



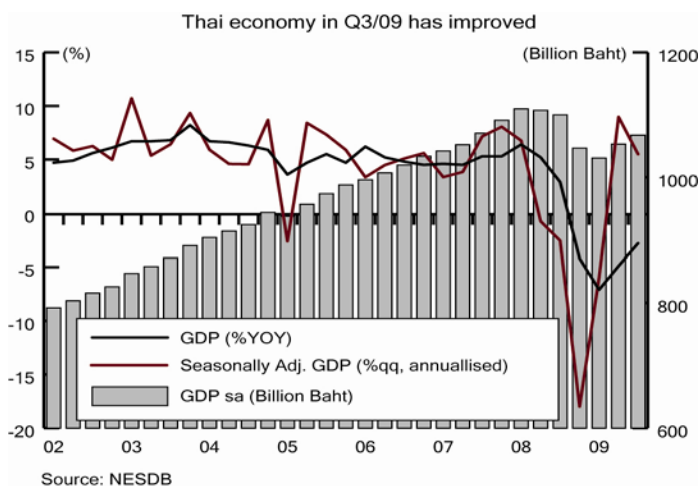
Economic Forecast year 2009

(% YOY)	2009			
	H1	Q3	Year 2009_f	Year 2010_f
GDP (at 1988 price)	-6.0	-2.8	-3.0	3.0-4.0
Total Investment (at 1988 price)	-13.0	-6.3	-8.6	3.8
Private	-17.0	-12.2	-12.7	3.0
Public	0.1	8.0	4.4	6.0
Total Consumption (at 1988 price)	-1.0	-0.3	-0.2	2.5
Private	-2.3	-1.3	-1.2	2.7
Public	6.8	4.7	5.7	1.6
Export of Goods,	-23.1	-17.5	-13.7	10.0
Volume	-21.6	-15.6	-13.2	6.5
Import of Goods,	-35.1	-28.3	-26.1	18.5
Volume	-31.2	-24.9	-22.8	14.0
Current Account to GDP (%)	9.9	5.6	8.8	5.3
Inflation	-1.5	-2.2	-0.9	2.5-3.5
Unemployment rate	1.9	1.2	1.7	1.4

- The Thai economy in the third quarter of 2009 showed sign of recovery from previous quarter with a contraction of 2.8 percent, improved from contraction of 7.1 and 4.9 percent in the first and second quarter respectively. For the first 9 months, the Thai economy dropped by 5.0 percent. Household consumption, private investment and export improved as a result of global economic recovery which was mainly attributed by the economic stimulus measures in several countries. Regarding the domestic factors, Thailand's economic stimulus measures have played a vital role in supporting the recovery of private consumption and investment. Confidence of foreign tourists has been regained after the political conflict has been eased.
- The seasonal adjusted GDP in Q3 expanded by 1.3 percent, suggesting a concrete sign of recovery to Thai economy which can be seen from expansion in export-oriented industries, an increase in capacity utilization and a lower unemployment rate.
- The Thai economy in the fourth quarter is expected to accelerate compared to the same period of last year, will be the first positive expansion in 2009 due to the following factors: i) the recovery of world economy that directly benefit Thai export and tourism sectors, the improvement of household consumption following an increase in income and employment, and ii) the acceleration of disbursement under "Thai Khem Kaeng 2012" program which will lead to an expansion of government expenditure during the last quarter of the year.
- For the whole year of 2009, Thai economy is expected to contract by 3.0 percent, with -0.9 percent of headline inflation. Export value in US Dollar term is projected to decline by 13.7 percent, unemployment rate at 1.7 percent and current account record a surplus of approximately 8.8 percent to GDP.
- In 2010, the Thai economy is forecasted to expand in the range of 3.0-4.0 percent subject to the following conditions: the magnitude of world economic recovery, consistency and efficiency of government economic stimulation, and ability to maintain economic confidence and facilitate private investment. The headline inflation is forecasted to be in the range of 2.5-3.5 percent, with unemployment rate of 1.4 percent. Current account is projected to record a surplus of 5.3 percent of GDP with an assumption of Dubai oil price in the range of 75-85 US Dollar per barrel.
- Nevertheless, economic management to support the economic recovery in 2010 should concentrate on the following areas: i) ensure the continuity in the government policy to support the private sector investment in order to keep momentum of growth which including continued investment in public infrastructures, resolving the Maptapud case and clarification of rules and regulations towards the new opening or expansion of businesses so as to regain investors' confidence, ii) encourage the private sector to utilize tax reduction scheme under AFTA which will be fully effective from January 2010, and speed up the regional economic cooperation with neighboring countries in transport and logistics infrastructures in order to open up new opportunities for trade and investment between existing and new ASEAN members, and iii) ensure the policy coordination between monetary and fiscal policies in order to support continued economic recovery and reviving public confidence.

1. Economic condition in the third quarter and Outlook for 2010

1.1 Overall Thai Economic condition in the third quarter of 2009 contracted by 2.8 percent, the least contraction in this year. For the first nine months, Thai economy contracted by 5.0 percent. The improvement apparently seen in household consumption, private investment and exports. This was owing to the global economic recovery which was supported by economic stimulus measures in various countries and easing political turmoil. The seasonal adjusted GDP grew by 1.3 percent, continued from 2.2 percent growth in the second quarter. It indicated the clearer sign of Thai economic recovery.



Key Highlights

- **The world economy in the third quarter began to recover and the signs of recession were terminated.** World economic performance in this quarter declined by 0.2 percent compared to 4.0 percent and 2.5 percent contraction in the first and second quarter respectively. The financial sector in major industrial economies improved gradually, likewise the real sectors turned to the recovery period due to various countries' economic stimulus measures. The seasonal adjusted GDP growth (quarter on quarter) of the United States and the European countries were expanded by the first time after continuously contracted for four and five quarters respectively. While the Japanese economy expanded by two consecutive quarters. In addition, the acceleration growth of Chinese economy which was supported by government's stimulation measures benefited to the positive growth of Singapore and South Korea economies.

The significant positive signals in the third quarter were: (1) the improvement of industrial production index in the United States and major economies that rose over 50 percent. This circumstance indicated that the current economic recovery was led by the expansion of industrial sector (2) the reduction number of layoff employment, which was the sign of improvement in economic stability (3) the business and private confidence index including the asset price have picked up that rebuilt the consumption confidence particularly consumption of durable goods which benefited from the government economic measures and (4) the extension of credit and investment in China accelerated its domestic economy and induced the regional trade volume. This consequently drove other Asian economies to improve and out of the recession.

- **Thai economy in the third quarter contracted by 2.8 percent, improved from 7.1 percent and 4.9 percent contraction in the first and second quarter respectively.** The improvement owing to rising in export according to the global economic recovery. Export to both major and emerging economies subdued at a slower pace, whereas export to Australia expanded by 7.1 percent. Furthermore, resumption of purchasing orders enhanced the production in manufacturing sector, in particular export-oriented production that grew by 0.2 percent which is the first time expansion since the third quarter of last year. This also reduced employment, unemployment rate from 1.8 percent in the second quarter to 1.2 percent in this quarter. In addition, the recovery in global economy and easing political condition induced the number of foreign tourists. Likewise, employment and price of agricultural product have been improved. Furthermore, the government's stimulus packages

have driven consumer confidence and household spending in this quarter.

○ Positive Factors

- (1) The revival of global economy in the third quarter benefited to Thai export, evidenced by the resumption of purchasing orders of electrical products, and automobile and parts. Thai export to new markets, including China, Australia and Hong Kong increased. On the quarter on quarter basis (seasonally adjusted), export in the third quarter increased both in terms of volume and value by 9.3 and 6.2 percent respectively. In September 2009, total value of exports accelerated from that of in August by 9.0 percent, which resulted from 0.3 percent increase in price and 8.3 percent in volume.
- (2) Household consumption declined by 1.3 percent (year on year). but continuously improved from the second quarter by 1.0 percent in quarter on quarter basis (seasonal adjusted), Private consumption index in September picked up by 4.5 percent from the previous month. The improvement were partially attributed by government stimulus scheme for low income earners which includes revenue raising program and the provision of subsidy to reduce the cost of living. Moreover, consumers have more confidence on economic recovery and unemployment declined; therefore, demand for consumption was improved. The products that got benefit from the increasing demand were food, durable goods for instance; vehicles, electrical appliances etc.
- (3) Manufacturing production expanded. Value added of manufacturing sector contracted by 5.9 percent in the third quarter, improved from 14.4 and 8.7 percent contraction in the first and second quarters respectively. Consequently, the export-oriented production expanded by 7.2 percent in September, and by 0.2 percent in the third quarter, compared to the contraction of 22.2 and 2.1 percent in the first and second quarters respectively. The major sector that improved remarkably was electronic, which recorded growth by 2.1 percent, compared to 1.0 percent in the second quarter. The average capacity utilization in the third quarter was at 62.4 percent, higher than 58.1 and 59.2 percent in the first and second quarters respectively.
- (4) Number of tourist tended to increase as due to less on the pandemic of influenza A (H1N1) as well as the easing in political condition. In September, the number of foreign tourist was 1.1 million persons, increased by 17.4 percent from the same period of last year, or

expanded by 6.2 percent from last month (seasonal adjusted). The number of tourist fell by 2.7 percent, improved from the contraction of 15.8 and 16.5 percent in the first and second quarters respectively. However, an occupancy rate was at 46.9 percent, decreased from 53.2 percent in the same period last year.

- (5) Consumer confidence has improved. The consumer confidence index continually accelerated from 74.5 in August to 75.6 in September. Likewise, business sentiment index has improved constantly; in particular expected business sentiment index for three months was above 50 for five consecutive quarters.

○ **Negative Factors:** The adverse factors that affected consumer and business confidence thereby lowered production in several sectors are as follows:

- (1) Low level of capacity utilization, due to sluggish recoveries in domestic and external demand together with the delay in finding solutions of environmental problems in Mabtapud Industrial Area. These affected investors' confidence and investment atmosphere that led to the slow down or suspending of their investment plans.
- (2) A decrease in price and yield of major agricultural products which has deteriorated farms income and has slowed down the recovery of household spending.

○ **Economic stability remained favorable.**

- (1) Domestic economic stability remained favorable

● **Headline Inflation:** headline inflation was at -2.2 percent compared to -2.8 percent in the second quarter. An upward trend of inflation rate was attributed by the reduction in rice and oil price. Moreover, the implementation of "15 years free education" program has reduced education cost. Core inflation in the third quarter was at -0.5 percent. For the first nine months, average headline inflation stood at -1.7 percent while inflation rate in October increased to 0.4 percent, the first positive inflation rate since January 2009.

Producer price index continued to decline by 10.2 percent, compared to a contraction of 7.0 percent in the previous quarter. The plunge in producer price index has lift off the pressure on production cost. For the first nine months, producer price index decreased by 7.0 percent.

● **Unemployment rate** averaged at 1.2 percent, lower than 2.1 and 1.8 percent in the first and second quarters respectively. The improvement in labor market, especially in hotel and restaurant sector, is a clear signal of economic recovery. In addition, the signal of

economic recovery also fueled by increase in industrial sector employment, first expansion since second quarter of 2008. The increase in industrial sector employment was resulted from the recovery in industrial sector particularly in electronic and automobile industries.

(2) External stability remained positive: Current account surplus and international reserve remained in high level.

- Current Account registered a surplus of 3,713 million US Dollar, equivalent to 125,891 million baht. This was resulted from trade balance surplus of 5,118 million US Dollar. However, net service, income and transfer balance recorded a deficit of 1,406 million US Dollar due to an increase in repatriation of investment income. For the first nine months, current account recorded a surplus of 16,088 million US Dollar which was equivalent to 560,762 million baht.
- International reserve at the end of October 2009 stood at 135.26 billion US Dollar (excluding Net Forward Position of 15.28 billion US Dollar), higher than 123.45 billion US Dollar at the end of July 2009 (excluding Net Forward Position of 11.37 billion US Dollar), which was equivalent to 6.2 times of short-term foreign debt or 10.6 months of import.
- An average exchange rate in the third quarter of 2009 was at 33.91 baht per US Dollar, appreciated from 34.64 baht per US Dollar in the previous quarter, but depreciated from 34.0 baht per US Dollar in the same period of last year. In October, an average exchange rate was at 33.36 baht per US Dollar while average exchange rate during 1-18 November was at 33.28 baht per US Dollar. The appreciation of baht against US Dollar was inline with others regional currencies .

○ **Thai Economic Outlook in the fourth quarter and for the year 2009**

(1) The Thai Economy is expected to increase in the fourth quarter as a result of continually global economic recovery and the low-based effect. From the two factors mentioned above, Thai economy is likely to show the positive growth for the first time in 2009. The crucial supportive factors and important conditions are as follows.

- **The recovery of export:** The expected growth of the world economy in the fourth quarter and the low base effect will support high growth in export sector, which is likely to show positive sign in the first time in the previous four consecutive quarters.

- **The improvement of household expenditure which resulted from following conditions:** i) an increase in income according to the recovery of real sector and tourism sector ii) an increase in price of agricultural products which is partly attributed by implementation of agricultural product price guarantee scheme iii) an increase in consumer confidence which will induce private consumption in the fourth quarter and iv) a low base effect. From the above conditions, Household expenditure is likely to expand for the first time after three consecutive quarters of contraction.

- **Acceleration of the government budget disbursement under economic stimulus package 2 (SP2-“Thai Kem Kaeng 2012”)** government expenditure is likely to expand in the last quarter of 2009 as a result of the budget disbursement, which is expected to start in the first quarter of fiscal year 2010, together with the base effect of low disbursement rate in the first quarter of fiscal year 2009.

- **The liquidity in the economic system is projected to remain high as a result of the following conditions:** i) the expansion of government expenditure, ii) the continuity of easing monetary policy, iii) recapitalization of Specialized Financial Institutions (SFIs), iv) liquidity management, and expansion of low-interest rate loans for Small and Medium Enterprises (SMEs). These measures will enhance private sector and household expenditure to gradually recover.

(2) Economic outlook for 2009: The Thai economy is projected to contract by 3.0 percent, revised from the range of (-3.5) - (-3.0) in the press release on the 24th of August 2009. Headline inflation was forecasted to be at -0.9 percent. Export value in US Dollar term is expected to decrease by 13.7 percent. On the contrary, export value in term of Thai baht is expected to decrease by 11.0 percent as a result of Thai baht depreciation when compared to an average exchange rate in 2008. Current accounted is projected to record a surplus approximately at 8.8 percent of GDP.

○ **Thai Economic Outlook for 2010**

- (1) Economic outlook for 2010:** Thai economy is expected to improve continually from the fourth quarter of 2009 as a result of global economic recovery, government economic stimulus measures, resolution in private investment and economic confidence restoration. The supporting factors for economic expansion in 2010 are as follows :

- **The improvement in manufacturing, export and tourism sector,** together with implementation of

government stimulus measures will increase employment and enhance household income, particularly household in industrial and service sector. Similarly, farms income is expected to improve in 2010 from i) increase in world agricultural price and world demand, ii) the implementation of farmers' income guarantee scheme, and iii) improvement in consumer confidence. All these factors will encourage household expenditures.

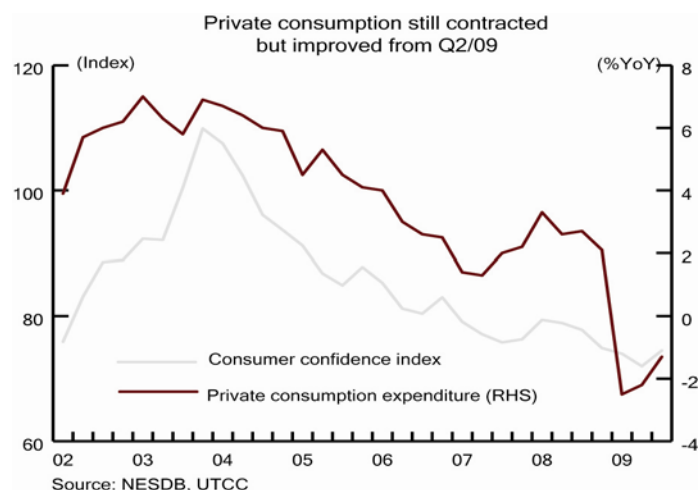
- **The disbursement of government investment under stimulus package 2 (SP2-“Thai Kem Kaeng 2012”)** is expected to accelerate gradually and will result in expansion of government expenditure. Private investment is projected to improve slowly from the low base due to the excess capacity in manufacturing sector still remained high. Meanwhile, some of private investors are waiting for global economic recovery to fully take place and clear resolution for environmental problems at Maptaphut Industrial Area.

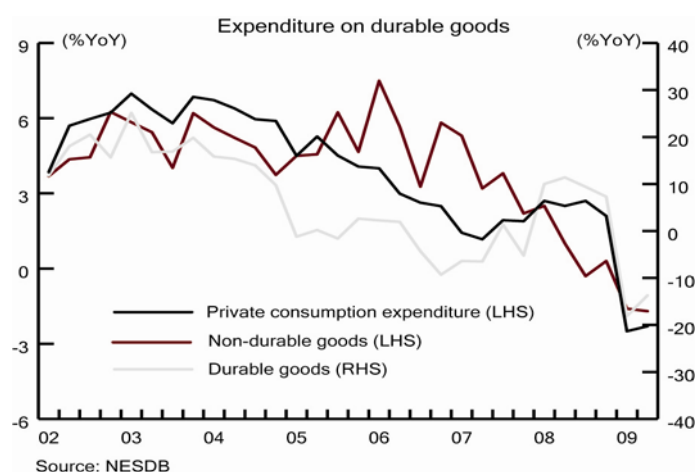
- **The world economic outlook.** In 2010, the world economy is expected to expand in the range of 2.8 – 3.2 percent compared to a contraction of 1.1 percent in 2009. The continue expansion of world economic together with low base effect in 2009, especially in the first half of the year, will support recovery of Thais' export in both volume and price terms. Furthermore, export of agriculture products is projected to increase as a result of natural disaster in other producer countries, recovery in world demand, and upward adjustment in oil price.

(2) Economic outlook for 2010: The Thai economy is expected to grow in the range of 3.0 – 4.0 percent. Headline inflation is forecasted to be in the range of 2.5 – 3.5 percent. Export value is projected to expand by 10.0 percent in US dollar terms and 4.2 percent in baht terms. Current account is expected to record a surplus of 5.3 percent of GDP.

1.2 Economic performance in the third quarter of 2009:

- **Household consumption expenditure contracted at a slower pace.** Household consumption in the third quarter decreased by 1.3 percent, improving from the contraction of 2.5 and 2.2 percent in the first and second quarter respectively. Supporting factors for the improvements are as follows: i) the increase of employment in manufacturing and hotel sector, ii) gradually rising of farm income as a result of increasing in volume and prices of agricultural products, and iii) the improvement in consumer confidence due to the approval of nearly 400 public investment projects under the governments' second stimulus package (SP2-“Thai Kem Kang 2012”). Nevertheless, concern over an upward trend of oil and commodities' price together with the

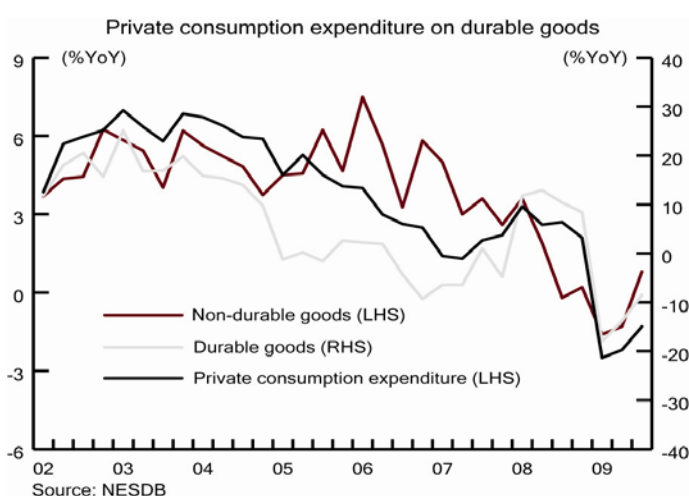




Private Consumption

(%YoY)	2008				2009			
	Year	H1	Q3	Q4	Q1	Q2	Q3	share(%)
Private Consumption	2.5	2.6	2.7	2.1	-2.5	-2.2	-1.3	-2.0
Durable goods	9.5	10.7	9.4	7.3	-18.1	-13.7	-8.5	-13.4
Semi-durable goods	1.7	3.5	3.3	-3.1	-8.6	-8.4	-10.3	-9.3
Non-durable goods	0.9	1.8	-0.3	0.3	-1.6	-1.7	0.8	-0.7
- Food	1.4	1.8	-0.1	2.4	1.8	-0.1	3.2	1.4
- Non-food	0.6	1.8	-0.4	-1.1	-4.2	-2.9	-1.0	-2.3
Services	3.0	0.3	5.1	6.2	6.8	4.4	2.8	4.8

Source: NESDB



uncertainty in political situation will affect the pace of economic recovery and will subdue consumer confidence .

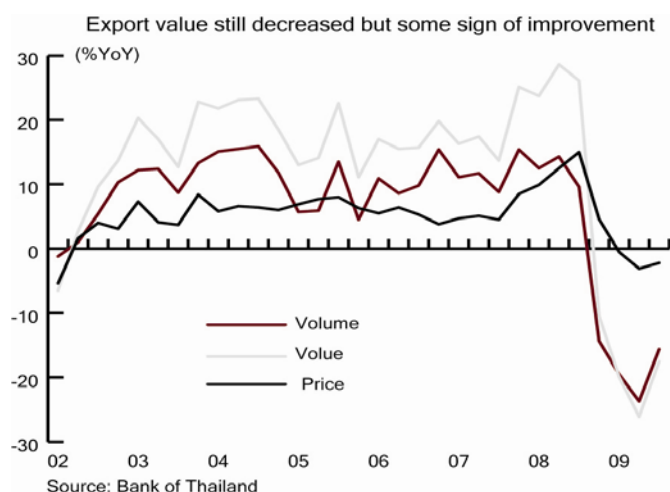
Some of the key household consumption indicators, seasonally-adjusted, have pointed evidently to signs of recovery. These indicators included, import volume of consumer goods, real VAT revenue, value of durable goods such as vehicles, electrical appliances and electronics, household's electricity consumption and gasoline and gasohol consumption .

For the first 9 months, private consumption expenditure fell by 2.0 percent, owing to the contraction of durable goods, semi-durable goods and non-durable goods of 13.4, 9.3 and 0.7 percent respectively. The contraction of non-durable goods was contributed by the decline of food and non-food consumption by 1.4 and 2.3 percent respectively.

□ **Private Investment showed a sign of recovery.** In the third quarter, private investment declined by 12.2 percent compared to 17.8 and 16.1 percent contraction in the first and second quarter respectively. The decrease in private investment was attributed by the reduction of investment in machinery and equipment by 14.0 percent and the contraction of investment in construction by 6.3 percent .

Investment in machinery and equipment contracted at a slower pace in line with the improvement in import of capital goods as well as total capacity utilization. However there are some negative factors that influence investor's decision to postpone their investment they are (1) high excess capacity (2) sluggish improvement in domestic and external demand (3) the delay in solving environmental problems in Maptapud Industrial Estates which affected the implementation of 76 large industrial projects.

Investment in construction continued to contract but at a slower rate when compared to the first half of 2009. The housing construction in Bangkok area had improved underlying the improvement in housing construction, especially along the mass transit route and in suburban area in order to respond to the increase in housing demand. However, housing construction outside Bangkok area remained in severe contraction, thus, investment in housing declined by 15.1 percent in the third quarter. Investment in commercial building contracted by 14.1 percent whereas investment in industrial plant increased by 16.5 percent due to a recovery in domestic economy. For the first 9 months, private investment declined by 15.4 percent as a result of the contraction of investment in machinery & equipment and investment in construction of 17.7 and 7.5 percent respectively .

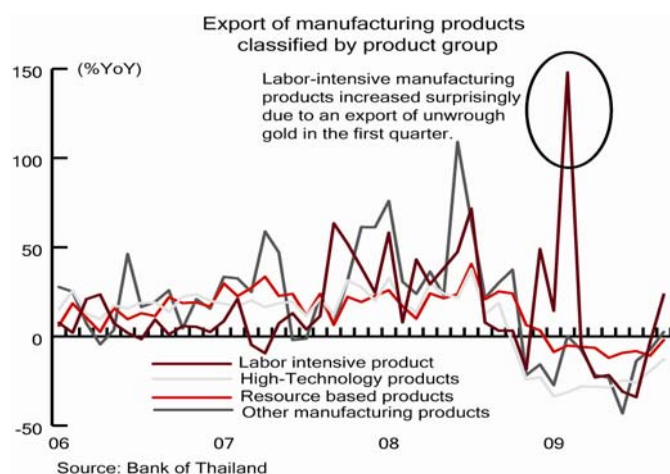


Export of Agriculture

(million Dollar)

(%YOY)		2007	2008			2009		
		Year	H1	Q3	Q4	Q1	Q2	Q3
Rice	Value	78.9	134.6	134.2	-18.0	-13.7	-35.7	-29.3
	Price	63.0	51.8	88.4	59.6	28.6	-19.8	-16.3
	Volume	11.1	56.0	23.4	-48.6	-32.8	-20.5	-15.0
Rubber	Value	20.4	32.1	47.1	-21.3	-45.5	-53.0	-52.5
	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	-14.8
Cassava	Value	3.6	16.3	23.3	-35.2	-45.6	-20.1	13.5
	Price	40.0	60.6	39.3	13.1	-15.1	-29.1	-38.3
	Volume	-27.8	-27.8	-11.8	-40.6	-34.1	12.9	84.1
Corn	Value	110.3	110.8	201.4	27.4	-48.7	68.0	-24.2
	Price	64.3	110.2	27.2	-1.9	-14.1	-61.2	-36.2
	Volume	79.1	82.6	136.6	22.1	-40.0	175.5	23.0

Source: Ministry of Commerce

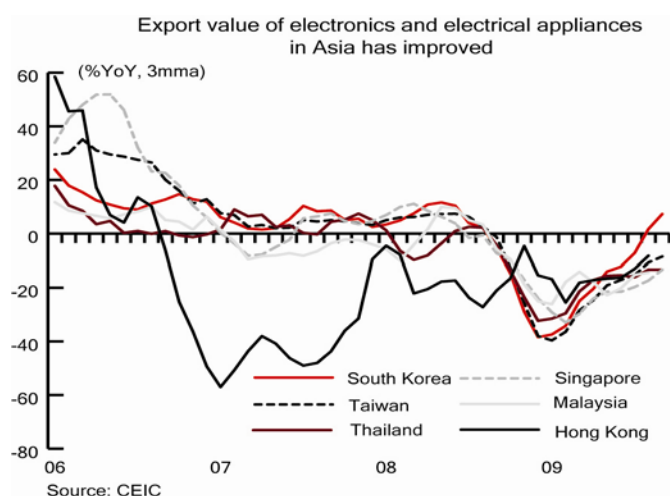
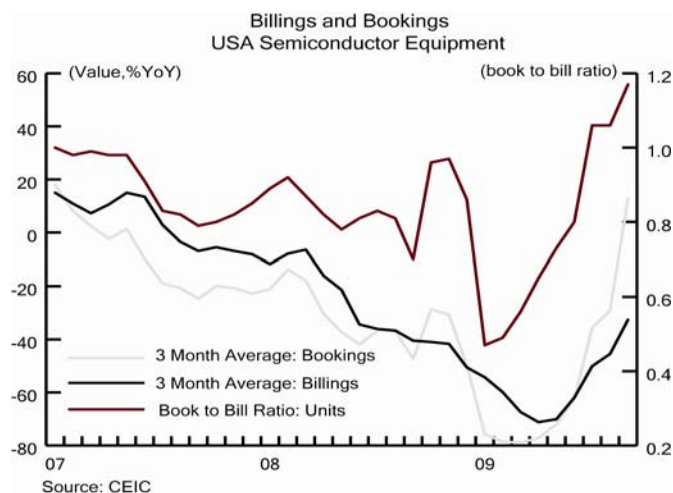


□ **Export: value and volume improved as global economic recovered.** In this quarter, export value in USD term fell by 17.5 percent compared to a decrease of 19.9 and 26.1 percent in the first and the second quarter respectively. While total export volume and price declined by 15.6 and 2.2 percent respectively. An improvement in export was contributed by an economic recovery in major trading partner countries such as US, Australia, ASEAN countries and China. In addition, a decline in inventories led to an increase in trading partners' order to serve the improvement of demand as well as to compensate a reduction in stocks. Besides, a rising global gold price caused a large increase in export of unwrought gold. In term of Thai baht, export value shrunk by 17.3 percent in the third quarter of 2009, whereas export price declined by 2.0 percent resulting from an appreciation of Thai baht.

● **Agricultural product: Export volume and price fell considerably.** In the third quarter of 2009, export volume and price dropped by 15.2 and 21.2 percent respectively, leading to a decline in agricultural export value of 33.2 percent. Major agricultural products export recorded a reduction in volume were i) rice: declined by 15 percent due to higher export price compared to others rice-exporting countries, and ii) rubber: declined by 14.8 percent as the importers' stock remained high. However, cassava export volume rose by 84.1 percent as the demand for ethanol production tended to increase continually in the period of high molasses price .

● **Manufacturing products: Export volume and value continued to fall but improved significantly from previous quarter.** Export value of manufacturing products decreased by 15.8 percent with a decline in volume of 15.4 percent while the price dropped by 0.4 percent. Compared to the first half of 2009, export of manufacturing products in the third quarter was considerably improved. In September, the recovery became apparent from the expansion in export of many manufacturing products such as rubber products, printed matters, papers and products, beauty or make up preparations, soap and preparations for the care of skin, medical and surgical instruments. However, classified by product group, export value of high technology, resource-based, and labor-intensive manufacturing products dropped by 19.5, 7.0 and 4.5 percent respectively.

– **Electronics and electrical appliances: Export value continued to contract at a slower pace** due to demand for restocking after sharply drop in inventory resulting from an earlier decline of import order. Moreover, another supportive factor was the increase in



market demand according to better economic condition of trading partner countries. In September, export value of some electronics and electric appliances has expanded such as computer parts, electronic calculating machine and radio-broadcast receivers, television receiver and parts thereof.

In the third quarter of 2009, export value of electronics and electrical appliances declined by 11.1 and 12.0 percent respectively. The major products that recorded the value reduction were computer and parts thereof (-10.2 percent), integrated circuit (-8.9 percent), radio-broadcast receivers, television receiver and parts thereof (-3.0 percent), air conditioner and parts thereof (-20.4 percent) and refrigerator and equipments (-14.9 percent).

- **Gems and Jewelry: Export value increased driven by the surge in export of unwrought gold.** Export value of gems and jewelry rose by 13.3 percent, mainly attributed by unwrought gold by 65.0 percent. The high value of unwrought gold was coincided with a rise in gold price in global market. The escalating price was led by remarkable increase in demand for gold from India in order to increase the portion of gold to its international reserves. In addition, there was a speculative of the investors to diversify risk in the stock market. Excluding the unwrought gold, the export value of gems and jewelry declined by 20.0 percent.
- **Vehicles, Parts, and Accessories: Export value declined.** Export value reduced by 34.9 percent closed to a 37.2 percent reduction in the first half of 2009. The reduction was partly from a high base effect. However, there was a sign of recovery in export market especially Australia which is a major trading partner (accounted for 21.4 percent of total export volume). The export value to Australia contracted by 20.9 percent, slower than the reduction of 48.1 percent during the first half of 2009.
- **Food Products (excluding sugar): Export value decreased by 7.9 percent.** Major products which recorded a reduction in export value include canned, frozen and processed crustacean (excluding shrimps) (-15.9 percent) and frozen and processed chicken (-15.2 percent). Conversely, products which recorded an increase in export value include fresh, frozen, canned and processed vegetables and fruits (13.1 percent), and frozen and processed shrimp (8.8 percent). However, the demand for Thai frozen food remained strong due to confidence in production quality and standard. Additionally, export value of frozen food improved after world economy has bottomed out and

Major Export Market of Automobile ,Part and Accessories

(%YOY)	2008				2009			
	Year	H1	Q3	Q4	Q1	Q2	Q3	share
Australia	8.8	20.4	34.0	-34.6	-50.1	-46.1	-20.9	21.4
Malaysia	47.0	65.3	64.1	2.1	-25.7	-33.5	-9.2	8.3
Indonesia	49.0	71.6	56.2	7.4	-63.5	-53.0	-46.0	8.5
Saudi Arabia	24.3	26.6	20.7	24.7	35.3	6.4	-7.2	6.8
Philippine	19.9	62.4	20.0	-31.2	-29.0	-25.3	24.6	7.2
Japan	19.3	13.8	76.5	-27.8	-56.9	-45.4	-57.8	5.3

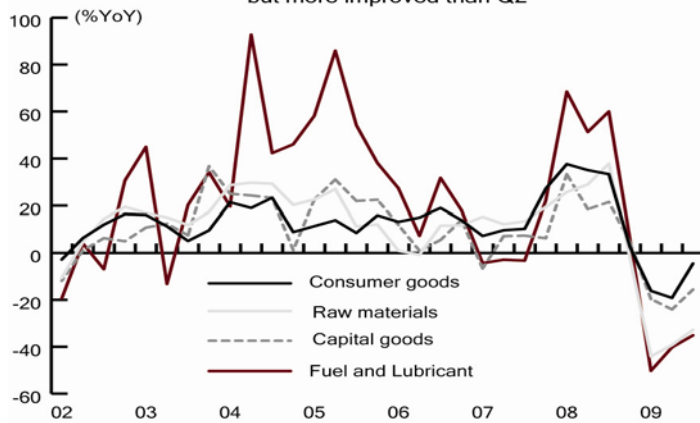
Source: Ministry of Commerce

Major Export Market

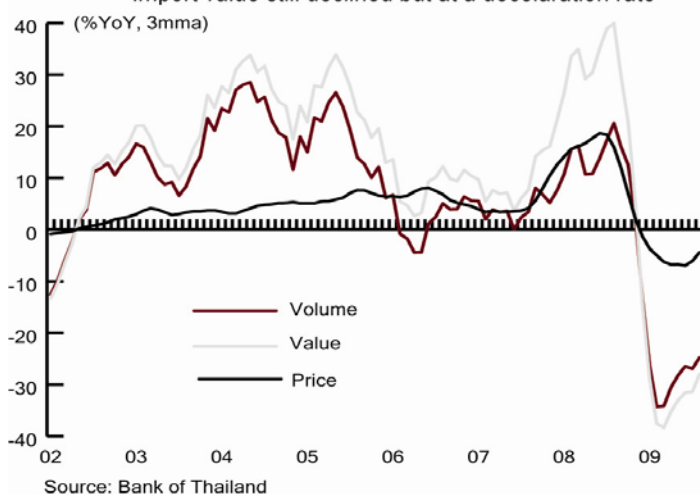
(%YOY)	2008				2009			
	Year	H1	Q3	Q4	Q1	Q2	Q3	share
U.S.	4.4	8.6	13.8	-12.0	-27.0	-27.1	-19.2	11.1
Japan	10.9	14.0	23.5	-6.0	-26.1	-31.1	-24.9	10.0
EU (15)	7.2	14.4	12.4	-11.2	-32.7	-33.0	-26.6	10.0
ASEAN (9)	22.4	40.9	37.4	-17.4	-31.5	-33.0	-21.7	21.6
Hong Kong	15.5	43.0	10.8	-18.9	-14.2	-22.6	-3.6	6.4
Taiwan	-18.8	-19.7	-3.9	-30.7	-42.5	-26.3	-13.1	1.5
South Korea	23.0	16.2	63.1	-0.6	-24.6	-18.7	-36.1	1.9
Middle East	26.9	30.0	46.5	3.8	6.7	-17.6	-19.2	5.7
India	25.6	28.7	25.5	19.9	-17.0	-9.2	-7.7	2.2
China	9.1	27.8	14.5	-24.4	-27.6	-9.2	-6.2	10.3

Source: Bank of Thailand

Import value still contracted in all sectors but more improved than Q2



Import value still declined but at a deceleration rate



started to rise again in order to serve the demand in the coming holiday.

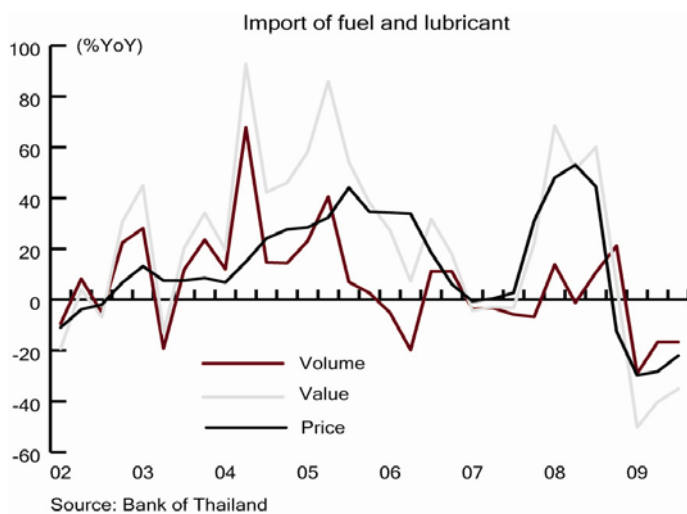
- Export Market: Thai exports still declined but expansion was seen in some countries.** Export value continued to fall both in major and new markets. Export value to major export markets include the US, Japan, EU (15) and Asian contracted by 19.2, 24.9, 26.6 and 21.7 percent respectively. Likewise, export to new markets includes China, Hong Kong, Taiwan and Middle East decreased by 6.2, 3.6, 13.1 and 19.2 percent. Nonetheless, export value to Australia and Brunei remained to soar by 7.1 and 7.8 percent respectively.

- Imports: Import value continued to decline, but slower than the previous quarter.** Import value in US Dollar term decreased by 28.3 percent, slower than the contraction of 37.5 and 33.0 percent in the first and the second quarter respectively. Import volume declined by 24.9 percent owing to the slow down in domestic demand and economic activities. However, import evidently showed a positive sign. The import value of all sectors decreased at a slower pace, compared to the first two quarters especially in semi-finished goods and raw materials, fuel and lubricant, and consumer goods. A sign of global economic recovery and improvement in domestic demand had increase demand for raw material and fuel import, in order to use for producing products in response to the increase in domestic and overseas demands. Furthermore, import of consumer goods has been improved due to more confidence of consumer's spending. Import price, however, declined by 4.5 percent as a result of falling in oil price. In term of Thai baht, import value and import price retreated by 28.1 and 4.2 percent respectively.

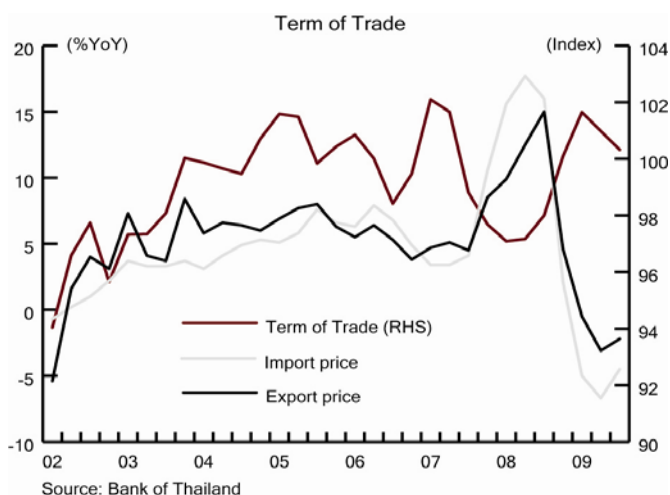
- Import of capital goods declined both in terms of volume and price.** Import value of capital goods decreased by 15.6 percent compared to the decrease of 24.1 percent in the previous quarter. This was supported by economic recovery and improvement in capacity utilization. Import goods that recorded a contraction were industrial machinery and components, electrical machinery and parts, computer and parts, scientific and medical equipments and other capital goods, etc. In addition, import volume and price dropped by 14.0 and 1.9 percent respectively.

- Semi-finished goods and raw materials: Import volume and price contracted but showed a positive sign.** Import value of semi-finished goods and raw materials dropped by 32.8 percent, improved when compared with the contraction of 44.1 and 39.3 percent in the first two quarters. This was a result of higher order

from external markets especially electrical products, providing increase in raw materials. Moreover, the improvement in domestic economy also caused higher domestic demand. Conversely, import of raw materials in some industries decreased immensely as followings: chemicals products, iron and steel, and fertilizer and pesticides. Import value of iron and steel declined substantially by 56.0 percent owing to the contraction of construction sector and the reduction of iron demand in automotive industry as well as massive inventories accumulation over last year. In the third quarter, import volume and price of semi-finished goods dropped by 30.4 and 3.30 percent respectively.



- Fuel and lubricant: Import volume and price contracted at lower rate than first half year.** Import value of fuel and lubricant dropped by 35.1 percent due to the reduction of import volume and price of 16.7 and 22.0 percent respectively, compared to the decline in import volume and price at 22.9 and 29.0 percent in the first half year. Import value declined at deceleration rate due to the recovery of economy, providing increase in demand for fuel and lubricant, together with the unusual low import of crude oil as a result of world oil price remained high in the third quarter of last year. In sum, import value of crude oil contracted by 38.4 percent, with increase in import volume of 13.8 percent and decrease in price of 45.9 percent. Moreover, Import value of refined petroleum products dropped by 8.7 percent.



- Consumer goods decreased both in term of volume and price.** Import value dropped by 4.5 percent less than average contraction by 11.8 percent in the first half of the year. This was resulted from improvement of household consumption expenditure according to increase in confident. Nevertheless, most of import goods that remained decline were household electrical appliances, miscellaneous goods, clothing and shoes, other garments, and watches and parts. In sum import volume and price of consumer goods declined by 3.3 and 1.2 percent consecutively.

For the first 9 months, import value in term of USD decreased by 32.6 percent with the decline in import volume and price of 28.9 and 5.4 percent consecutively. While in term of Thai baht, import value and price reduced by 29.2 and 0.3 percent respectively.

- Term of trade improved from the same period of previous year** as export price in USD term declined at a slower pace than import price therefore, asymmetric price reduction improved term of trade in the third quarter by 2.4 percent.

- ❑ **Trade balance recorded a surplus** of 5,118 million USD (which was equivalent to 173,501 million baht), higher than a surplus of 3,896 million USD (which was equivalent to 134,685 million baht) in the second quarter. The increase of trade surplus in this quarter was resulted from the faster pace expansion of export value than that of imports. For the first 9 months, trade balance registered a surplus of 16,815 million USD, which was equivalent to 583,619 million baht.

❑ **Production side**

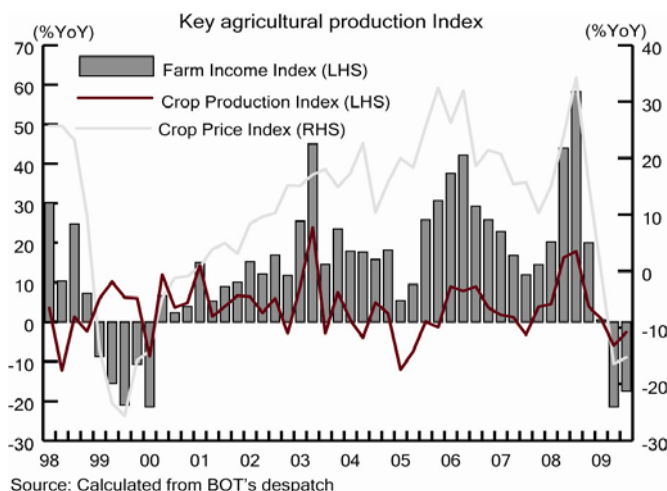
- **Agriculture sector** contracted by 2.5 percent due to the contraction of cassava and rubber production by 54.4% and 0.3% respectively. The spread of mealy bug adversely affected cassava production, while heavy rainfall and flood in many areas, especially in the southern region, caused lower production. On the other hand, maize production increased by 18.0 percent due to early harvesting in order to reduce moisture before entering the farmer income guarantee measure. Palm oil and paddy productions decreased at same rate of 8.7 percent, improved from the last quarter due to favorable climate, and early harvesting due to speculation of lower price in the advance market. Crop price fell by 15.3 percent, notably from the following crops: i) Rubber price declined by 37.7 percent. Nonetheless, sign of price improvement had revealed by rising of crude oil price and the recovery of automobile industry from People Republic of China's and Japan's economic stimulus package that inevitably increase demand of rubber. ii) Maize price declined by 36.0 percent due to excess supply in the market and iii) Paddy price declined by 19.5 percent from over supply in the market of second crop. Livestock price increased by 5.1% owing to i) higher swine price due to low level of supply in the market, and ii) an increase in chicken price from higher demand from export market. Meanwhile, price of fishery products declined by 0.8% but improved from previous quarter due to higher demand for export. The drop in both production and price lessened farm incomes by 17.5 percent in this quarter, but improved from the decline of 21.5 percent in previous quarter. In first nine months of 2009, agricultural production decreased by 0.1 percent.

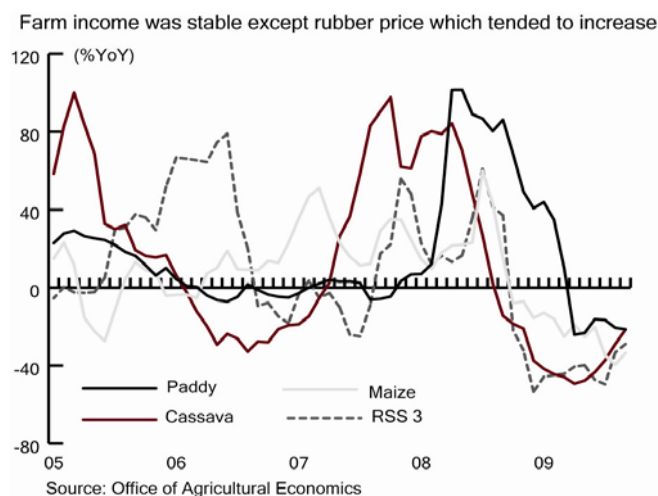
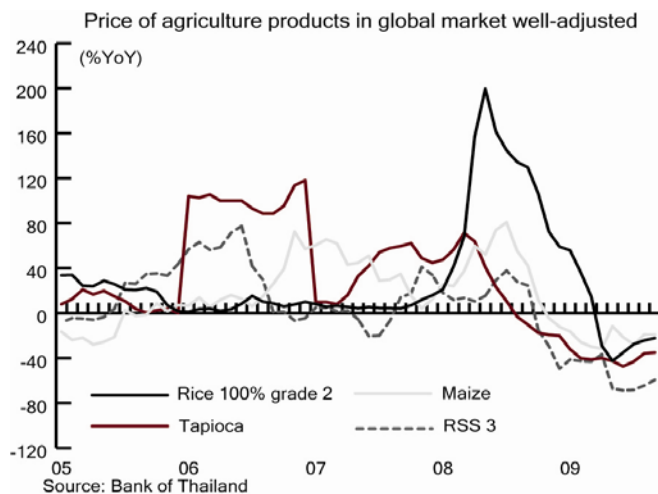
- **Manufacturing** contracted by 5.9 percent, improved from contraction of 8.7 percent in the last quarter. This sector gradually improved along with the improvement of export-oriented production which was expanded by 0.2 percent. It was the first positive expansion since the third quarter of 2008, due to global economic recovery. Demand for hard disk drive and electrical appliances export grew by 6.3 and 10.4 percent respectively, due to some plants had been closed in some countries. Export

Agricultural Production Index

	2008			2009							
	Year	H1	H2	H1	Q1	Q2	Q3	9M	Jul	Aug	Sep
Crop Production Index	9.0	9.3	8.7	-2.2	0.8	-6.0	-2.6	-2.3	-5.1	-2.7	-0.4
Crop Price Index	22.0	19.7	24.4	-9.1	-0.3	-16.4	-15.3	-11.2	-18.2	-14.8	-12.5
Farm Income Index	33.0	30.9	35.2	-11.1	0.5	-21.5	-17.5	-12.4	-22.4	-17.1	-12.8

Source: Bank of Thailand





to the Middle East countries was increased. In contrast, production for domestic market contracted by 9.3 percent, improved from contraction of 13.4 percent in the last quarter. Due to better economic situation caused by government's stimulus measures which brought back consumers' confidence. The improved industries were construction materials which were affected from government's stimulus toward real estate business, passenger cars and petroleum products. Nonetheless, some industries such as garment and textile, and leather continued to decline due to a slowdown and a lack of continuity in purchasing orders. This also caused the liquidity inadequacy of some small and medium size businesses and might lead to business shutdown. Production capacity utilization ratio was averaged at 62.4 percent, compared to 59.4 percent in the previous quarter and 68.0 percent in the same period of last year. This indicated that manufacturing sector started to increase their production to support the future economic expansion. Major industries that notably expanded their production capacity from previous quarter were pulp and paper products (82.4 percent from 77.6 percent), chemical products (94.7 percent from 87.2 percent), rubber and rubber products (51.0 percent from 45.9 percent), vehicles and equipments (58.5 percent from 45.9 percent), and electronic products (68.3 percent from 59.6 percent).

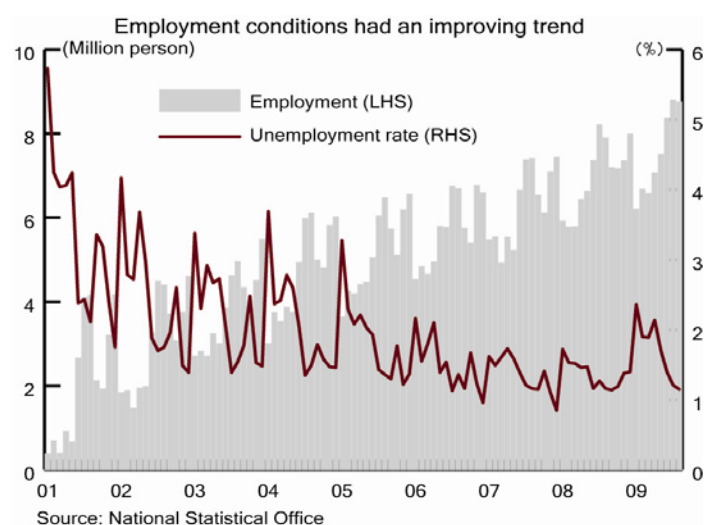
- Construction sector** grew by 1.8 percent, improved from 1.5 percent expansion in the previous quarter. The expansion was indicated by the increase in sales volume of construction materials such as steel and cement products which expanded by 17.8 and 2.9 percent respectively. Improvement in construction sector was mainly driven by public construction which grew by 9.5 percent from the economic stimulus package and the acceleration of government disbursement on construction. Private construction, which subdued by 6.3 percent, compared to 7.5 percent contraction in the previous quarter, also had a better situation according to a higher entrepreneur confidence from a mitigation of economic situation and eased political climate. It was responded to increasing housing construction particularly along mass transit routes and suburban areas to future demand. Furthermore, housing stocks was lessened after the implementation of government measures to stimulate real estate business. Construction materials price index declined by 18.0 percent from the same period of last year, due to the dropping prices of steel, concrete and cement products by 38.0, 8.7 and 1.2

percent respectively. Meanwhile, wood and wood products price index grew by 9.3 percent.

- Real estate sector** was steady from the previous quarter even though the economy tended to recover. However, there were some positive signs shown in this quarter such as 1) an increase in Housing Developer Sentiment Index (HDSI) reported by 55.8 point, increased from 48.1 point rated last quarter, 2) new housing projects, especially condominiums developed along mass transit routes (purple and red lines), extension from Thon Buri into Bangkok Metropolitan Area, and the airport link route merged with the city line and 3) an increase in numbers of low and medium income dwellings which were newly granted by Board of Investment (BOI).
- Financial sector**, expanded by 4.4 percent in the third quarter, slowed down from the previous quarter. This was partly due to 4.8 percent contraction in net interest revenue and dividend of all commercial bank which resulted from interest revenues contracted by 19.7 percent and the interest expenditures experienced a sharply dropped by 46.4 percent, due to 52.8 percent contraction in interest expenditure from deposit which indicated that deposit had declined. Source of fund for business and household shifted from commercial banks to other financial institutions. This caused total credit extended by other financial institutions expanded by 7.1 percent while the total credit extended by commercial banks expanded by 0.3 percent only. Credit extended to business sector from both the commercial banks and other financial institutions continuously contracted by 6.9 and 7.2 percent respectively. This showed that most of private sector did not have any investment expansion plan during this period. Meanwhile, the credit extended to household sector from both the commercial banks and other financial institutions expanded by 3.8 and 8.7 percent respectively due to the strengthened consumer confidence in household sector over an upward trend of domestic economy.
- Hotels and restaurants** contracted by 2.8 percent compared to the same period of last year. Nevertheless, the sector started to recover gradually from the following factors: i) the relief in concerns over the outbreak of influenza A (H1N1), ii) upward trend of domestic economy, and iii) improvement in political situation. These factors enabled to increase the confidence of foreign tourists traveling to Thailand. Numbers of inbound tourists in this quarter were

reported at 3.29 million persons, declined by 2.7 percent compared to the same period of last year, but improved from the previous quarter of which the tourist numbers fell by 16.5 percent. The improvement was attributed from i) the number of European tourists visiting Thailand expanded by 9.42 percent, and ii) the number of tourists from Asian countries such as China, Republic of Korea and Japan increased compared to the previous quarter. Average occupancy rate was at 46.85 percent, declined from 53.37 percent in previous quarter. However, in northeastern and southern regions, the occupancy rates were averaged at the similar rates of the same period last year according to provision of incentive measures for tourists especially the reduction of room rates. In the first 9 month of 2009, hotel and restaurant sector contracted by 5.2 percent, while numbers of tourist was reported at 9.90 million persons, declined by 12.07 percent compared to the same period last year.

- Employment** in the third quarter was at 38.30 million persons, increased by 1.41 percent compared to the same period last year. Employment in agricultural sector was at 15.46 million persons, declined by 0.90 percent while non-agriculture sector was at 22.83 million persons, expanded by 3.04 percent. This was contributed by the increase of employment in hotel and restaurant sector reported by 8.4 percent growth as well as manufacturing sector which rose by 1.48 percent; this was the first expansion since the second quarter of 2009. Number of unemployment persons in this quarter counted at 460,000 persons, declined by 3,330 persons from the same period last year or 0.73 percent decreasing. Therefore, the average unemployment rate was at 1.2 percent.

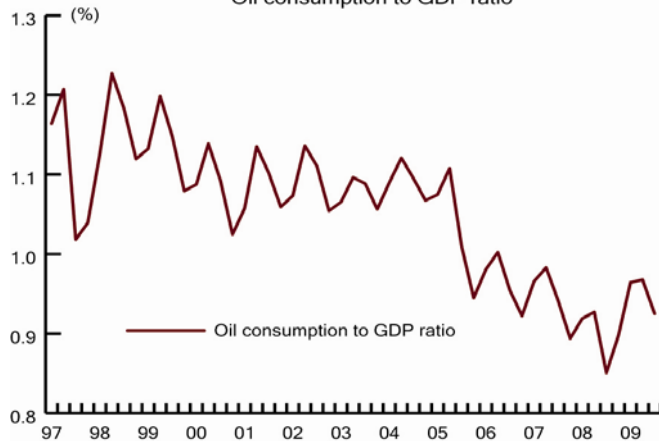


Employed Persons by Industry

(%YOY)	2008					2009			
	Year	Q1	Q2	Q3	Q4	H1	Q1	Q2	Q3
Employed	2.1	1.6	3.1	1.9	1.8	2.1	1.9	2.3	1.4
- Agricultural	2.7	0.4	3.6	3.7	2.9	1.6	0.8	2.5	-0.9
- Non-Agricultural	1.7	2.3	2.8	0.6	1.0	2.4	2.5	2.1	3.0
Industry	-3.0	0.4	-2.2	-6.5	-3.8	-4.2	-3.7	-3.2	1.5
Construction	3.3	0.5	2.0	3.8	6.9	4.3	3.4	5.6	0.4
Hotel and Restaurant	1.8	1.2	2.5	2.2	1.2	7.5	7.7	7.3	8.4
Unemployment Rate	1.4	1.6	1.4	1.2	1.3	1.9	2.1	1.8	1.2

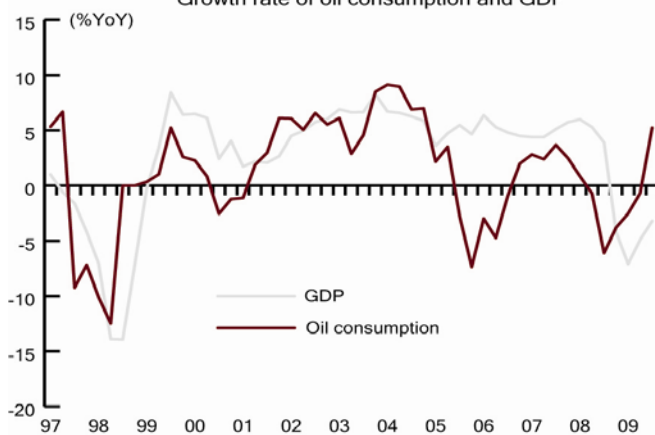
Source: National statistical office of Thailand

Oil consumption to GDP ratio



Source: NESDB, Ministry of Energy

Growth rate of oil consumption and GDP



Source: NESDB, Ministry of Energy

• **Stability improvement in labour market was improved** in the third quarter. The improvement was shown by i) a decrease in numbers of insured persons claimed for unemployment compensation which reported by 149,110 people, continually to decline from 247,780 and 175,680 people in the first and the second quarters respectively, (2) a lower in unemployment rate which lessened from 2.1 and 1.8 percent in the first and second quarters to 1.2 percent in the third quarter, and (3) a higher in opportunity to find new jobs which started to increase. Moreover, the ratio of vacant jobs to applicants was at 0.76 times at the end of September 2009 which was better than 0.71 time in the same period last year, and 0.36 times and 0.60 times at the end of March and June of 2009 respectively. This indicated an upward trend in employment situation.

□ **The overall energy efficiency improved from the last quarter.**

• **The ratio of oil consumption to GDP** in the third quarter of 2009 stood at 0.9249 percent, decreased from 0.9677 percent in the second quarter, but increased from 0.8507 percent in the third quarter of 2008. The higher ratio of petroleum usage to GDP indicated to un-changed of oil consumption behavior in both traveling and other activities. For the first 9 months, the ratio of oil consumption to GDP stood at 0.9522 percent increased from 0.8991 at the same period of last year.

• **Domestic consumption of petroleum products: Total energy consumption increased, especially alternative energy with experienced continuous growth.** In this quarter, gasohol usage grew by 24.7 percent, daily usage stood at 12.0 million litre (59 percent of gasoline consumption), declined from 12.4 million litre in the first half of 2009 due to increase in domestic petroleum price caused lower household demand especially for passenger car. However, others alternative energy consumption continued to grow. Bio-diesel (B5) increased by 107.9 percent, with average daily usage of 22.37 million litre compared to 22.43 million litre in the first half of 2009. Moreover, consumption of NGV for car grew by 62.7 percent and consumption of LPG slightly declined by 1.3 percent.

Consumption of traditional gasoline 95 and 91, and high speed diesel decreased by 10.4 and 21.0 percent respectively. Consumption of traditional fuels 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. For the first 9 months,

Petroleum Consumption

(%YOY)	2008				2009			
	Year	H1	Q3	Q4	Q1	Q2	Q3	9 month
Total consumption (million litre)	57,321	24,990	15,117	17,215	19,713	19,851	20,938	60,502
%YOY	49.68	37.17	58.21	63.60	66.36	51.07	38.51	50.86
Benzene	-2.95	-3.58	-7.27	2.67	7.34	8.87	7.73	7.98
Octane (91+95)	-33.11	-29.17	-40.14	-34.60	-28.44	-21.31	-10.41	-20.90
Gasohol	92.41	102.15	91.27	81.51	65.08	48.06	24.74	44.19
Diesel	-5.74	-2.15	-14.40	-4.78	-1.29	4.08	12.21	4.47
HSD+LSD	-23.28	-15.22	-33.92	-30.06	-31.48	-31.96	-20.98	-28.87
B5	502.41	693.64	498.98	384.62	240.20	154.81	107.91	154.67
LPG	16.57	19.24	27.13	1.79	0.71	1.77	-1.31	0.31
NGV	229.76	207.85	268.89	224.16	184.24	109.39	62.72	105.41

Source: Ministry of Energy

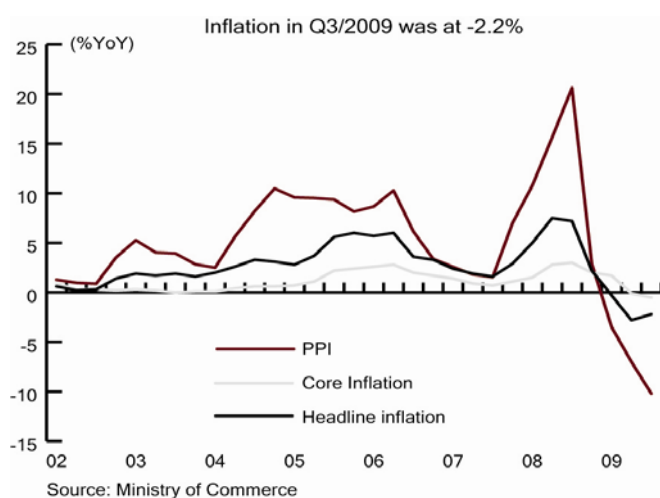
consumption of high speed and low speed diesel declined by 28.9 percent while consumption of bio-diesel (B5) grew by 154.7 percent. Consumption of traditional gasoline 95 and 91 decreased by 20.9 percent whereas consumption of gasohol increased by 44.2 percent. Moreover, consumption of LPG and NGV increased by 0.3 and 105.4 percent respectively.

□ Economic stability

• Domestic economic stability

- **Headline Inflation:** average headline inflation in the third quarter dropped by 2.2 percent compared to 2.8 percent decreased in the second quarter. The decline in the rate of inflation was attributed by (1) a sharply drop of oil and rice prices compared to the high level in to same period of last year (2) the implementation of “15 years free education program” which reduce the expenditure on education (3) lower demand in goods and services (excluding fresh foods and energy) that resulted in the contraction of core inflation by 0.5 percent, compared to contraction of 0.1 percent in the second quarter¹.

In the third quarter, food and beverage price index increased by 1.8 percent compared to 5.0 percent in the previous quarter. The deceleration was attributed by the decrease in price of rice, flour, cereal, seasoning and condiments, oil and fat. Furthermore, increase in price of vegetables and fruits by 1.8 percent compared to 8.8 percent in the second quarter. It was attributed from excess supply in the market due to favorable climate and high season of various fruit products. Non-food and beverages price index contracted by 5.3 percent compared to contraction of 8.2 percent in the previous quarter, resulted from (i) vehicles, transportation and communication price index declined by 12.4 percent (especially fuel oil price plunged by 15.5 percent) (ii) education price index fell by 10.2 percent due to 15 years free education program and (iii) household electricity and water supply price index slightly increased by 5.9 percent compared to 22.3 percent contraction in the previous quarter as a result of the deceleration in supportive electricity and water supply level by government. For the first 9 months of 2009, headline inflation dropped by 1.7 percent with 5.5 percent increased in foods and beverages and 6.9 percent decreased in non-foods and beverages.

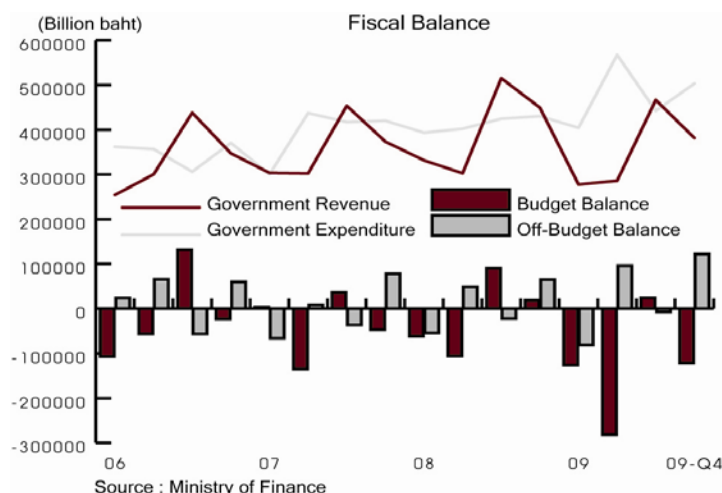


¹ In October 2009, Headline Inflation was at 0.4 percent and Core Inflation stood at -0.1 percent. For the first 10 months, Headline Inflation was at -1.5 percent while Core Inflation stood at 0.3 percent.

Producer price index in the third quarter continued to decline by 10.2 percent compared to a contraction of 7.0 percent in the previous quarter, owing to the declining price of mining, manufacturing and agricultural products by 12.4, 10.9 and 10.0 percent respectively. The decline in producer price index suggested that pressure on production cost was softening down. For the first 9 months, producer price index decreased by 7.0 percent².

• External stability

- Current Account in the third quarter registered a surplus of 3,713 million US Dollar which was equivalent to 125,891 million baht, higher than 2,778 million US Dollar which was equivalent to 96,167 million baht surplus in the second quarter. This was attributed by trade balance surplus of 5,118 million US Dollar and deficit of net service, income and transfer 1,406 million US Dollar due to an increase in repatriation of investment income which was higher than an increase in net foreign tourist income. For the first 9 months, current account recorded a surplus of 16,088 million US Dollar which was equivalent to 560,762 million baht.
- International reserve at the end of October 2009 stood at 135.26 billion US Dollar (excluding Net Forward Position of 15.28 billion US Dollar), higher than 123.45 billion US Dollar at the end of July 2009 (excluding Net Forward Position of 11.37 billion US Dollar), which was equivalent to 6.2 times of short-term foreign debt or 10.6 months of import .



- **Fiscal balance: In the last quarter of fiscal year 2009 (July-September 2009), budget balance has reverted back to deficit with a record of 121,607 million baht, compared to a surplus of 655 million baht in the same period of fiscal year 2008.** The total government revenue collection was at 381,555 million baht, declined by 7.8 percent from the same quarter of the FY 2008. The shortfall of revenue collection was attributed by reduction in value added tax (VAT), corporate income tax, and import duties revenue. On expenditure side, the total budget disbursement was at 503,162 million baht, increasing by 21.7 percent compared with the same period of the last fiscal year. Budget disbursement can be categorized into disbursement of FY 2009 budget of 482,536 million baht and carry-over budget disbursement of 20,626 million baht. Therefore, budget balance recorded a deficit of 121,607 million baht.

With surplus of non-budgetary balance of 122,068 million baht and an issuance of government bonds and treasury

² In December 2009, producer price index was at 2.6 percent and decreased by 6.1 percent for the first 10 months.

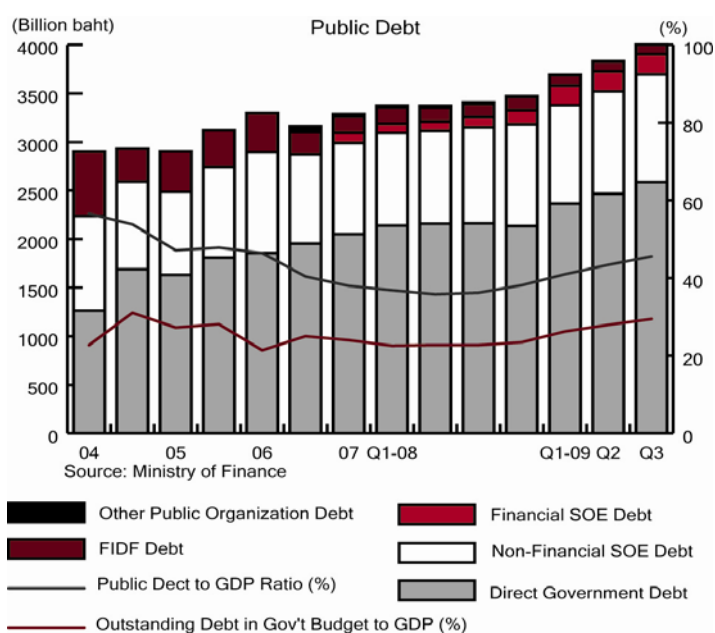
bills of 78,031 billion baht, cash balance registered a surplus of 78,492 million baht. The treasury reserves at the end of FY 2009 concluded at 293,835 million baht, increased from 229,060 million baht at the beginning of FY 2009.

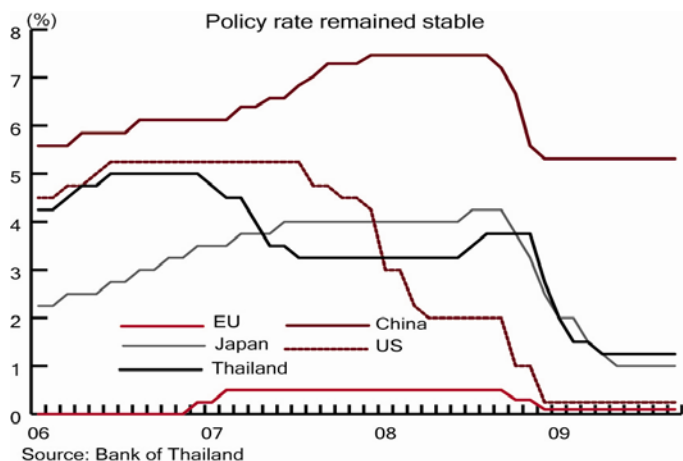
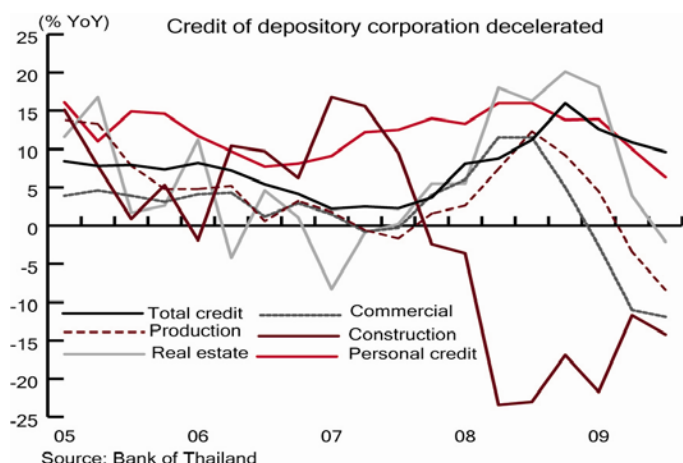
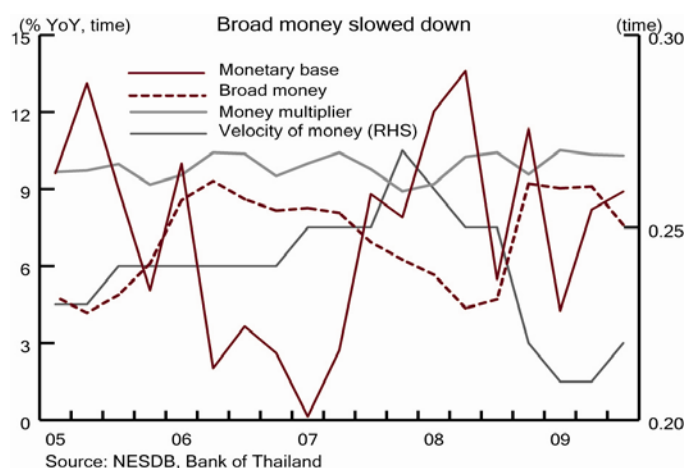
In fiscal year 2009 (October 2008 – September 2009), total government disbursement was at 1,790,865 million baht, which is equivalent to 91.8 percent of total annual budget of 1,957,700 million baht (including supplementary budget of 116,700 million baht). The disbursement of supplementary budget amounted to 94,777 million baht under major programs namely: “15 year free education” (19,009 million baht), “Income Support Measure to Low Income Earners” or “2,000 baht cash handout” (17,918 million baht), “6 months 5 measures” package (11,295 million baht), and replenishment treasury account (19,139 million baht). Budget disbursement can be categorized into disbursement of current budget of 1,507,894 million baht, equivalent to 95.9 percent of total current budget, and capital budget disbursement of 282,971 million baht, equivalent to 74.5 percent of total capital budget. However, the disbursement of capital budget of FY 2009 slowed down from FY 2008, with a record of 80.3 percent of the total capital budget.

The cabinet had approved public investment program worth 1,296,021 million baht to finance investment projects during 2009 – 2012 under Stimulated Package 2 (SP2) or “Thai Khem Khaeng 2555 Scheme”. At the end of September 2009, the disbursement of project under SP2 amounted to 14,500 million baht for recapitalization Specialized Financial Institutions (SFIs) under “Community Level Investment Sector” Program.

Public Debt at the end of September 2009 stood at 4,001,942 million baht, equivalent to 45.6 percent of GDP, increased from outstanding debts at the end of June 2009 which was at 43.6 percent of GDP. The increase in public debt was mainly due to increase in direct government borrowing from domestic market.

- **Financial Conditions:** Banks’ loans slowed down in the period of low policy rate regime. However, Commercial banks earning improved and SFIs’ loans accelerated on account of current government stimulus packages. Banks’ deposit continued to slow down. Corporate fundraising declined. Liquidity remained ample. Stock market condition improved while bond market index declined. Thai baht appreciated against US Dollar from previous quarter but depreciated from the same period of last year. Nominal effective exchange rate depreciated.





World Policy Rate

Country	2008				2009			Policy Rate Oct 09	Inflation Rate Sep 09
	Q1	Q2	Q3	Q4	Q1	Q2	Q3		
Thailand			0.50	1.00	1.25	0.25		1.25	0.38 (Oct 09)
U.S.	0.75	0.25		0.75				0.25	-1.29
Euro			0.25	1.75	1.00	0.25		1.00	-0.33
China			0.27	1.89				5.31	-0.80
Japan				0.40				0.10	-2.24
Taiwan	0.125	0.125	0.125	1.50	0.75			1.25	-1.84 (Oct 09)
Malaysia				0.25	1.25			2.00	-2.01

Source: collected by NESDB

• **Monetary base expanded at a faster pace, while broad money expanded at a slower pace.** At the end of the third quarter, monetary base expanded by 8.9 percent decelerated from 8.2 percent in the previous quarter following increased in net foreign assets. On the other hand, broad money expanded by 7.6 percent slowed down from 9.1 percent in the last quarter. Money multiplier remained stable at 10.3 percent. Compared to the previous quarter, velocity of money increased by 0.22 time from 0.21 time, this might be benefited from government economic stimulus measures.

• **Commercial banks' deposits slowed down.** At the end of the third quarter, commercial banks' deposits increased by 2.3 percent decelerated from 5.7 percent in the second quarter. This resulted from growing appetite for higher yield investment in the current low interest rate environment. However, saving account and small deposit account still increased at a faster pace.

• **Depository Corporations' loan decelerated, while SFIs' loan continued to accelerate.** Loan extended by Depository Corporation expanded at a slower pace, from 5.8 percent at the end of the second quarter to 4.7 percent at the end of the third quarter, owing to a stricter loan approval standard by commercial bank and the slowdown of credits demand from private sector, especially in manufacturing construction and wholesale & retail trade sector. On the other hand, loan extended to depository corporations sector remained ample. Household credits expanded by 8.7 percent. Specialized Financial Institutions' (SFI) loan, accounted for 22 percent of the total loan, expanded by 14.2 percent accelerated from 10.5 percent in the previous quarter, mainly attributed by the expansion of household loans by 9.7 percent. Continue expansion of SFIs' loan was largely resulted from current government stimulus packages that encourage loan expansion in SFIs. Credit card spending increased from the previous quarter due to better income prospects, while cash withdrawal still slowed down. Moreover, expansion of credit card outstanding continued to slowdown reflected improvement in repayment ability.

• **Excess liquidity in commercial banking system remained ample³.** Credits (excluding repurchase position with the central bank) to deposit (including bill of exchange) ratio increased to 86.6 percent from 85.8 percent in the previous quarter, reflect tighter liquidity position in the market. Meanwhile, excess liquidity in commercial banking system continued to increase, from

³ 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

1.1 billion baht at the end of the second quarter to 1.2 billion baht at the end of the third quarter. This was attributable from increased in net R/P position and government & bank of Thailand bond holding position.

- Policy rate kept unchanged.** At the end of the third quarter, the Monetary Policy Committee (MPC) decided to keep policy rate at 1.25 percent per annum. The decision was made upon current economic indicators which suggest that Thai economy will recover gradually and uncertainty in domestic demand still persist. Likewise, policy rate in major countries were kept unchanged. However, the Central Bank of Republic of Indonesia and Central Bank of Philippine lowered its policy rate to stimulate economic activities. Meanwhile, the momentum of global economic recovery and hike in inflationary pressure has pushed up policy rate in some countries like Australia and Norway.
- Commercial banks' deposit rate slightly declined, while lending rate remained stable.** At the end of the third quarter, an average 3-month and 12-month time deposit rates of the major four commercial banks slightly declined to 0.70 and 0.83 percent per annum respectively. Meanwhile, MLR lending rate was kept unchanged, at 5.86 percent per annum, as liquidity in the system remained ample. Real deposit and lending rate started to decline, from hike in inflation rate. The upward adjustment in inflation rate continued in October with record of 0.4 percent, first positive inflation rate since the beginning of 2009.
- The ratio of NPLs to credit outstanding declined.** NPLs in financial institutions (excluding BIF and credit fanciers) was at 2.94 percent of the total credit at the end of the third quarter, compared to 3.06 percent at the end of the previous quarter. The delinquency ratio slightly declined from 4.08 percent to 4.06 percent in the current quarter. Thus, attention by commercial banks is vital to curve down chances of loan delinquency turning into NPLs in the future.

Capital flow												
(Billion USD)	2007			2008					2009			
	H1	H2	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3 P	9 M
Net capital flow	-1.61	-0.80	-2.98	13.16	-3.13	0.69	1.64	12.82	-2.69	-3.45	1.75	-4.37
Government	-1.81	-0.42	-2.16	0.44	-0.28	-0.5	-0.16	-0.5	-0.16	-0.04	0.64	0.52
Bank	-6.66	5.54	0.37	6.12	-0.6	2.06	0.47	8.12	-2.17	0.18	4.16	2.16
FDI	5.55	4.65	7.52	2.26	1.81	2.52	1.47	9.81	1.34	1.09	1.22	3.65
Portfolio investment	2.19	-7.91	-4.04	2.13	-4.67	-2.60	5.18	-2.19	0.5	-3.86	-2.83	-6.18
- Equity	2.56	-0.47	2.3	0.24	-1.01	0.3	-0.47	-0.66	-0.01	-0.15	NA.	NA.
- Debt Securities	-0.37	-7.45	-6.34	1.89	-3.60	-2.90	5.65	-1.53	0.52	-3.72	NA.	NA.

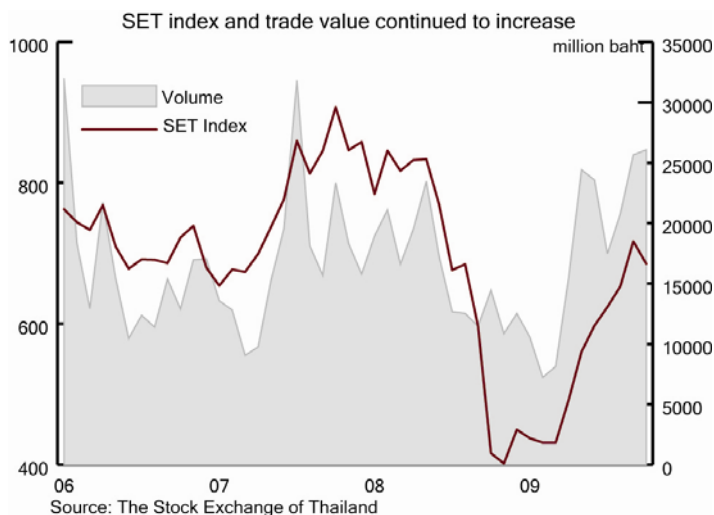
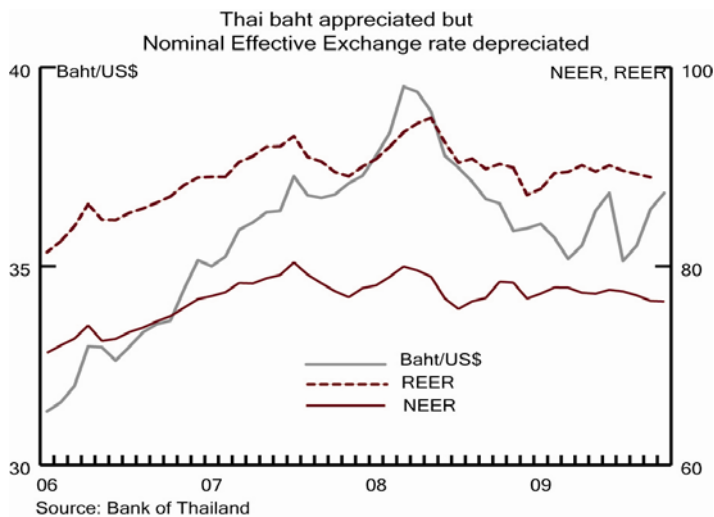
Source: Bank of Thailand

- Commercial banks earning improved.** Net profit of commercial banks was at 23.6 billion baht, increased from 18.5 billion baht in the second quarter. The improvement of earning was attributed by 1) increased in non-interest rate earning especially in fee & service and gain on foreign exchange and 2) declined in reserve requirement for bad debts as credit risk soften. Nevertheless, the reduction in interest rate revenue was less than the decline in interest rate expenses and thus net interest rate margin (NIM) increased to 3.04 percent

per annum. For the first 9 month of 2009, commercial banks recorded a total net profit of 61.5 billion baht.

- **Capital and financial account recorded net inflow⁴.** In the third quarter, capital and financial account recorded a net inflow of 1,745 million US Dollar, overturn net outflow of 3,454 million US Dollar in the previous quarter. The net inflow was mainly from banking sector, total of 4,158 million US Dollar to reduce risk of holding foreign assets. Meanwhile, portfolio investment sector continued to record net outflow of 2,825 million US Dollar, lower than 3,863 million US Dollar in the second quarter.

- **Thai baht continued to appreciate since the end of the first quarter, while nominal effective rate depreciated.** An average exchange rate in the third quarter of 2009 was at 33.91 baht per US Dollar, appreciated by 2.10 percent from the previous quarter but depreciated from the same period of last year by 0.24 percent. The sign of Thai baht appreciation has emerged at the end of the first quarter, in line with other regional currencies, due to the US Dollar depreciation 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) and real effective exchange rate (REER) declined by 0.50 and 0.73 percent respectively. In October, Thai baht continually appreciated to an average of 33.36 baht per US Dollar, and average exchange rate over September, 1-18 was at 33.28 baht per US Dollar.



- **SET index and trading volume continued to increase, resulted from weaker US Dollar.** At the end of the third quarter, SET index closed at 717.1 points increased by 20 points from the previous quarter. Net buy of foreign investor was recorded at 35.0 billion baht, accelerated from 25.8 billion baht in the second quarter. Daily average trading volume was at 21.3 billion baht in the third quarter, similar to the second quarter figure. Average daily trading volume for the first 9 month of 2009 was recorded at 17 billion baht. The movement of SET index was inline with regional market trends, providing growing investor confidences over economic recovery and greater risk appetite. **In October**, SET index dropped to 685.2 points with daily average trading volume of 26.1 billion baht, while foreign investor still recorded a net buy of 0.7 billion baht in line with the regional market except Chinese and Hong Kong market.

⁴ Capital and financial account figure at the end of 3rd quarter is preliminary data from Bank of Thailand, which is subjected to change.

• **Bond trading volume and index declined following increased in bond yields.** Daily average outright trading in the third quarter decreased to 53.6 billion baht, from 66.8 billion baht in the second quarter and 74.8 billion baht in the same period of last year. Meanwhile, foreign investors still recorded a net buy of 19.1 billion baht increased from 11.7 billion baht in the previous quarter. The increase in bond issuance by the government and the Bank of Thailand, to support current government stimulus packages and stabilize Thai baht, has pushed up government bond yield, especially for medium term maturity in the range of 18-38 basis points. The upward pressure from government bond yield has subdued government bond index to decline from 105.6 points in the second quarter to 103.7 points in the third quarter. **In October**, daily average outright trading volume was recorded at 54.5 billion baht, while foreign investors turned their position to net sale of 19.6 billion baht. Government bond yield in all maturity continued to increase from market expectation of further bond issuance by the government and Bank of Thailand.

• **Corporate fundraising decreased significantly from the same period of last year.** In the third quarter, private fundraising total at 250.8 billion baht, declined from 308.8 billion baht in the same period of last year. Fundraising through equity securities declined from 9.1 billion baht to 4.8 billion baht. Short-term debt securities issuance dropped from 265.7 billion baht to 157 billion baht, which reflect lesser demand for extra operating cash flow. In contrast, long-term debt securities issuance notably increased to 89.1 billion baht, from 34 billion baht in the previous year. The improvement in long-term debt securities issuance reflects better market confidences over economic recovery. The main player in the debt securities issuance were manufacturing, transport, storage & transportation, and hotel and restaurant sectors, while securities issuance by financial intermediate sector declined from high level of liquidity.

□ Trend of oil price

• **World crude oil price: declined from the same period of last year but continued its upward trend.** In this quarter, average world crude oil price (Dubai, Brent, Oman and WTI) was at 68.3 US Dollar per barrel, declined by 40.8 percent from the same period last year. The underlying reasons of such decline were due to the high base-effect of oil price in the third quarter of last year and a significant reduction in world oil demand as a result of economic recession.

Traading value of foreign investors

ณ วันสิ้นสุด (พันล้านบาท)	2007	2008					2009			
		Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	9 M
SET	55.02	-13.89	-36.07	-74.78	-37.23	-162.34	-5.55	25.75	35.03	55.23
BEX	-40.27	29.08	26.48	8.78	4.04	68.38	-1.95	11.69	19.06	28.8

Source: SET, ThaiBMA

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
	Q3	68.19	67.88	68.85	68.36	68.32
	Oct	73.19	73.01	73.93	75.82	73.99
	10 month	58.86	58.63	59.58	58.90	58.99
	1-10 Nov	77.60	77.33	77.53	79.09	77.89
	10 Nov	77.56	77.33	77.50	79.05	77.86

Source: Reuters

Retail Petro Price

(Baht/Liter)

Year		ULG95	UGR91	Gasohol			HSD	HSD B5
				95E10	95E20	91		
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
	Q3	39.51	34.37	31.68	28.45	29.97	27.32	25.29
	Oct	39.95	34.12	30.52	28.22	29.72	26.70	25.30
	10 month	36.99	30.57	26.96	24.62	25.88	24.14	21.96
	1-11 Nov	41.34	35.34	31.74	29.44	30.94	28.19	26.79
	11 Nov	41.34	35.34	31.74	29.44	30.94	28.19	26.79

Source: EPPO

Nevertheless, the world crude oil price has continually accelerated since the beginning of this year, from 44.3 US Dollar per barrel in the first quarter to 59.3 US Dollar in the second quarter, and to 68.3 US Dollar in the third quarter. The price continually grew up to 74.0 US Dollar per barrel in October and currently averaged at 77.9 US Dollar per barrel (1st – 10th of November). The upward trend was mainly attributed by the recovery of major economies including Asia, Europe and America which lead to higher oil demand as a result of more economic activities. In addition, the depreciation of US Dollar also played a significant role as it has induced investors to overweight their speculation in commodity markets.

- **Domestic retail petrol prices declined from the same period of last year.** In this quarter, domestic retail price of all petroleum products except Gasohol 95 (E10) was lower than those of last year. Retail price of gasoline 95 and 91 decreased by 0.5 and 9.3 percent while Gasohol 95 (E20) and Gasohol 91 declined by 5.3 and 1.9 percent respectively. High speed diesel and bio-diesel (B5) fell by 24.5 and 28.8 percent respectively. On the contrary, Gasohol 95 (E10) increased by 1.0 percent. In general, the contraction of domestic retail prices compared to the same period of last year was mainly due to the base-effect as a result of higher prices in last year.

However, the domestic retail prices have consistently appreciated from the beginning of this year due to the higher prices of world crude oil, the termination of “6 measures 6 months economic package”, the uplifting of excise tax in order to promote energy saving in February⁵ and the extension of excise tax ceiling from 5 baht to 10 baht per litre in May⁶.

⁵ On January 28th, 2009, the cabinet agreed to increase the excise tax on petrol in order to promote energy saving and the usage of alternative energy, decrease the dependency of crude oil import and stabilize fiscal and economic condition.

⁶ The government gazette was announced on May 13th, 2009 to raise the ceiling of petrol excise tax from 5 baht per litre to 10 baht litre.

1.3 World Economic Performance in Q3/2009 and the remaining of 2009

World Economic Growth

(%YoY)

	2008	2008			2009				2010
	Year	Year	Q3	Q4	Q1	Q2	Q3	Year*	Year*
World*	5.2	2.8	2.3	-0.2	-4.0	-2.5	-0.2	-1.1	3.0
U.S.	2.0	0.4	0.0	-1.9	-3.3	-3.8	-2.3	-2.6	2.0
Euro Zone	3.0	0.7	0.6	-1.5	-4.9	-4.6	-4.1	-4.2	0.7
UK	3.1	0.7	0.0	-1.0	-4.9	-5.6	-5.2	-4.4	1.1
Japan	2.4	-0.7	-0.3	-4.3	-8.7	-6.4	-4.5	-5.4	1.6
China	13.0	9.1	9.0	6.8	6.1	7.9	8.9	8.5	9.0
India	9.3	7.3	7.7	5.8	5.8	6.1	6.4*	5.7	7.0
South Korea	5.1	2.2	3.1	-3.4	-4.3	-2.5	0.6	-1.0	3.7
Taiwan	5.7	0.1	-1.0	-8.4	-10.2	-7.5	2.7*	-4.1	4.0
Hong Kong	6.4	2.6	1.7	-2.5	-7.8	-3.8	-2.4	-3.4	3.6
Singapore	7.7	1.1	0.0	-4.2	-10.1	-3.3	0.6	-3.0	4.7
Malaysia	6.3	4.6	4.7	0.1	-6.2	-3.9	-1.2	-3.2	3.5
Philippines	7.2	3.8	5.0	4.5	0.4	1.5	1.8*	1.3	3.4
Vietnam	8.2	6.3	6.5	5.6	3.1	3.9	5.8	4.6	6.0
Indonesia	6.3	6.1	6.9	5.6	4.4	4.0	4.2	4.2	5.1

Source: Public agencies

Remark * estimated by NESDB

The global economy has emerged from prolonged recession and started its path of recovery. However, the stimulus-led-recovery tends to slow down in the fourth quarter due to the expiration of key stimulation measures in major economies. Nevertheless, growth momentum from period earlier and the low base effects will facilitate the global economy to mark year-on-year expansion of 0.7-1.2 percent in the fourth quarter. Combined with a sharp contraction in the first half, the global output and trade volume are likely to contract by 1.1 percent and 12 percent in 2009 .

Financial condition in advanced economies gradually improved while real activities have emerged from recession. The economy of the US and Eurozone expanded for the first time from previous quarter. Japan marked its second consecutive quarter of q-o-q GDP expansion. Nevertheless, United Kingdom was mired in recession. Developing and emerging Asia recovered steadily, led by accelerated pace of recovery in China. Providing improvement in export markets, ASEAN and NIEs economies picked up from the second quarter and contributed to year-on-year GDP expansion in Singapore and Korea. Other Asian countries have improved gradually .

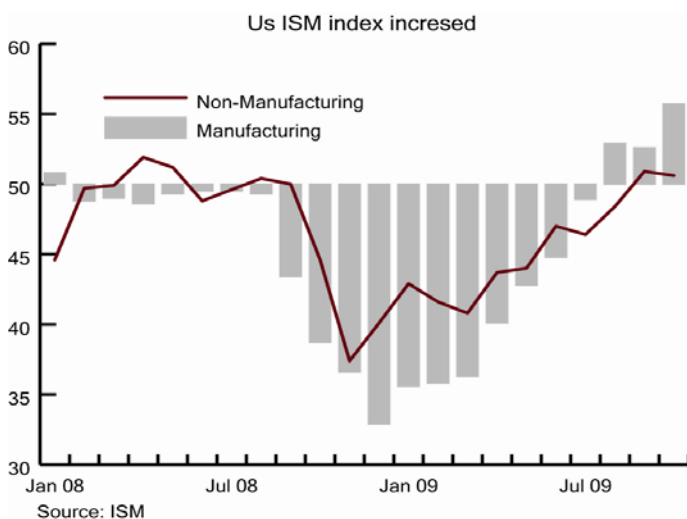
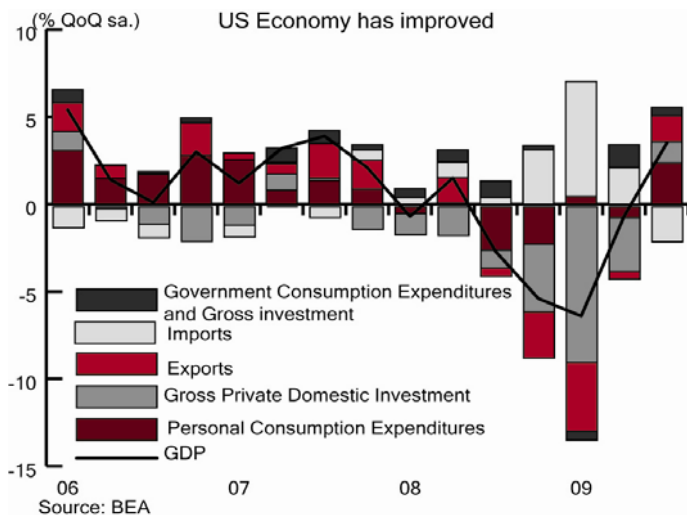
The improvement of economic condition in advanced economies was stemmed from financial and fiscal stimulus measures, in particular temporary automotive industry stimulation. Combined with inventory rebuilding, manufacturing production in advanced economies started to expand. ISM index in the US and PMI in other advanced economies crossed into expansion zone. Job losses declined and, business and consumer confidences improved as well as stock market climbed up and contributed to the expansion of household consumption, in particular durable good consumption that are directly benefit from stimulation measures. Meanwhile, massive credit extension and investment stimulation accelerated the pace of Chinese economic expansion and supported regional recovery to emerge from recession .

In the remaining of 2009, major countries are likely to continue their path of economic recovery. However, the pace of expansion from period earlier tends to slow down as temporary effects of stimulation measures start fading, particularly “cash for clunkers” program in the US and Eurozone that drove consumption growth and production growth to positive territory in the third quarter. Similarly, the pace of credit extension in China tends to slow down as concerns over its impacts on economic stability are rising. With the broader base of economic expansion and low base

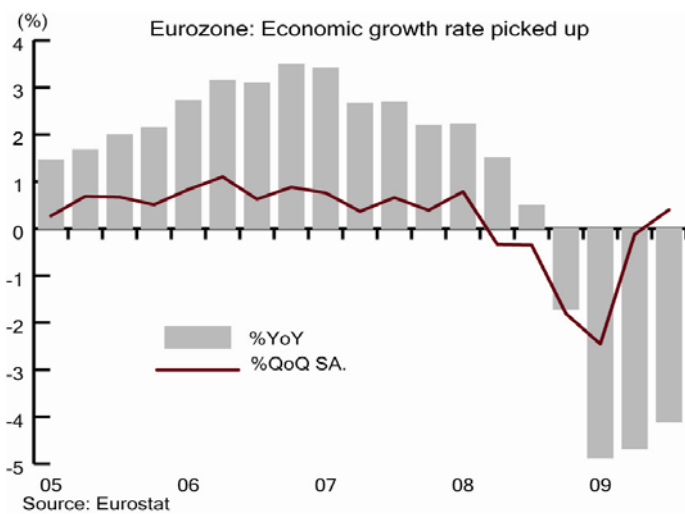
effect, however, the major advanced and developing economies are likely to show year on year GDP expansion which will result in the global economic expansion of around 0.7 – 1.2 percent in the fourth quarter. Combined with strong contraction in the first half, the global economy and trade volume in 2009 are likely to contract by 1.1 and 11.9 percent respectively, compare to the expansion of 2.8 percent and 3.0 percent in 2009. The economic condition in the third quarter and outlook for the remaining of 2009 are as follows:

- **US economy** in the third quarter grew by 3.5 percent (qoq seasonally adjusted) which was the first-time growth since the second quarter of 2008. On yearly basis, the US economy contracted by 2.3 percent, compare to a contraction of 3.8 percent in the previous quarter. This improvement in economic condition was attributable to the economic stimulus measures. On quarterly basis, household consumption expenditure increased by 3.4 percent particularly durable goods consumption, which was directly benefit from government stimulation, grew by 22.3 percent. Gross private domestic investment expanded by 11.5 percent whereas real estate investment, which was benefit from the tax credit for first-time home buyers, grew by 23.4 percent consistence with the improvement in housing market indicators such as existing home sales, house price, new home sales and building permit. However, non-real estate investment continued to contract but at a slower pace of 2.5 percent compared to a contraction of 9.6 percent in the previous quarter. On production side, the economic stimulus measures drove manufacturing ISM from 44.8 in June to 52.6 in September and non-manufacturing ISM from 47.0 to 50.9 over the same period. The manufacturing production index indicated that the improvement of economic condition remained concentrate in the sectors which were able to get benefit from the government stimulation. Unemployment rate declined from 9.5 percent in June to 9.4 percent in July but rose back up to 9.8 percent in September after the expiration of “Cash for Clunkers Program” in August. Meanwhile, the US dollar depreciated against other major currencies. Together with weak domestic demand condition, trade balance deficit declined from 240 billion US dollar in the first eight months of 2009 (seasonal adjusted), compare to a deficit of 490 billion US dollar in the same period of last year .

In the last quarter of 2009, the US economy is expected to recover from period earlier. However, the pace of recovery tends to slow down because of the expiration of key government measures that supported growth in the third quarter⁷. This corresponded to recent economic indicators



⁷ The US Cash for Clunkers Program ended by November 1, 2009, while the tax credit program for the first-time home buyers will end by April 30, 2010.



such as the rise of unemployment rate to 10.2 percent in October, and the decrease of ISM non-manufacturing index from 50.9 in September to 50.6 in October, although ISM manufacturing index continued to increase from 52.6 in June to 55.7 over the same period. The fact that the recovery was more evenly spread has enabled the recovery to keep its momentum through the fourth quarters, although the rate of growth from previous quarter tends to slow down. Meanwhile, the inflationary pressure remained low as inflation rate in September was at -1.3 percent (yoy). Under such circumstance, the Fed is expected to maintain its policy rate at the low level of 0-0.25 percent as well as its quantitative easing policy. In conclusion, the US economy is expected to shrink by 2.6 percent in 2009.

- **The Eurozone economy: On yearly basis, the Eurozone economy** contracted by 4.1 percent, slower than a contraction of 4.8 percent in the second quarter. On quarterly basis, the economy recovered by 0.4 percent compare to a contraction of 0.1 percent in the second quarter, led by the modest recovery in Germany and France due to the considerable economic measures that stimulated industrial production to expand in the third quarter. However, Spain, Ireland and Netherland remained in recession due to unfavorable financial condition, export dependence economic structure, and unfavorable labor market condition. On production side, the recovery of Eurozone economy was dominated by the improvement in industrial and construction sectors, particularly the expansion of industrial production that was driven by "Cash for Clunkers" programs as indicated by the increase of Germany and France's manufacturing PMI index from 52.2 and 47.0 in July to 52.4 and 54.8 in September respectively. Nevertheless manufacturing PMI index in other member countries has yet pointed to economic recovery as Eurozone manufacturing PMI index in September stood at 49.3 compare to 42.6 in June. On demand side, government stimulus measures had improved domestic demand especially household consumption that contracted at a slower pace than the same period of last year. Retail sales index and car sales in Germany and France continually increased and substantially supported economic recovery in the third quarter while inflation rate in October was at -0.1 percent, compared to -0.3 percent in September. Economic Sentiment Index (ESI) continued to increase in the third quarter, which was at 82.8 in September compare to 75 in July. However, unemployment rate remained high and continued to increase from 8.6 percent in June to 8.9 percent in September .

In the last quarter of 2009, Eurozone economy is expected to expand gradually from a previous quarter. The supporting factors for economic improvement are (i) the improvement of

industrial sector, (ii) the better economic prospects in US and Japan which are the major trading partners, and (iii) the improvement of economic confidence. However, the momentum of economic recovery remained weak due to the expiration of key stimulus measures, particularly the "Cash for Clunkers" program which will be expired in August for Germany and in December for France. By that result, Germany manufacturing PMI index declined from 52.4 in September to 52.3 in October. Nevertheless, the widespread economic recovery, as indicated by the increase of Euro composite PMI index to higher than 50 in October, will be the key factors to support the economic expansion in the fourth quarter. In conclusion, Eurozone economy is expected to decline by 4.2 percent for the whole 2009.

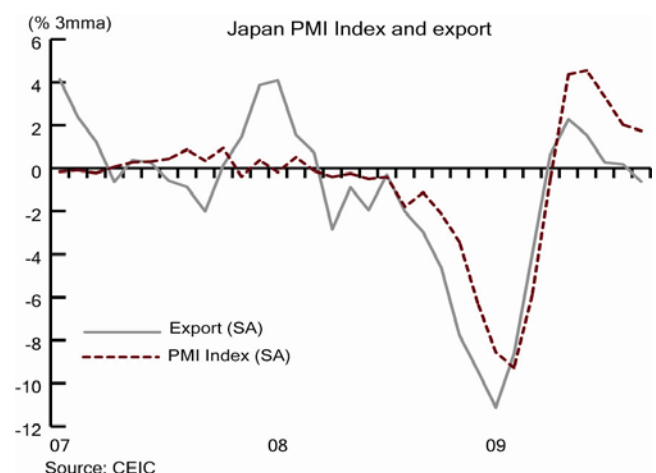
- **United Kingdom:** On yearly basis, the UK economy contracted at a slower pace by 5.2 percent in the third quarter, compared to a contraction of 5.5 percent in the second quarter. On a quarterly basis, the economy contracted by 0.4 percent, compared to 0.6 percent in the previous quarter. This was the longest five-quarter consecutive contraction since 1955. The contraction coincided with the manufacturing PMI index which was still below 50 throughout the quarter, although it increased from 47.4 in June to 49.9 in September. On the contrary, the unemployment rate during the third quarter slightly dropped by 0.1 percentage point to 7.8 percent. Nevertheless, uncertainty in financial sector⁸ remains an obstacle for real sector to fully recover. While, domestic demand had recovered with expansion of 2.4 percent in retail sales index compared to the same period last year. In addition, housing market situation is expected to improve.

In the fourth quarter, UK economy tends to increasingly stabilized. This can be explained by a rise of manufacturing PMI index which increased to 53.7 from 49.9 in September, the highest level in 2 years. This was a sign of manufacturing production expansion. Additionally, service PMI index reached its highest level in 26 months at 56.9 in October (increased from 55.3 in September). Moreover, consumer confidence index has picked up continually for 9 months indicating an improvement in confidence over UK economic condition. Nevertheless, the UK economic condition is expected to recover at a slower pace than the US and Eurozone economies. Therefore, the Bank of England is likely to continue easing their monetary policy to cope with unresolved financial crisis. Bank of England had announced that they will

extend size of quantitative easing policy from 175 billion pounds⁹ to 200 billion pounds. Together with maintaining rate un-changed at 0.5 percent. For the whole year of 2009, the UK economy is forecasted to contract by 4.4 percent

- **Japanese economy** contracted by 4.5 percent on the yearly basis, improved from a decline of 7.0 percent in the second quarter. However, on a quarterly basis, the Japanese economy grew by 1.2 percent compared to an expansion of 0.6 percent in the previous quarter. The improvement in Japanese economy was supported by an expansion of government expenditures and an increase in export as US and Eurozone economy started to recover and Chinese economy continued to accelerate. The export, on a quarterly basis, in the third quarter expanded by 12.9 percent compared to the last quarter, which continually rose from a 14.5 percent increase in the previous quarter. The increase in export was mainly attributed to a strong recovery in manufacturing production. In September manufacturing production index (seasonal adjusted) increased by 1.4 percent compared to period earlier and was a seventh successive improvement, while manufacturing PMI index picked up from 48.2 in June to 54.5 in September, a highest level in three years. Nevertheless, the recovery of economy remained fragile since domestic consumption, which accounts for 55 percent of total GDP, continued to fall. This was supported by a decline in retail sales index in September which contracted by 1.3 percent compared to the same period of last year, a thirteen-month consecutive contraction. The reduction in household consumption was attributed to a rise in unemployment rate at 5.4 percent in the third quarter compared to 5.2 percent in the second quarter.

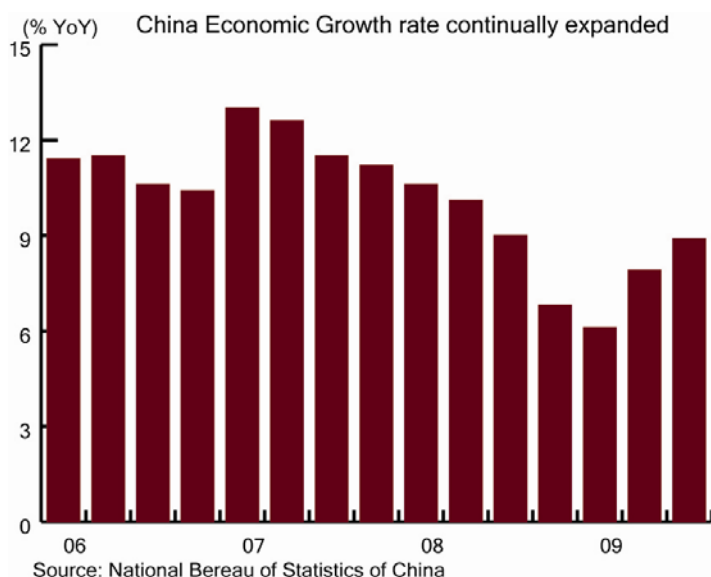
In the fourth quarter, Japanese economy is projected to improve from previous quarter. The improvement is supported by economic recovery in major export counterpart countries, particularly US, Eurozone and China. In



⁸ Bank of England continued its Quantitative Easing program. For example, Royal Bank of Scotland (RBS) and Lloyds Banking Group had recently received 31.3 billion pounds. Besides, both banks will cut the expenses by reducing their branches.

⁹ As of 5th November 2009.

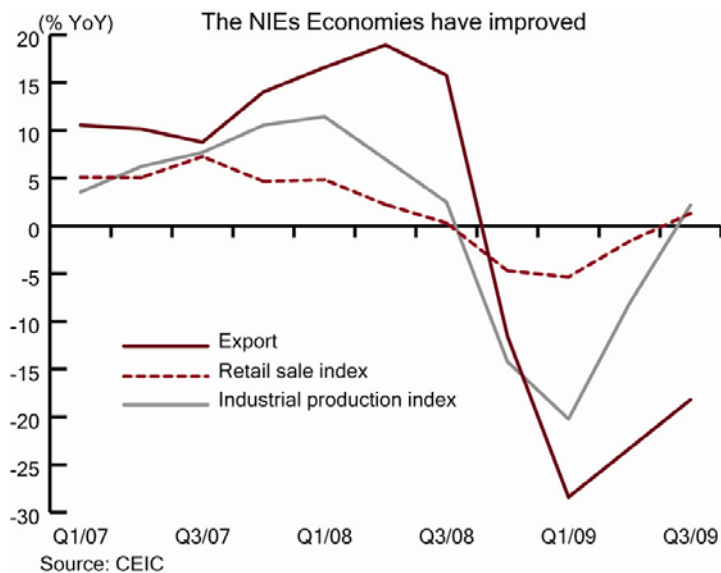
addition, improvement in other Asian economies will also play a vital role in Japanese economic expansion. Even though, production and export is expected to improve when compare to the third quarter but industrial production index in September remained low, contracted by 18.9 percent from previous year. Furthermore, household consumption remains fragile resulting from a rising unemployment. Together with deflationary pressures in Japanese economy, the monetary policy direction will remain unchanged. For the whole year of 2009, Japanese economy is likely to contract by approximately 5.4 percent.



- **Chinese economy** expanded by 8.9 percent in the third quarter, continued to accelerate from 6.1 and 7.9 percent expansion in the first and second quarter respectively. Domestic demand, the key growth driver of Chinese economy, continued to expand robustly providing spillover from government stimulus package of 4 trillion RMB (586 billion US DOLLAR) which concentrated primarily on infrastructure investment projects as well as credit extension by government banks. Hence, in the third quarter, new loans extended was amount to 1.3 trillion RMB resulting in total new loans of 8.7 trillion RMB in the first 9 months which is equivalent to 29 percent of nominal GDP in 2008 compared to 4.17 trillion RMB in 2008. Additionally, fixed assets Investment increased by 33.4 percent in the third quarter, close to a 33.5 percent in the second quarter. Similarly, domestic consumption remained strong, with retail sales index expansion of 15.4 and 15.5 percent in August and September respectively. On a quarter-on-quarter basis, export values expanded by 17.7 percent, compared to a 30.7 percent contraction in the first quarter. Alongside with the improvement of domestic demand and export, PMI manufacturing picked up from 53.2 in June to 54.3 in September .

The Chinese economy will remain strong throughout the fourth quarter. Nevertheless, the government has expressed concern over the acceleration of new loans extension. Thus, the Chinese government begun to limit the amount of new loans extended in some production sectors. Meanwhile, the upward inflationary pressure continued to grow sharply from foreign capital inflow and rising oil price. In conclusion, Chinese economy is projected to grow by approximately 8.5 percent in 2009 .

- **NIEs Economies** improved resulted from their own economic stimulating policies and the recovery of major export-counterparts particularly China. In the third quarter of 2009, South Korean and Singaporean economies expanded from the same period last year by 0.6 percent and 0.6 percent respectively, compared to a 2.2 and 3.3 percent of contraction in the second quarter. These were the first yearly



basis expansion, after the economies contracted for three consecutive quarters. Furthermore, Hong Kong economy contracted by 2.4 percent improved from 3.8 percent contraction in the last quarter. While, Taiwanese economy was estimated to drop by 2.7 percent compare with 7.5 percent contraction in the second quarter. Additionally, the expansion of NIEs economies were the result of the recovery in industrial sector, especially export industry. The NIEs' industrial production index increased by 2.2 percent compared to 8.1 percent decline in the previous quarter. On the demand side, the recovery of exports and private consumption had contributed to a NIEs economic expansion. On quarterly basis, exports continued to grow from 18.8 percent to 9.2 percent expansion in the third quarter. Meanwhile, retail sales index expanded, for the first time over a year, by 1.3 percent (yearly basis), compare to a 1.6 percent contraction in the second quarter.

In the last quarter of 2009, NIEs economies are expected to grow due to an improvement in production sector, exports and households' demand. An expectation of continue expansion together with the low-base effect in the fourth quarter of last year would essentially boost economic growth of every NIEs countries to be in a positive zone. For the whole year of 2009, the economy of South Korea, Singapore, Hong Kong and Taiwan are likely to contract by 1.0, 3.0, 3.4 percent and 4.1 percent respectively .



□ **ASEAN Economy** in the third quarter improved from the first half. Thus, in third quarter, Vietnamese economy expanded by 5.8 percent compare with 3.9 percent in the second quarter and Indonesian economy grew by 4.2 percent compare with 4.0 percent in the previous quarter. Nevertheless, Malaysian economy continued to drop by 1.2 percent but better than 3.9 percent in the previous quarter. Meanwhile, Philippines' economy is expected to grow by 1.8 percent resemble to 1.5 percent expansion in the second quarter, resulted from the severe damage in agricultural sector by typhoon. The ASEAN economic enhancement was mainly attributable to the recovery in major economies. Therefore, the export of ASEAN countries¹⁰ in the third quarter was declined at a slower rate by 22.9 percent compare with 26.5 percent and 28.2 percent in the first quarter and the second quarter respectively.

For the remaining of 2009, the signs of economic recovery were expected to be more concrete. However, the inflationary pressure has a tendency to accelerate. In conclusion, for the whole year of 2009, Malaysian economy is likely to decline by 3.2 percent. While, Vietnamese, Indonesian and the Philippines' economies are projected to expand by 4.6, 4.2 and 1.3 percent respectively .

¹⁰ The sum of Malaysian, the Philippines', Indonesian and Vietnamese exports in US DOLLAR term

2. Economic outlook in Q4 and the whole year of 2009

2.1 The Thai economy is likely to continue its path of recovery, providing improving global economic condition, the progress of government stimulation measures, and economic momentum generated by improving production and labor market condition in the third quarter. Together with low base effect, the Thai economy in the fourth quarter is likely to expand on a yearly basis, after four quarters of consecutive contraction.

Economic factor and condition in the last quarter of 2009

□ **Supporting factors for economic expansion in Q4 are including:**

- (1) The recovery of export and tourism sector. The improving global economic condition and the improvement of domestic political condition are likely to facilitate the recovery of export and tourism sector in the fourth quarter of 2009.¹¹
- (2) Improving private demand condition in tandem with income base expansion that are generated by better employment condition, higher agricultural prices, farmers' income guarantee scheme and improving economic sentiments.
- (3) The implementation of investment projects under the second stimulus package (SP2) that will raise government demand in the last quarter.
- (4) Favorable liquidity condition in economic system due to the expansion of government expenditure, expansionary monetary implementation, capital injection to Specialized Financial Institutions, liquidity management and soft-loans extension to SMEs. This favorable liquidity condition will facilitate the recovery of business and household spending.

□ **Risk factors/limitations**

- (1) The continuation of enabling factors for the recovery of tourism sector, improvement of economic sentiments and the implementation of

government stimulation. The improvement of domestic political condition after the worsening political unrests in April 2009 has facilitated the recovery of tourism sector, the revival of economic sentiments and the continuation of government policy implementation. Nevertheless, political demonstration tends to escalate in the fourth quarter and relates to conflict with neighboring country. This unfavorable condition could develop further and impede the process of economic recovery through its detrimental effect on the recovery of business sentiments, tourism sector and effectiveness of government stimulation measures.

- (2) Oil price fluctuation with its upward trend due to US currency depreciation and speculative oil demand in the presence of global economic recovery. This situation could drive oil price to increase at a faster pace than the recovery of economic activity and restrain the pace of economic recovery in the fourth quarter, in particular its negative effect on production costs and household consumption.
- (3) The resurgence of A (H1N1) pandemic that could be more severe in the winter. The reported numbers of A (H1N1) cases has increased in various countries and potentially jeopardize global tourism industry. This situation could develop further to restrain the recovery of tourism sector and activity and domestic household spending.
- (4) Thai baht currency appreciation due to broad base US dollar depreciation against other major currencies.

2.2 Economic Projection for 2009

Thai economy is forecasted to contract by 3.0 percent with -0.9 percent headline inflation and current account surplus of 8.8 percent to GDP.

In the press release on the 24th August 2009, Office of the National Economic and Social Development Board (NESDB) projected (-3.5) - (-3.0) percent real GDP growth, (-1.0) - (-0.5) percent headline inflation and current account surplus of 5.6 percent to GDP.

In the press release on 23rd November 2009, NESDB pinned down projection range to 3 percent GDP contraction, -0.9 percent headline inflation and current

¹¹ At the early stage of recovery in major industrial economies, demand was concentrated in durable goods and, then, spread outward to other goods in accordance with stronger recovery signs. Similarly, recovery in Asian economy was led by government expenditures while the benefit was only limited to export sector especially in automobile and mechanical parts industries. Furthermore, the recovery in other sectors tends to improve following the recovery in private sector demand.

account surplus of 8.8 percent to GDP. The underlined reasons for this revision are as follows:

- (1) The global economy in 2009 is projected to contract by only 1.1 in contrast with a contraction in the range of 1.3 -1.8 percent employed in previous projection assumption. This better-than-expected global economic condition reduced the possibility of the Thai economy to contract at a faster pace than 3 percent. Therefore the projection for export is revised upward slightly from a contraction of 13.6 percent in previous projection to 13.2 percent, and the number of foreign tourists is revised upward from 13.2 million persons in previous projection to 13.7 million persons.
- (2) Household spending recover at a slower pace than previously forecast, due to the spread of A (H1N1) pandemic at the beginning of third quarter and the lingering effects from political unrest in April that impeded the effectiveness of government stimulus measures. Therefore, the forecast for private consumption is revised downward from a contraction of 0.8 percent in previous projection on 24th August 2009, to a contraction of 1.2 percent.
- (3) Import volume is forecasted to contract by 22.8 percent compare to a contraction of 20.3 percent in the previous projection. This revision reflects the slower-than-expected recovery in household consumption but it impacts on imports was merely offset by stronger-than-expected expansion in export.
- (4) Trade balance is forecasted to register a surplus of 21.8 billion US dollar. Combined with a surplus in service account, current account is projected to register a surplus of 22.3 billion US dollar which is equivalent to 8.8 percent of GDP. The upward revision of current account surplus is mainly attributable to an upward revision of export.

3. Economic projection for 2010

3.1 The world economic outlook for 2010

The world economy is likely to grow by 2.8 – 3.2 percent, significantly improve from a contraction of 1.1 percent in 2009, but remains well below than an average growth pace of 4.6 percent in 2002 – 2007. The pressure for US dollar depreciation remains persist while inflation pressure and interest rate trend upward. Global trade volume recovers sluggishly by 2.5 percent, slower than an average rate of 7.3 percent in 2002-2007 and remains well below than global GDP expansion.

The world economy is likely to grow by 2.8 – 3.2 percent. This pace of global expansion represents significant improvement from 1.1 percent contraction but remains well below than an average growth rate of 4.6 percent in 2002 – 2007. Providing strong macro and financial fundamentals as well as the broader base economic expansion in the latter half of 2009, emerging and developing Asia likely to grow by 5.5 percent and lead the global recovery. Advanced economies tend to grow sluggishly by 1.5 percent as consumers in the US and other crisis-origin countries retrench while labor and credit markets remain impaired. With the subdued economic expansion in major advanced economies, world trade volume likely to grow sluggishly by 2.5 percent, below than an average rate of 7.3 percent in 2002-2007, but significantly improve from a contraction of 12 percent in 2009.

However, the momentum of global economic recovery remains fragile and depends largely on timing and sequencing of exit strategy from policy stimulation. In the baseline assumption, with the large output gap, advanced economies tend to maintain their monetary policy accommodation in the first half of 2010, and turn to policy tightening at a staggered pace in the latter half of the year, at the earliest, to address inflation expectation.

Against this background, the underlying factors for US dollar depreciation will be dragged well into 2010. Together with improving global economic condition and the coordinated aggressive monetary policy accommodation during the crisis, commodity prices trend upward and pressures on capital flow to emerging and developing countries are heightened. This situation will eventually temper pressures of inflation and currency appreciation in those emerging and developing countries with strong growth and fast recovery in the second half of 2009, and likely to force some central banks to opt for

monetary policy tightening in the first half of the year 2010¹². World market interest rate tends to pick up, in response to global monetary policy tightening, increasing public financial need to finance budget deficit and growing private financial demand in the presence of economic recovery.

□ Major countries economic trend in 2010

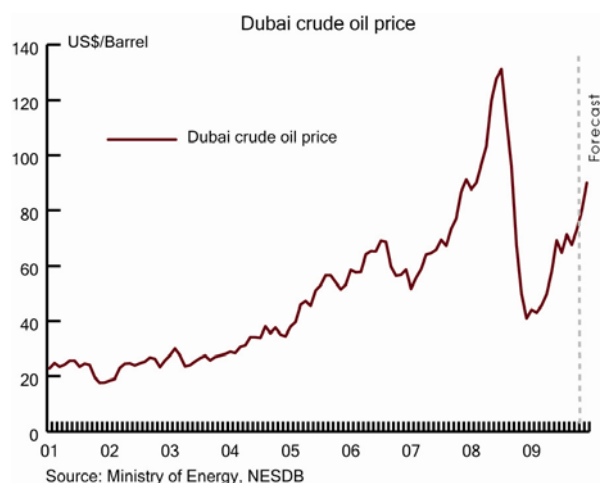
- (1) The US economy is likely to grow by 2.0 percent, recover from a contraction of 2.6 percent in 2009 but remains well below than its average growth rate of 2.8 percent in 2002-2007. The pace of recovery is expected to be sluggish due to (i) the expiration of key stimulation measures (ii) consumer retrench and lacking of strong wealth effect to support consumption demand (iii) high and rising employment (iv) gluts in production capacity and housing market (v) impaired financial and credit condition. With the sluggish pace of economic recovery, labor market is likely to deteriorate further and employment is expected to reach its peak at around 11-12 percent in the first half of 2010. Providing impaired labor and financial markets that vulnerable to private consumption and output gap that limit inflation pressure, the Fed is likely to maintain monetary policy¹³ accommodation, at least in the first half of 2010. Together with unprecedented Fed's balance sheet expansion in 2008-2009, the continued monetary policy expansion will provide impetus for further broad-base US dollar depreciation against major currencies which will eventually temper inflation expectation. Therefore, the Fed is expected to employ timely exit strategy, including policy rate hike, which is likely to take place at the end of third quarter or in the fourth quarter to suppress inflation expectation. Against this background, the yearly average headline inflation is expected to be at around 0.5 percent compare to -1.2 percent in 2009. Current account deficit is expected to decline due to tepid domestic demand and currency depreciation.
- (2) The Eurozone economy is expected to expand by 0.7 percent, recover from a contraction of 4.2 percent in 2009, and an average expansion of 1.8 percent in 2002-2007. The pace of recovery is likely to be slow, led by modest expansion in

Germany and France of 1.2 and 1.0 percent respectively. Spain and Italy are likely to be mired in recession. This asymmetric economic cycle among member countries will drive unemployment rate to increase further in the first half of 2010 and the pace of economic recovery is likely to be sluggish. In addition, with the slower pace balance sheet expansion during the crisis, inflationary pressure is expected to be lower than in the US. Together with pressure on currency appreciation, the ECB is unlikely to raise its policy rate before the US.

- (3) The Japanese economy is forecasted to grow by 1.6 percent, resume from a contraction of 5.4 percent in 2009, and an average expansion rate of 1.7 percent in 2002-2007. The pace of economic recovery in 2010 is likely to be restrained by tepid demand in export markets, in particular in the US and Eurozone. Private consumption tends to be sluggish due to unfavorable labor market condition, domestic currency depreciation, and the reduction of household financial assets. Private investment expansion will be constrained by shrinking domestic and export markets, and public spending will be limited by high and rising public debts. Lackluster demand will keep deflation pressure well into 2010, with an average headline inflation of around -0.5 percent. Against this background, the Bank of Japan is likely to keep its policy rate unchanged throughout the year.
- (4) Emerging and developing Asia: The fast and continued recovery in the latter half of 2009 contributed to broader base recovery of economies in the region. In particular, regional trade expansion that provided momentum for economic recovery in 2010. Providing better prospects in advanced countries, the economy of emerging and developing Asia is expected to grow by 6.8 percent, compare to 5.0 percent in 2009, but remains below than an averaged rate of 8.9 percent in 2002-2007 which is mainly attributable to sluggish recovery in advanced economies, the major final export destination of the region, and trend of regional currencies appreciation. Against this background, the economy of emerging and developing Asia is expected to grow by 6.8 percent, led by the stronger pace of China and India expansion of 9.0 percent and 7.0 percent respectively. NIEs and ASEAN-5 are likely

¹² Nevertheless, before raising policy rate, monetary policy is likely to be tightened by removing supports for liquidity in domestic and foreign currencies, raising reserve requirements and reducing the scope for collateral eligible for accessing central bank facilities.

¹³ In line with Fed's deadline extension for the purchase of Agency Mortgage-Backed Securities to March 2010 and for Terms Asset-Backed Securities Loan Facility program well into June 2010.



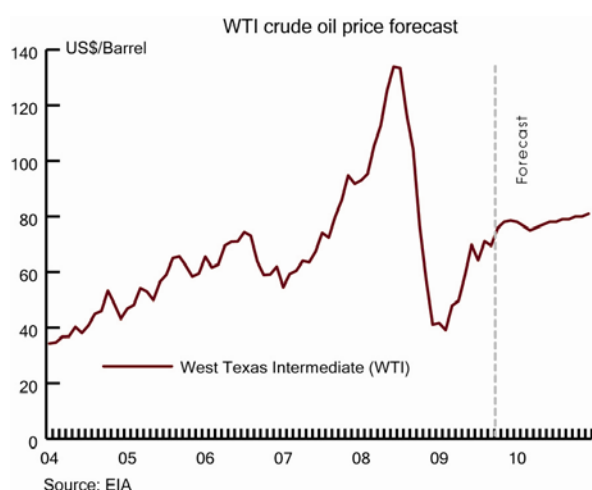
to expand by 3.6 percent and 4.0 percent respectively. Providing concerns over the impacts of excessive credit extension on Chinese economic stability, the momentum of regional recovery will largely depend on economic stimulation in China.

3.2 Oil price trend in 2009 and 2010

- (1) In the last two months of 2009, the average Dubai crude oil price is expected to be in the range of 80-90 US Dollar per barrel, increased from monthly average price of 73.01 US Dollar per barrel in October. The yearly average Dubai is likely to be in the range of 62-64 US Dollar per barrel in 2009, lower than yearly average price of 93.65 US Dollar per barrel in 2008. In the remaining of 2009, oil price is expected to increase due to i) global economic recovery, particularly in Asia, ii) US Dollar depreciation, and iii) winter season in western countries. The 10-month average price stood at 58.63 US Dollar per barrel and crude oil price on 10th November 2009 was at 77.33 US Dollar per barrel.
- (2) In 2010, crude oil price is likely to be higher than average price in 2009. The Energy Information Agency (EIA) forecasted that average crude oil WTI price in 2009 will be 78.13 US Dollar per barrel and most analysts estimated crude oil price in the range of 60-80 US Dollar per barrel. However, NESDB expected average crude oil (WTI) price to be in the range of 75-85 US Dollar per barrel, higher than that expected average price of 62-63 US Dollar per barrel in 2009.
- (3) Supporting factors for oil price to be higher than in 2009 are as follows:

- The increase in oil demand in tandem with economic recovery, particularly in China and other Asian countries. According to the EIA's report on Oil Market Situation in November 2009, global oil demand in the fourth quarter of 2009 is forecasted to increase from the same period last year and mark its first year-on-year increase after 5 quarters of consecutive contraction. The global oil demand in 2010 is forecasted to increase by 1.26 million barrel per day compared to oil consumption demand in 2009. The increase in global oil demand is largely attributable to demand in non-OECD countries which is forecasted to increase by 1.14 million barrel per day, compared to the increase of 0.12 million barrel per day in OECD countries. The increase in

	Crude Oil Price Forecast 2010
EIA (November 2009)	WTI = 78.1 US\$/Barrel
World Bank (October 2009)	WTI = 63.0 US\$/Barrel
Deutsche Bank (October 2009)	WTI = 65 US\$/Barrel
BNP Paribas (September 2009)	WTI = 78 US\$/Barrel



World Oil Consumption

(million barrels per day)

	year				2009			
Consumption	2007	2008	2009_f	2010_f	1st	2nd	3rd	4th_f
OECD	49.13	47.58	45.46	45.58	46.42	44.33	45.16	45.96
U.S. (50 States)	20.68	19.50	18.72	19.01	18.84	18.47	18.71	18.86
U.S. Territories	0.32	0.27	0.27	0.27	0.26	0.27	0.27	0.27
Canada	2.36	2.26	2.17	2.19	2.20	2.06	2.18	2.24
Europe	15.30	15.35	14.74	14.71	14.92	14.22	14.81	14.99
Japan	5.01	4.78	4.23	4.00	4.72	4.03	3.91	4.26
Other OECD	5.46	5.41	5.34	5.39	5.47	5.28	5.28	5.34
Non-OECD	36.67	38.20	38.68	39.82	37.12	39.24	39.28	39.02
Former Soviet Union	4.28	4.35	4.21	4.18	4.09	4.19	4.24	4.30
Europe	0.79	0.80	0.79	0.80	0.77	0.77	0.82	0.82
China	7.58	7.83	8.21	8.66	7.62	8.44	8.33	8.45
Other Asia	8.78	9.31	9.33	9.54	9.30	9.53	9.17	9.33
Other Non-OECD	15.24	15.91	16.13	16.63	15.33	16.32	16.73	16.13
Total World Consumption	85.80	85.78	84.14	85.40	83.54	83.57	84.45	84.99

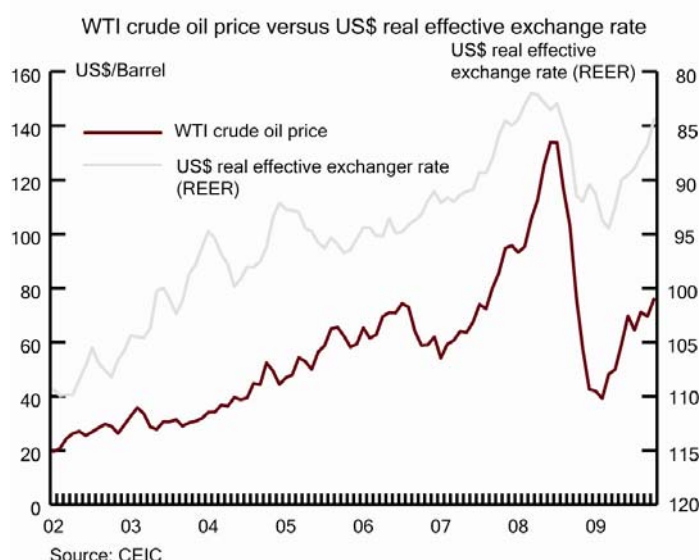
Source: Energy Information Administration (EIA)

World Oil Production

(million barrels per day)

Supply	Year				2009			
	2007	2008	2009_f	2010_f	1st	2nd	3rd	4th_f
OECD	21.46	20.91	20.86	20.46	21.15	20.70	20.73	20.85
U.S. (50 States)	8.46	8.51	8.98	9.13	8.76	8.99	9.04	9.12
Canada	3.42	3.35	3.35	3.41	3.38	3.20	3.37	3.44
Mexico	3.50	3.19	2.95	2.69	3.06	2.99	2.96	2.79
North Sea	4.54	4.30	4.05	3.73	4.41	4.01	3.82	3.97
Other OECD	1.53	1.56	1.53	1.50	1.54	1.52	1.54	1.52
Non-OECD	62.95	64.46	63.33	65.03	62.33	62.95	63.89	64.13
OPEC	35.42	35.72	34.01	35.06	33.41	33.68	34.40	34.55
Crude Oil Portion	30.90	31.27	29.12	29.44	28.88	28.86	29.34	29.38
Other Liquids	4.52	4.46	4.90	5.62	4.53	4.82	5.06	5.17
Former Soviet Union	12.60	12.52	12.86	13.10	12.60	12.87	12.96	12.98
China	3.90	3.97	3.98	4.01	3.92	3.98	4.01	4.03
Other Non-OECD	11.02	12.24	12.48	12.86	12.40	12.42	12.52	12.58
Total World Production	84.40	85.37	84.19	85.49	83.49	83.66	84.62	84.99
Non-OPEC Production	48.98	49.65	50.18	50.43	50.08	49.98	50.22	50.44

Source: Energy Information Administration (EIA)



oil demand is attributable to the expansion of global economic activities.

- World oil production is expected to increase in response to improving global economic condition. According to the EIA, the world oil production in 2010 is forecasted at 85.49 million barrel per day, increase by 1.3 million barrel per day from total world oil production of 84.19 million barrel per day in 2009. Oil production of non-OPEC countries is estimated to increase by 0.25 million barrel per day, which are mostly the production from the Former Soviet Union (FSU), Brazil and the US that will compensate production reduction in Mexico and the North Sea. Oil production of OPEC countries is estimated to increase gradually by 1.05 million barrel per day, in response to growing demand. The next OPEC summit will be held in Mexico on 22nd December 2009, to evaluate the conditions in oil market.
- Oil inventories in OECD countries trend down to their normal level. According to preliminary data at the end of third quarter 2009, oil inventories in OECD countries stood at 2.8 billion barrel which is equivalent to 61 daily usages, higher than its normal level of 55 daily usages. However, EIA forecasted that oil inventories in OECD countries will decline to its normal level due to stronger economic activities.
- The US dollar tends to depreciate in 2010 due to sluggish economic activity in relative to other trading partners. Therefore, US dollar depreciation tends to encourage investors to shift their investment portfolios from equity market to commodity market, particularly oil market which is an alternative investment destination as hedge against currency depreciation and inflation.

3.3 Thailand economic trend in 2010

Key themes: The Thai economy is likely to grow at a satisfactory pace, under the condition of global economic recovery, government economic stimulation and improvement in economic sentiments. However, the contribution from global recovery on the Thai economy tends to be restrained by weak demand condition in advanced economies and the alteration of exchange rate between major currencies. Interest rate trends upward while pressures on inflation and currency appreciation are heightened. In this respect, economic management in 2009 should focus primarily on

providing favorable conditions for domestic demand to recover, including government stimulation and maintaining confidence in Thai economy. Overall, economic growth in 2010 will be increasingly driven by domestic demand.

- The Thai economy is likely to expand at a satisfactory pace, under the conditions of global economic recovery, government economic stimulation and improvement of economic sentiments. Economic recovery in the first half of 2010 will be supported by a modest recovery of global demand and the progress of government investment projects under the second stimulus package (SP2). Together with contribution from low base effects, the Thai economy is likely to show a strong economic expansion in the first half of 2010.

In the latter half of 2009, the momentum of global economic recovery and its contribution on export is likely to be stronger than in the first half. Combined with a continued implementation of government investment projects and improving confidences generated by economic momentum in the first half, the Thai economy is likely to continue its path of recovery. However, the pace of economic expansion tends to be restrained by high base effects, despite spillovers from government stimulation and the increase in rate of capacity utilization in the first half will support private investment to recover in the latter half.

- However, the contribution from global economic recovery on the Thai economy tends to be restrained by weak demand condition in advanced economies that eventually result in a sluggish expansion of global trade volume, as well as the alteration in exchange rate between major currencies. Export expansion in 2010 will be obstructed by i) slower pace of world economic expansion than its average pace in 2002-2007, ii) sluggish import demand recovery in industrialized countries, due to high and rising unemployment, over-leveraged household and business sector, and currency depreciation that raises domestic import prices, and iii) contribution of import demand from emerging and developing Asia is limited by its size and depends largely on economic performance of industrialized nations as well as continuation of economic stimulation in major countries particularly China. In such condition, world trade volume in 2010 is likely to expand by 2.5 percent, lower than an average rate of 7.3 percent in 2002-2007, and well below the pace of global economic expansion. Together with Chinese fixed exchange rate

system that resulted in Thai baht and other regional currencies appreciation against US dollar, this situation will restrain contribution from world economic recovery on the Thai economy.

- **Interest rate trends upward while pressures on inflation and Thai baht currency appreciation are heightened.** The pressure on inflation started to pick up in the latter half of 2009 due to the increase in oil price, and likely to be heightened further by the expiration of “5 Measures, 6 Months for All Thais” in December 2009. In 2010, the fundamental factors for oil price increase tend to persist, in particular the broad base US currency depreciation in the presence of global economic recovery. Meanwhile price of major agricultural commodities tends to increase in tandem with global demand recovery, rising trend of energy crop prices and crop damages in agricultural production countries. In addition, pressure on Thai baht depreciation remains persist due to US dollar depreciation while nominal rate of interest trends upward due to the increase of world market interest rate, the increase in supply of government bond as well as private financial demand to finance economic activities in the presence of economic recovery. This unfavorable condition could restrain the process of economic recovery and require close monitoring, in particular, their detrimental impacts on the recovery of export, consumption and private investment.
- **In 2010**, economic management should focus on providing favorable conditions for domestic demand to recover and support economic recovery. This includes i) the effective implementation of investment projects under the second stimulus package (SP2) to stimulate domestic investment and household spending, and in parallel, to enhance long run potential growth, ii) stability management to maintain confidence in the Thai economy which is an indispensable condition for domestic demand to recover, iii) solving of investment problems and obstacles, iv) liquidity management, and v) prudent monetary policy management to support economic recovery under the condition of upward pressure on inflation, currency appreciation and rising trend of interest rate.

Economic growth in 2010 will be increasingly driven by domestic demand, particularly the resumption of household spending from its contraction in 2008, the expansion of public investment projects under SP2 and inventory accumulation after a sharp depletion in 2009. However, the growth contribution from net export is likely to decline in the presence of economic recovery, but as a result of faster pace export expansion than export in

contrast with slower pace export contraction than import in 2009.

□ **Supporting factors for economic recovery in 2010: Economic recovery in 2009 will be supported by the following supportive factors:**

- Improving global economic condition, together with upward trend of agricultural prices and farmers' income stabilization scheme, are expected to raise household income and support household consumption expansion.
- Implementation of public investment projects under the second stimulus package (SP2) will support economic recovery in the presence of weak global demand condition. As of 20 October 2009, investment project worth 1.296 trillion baht was approved and the planned disbursement in FY2010 is at 288.3 billion baht, covering investment projects, financial measure to support grassroots economy, farmers' income guarantee scheme and capital injection to Specialized Financial Institutions (SFIs)
- The economic momentum gained from improvement in labor market, confidences, manufacturing capacity utilization and tourism sector in the latter half of 2009. This momentum is expected to continue in 2010 and support domestic demand recovery.

□ **Risk factors associated with growth prospects of the Thai economy in 2010**

- Global economic recovery remains fragile. Although the global economy tends to improve significantly from its contraction in 2009 but the pace of recovery in major industrialized countries will be restrained by high unemployment rate and high debts burden in household and business sector. Therefore, the contribution from improving global condition on export will be restrained by the weak recovery of world trade volume. In addition, the improvement in global economy in 2009 depended largely on government measures, and therefore its momentum in 2010 is subjected to exit strategy from policy stimulation in major economies.
- Continuation of economic momentum and government measures: The Thai economy is likely to grow at a satisfactory pace under the condition of government stimulation and the revival of confidence in Thai economy. However, the implementation of government measures and the improvement of

confidences in the Thai economy could be impeded by development in political condition.

- Oil price in 2010 tends to increase further due to US dollar depreciation, speculative demand and higher oil consumption in the presence of global economic recovery. This situation will put upward pressure on inflation, and raise production and living costs that could restrain domestic demand recovery.
- Domestic interest rate tends to increase in response to rising trend of world market interest rate, larger supply of government bond in 2010 and the growing private financial demand in the presence of economic recovery. This could delay private investment recovery that is likely to be restrained by excess production capacity in manufacturing sector and environmental problems in Map Ta Put industrial estate.
- The Thai Baht currency tends appreciate due to US dollar depreciation against major currencies including regional currencies in Asia except Chinese Renminbi that is likely to move in line with US dollar under fixed exchange rate system. This exchange rate alteration could affect relative price and restrain export recovery.
- Government income in FY2010 could be restrained by income base contraction in FY2552, tariff rate reduction under the framework of AFTA and oil price that could be softened by the reduction of speculative demand in the world market.

3.3.1 Key assumption for 2010 projection

- The world economy in 2010 is projected to grow in the range of 2.8 – 3.2 percent, recover from a contraction of 1.1 percent in 2009 but remains well below than an average growth rate of 4.6 percent in 2002-2007. This slow pace of global recovery is dominant by modest expansion in Asia but the major industrialized countries are likely to grow sluggishly. World trade volume is likely to expand by 2.5 percent, improve from 12.0 percent contraction in 2009 but remains below than an average growth rate of 7.3 percent in 2010.
- Average Dubai crude oil price in 2010 is expected to be in the range of 75-85 US Dollar per barrel increases from the projected price in 2009 at 63 US Dollar per barrel, but still lower than an average price in 2007 at 93.65 US Dollar per barrel and compare to forecasted oil price by other institutions in the range of 60-80 US Dollar per barrel in 2010. The key factors for oil price increase are as follow: i) oil demand will be accelerated due to the improvement of global

economic condition, ii) OECD oil reserve tends to decline to the normal level in response to improving economic condition, and iii) motivation for oil price speculation tends to increase in the presence of US Dollars depreciation, improving global economic condition and inflation expectation. Nevertheless, there are factors that will contain strong increase in oil price such as i) weak momentum of global recovery that restrain oil consumption demand, ii) new regulation that allow the US futures trading regulator, Commodity Trading Futures Trading Commission (CFTC), to curb speculation in oil market, iii) failure of Hedge Fund in futures trading market during 2008-2009, iv) oil production is projected to increase in 2010 in response to growing oil demand, and v) the geopolitical risks are likely to be less than in 2008.

- Price of export and import goods in US Dollar term are projected to increase by 3.5 percent and 4.5 percent respectively which will result in Term of Trade deterioration in 2010. Export and import price are projected to increase from their low base in 2009 due to i) upward trend of oil and other commodity prices that are driven by improving economic condition and growing speculative demand, and ii) price of agricultural commodity is expected to increase due to supply reduction in major production bases and the increase in price of energy crops. However, price of manufacturing production is expected to increase gradually due to i) weak global demand recovery, and ii) excess production capacity in major producing countries, in particular China. Under such a condition, the strong competition in export market likely to continue into 2010.
- Number of foreign tourists in 2010 is projected at 14.9 million persons, increase from 13.7 million persons in 2009.

3.3.2 Thai economic projection in 2010: Thai economy is forecasted to grow 3.0-4.0 percent with 3.0-4.0 percent headline inflation and current account surplus equivalent to 5.3 percent of GDP.

The Thai economy in 2010 is able to expand up to 4.0 percent under the conditions of i) the world economy expand in the range of 2.8-3.2 percent, ii) effective implementation of investment projects under SP2, iii) stability management to accommodate and strengthen business and consumer confidences, iv) expedition and implementation of appropriate measures to effectively overcome obstacles to private investment,

and v) average crude oil price of not exceed 75 US Dollar per barrel

3.3.3 Economic growth components in year 2010

• Demand side and economic stability

- (1) **Total consumption** spending is forecasted to grow by 2.5 percent with the expansion of household consumption of 2.7 percent, compare to the estimated -0.2 percent and -1.2 percent in 2009. The resumption of household consumption will be supported by better employment condition and household incomes due to i) the expansion of manufacturing production, exports and tourism sector that raise household incomes in manufacturing and service sector, ii) spillovers from government stimulation measures, and iii) higher demand and price of agricultural commodities in the world market and farmers' income guarantee scheme that raise income of agricultural households. Together with improving consumer confidences in the latter half of 2009, this broad base household income expansion will stimulate household spending to expand from its low base in 2009. Government consumption is projected to increase by 1.6 percent.
- (2) **Total investment** is projected to grow by 3.8 percent, improve from the estimated -8.6 percent in 2009, reflecting the impacts of government investment stimulation under SP 2 that is expected to raise public investment by 6.0 percent. Private investment is projected to grow modestly by 3.0 percent due to i) excess capacity in production sector, ii) firms are waiting for a stronger signs of economic recovery, iii) rising trend of domestic interest rate, and iv) environmental problem in Map Ta Phut Industrial Estate.
- (3) **Export value of goods** in US Dollar terms is forecasted to expand by 10.0 in contrast with a contraction of around 13.7 percent in 2009. Both export volume and price are forecasted to increase from its low base in 2009 in line with improving global demand condition. Export of agricultural commodity is likely to expand at a satisfactory pace due to natural disaster in agricultural producing countries and the increase in price of energy crops. Nevertheless, the expansion of export volume is likely to be restrained by strong competition in global market due to i) the weak recovery of global GDP and world trade volume, particularly sluggish demand in industrialized

nations, and ii) excess production capacity in major exporting countries such as China. Under aforementioned conditions, export volume and price are projected to increase by 6.5 percent and 3.5 percent respectively, and total import volume of goods and services is forecasted to grow by 6.7 percent compare to the estimated -12.1 percent in 2009.

- (4) **Import value of goods** in US dollar terms is likely to expand by 18.5 percent, compare to the estimated -26.1 percent in 2009. Import volume is projected to increase from its low base by 14.0 percent compare to the estimated -22.8 percent in 2009. The rapid pace of import expansion is attributable to i) the resumption of exports, production and consumption in 2010, ii) the implementation of investment projects under SP2 that is likely to raise import demand for capital goods, and iii) the resumption of inventory accumulation after its sharp depletion in 2009. Import price is projected to increase by 4.5 percent, faster pace than export price, reflecting the increase in price of oil and raw materials. Total import volume of goods and services is forecasted to grow by 12.4 percent compare to the estimated -20.0 percent in 2009.
- (5) **Trade balance** is forecasted to register a surplus of 13.0 billion US Dollar, decline from the estimated 21.8 billion US Dollar in 2009 as import is forecasted to expand at a faster pace than export. Combined with the forecasted surplus in service balance, current account is projected to record a surplus of 14.6 billion US Dollar which is equivalent to 5.3 percent of GDP.
- (6) **Economic stability:** current account surplus tends to decline while inflation trends upward. Average headline inflation is forecasted in the range of 2.5 – 3.5 percent, higher than estimated inflation rate of -0.9 percent in 2009. This forecasted inflation rate reflects the rising trend of oil and other commodity prices, the resumption of domestic demand from its contraction in 2009 as well as the impacts of an expiration of “5 Measures 6 Months for All Thais” stimulus package in December 2009. Unemployment rate is forecasted at 1.4 percent.

3.3.4 Production side: Overall production in 2010 tends to recover from its contraction in 2009. Production

side outlook is as follows:

- (1) **Agriculture sector:** In 2010, production and price tends to increase from that of in 2009 due to i) the remarkable sign of recovery in the global economy that will raise demand for agricultural products, ii) government measures to support the agricultural production e.g. farmers' income guarantee scheme, covering producers of 3 major crops; paddy, cassava, and maize, and iii) promoting the development of qualified agro-processing products and product improvement to serve domestic and foreign demand. Hence, the increase in agricultural production and prices will raise farms income in 2010. Outlook for major agricultural production is as follows:
- (2) **Paddy. Production** volume and price of paddy in 2010 is expected to increase, partly due to the implementation of farmers' income guarantee scheme during the end of 2009 to 2010 together with the decrease of paddy supply in global market due to unfavorable weather condition in the Philippines, India and Vietnam in 2009. However, there is a negative factor there exist downward pressure on the price of rice, that is, the pilot project of zero-tariff rate on imported rice under AFTA, which will be effective in January 1, 2010. The tariff reduction will raise the volume of imported rice and dampen domestic price. In addition, it could be the case that exporters import lower quality and cheaper rice and mix it with Thai rice, and re-export to foreign market. Consequently, without measure to cope with aforementioned problem, rice is likely to be over supplied in domestic market and Thailand could lose market share in the future.
- (3) **Rubber.** Rubber production is expected to increase due to the government measures to promote high yield rubber tree plantation in lieu of the old one, by which the production will be yielded out in 2010. In addition global demand for natural rubber tends to increase in tandem with the better global economic condition, particularly the recovery of automobile industry and other related industries.
- (4) **Cassava.** It is expected that cassava production will declined from its level in 2009 as farmers' income guarantee scheme has induced farmers to trade off cassava cultivation for sugarcane and maize cultivation. In addition, it is also expected that the crop yield in 2010 will decline due to the spread out of mealy bug in various areas and unfavorable weather condition for cassava cultivation.

- (5) **Sugarcane.** Price is likely to increase due to the reduction of sugarcane production in Brazil, as a result of heavy rainfall. Furthermore, India has turned its position from sugar exporter to importer due to drought catastrophe. As a result, the sugarcane production in the world market is expected to decline; hence, domestic market price likely to increase.
- (6) **Fishery.** Shrimp export is likely to pick up by 5-10 percent as advance orders for Q1/2010 started to come in. The key supporting factor for shrimp export in 2010 is the tendency that the US will abolish Anti-Dumping measure which has been imposed on shrimp products from Thailand whereas other exporting countries got benefit from zero-tariff rate. However, the key risk factor in fishery sector is the oil price increase that is likely to raise fishery cost of production and inflation that reduce consumption demand in importing countries. In 2010, the exporters of fishery products are encouraged to seek and approach new markets e.g. Australia and Russia, etc.
- (7) **Manufacturing sector:** Manufacturing production in 2010 is likely to increase from 2009 due to improving domestic demand and better global economic condition as well as the implementation of investment projects under SP2 that support manufacturing production expansion. The improvement in manufacturing sector was notably seen in electronics and electrical appliances industries that is supported by rising import demand from importing countries, in particular, the improving of economic condition in the US, and automobile industries that is supported by rising orders from major trading partners, such as Australia, as well as investment promotion policy for Eco-car production that will launch its products to the market in early 2010 which is likely to stimulate car demand. The expansion of automobile industry will eventually support the expansion of other manufacturing productions such as rubber and rubber products. Likewise, construction material industry is likely to improve due to government policy to stimulate public and private construction. The furniture industry tends to improve with the support of real estate sector recovery both in the US and in Thailand. Meanwhile, garment and textile industries benefit from JTEPA agreement that will raise export to Japan. Nevertheless, some manufacturing

industries have yet show clear signs of recovery such as beverage industry, especially beer which is will be affected by likely new excise structure and restriction on advertisement of alcoholic products. Meanwhile food industry is likely to be affected by restriction on food safety in trading partners, particularly in the US, which potentially impede exportation of food products, although global demand has improved.

- (8) **Construction and Real Estate sector:** In 2010, investment in construction and real estate is likely to expand from 2009 due to the implementation of government investment projects under SP2 such as dustless road construction and mass-transit projects. Private construction is likely to expand from 2009 due to improving economic condition and clearer public transportation development projects such as the extension of mass transit system and road construction to suburban areas which will induce the development of real estate projects along the new transportation routes. Meanwhile, the relaxation of credit approval for consumers and entrepreneurs is expected to stimulate demand in real estate sector and if the real estate stimulation measure (that will be expired on 28 March 2010) were extended, it would be another supporting factor for demand expansion. In addition, the confidence of real estate developers on economic and political condition over the next 6 months has increased as indicated by the increase of Housing Development Sentiment Index (HDSI, reported by the Real Estate Information Center) from 54.4 in the second quarter to 64.0 in the third quarter. Nevertheless, there exist negative factors that could restrain the expansion of real estate sector such as rising cost of contraction that are generated by oil price increase, and upward trend of interest rate that will negatively affect both consumers and real estate developers.

- (10) **Tourism sector** is expected to improve gradually due

HSDI index of real estate developers during the next 6 months

	2008				2009		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Registered Companies in SET	72.6	60.7	63.1	42.8	57.7	62.2	69.9
Non-registered companies	64.0	51.0	53.8	37.6	43.1	69.9	75.9
HSDI index	68.3	55.9	58.4	40.2	50.4	54.4	64.0

Source: Real estate center

- to i) better global economic prospects in 2010, ii)

concern over A (H1N1) pandemic has been relieved, iii) a more stable domestic political condition, iv) promotion measures for tourism sector by using proactive strategy to maintain market shares, v) formulation of marketing strategy such as cooperation with wholesales tourism operators and invite retails tourism operators from 3 major regions (comprising East Asia, ASEAN and Oceania) to workshop in Thailand, cooperate with wholesales tourism operators or international airlines during low season, develop niche markets (e.g. marriage or honeymoon couples, youths, cooking groups) and rising-star markets (such as Jordan, Iran, Syria, Baltic countries, Latvia, Lithuania and Estonia, etc.), and vi) public relations of “12 Months, 7 Stars, 9 Suns” tourism promotion scheme. These supporting factors are likely to raise the numbers of tourists in 2010 which is expected to be in the range of 14.8-15.0 million peoples, 10 percent increased from 2009. However, there exist risk factors to tourism sector in 2010, including the resurgence of A (H1N1) pandemic, domestic political condition and the fragile relationship with the neighboring countries, etc.

Even though, Thai economy show remarkable sign of recovery over the year and the government economic stimulation policies were punctually implemented, with implementation of stimulus package 1 in February 2009 and following by “Thai Kem Kaeng 2012” plan in September 2009, the continuity of the government economic policy in 2010 plays a vital role in regaining public confidence over recovery of the domestic economy. Therefore, the appropriate policies should be implemented are as follows:

- 4.1 Put forth private investment to be a key driver of the overall economy** The strong recovery was attributable by the improvement in export and tourism sectors as well as the capital injection from the government stimulus packages, both first and second phrase. In order to ensure continuity in economic recovery, the government must continue to put forth priority in facilitate and ensure smooth recovery of private investment throughout 2009, supporting by the clarification of rules and regulations towards the new opening or expansion of business.
- 4.2 Encouraging private sector to make use of free trade agreements.** The ASEAN Free Trade Area which will be fully effective in January 2010 will create trade and investment opportunities for Thai entrepreneurs. Thus, the government should encourage private sector to gain the benefit under the ASEAN FTA agreement (custom tax reduction) and others trade agreements such as Thailand-Peru FTA and Thailand-Japan economic partnership agreement. Moreover, the government should expedite the development of transportation and logistics networks with the neighboring countries in order to expand production capacity and trade volume between the existing and the new ASEAN members.
- 4.3 Coordinating monetary and fiscal policies to revive public confidence and ensure sustainable economic recovery,** especially in the infrastructure development project under the Thai Kem Khang 2012. Although, the revenue collection has been improved and the deficit fiscal balance was lower than expected from the beginning of the year, the total tax revenue is in limitation because of tax reduction under AFTA. Other factors that enable confidence in economic recovery are sound and effectiveness of monetary policy, liquidity management and exchange rate stabilization.

4. Economic Management 2010

Economic Projection of 2009 and 2010

	Actual Data			Projection 23 Nov. 09	
	2005	2006	2007	2009_f	2010_f
GDP (at current prices: Bil. Bht)	7,850.2	8,529.8	9,075.5	8,712.5	9,017.4
GDP per capita (Bht per year)	121,070.2	129,239.6	135,454.	129,650	133,591
GDP (at current prices: Bil USD)	206.9	245.8	273.4	254.0	277.5
GDP per capita (USD per year)	3,190.9	3,724.2	4,080.6	3,779.9	4,110.5
GDP Growth (at constant prices, %)	5.1	4.9	2.5	-3.0	3.0 - 4.0
Investment (at constant prices, %)	3.9	1.5	1.2	-8.6	3.8
Private (at constant prices, %)	4.1	0.6	3.2	-12.7	3.0
Public (at constant prices, %)	3.1	4.2	-4.6	4.4	6.0
Consumption (at constant prices, %)	3.0	2.8	3.0	-0.2	2.5
Private (at constant prices, %)	3.2	1.7	2.7	-1.2	2.7
Public (at constant prices, %)	2.2	9.7	4.6	5.7	1.6
Export volume of goods & services (%)	9.1	7.8	5.1	-12.1	6.7
Export value of goods (Bil. USD)	127.9	151.3	175.2	151.2	166.3
Growth rate (%)	17.0	18.2	15.9	-13.7	10.0
Growth rate (Volume, %)	11.2	11.9	4.9	-13.2	6.5
Import volume of goods & services (%)	3.3	4.4	8.5	-20.0	12.4
Import value of goods (Bil. USD)	126.9	138.5	175.1	129.4	153.4
Growth rate (%)	7.9	9.1	26.5	-26.1	18.5
Growth rate (Volume, %)	1.4	3.5	12.3	-22.8	14.0
Trade Balance (Bil. USD)	1.0	12.8	0.1	21.8	13.0
Current account balance (Bil. USD) ^{1/}	2.3	15.7	1.6	22.3	14.6
Current account to GDP (%)	1.1	6.3	0.5	8.8	5.3
Inflation (%)					
CPI	4.7	2.3	5.5	-0.9	2.5 - 3.5
GDP Deflator	5.1	3.2	4.5	-0.9	2.5 - 3.5

Source: Office of National Economic and Social Development Board, 23 November 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

