturing production and exports. The decline in income was aggravated further by the decline in farm incomes and household income in service sector. The fall in income on a broader base basis will impede the recovery process of household spending in the latter half. However, the impacts of contraction in production on household income via higher unemployment are expected to ease. Higher business confidence suggests that firms will hold back from layoffs and limits cutbacks in investment. In addition, the need for stock accumulation and export stabilization as well as the supporting government measures will also support the recovery in production and thus job creation. Nevertheless, growth of government consumption is revised downward from 11.3 percent in the previous projection to 9.4 percent to reflect the downsizing of government current budget in FY 2010 from 1.56 trillion baht to 1.44 trillion baht.
- (2) Total investment is forecasted to decline by 10.0 percent, revised downward from a contraction of 6.2 percent in the previous forecast. The deeper contraction in investment in current projection is due to the downward revision of private investment forecast from 9.7 percent contraction to 14.8 percent contraction, providing the sharp fall in the first half and the prospect in the remaining of the year will be constrained by significant excess capacity in manufacturing sector. For the latter half of 2009, private investment is likely to contract due to: (i) the excess capacity in production sector; (ii) sluggish and fragile global demand; (iii) subdued business sentiments; (iv) the signs of global economic recovery remains fragile and susceptible to the prolonged

process of stabilization; and (v) the capious behavior of investors that impede global flow of FDI. The trend of continued investment contraction in the latter half is also in accordance with the decline in number of investment projects applied for investment promotion in the first half of 2009 and the subdued import of capital goods.

- (3) Total value of exports of goods in US dollar terms is projected to decline by 16.3 percent, revised downward from 15.0 percent decrease in the previous projection. The downward revision is contributed by the downward revision in quantity of goods export from 11.0 percent contraction to 13.6 percent contraction, reflecting: (i) the sharp fall of export quantity in the first half; and (ii) the recovery of major trading partners in the latter half will be accompanied by the sharp fall of import against that of export and thereby limited benefit of the world economic recovery on Thai exports. Taking into consideration of the sharp drop in number of foreign tourists in the first half, export of services is revised downward. In addition, export price assumption is revised upward from 4.0 percent decrease to 2.7 percent decrease to reflect the upward trend of oil and other commodities prices in the second half led by world economic recovery and rising risk appetite of speculators.
- (4) The total value of good import in US dollar terms is set to decline by 24.2 percent, revised downward from a contraction of 19.6 percent in the previous projection. This revision reflected (i) the sharper-than-expected downward correction of stock accumulation in the first half, and (ii) the downward revision of domestic demand for the whole year of 2009 that lowered the projection for import demand accordingly. The projection of import quantity of goods is revised downward from a contraction of 11.6 percent to 20.3 percent. Meanwhile import price is revised upward from a decrease of 8.0 percent to 3.9 percent to better reflect the latest condition in global commodity markets.
- (5) Trade balance is forecasted to register a surplus of 14.0 billion US dollar. Combined with a small surplus in service account, current account is projected to register a surplus of 14.5 billion US dollar which is equivalent to 5.6 percent of GDP, higher than the previous prediction of a surplus

of 3.7 percent of GDP. The upward revision of current account surplus is mainly attributable to the sharper fall in imports.

- (6) Headline inflation is projected to be in the range of (-1.0) – (-0.5), revised downward from (-0.5) – (0.5) percent in the previous projection. This revision is in tandem with the actual average inflation rate of -1.6 percent in the first 7 months and faster-than-expected domestic currency appreciation that helps contain inflationary pressure from oil price increase.
- (7) Unemployment rate is projected to be in the range of (1.8) – (2.0), lower than in the previous projection.

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

- (1) Agricultural Sector: In 2009, the agricultural production tends to expand at a slower pace than in 2008 due to the decline in production of rice as farmers downside their plantation area, in particular the production of major crops in the Northern and Northeastern regions.

Rubber: Production is likely to expand by 2.0 percent in response to government measures that encouraged farmers to replace their old rubber trees by high yield rubber trees.

Cassava: Production and harvesting area of cassava tends to be higher than in 2008 due to price incentive in 2008 that encouraged farmers to expand their plantation area.

Fishery: Export of fishery is likely to decline due to unfavorable global market condition, strategic trade policy employed in importing countries, and tougher competition in global market. As a result, farmers reduce their shrimp production in order to avoid excess supply condition and to maintain product price.

Global condition remains unfavorable for agricultural sector, including (i) the prolonged economic recession continues to drag on global demand for agricultural products (ii) the strong increase in agricultural price in 2008 has induced importing countries to foster their food security policy by expanding their domestic production (iii) the tougher competition in global market with the rising bargaining power of importing countries that will continue to lower agricultural price. The slower pace expansion of agricultural price and production will reduce the

pace of farm income expansion in 2009 to lower than in 2008. However, government measures such as pledging scheme for agricultural products and measures to foster market-orientation product development will positively contribute to agricultural production.

- (2) **Manufacturing sector:** For the whole year of 2009, manufacturing production is likely to decline from 2008. However, the situation is likely to be more favorable in the latter half of the year as indicated by the resumption of orders amid the improvement in global economic condition. This development will support the recovery of export-led manufacturing production. Meanwhile, domestic-oriented manufacturing production will benefit from the government packages that stimulate household demand, and the credit easing measures in banking sector.

In the later half of the year, better conditions are expected for the production of (i) pharmaceutical (ii) chemical products and (iii) electronic products in particular hard disk drive due to the growing demand for smart phone and net-book, and the development of new technology such as 3G smart phone. In addition, with the more favorable global economic condition, export of food products is expected to increase in the latter half of 2009.

Risk factors for manufacturing production in the latter half are including the rising trend of oil price that could hamper cost of production and the development in political condition that could jeopardize investor confidences.

- (3) **Construction and real estate:** For the whole year of 2009, construction and real estate sector is projected to contract from 2008. However, housing demand is likely to improve, providing supporting factors such as (i) the improvement in domestic economic condition amid the sign of global recovery (ii) the implementation of government economic stimulus measures and real estate stimulus measures such as tax deduction for home buyers (with the actual payment not exceed 300,000 bath) and transaction fees reduction for real estate transfers. In addition, real estate price tends to decline in accordance with the steady decline in cost of construction materials.

- (4) **Tourism:** In the first half of 2009, tourism sector contracted due to the worsening global economic condition, concerns over the development of political condition and the epidemic of 2009 flu. Number of tourists for the whole year of 2009 is forecasted at 13.2 million persons, a 7.6 percent decline from year earlier and lower than TAT's target of 14.0 million persons. Notably, the main conditions encouraging the target achievement are (i) vigorous cooperation between government and private sector to promote market measures (ii) improving Thailand images and providing incentives for both Thai and foreign travelers (iii) formulating tourism development plan both at international and domestic level and (iii) promote public understanding of 2009 flue in order to limit the risk of contagions and to strengthen tourism confidences.

2.3.5 Projection condition for high and low cases

- (1) **The high case scenario of 3.0 percent GDP contraction:** The Thai economy in 2009 is projected to contract at the maximum rate of 3.0 percent under the following conditions (i) the improvements in global economic condition that emerged in Q2 sufficiently gains it momentum and stimulate private demand in major trading partners to broadly expand in the latter half and limit the global economic contraction at the maximum rate of 1.3 percent. Under such a global economic condition, the increasingly stabilized export and production in Q2 will clearly recover in Q3 (ii) the implementation of government stimulus measures meet the target and effectively reduces negative impacts of production contraction on household income and prevent private consumption from further contraction. Similarly, the implementations of tax measures meet the targets in order to alleviate the impacts of worsening global condition on business and entrepreneurs (iii) budget disbursement of at least 94 percent of planned budget for government and state enterprises (iv) the yearly average Dubai crude oil price is not higher than 60 US dollar per barrel.
- (2) **The low case scenario: The Thai economy in 2009 is projected to contract by more than 3.0 percent** under following conditions (i) the process of global stabilization and signs of recovery in Q2 discontinued and the import contraction against export remains the main source of recovery in major trading partners. This situation will impede the resumption of global demand and prolong the process of global recovery that will result in the faster pace of global contraction

than 1.3 percent. (ii) budget disbursement rate fell below 94 percent (iii) the implementation of stimulus measures is unable to reach its target and fail to prevent private consumption from further contraction in the latter half and (iv) yearly average Dubai crude oil price increase to higher than 60 USD per barrel.

3 Economic Management for 2009

Economic management to support and sustain the economic recovery in the remaining months of 2009 should focus primarily on these guidelines:

- (1) Preparation of disease control plan to prevent the outbreak of 2009 new strain influenza.
- (2) Acceleration of budget disbursement in the remaining months of FY2009, and preparation of budget execution details so that disbursement of FY2010 budget could be timely started in October.
- (3) Disbursement of public funds and implementation of public projects under the second stimulus package (SP2) must be promptly executed in the first quarter of FY2010 (October-December 2009).
- (4) Facilitation of credit extension by special financial institutions to entrepreneurs and SMEs who encounter liquidity shortage.
- (5) Implementation of agricultural prices guarantee scheme during period of falling prices.
- (6) Managing exchange prudently to prevent either sharp depreciation during the period of rising oil prices, or rapid appreciation that could harm exporters and tourism industry. However, exchange rate management should not fuel asset prices to rise faster than the pace of economic recovery.

Economic Projection of 2009

	Actual Data			Projection_2009f	
	2006	2007	2008	25 May 09	24 Aug. 09
GDP (at current prices: Bil. Bht)	7,841.3	8,493.3	9,105.0	8,831.8	8,786.29
GDP per capita (Bht per year)	120,933.0	128,686.0	135,895.0	131,426.0	130,749.0
GDP (at current prices: Bil. USD)	206.9	245.8	273.4	248.8	258.4
GDP per capita (USD per year)	3,190.8	3,723.6	4,081	3,702.1	3,845.5
GDP Growth (at constant prices, %)	5.2	4.9	2.6	(-3.5) – (-2.5)	(-3.5) – (-3.0)
Investment (at constant prices, %)	3.9	1.3	1.1	-6.2	-10.0
Private (at constant prices, %)	4.1	0.6	3.2	-9.7	-14.8
Public (at constant prices, %)	3.3	3.4	-4.8	5.0	5.0
Consumption (at constant prices, %)	2.9	2.7	2.2	2.0	0.7
Private (at constant prices, %)	3.0	1.6	2.5	0.4	-0.8
Public (at constant prices, %)	2.4	9.2	0.5	11.3	9.4
Export volume of goods & services (%)	9.1	7.1	5.4	-9.8	-12.4
Export value of goods (Bil. USD)	127.9	150.0	175.3	147.2	146.7
Growth rate (%)	17.0	17.3	16.8	-15.0	-16.3
Export value of goods (Bil. Bht)	4,838.2	5,170.8	5,833.3	5,225.2	4,988.7
Growth rate (%)	9.8	6.9	12.8	-10.4	-14.5
Growth rate (Volume, %)	11.2	11.0	5.5	-11.0	-13.6
Import volume of goods & services (%)	3.3	3.4	7.5	-9.9	-18.4
Import value of goods (Bil. USD)	126.9	138.5	175.1	140.7	132.7
Growth rate (%)	7.9	9.1	26.4	-19.6	-24.2
Import value of goods (Bil. Bht)	4,803.9	4,773.1	5,827.3	4,994.5	4,512.7
Growth rate (%)	1.48	-0.64	22.08	-14.3	-22.6
Growth rate (Volume, %)	1.3	3.6	12.0	-11.6	-20.3
Trade Balance (Bil. USD)	1.0	11.6	0.2	8.3	14.0
Current account balance (Bil. USD) ^{1/}	2.3	14.0	-0.2	9.3	14.5
Current account to GDP (%)	1.0	6.1	-0.1	3.7	5.6
Inflation (%)					
CPI	4.7	2.3	5.5	(-0.5) – (0.5)	(-1.0) – (-0.5)
GDP Deflator	5.1	3.2	4.5	(-0.5) – (0.5)	(-1.0) – (-0.5)
Unemployment rate (%)	1.5	1.4	1.4	2.0 – 2.5	1.8 – 2.0

Source: Office of National Economic and Social Development Board, 24 August 2009

Note: ^{1/} Reinvested earning has been recorded as part of FDI in Financial account, and its contra entry recorded as Income on equity in current account

