



Thai Economic Performance in Q1 and Outlook for 2011

Macroeconomic Strategy and Planning Office

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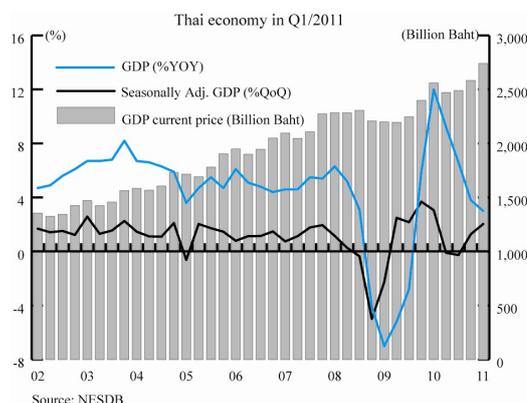
Economic projection Year 2011

(% YOY)	2010			2011	
	Q3	Q4	Year	Q1	2011F
GDP (at 1988 price)	6.6	3.8	7.8	3.0	3.5-4.5
Total Investment (at 1988 price)	7.9	6.4	9.4	9.3	7.3
Private	14.6	9.2	13.8	12.6	8.5
Public	-5.4	-3.1	-2.2	-1.4	3.5
Total Consumption (at 1988 price)	4.8	3.8	5.1	2.9	3.6
Private	5.0	3.9	4.8	3.4	3.7
Public	3.7	3.2	6.4	0.6	3.2
Export of Goods (US\$)	22.2	21.1	28.5	27.4	17.0
Volume	13.1	12.2	17.3	18.6	9.8
Import of Goods (US\$)	30.7	18.8	36.8	25.6	20.5
Volume	24.9	12.0	26.5	18.5	12.0
Current Account to GDP (%)	2.5	6.4	4.6	7.6	3.1
Inflation	3.3	2.8	3.3	3.0	3.0-3.8
Unemployment rate	0.9	0.8	1.0	0.8	0.8

- In the first quarter of 2011, Thai economy grew by 3.0 percent. Such expansion was driven by positive economic growth of the world economy and domestic demand that ultimately resulted in: (i) higher export; (ii) expansion in the tourism sector; (iii) increased private investment; (iv) higher farm income; and (v) low unemployment rate.
- After seasonal adjustment, Thai economy continued to expand from the fourth quarter of 2010 by 2.0 percent (%QoQ SA).
- In 2011, Thai economy is expected to grow in the range of 3.5 – 4.5 percent. Likewise, export is projected to expand by 17.0 percent, while consumption and private investment are forecasted to increase by 3.7 and 8.5 percent respectively. Headline inflation is in the range of 3.0 – 3.8 percent, with an unemployment rate of 0.8 percent. Current account surplus is expected to be equivalent to 3.1 percent of GDP.
- The economic management for 2011 should emphasize the following key issues: (1) Maintain stability and increase income of the majority of Thai people and collectively Thai economy. The government should give emphasis to: (i) increase productivity, specifically on agricultural products and food processing; (ii) employ proactive marketing strategy in the agricultural sector and; (iii) improve labor productivity in the industrial and service sectors by various approaches. (2) Monitoring price of commodities which have a strong tendency to rise in the near future in order to maintain fairness among consumers and producers. Government should provide sufficient information regarding commodities' prices to consumers together with measures to assist producers in improving production efficiency in order to reduce unnecessary cost. (3) Enhancing competitiveness of Thai economy by: (i) accelerating logistics infrastructure projects; (ii) promoting renewable energy; (iii) improving research and development in science and technology; (iv) reforming environmental tax; and (v) developing human capital in order to overcome shortage of labor in the manufacturing sector. (4) Accelerating a regional cooperation in trade and transportation to facilitate border and regional trades through ASEAN Single Window and preparing the public and private sectors as well as the people in order to utilize and gain benefit from this cooperation.

Thai Economic Performance in Q1/2011 and Outlook for 2011

In the first quarter of 2011, Thai economy expanded by 3.0 percent. Key contributing factors to this growth were high external demand and strong consumer and investor confidence. The expansion in Thai economy is well reflected in the growth of export sectors, investment and private consumption. The seasonally adjusted GDP increased by 2.0 percent (%QoQ SA) when compared to the fourth quarter of 2010.



Positive Signs in Q1/2011

- (1) **Export value in terms of US dollar recorded a historical high of 56,002 million US dollars** or expanded by 27.4 percent compared to the same period of last year. Export value in term of Thai baht registered at 1.71 trillion baht, increased by 18.6 percent compared to the same period of last year. This was mainly due to the appreciation of Thai baht by 6.9 percent. The key drivers were exports of jewelry, vehicles, parts and accessories, electrical appliances, and rubber which expanded by 119.7, 23.0, 27.4, and 86.3 percent respectively. The major export markets included China, USA, Japan and EU (15) expanded by 24.8, 21.3, 30.2 and 24.2 percent respectively.
- (2) **Agricultural sector in the first quarter expanded by 6.7 percent.** Key contributors to this expansion were: (i) increased production of agricultural products by 12.2 percent (particularly rice, sugarcane, maize, and rubber); and (ii) increased prices of agricultural products by 25.7 percent. Collectively, farm income in the first quarter of 2011 grew by 41.0 percent, up from 19.0 percent in the preceding quarter.
- (3) **Tourism sector: The number of inbound tourists stood at 5.4 million persons,** increased by 15.0 percent compared to the same period of last year. This improvement was due to an increase in number of tourists from Asian countries such as China, South Korea, Malaysia and India by 29.5, 17.9, 14.7 and 14.1 percent respectively. In this quarter, the average occupancy rate was at 64.6 percent, up from 61.0 percent in the same period of last year. As a result, the GDP of hotel and restaurant sector increased by 8.1 percent.
- (4) **Household consumption increased by 3.4 percent.** This was highly attributed by the increase in farm income due to higher prices of main agricultural products such as rubber, cassava, and oil palm by 61.4, 55.8, and 90.6 percent respectively. Additionally, employment condition remained positive with number of unemployment at 310,000 persons and, 0.8 percent. Consumer confidence over Thai economic condition remained optimistic with the

recently increase of government official's salaries and minimum wage rate. Consumer confidence registered at 71.9, up from 71.3 in the preceding quarter. Nevertheless, with the trend of increasing price of goods and services, people are now becoming more cautious on their spending.

- (5) **Private investment expanded by 12.6 percent**, an upward growth from 9.2 percent in the preceding quarter. This was contributed by the expansion both in machinery and construction investment. Key supporting factors for this growth was steady domestic and external demand. This expansion was reflected in import of capital goods and commercial car sale which grew by 24.5 and 17.5 percent respectively. Likewise, permitted construction areas in municipal zone increased by 7.8 percent. Business Sentiment Index (BSI) remained strong at 53.1, up from 51.4 in the preceding quarter.

Thai Economic Outlook for 2011

NESDB maintained the economic forecast as announced on February 22, 2011 in the range of 3.5-4.5 percent. Supporting factors include: (i) improved tourism sector leading to steady expansion of related manufacturing and service sectors; (ii) increase in prices of agricultural products leading to strong domestic demand as well as consumer confidence and; (iii) satisfactory level of investment. However, there remain risks and uncertainties which comprise of: (i) volatility of world economy; (ii) economic effects from the deceleration of Japanese economy; and (iii) high interest rate and oil price.

In addition, NESDB forecasts that in the remaining of 2011: (i) headline inflation rate will be in the range of 3.0 - 3.8 percent; (ii) household consumption will expand by 3.7 percent; (iii) investment will expand by 7.3 percent; (iv) export in terms of US dollar will expand by 17.0 percent and; (v) current account surplus will register at 3.1 percent of GDP, decelerated from 4.6 percent of GDP in 2010.

1. Economic Performance in Q1/2011

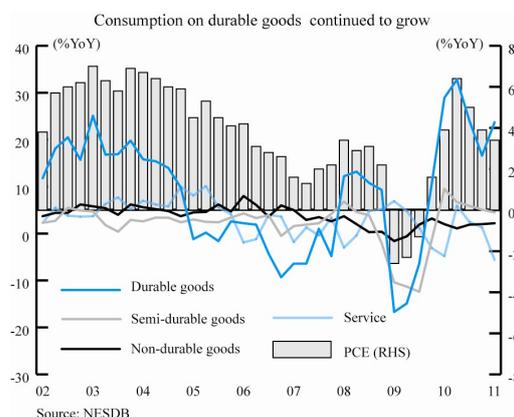
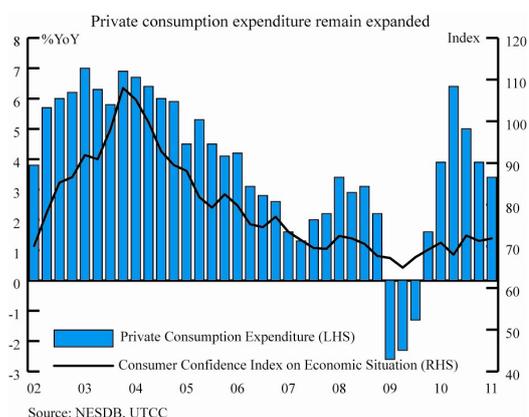
Expenditure Side

Private consumption expenditure expanded with a rate of 3.4 percent in the first quarter.

It coincided with an increase in value added tax (VAT) at 2000 prices and import of consumer goods at 2000 prices with the growth rate of 10.6 and 16.7 percent respectively. The supporting factors for consumption expansion in the first quarter included: (i) low unemployment rate; (ii) increase income in both agricultural and non-agricultural sectors and; (iii) low interest rate. Consumption on durable goods continued to expand at a growth rate of 23.7 percent, particularly passenger cars.

In addition, consumer confidence index in the first quarter stood at 71.9, improved from 71.3 in the preceding quarter. Key factor of this increase was increasing consumers' confidence in Thai economy following an increase in minimum wage rate as well as government official's salary, together with high price of agricultural products. Furthermore, high cost of living was a major factor which induced consumers to be more cautious on their spending.

Private consumption expenditure expanded by 3.4 percent as a result of low unemployment rate, increase in income both in agricultural and non-agricultural sector as well as low interest rate.



Private Consumption

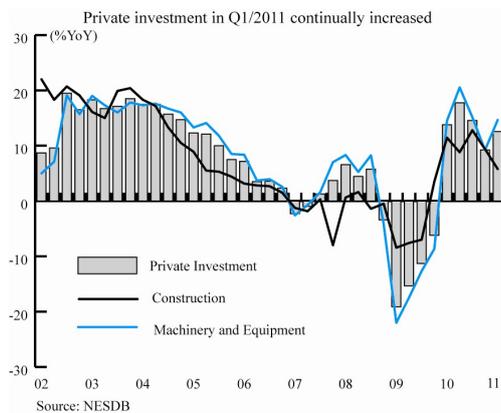
%YoY	2009					2010					2011
	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Q1
Private Consumption	-1.1	-2.6	-2.3	-1.3	1.6	4.8	3.9	6.4	5.0	3.9	3.4
Durable goods	-7.1	-16.7	-14.9	-6.4	10.7	25.1	28.9	32.8	24.0	16.6	23.7
Semi-durable goods	-8.8	-10.4	-11.3	-12.4	-1.3	6.7	9.5	6.7	5.9	5.1	4.5
Non-durable goods	0.7	-1.6	-0.6	1.9	3.2	1.8	2.0	1.1	1.9	2.0	2.2
- Food	0.6	-0.9	-1.2	2.9	1.8	0.5	0.7	1.1	0.2	-0.2	2.2
- Non-food	0.7	-2.0	-0.3	1.2	4.1	2.7	3.1	1.2	3.2	3.3	2.2
Services	2.2	6.9	4.8	1.2	-3.1	1.4	-4.8	5.9	2.5	1.3	-5.6

Source: NESDB

Private Investment increased by 12.6 percent in the first quarter of 2011, compared to 9.2 percent increase in the previous quarter. Investment in private machinery and equipment increased by 14.7 percent. Likewise, the import of capital goods expanded by 24.5 percent in order to response to capacity expansion, specifically in petroleum, electrical appliances, and automobiles industries. Moreover, domestic commercial car sales expanded by 17.5 percent, owing to credit easing by commercial banks, increase in farm income, and strong consumer and investor confidence. In addition, investment in construction increased by 5.8 percent, mainly resulted from the increase of residential building in Bangkok. Business Sentiment Index (BSI) remained strong at 53.1, higher than 51.4 in the previous quarter. On the other

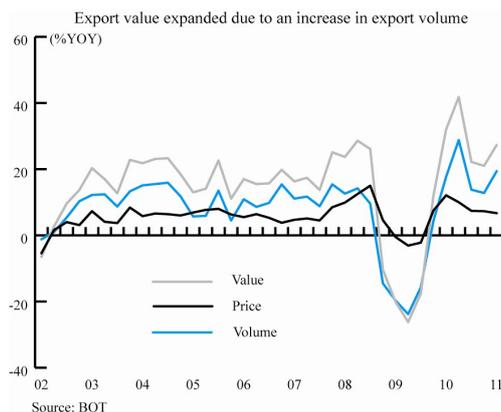
Private investment expanded both in equipment and construction.

hand, the expected BSI for the next 3 months stood at 54.5, slightly declined from 55.5 in the previous quarter. This reflected an increasing cost of production as well as the restriction on price raising posed as strong risk factors for future investment.



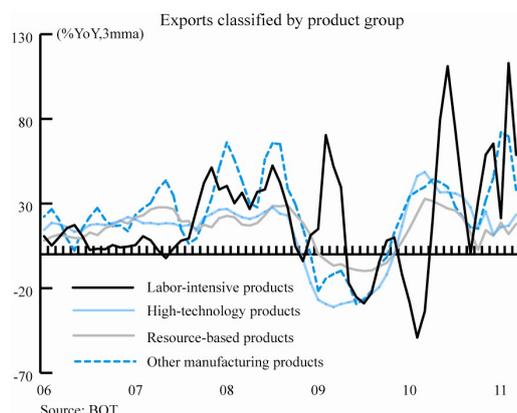
Export value in the first quarter of 2011 continued to rise and recorded its historical high of 56,002 million US dollars (equivalent to 1,710,590 million baht). The export value expanded by 27.4 percent, while export volume and price increased by 18.6 and 6.7 percent respectively. Export value excluding unwrought gold grew by 24.2 percent.

Export value in terms of US dollar expanded by 27.4 percent, equivalent to the value of 56,002 million US dollars.



Export of agricultural commodities in the first quarter of 2011 improved from the previous quarter. Key factor of this phenomenon was the decline in supply of major agricultural commodities in the world market following the occurrences of natural disasters in many countries. This has led to an increase in export volume of Thai major agricultural commodities such as rice as well as rubber in response to high demand from China. As a result, export value of agricultural commodities expanded by 51.4 percent while agricultural export price and volume grew by 22.7 and 23.4 percent respectively. **Moreover, both volume and value of exported manufacturing products grew by 19.5 and 25.6 percent**, increased from 14.5 and 20.1 percent in the previous quarter respectively, whereas price slightly increased by 5.0 percent. Major exported products such as vehicles, parts and accessories and electrical appliances expanded by 23.0 and 27.4 percent respectively. In contrast, exported product which experienced a decline in value was computer and computer parts with a contraction of 9.7 percent. This was a result of a high base effect during the first quarter of 2010 that the global demand of manufacturing products was improving. However, when classified by type of product, export of high-technology products and resource-based products increased by 19.0 and 16.3 percent respectively. Additionally, export value of labor-intensive

products significantly grew by 66.5 percent, compared to an increase of 49.2 percent in the fourth quarter of 2010. This impressive increase was a result of a rise in export of unwrought gold.



Export market expanded in both major markets and other markets. Export value to ASEAN (9) increased by 20.8 percent, accelerated from an expansion of 17.6 percent in the previous quarter. Similarly, export to China, US, Japan and EU (15) expanded by 24.8, 21.3, 30.2 and 24.2 percent respectively. Regarding other markets, export to Hong Kong and South Korea expanded by 70.3 and 36.3 percent respectively. Conversely, export to Australia decreased by 1.1 percent, compared to a contraction of 11.1 percent in the fourth quarter of 2010. This contraction was due to a high base effect during the end of 2010 to the beginning of 2011, particularly in the export of automobiles, parts and accessories, air conditioners, machine and parts thereof; machinery and parts thereof as well as iron, steel and their products for construction of a gas separation plant in Australia.

Major Export Markets

(%YOY)	2008	2009	2010				2011		
	Year	Year	Q1	Q2	Q3	Q4	Year	Q1	Shared (%)
US	4.4	-17.8	22.8	26.4	25.4	12.0	21.3	21.3	9.4
Japan	10.9	-21.8	29.4	34.6	32.0	24.4	29.8	30.2	10.4
EU 15	7.2	-24.5	21.7	24.1	19.4	14.6	19.7	24.2	9.9
ASEAN (9)	22.4	-19.1	67.3	45.3	27.5	17.6	36.5	20.8	22.3
Hong Kong	15.5	-5.6	22.3	58.2	21.7	54.0	38.5	70.3	8.2
Taiwan	-18.8	-16.7	69.5	36.1	38.6	37.7	43.5	46.1	1.8
South Korea	23.0	-23.2	42.8	41.7	12.6	20.1	28.1	36.3	2.1
Middle East	26.9	-7.8	9.4	22.2	3.9	6.8	10.1	16.0	4.8
India	25.6	-3.6	92.4	25.2	24.7	20.9	36.3	14.8	2.3
China	9.1	-0.4	69.3	30.7	26.9	19.2	33.2	24.8	11.0
Australia	34.4	7.5	3.5	97.6	-16.2	-11.1	9.2	-1.1	3.8

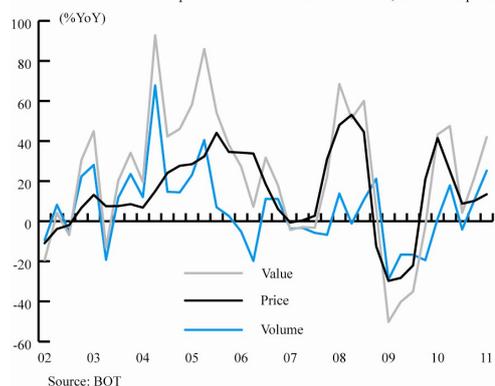
Source: Bank of Thailand

Imports: Value, volume and price expanded, compared to the same period of last year. Import value in US dollar terms increased by 25.6 percent, accelerated from 18.8 percent in the previous quarter. Import volume grew by 18.5 percent, increased from 12.0 percent in the previous quarter. Import price rose by 8.9 percent, mainly due to an increase in oil price. Such expansion was driven by an expansion of both domestic and external demand that resulted in higher import volume of capital goods, raw materials and semi-finished goods, and fuel and lubricants.

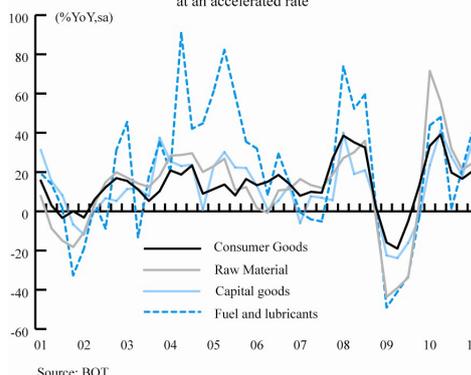
Import value in US dollar terms increased by 25.6 percent. All imported categories experienced an upturn.

After seasonally adjustment, the expansion of import value, volume and price were recorded in all categories. **Import value of capital goods** increased by 36.2 percent, accelerated from 17.8 percent in the previous quarter. They were computer and accessories, electrical machinery and parts, and metal equipments. **Raw materials and intermediate goods** expanded by 24.8 percent, increased from 21.8 percent in the previous quarter, following an increase in domestic demand. **Consumer goods** grew by 20.7 percent, continued from 17.3 percent in the previous quarter, which was in line with an expansion of private consumption expenditure. **Fuel and lubricants** increased by 41.9 percent, accelerated from 22.4 percent in the fourth quarter of last year (volume and price grew by 13.4 and 25.2 percent respectively), following an increase in domestic demand and a continued rising of world crude oil price due to high demand during the winter and political unrest in North Africa and Middle East regions.

Fuel and lubricants experienced an increase on volume, value and price

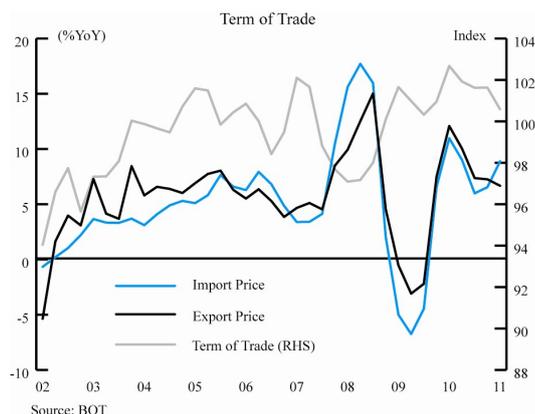


Import value in all commodities (seasonally adjusted) expanded at an accelerated rate



Term of trade decreased from the previous quarter. Export price increased by 6.7 percent, while import price considerably increased by 8.9 percent, mainly resulted from higher oil price. Hence, term of trade in the first quarter of 2011 contracted by 2.0 percent, decelerated for the first time in last 10 quarters.

Term of trade decreased by 2.0 percent, mainly resulted from high import price.



Trade balance registered a slowdown on surplus. Trade balance recorded a surplus of 3,334 million US dollars (equivalent to 101,845 million baht), compared to a surplus of 4,072 million US dollars (equivalent to 122,001 million baht) in the previous quarter.

Trade balance registered a slowdown on surplus.

Production Side

Agricultural Sector expanded by 6.7 percent in the first quarter as the result of an increase in a production of paddy, maize and rubber that rose by 71.7, 75.3 and 10.2 percent respectively. The increase was due to (i) government’s income guarantee scheme for farmers that guarantee crop prices and (ii) a high agricultural product price in the previous year. However, oil palm and cassava production dropped by 26.1 and 1.1 percent respectively owing to flood in many oil palm planting areas during 2010 to 2011 and the outbreak of mealy bug in cassava.

Both domestic and global demand drove agricultural products price up by 30.0 percent, particularly, the price of palm oil, rubber sheets no. 3 and cassava rose by 90.6, 61.4 and 55.8 percent respectively. Additionally, the increase in price was due to a shortage of oil palm in domestic market as the production of oil palm was not enough to meet its demand. Paddy price fell down by 5.8 percent, compared to the same period of previous year. This was caused by a severe price competition in the global market and the release of government rice stock in late 2010.

Prices of egg and poultry grew by 14.5 and 6.7 percent respectively due to low production that was expected by a high temperature in this season. Conversely, swine price decreased by 1.7 percent compared to an expansion of 4.5 percent in the previous quarter. The drop in swine price was due to excess supply.

Fishery price rose by 23.7 percent owing to the shortage of shrimp supply in the world market as there was disease epidemic in shrimp in Indonesia. In conclusion, farm income increased by 41.0 as a result of the increase of both volumes and prices.

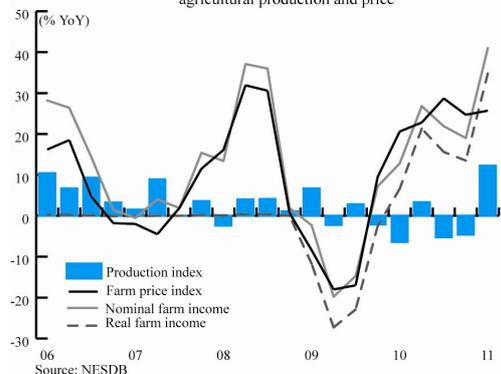
Agricultural sector expanded by 6.7 percent, decelerated from the previous quarter. This was a result of a price incentive that drove major crops to grow by 16.1 percent.

Agricultural Production

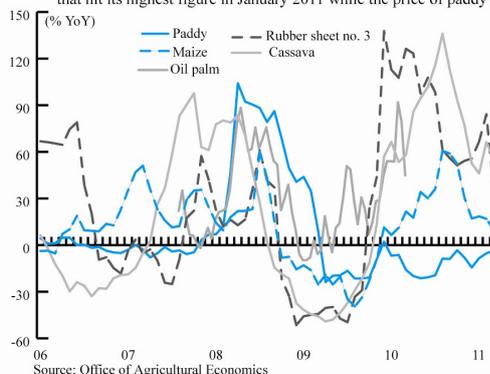
%YoY	2008	2009					2010					2011
	Year	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Q1
Production Index	1.6	0.8	6.7	-2.2	2.8	-2.1	-3.5	-6.4	3.3	-5.2	-4.6	12.2
Farm Price Index	19.6	-9.4	-8.4	-18.0	-17.0	9.5	24.2	20.6	22.8	28.7	24.7	25.7
Nominal Farm Income	21.4	-8.6	-2.3	-19.8	-14.7	7.2	19.9	12.8	26.8	21.9	19.0	41.0
Real Farm Income	21.4	-17.5	-11.7	-27.3	-22.9	-2.5	13.9	6.6	21.4	15.6	13.5	34.8

Source: Bank of Thailand

Farm income dramatically increased by 41.0 percent as a result of a rise in agricultural production and price



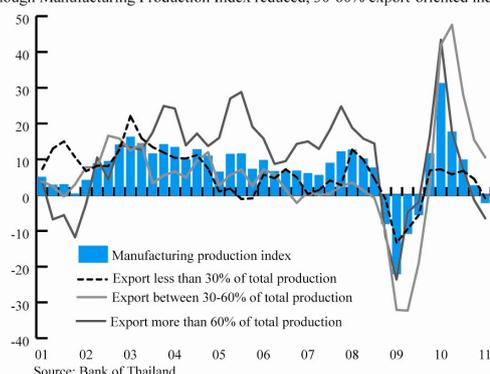
Farm prices: prices of major crops rose as demand increased, particularly price of oil palm that hit its highest figure in January 2011 while the price of paddy declined



Manufacturing Sector expanded at slower pace by 1.7 percent compared with 4.8 percent of the previous quarter. Sugar, plastic and automobile continued to increase by 16.5, 3.0 and 11.0 percent respectively, following steady increase in domestic and external demand. Moreover, major automotive manufacturers have launched Eco cars which would offer more choice consumers. On the contrary, production for domestic and export industries dropped by 0.9 and 6.5 percent respectively. Particularly, petrochemical declined by 7.3 due to refinery plants were temporary closed for repairing more than 3 weeks. Steel industry also reduced its production capacity after China adopted anti-dumping (AD) measure against Thailand. Cement also declined by 0.2 percent following slowed down construction sector. Lastly, hard-disk-drive production fell by 13.8 percent as a result of the high base effect of previous year.

The Capacity Utilization in the first quarter was at 62.6 percent, down from 62.8 percent in the same period of last year. The major industries which employed capacity utilization above 80 percent were automobile (83.9 percent), motorcycle (89.7 percent), upstream chemical (87.8 percent), beverage (93.7 percent), rubber and rubber products (82.5 percent) and plastic resin (76.4 percent)

Although Manufacturing Production Index reduced, 30-60% export-oriented industries still expanded



Construction sector contracted by 1.3 percent as a public construction declined by 8.8 percent due to the nearly ended investment projects under SP2. On the other hand, private construction accelerated by 5.8 percent supported by cement and steel sales that expanded by 3.7 and 16.0 percent respectively. Additionally, the total permitted construction areas in municipal zone expanded by 7.8 percent. In particular, the residential, commercial and industrial construction areas expanded by 5.4, 8.5 and 21.4 percent respectively. The strong evidence was the expansion of new detached house, townhouse and condominium. Moreover, there was investment of retail business in new branches and of some industries to increase its capacity such as; integrated circuit (IC), base chemical and machinery.

The construction material price index grew by 6.2 percent due to a rising in price of all construction material, especially prices of steel, cement and wood which expanded by 14.0, 9.3 and 4.5 percent respectively. Thus, these increase in construction material price would result in a higher cost of production and, in turn, would drive the standard construction index to be higher at 3.1 percent.

Real estate sector expanded by 4.6 percent, which was driven by increasing demand for real estate in accordance with continuous economic growth. The expansion coincides with housing loans that rose by 8.4 percent. Moreover, in the first quarter, the Housing Developer's Sentiment Index (HDSI) stood at 51.2, down from 55.0 in the previous quarter. The HDSI of listed company dropped from 59.7 in the previous quarter of 2010 to 52.1 in the first quarter of 2011. Also, The HDSI of non-listed company stood at 50.2, slightly decrease from 50.3 in the

Manufacturing sector grew by 1.7 percent according to decline of HDD and petrochemical industries.

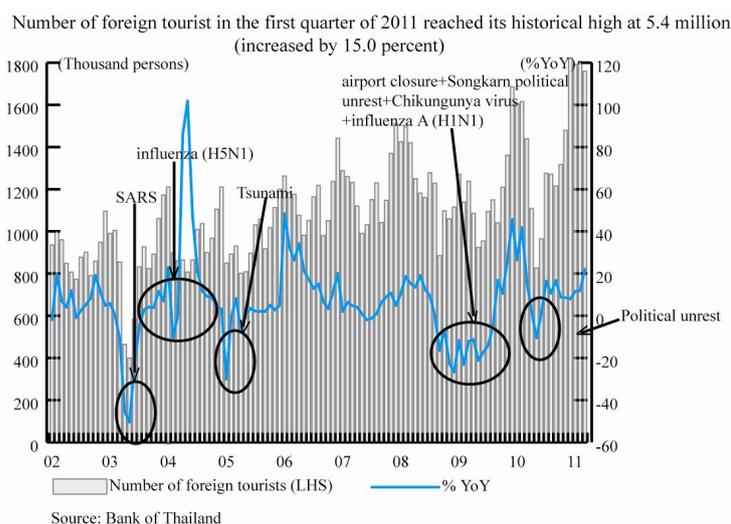
Capacity utilization was at 62.6 percent.

Construction sector decreased by 1.3 percent due to public constructions. On the other hand, private construction increased owing to cement, steel sale and permitted construction area.

Real estate sector continued to expanded, due to strong economic growth.

previous quarter. The deceleration of real estate sector was owing to an excess supply and a rising interest rate.

Hotel and Restaurants expanded by 8.1 percent, compared to the same period of previous year. The inbound tourists in this quarter recorded its historical high at 5.4 million people, grew by 15.0 percent mainly due to an increase of tourists from China, Korea, France and Malaysia, which expanded by 29.5, 17.9, 17.0 and 14.7 percent respectively. Consequently occupancy rate increased to 64.6 percent of occupancy, compared to 61.0 percent in the same quarter of last year and 54.3 percent in previous quarter.

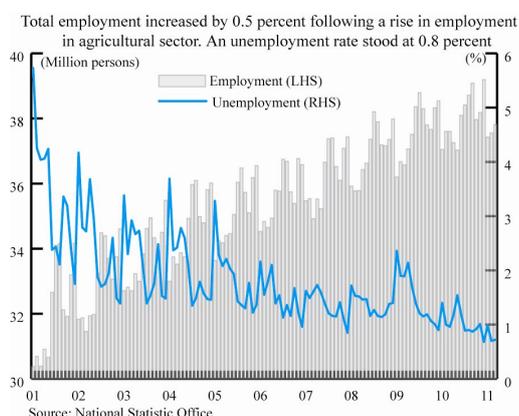


Hotel and restaurants expanded by 8.1 percent. The number of inbound tourists showed at 5.4 million persons with an impressive growth of 15 percent due to an increase of tourists, particularly from China, Korea, France and Malaysia.

Employment in the first quarter of 2011 stood at 37.6 million persons, increased by 0.5 percent compared to the same period of last year. Employment in agricultural sector grew by 2.5 percent due to higher wage rate in sector induced by high agricultural products prices. On the contrary, employment in non-agricultural sector decreased by 0.6 percent, particularly in transport, hotel and restaurant, and wholesale and retail trade sectors declined by 16.6, 9.3 and 3.2 percent respectively.

Unemployment rate declined to 0.8 percent while employment in agricultural sector grew by 2.5 percent.

Number of unemployment in the first quarter was 305,993 people, decreased by 125,697 persons from the same period of previous year, or contracted by 22.3 percent. While the unemployment rate was consecutively low at 0.8 percent.



Employed Persons by Industry

%YOY	2008	2009	2010				2011				
	Year	Year	Year	Q1	Q2	Q3	Q4	Jan	Feb	Mar	Q1
Employment	2.1	1.9	1.0	2.6	-0.5	0.8	0.7	1.0	-0.1	0.6	0.5
- Agricultural	2.7	-0.1	0.5	2.8	-6.6	-1.2	3.9	3.4	4.2	0.0	2.5
- Non-Agricultural	1.7	3.1	1.3	2.5	3.1	2.3	-1.3	-0.3	-2.3	0.8	-0.6
Manufacturing	-3.0	-1.5	-1.3	-1.1	0.8	-2.3	-2.1	4.0	-7.6	5.9	0.6
Construction	3.0	4.0	2.2	-1.2	9.3	1.9	-3.0	-3.6	10.1	8.2	4.9
Hotel and Restaurant	1.8	8.8	1.3	10.3	1.7	0.1	-4.8	-9.0	-64.4	-2.3	-9.3
Wholesale	1.1	5.1	3.0	2.9	4.9	4.1	-0.5	1.0	-5.2	-5.3	3.2
Unemployment (Hundred thousand persons)	5.2	5.7	4.0	4.3	5.0	3.4	3.3	3.7	2.7	2.8	3.1
Unemployment Rate	1.4	1.5	1.0	1.1	1.3	0.9	0.9	1.0	0.7	0.7	0.8

Source: NESDB

The ratio of vacancies over new registered applicants equaled to 1.0, reflecting the continual shortage of labor supply through the year 2010 which was recorded at 1.0, 0.7, 1.0 and 1.2 in the first to the fourth quarter of 2010 consecutively. Owing to tight labor market, the manufacturer therefore expanded working hour. This was shown by the increasing number of overtime workers by 4.9 percent in the first quarter.

□ Fiscal condition

Fiscal condition: In the second quarter of fiscal year 2011 (January – March 2011) government revenue was 397,203.5 million baht, exceeded the target by 60,345.5 million baht or 17.9 percent and grew by 18.1 percent compared to the same period of last year. The revenue collection remained high since fiscal year 2010. For the first half of fiscal year 2011, government revenue already exceeded the target by 104,842.0 million or 15.3 percent. Tax category which experienced a high collection rate were personal income tax, value added tax and automobile tax. Such high level of revenue collection was due to strong growth in private consumption, escalation of agriculture commodities price and sound performance of private sector. However, revenue collection in the later half is expected to slowdown but remain in the target range, as a result of a reduction in oil excise taxes and a slowdown in automotive production.

On the expenditure side, the total budget disbursement was 599,969.1 million baht. The total budget disbursement comprise of (i) the 2011 budget disbursement of 516,672.5 million baht, equivalent to 25.0 percent of the annual budget (exceeded the set target of 24.0 percent). In details, the 2011 budget disbursement included (a) current budget disbursement of 409,982.1 million baht or 23.8 percent of the total current budget, and (b) capital budget disbursement of 106,690.5 million baht, equivalent to 31.0 percent of the total capital budget, higher than the set target of 25.0 percent, and (ii) carry-over budget disbursement of 43,296.6 million baht, equivalent to 26.4 percent of the total carry-over budget, slowed down by 11.9 percent compared to the same period of last year. Despite the expected slowdown in the later half, the total disbursement for fiscal year 2011 is expected to achieve the target of 93.0 percent.

The stimulus package 2 (SP2), the total budget allocated for SP2 was 14,350.1 billion baht which disbursement was 79.7 percent less than the previous quarter. As a result, government

Government revenue exceeded the target 17.9 percent, continued from the first quarter of fiscal year 2011.

The budget disbursement was 25.0 percent of the annual budget 2011, be similar to target, while, the carry-over budget and SP2 slowed down.

accelerated disbursement the budget for general subsidies (guarantee price sector). While, The total budget allocated for SP2, at the end of the second quarter of fiscal year 2011, was at 341,493.4 million baht. The total disbursement was at 271,411.5 million baht or 79.5 percent of the total allocated budget. In the conclusion, the disbursement level was continued to decline due to the investment projects under SP2 approached final implementation phase.

Fiscal Balance

Unit : Million Baht

Fiscal year	2010						2011		
	Q1	Q2	H1	Q3	Q4	Year	Q1	Q2	H1
Government Revenue	348,962.3	336,235.9	685,251.8	554,866.1	448,041.9	1,678,911.0	392,328.0	397,203.5	793,408.0
Compared with the target (%)	24.1	26.8	25.4	22.0	25.8	24.4	12.7	17.9	15.3
Compared with prior year (%)	25.9	17.7	21.7	20.6	15.5	19.0	12.6	18.1	15.8
Budget Disbursement	396,783.7	432,449.6	829,233.2	379,459.5	419,153.5	1,627,846.3	553,781.4	516,672.5	1,070,454.0
Percent Of annual budget ¹ (%)	23.3	25.4	48.8	22.3	24.7	95.8	26.7	25.0	51.7
Higher/lower than target (%)	3.3	2.4	5.8	-2.7	-1.3	1.8	6.7	1.0	7.7
SP2 Disbursement	20,150.8	70,753.2	90,904.0	73,074.8	55,519.0	219,497.8	22,692.0	14,350.1	37,042.1
Percent Of total SP2 budget ² (%)	5.8	20.2	26.0	20.9	15.9	62.7	6.5	4.1	10.6
Percent Of total allocated budget ³ (%)	5.9	20.7	26.6	21.4	16.3	64.3	6.6	4.2	10.8
Cumulative Disbursement	35,022.4	105,775.6	105,775.6	178,850.4	234,369.5	234,369.5	257,061.4	271,411.5	271,411.5

Source : FPO & GFMIS

Remarks ¹ Total annual budget 2,070,000 million Baht² Total SP2 Budget 350,000 million Baht³ Total allocate budget 341,493.4 Million Baht (As Of the quarter 2 Of fiscal year 2001)

Fiscal balance in the second quarter of fiscal year 2011, the budget balance on cash basis recorded a deficit of 259,627.4 million baht. In detail, budget balance and non-budgetary balance recorded a deficit of 171,168.7 and 88,458.7 million baht respectively. Moreover, government has conducted a cash balance management, that was consistent with budget demand and improve country fiscal stability, through deficit financing in the amount of 60,584.0 million baht. As a result, budget cash balance, after borrowing, registered a deficit of 199,043.4 million baht. At the end of March 2011, the treasury reserve recorded a total of 114,386 million baht.

Public debt at the end of March 2011 amount to 4,246,114.1 million baht, declined by 35,989.0 million baht or by 0.8 percent from the end of December 2010. The ratio of public debt to GDP was at 41.3 percent declined from 42.4 percent at the end of December 2010.

Public debt at the end of March 2011 was 41.3 percent of GDP, which maintained levels within the fiscal sustainability framework.

Public Debt

Unit : Billion Baht

Fiscal year	2005	2006	2007	2008	2009	2010				2011	
						Q1	Q2	Q3	Q4	Q1	Q2
Public Debt end of period	3,276.4	3,233.1	3,183.4	3,408.3	4,002.0	3,967.5	4,124.7	4,202.4	4,230.7	4,282.1	4,246.1
Public Debt to GDP (%)	46.2	41.2	37.3	37.5	44.3	43.9	40.8	41.6	41.9	42.4	41.3
Direct Government	1,827.0	1,967.7	2,051.4	2,162.1	2,586.5	2,588.1	2,762.3	2,864.7	2,907.5	3,002.4	2,988.8
Non-Financial State Enterprise Debt	1,012.8	911.5	911.3	988.5	1,108.7	1,098.3	1,103.7	1,095.3	1,084.0	1,081.0	1,065.9
Special Financial Institutions Guaranteed Debt	0.0	0.0	0.0	102.3	208.7	198.4	188.6	180.5	177.2	168.1	160.3
FIDF Debt (Liabilities)	436.6	273.5	185.2	138.2	98.1	82.6	70.1	61.9	62.1	30.6	31.1
Autonomous Agency Debt (VF & EFPO)	0.0	80.4	35.6	17.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source : MOF

Financial Condition

Policy rate continued to increase. During the first quarter, the Monetary Policy Committee (MPC) decided to raise the policy rate twice, totaled of 0.5 percent, from 2.00 percent to 2.50 percent per annum. The decision was made in order to normalize policy rate, and to reduce the elevated inflationary pressure caused by higher oil price and commodities. Furthermore, inflation expectation was increased following economic expansion. Similarly, policy rate in many emerging markets, such as China, India, South Korea, Brazil and Russia, were adjusted upward to cope with increasing inflationary pressure. On the other hand, the Federal Reserve and Bank of England decided to maintain their policy rates to support their economic recovery. In addition, Japan remained its policy rate at the low level to alleviate the effect from earthquake and tsunami disaster. **In April**, MPC decided to raise the policy rate by 0.25 percent as inflationary pressure continually increased. Therefore, Thai policy rate was at 2.75 percent per annum. Likewise, other countries such as European Union, China and Taiwan also raised their interest rates due to high inflationary pressure.

Commercial banks' interest rate increased as the policy rate hike. An average of 12-month deposit rate and MLR lending rate of four major banks continued to increase throughout the first quarter. At the end of the quarter, they were posted at 1.87 and 6.54 percent per annum respectively. Meanwhile, headline inflation rate slightly increased, at the end of the first quarter was at 3.1 percent. As a result, real lending rate increased to 3.40 percent per annum and real deposit rate was at -1.27 percent per annum. **In April**, inflation rate hiked to 4.0 percent, consequently, real lending and deposit rates dropped to 2.17 and -1.89 percent per annum respectively.

Policy rate was increased to reduce inflationary pressure.

Deposit rate and lending rate increased as the policy rate hike, while real deposit rate was still negative.

World Policy Rate Changes

Country	2008	2009	2010				2011				Unit : percent Policy Rate at the end of April 2011
			Q1	Q2	Q3	Q4	Jan	Feb	Mar	Apr	
Thailand	-0.5	-1.5			+0.5	+0.25	+0.25		+0.25	+0.25	2.75
USA	-2.75										0.25
Europe	-1.5	-1.5								+0.25	1.25
China	-2.16					+0.5		+0.25		+0.25	6.31
Japan	-0.4					0-0.1					0 - 0.1
Brazil	2.5	-5.0		+1.5	+0.5		+0.5		+0.5	+0.25	12.00
South Korea	-2.0	-1.0			+0.25	+0.25	+0.25		+0.25		3.00
India	-1.25	-1.75	+0.25	+0.25	+0.75	+0.25	+0.25		+0.25		6.75
Russia	+3.0	-4.25	-0.5	-0.25				+0.25			8.00

Source: BOT, Collected by NESDB

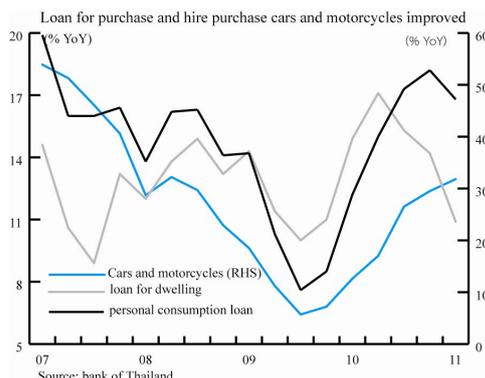
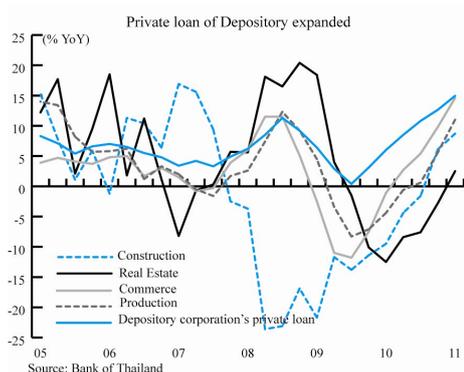
Deposit including bill of exchange (B/E) of Depository Corporations expanded by 12.6 percent, increased from 10.9 percent in the previous quarter. This was contributed by 59.1 percent acceleration of bill of exchange (B/E) and 9.1 percent expansion in deposit. The Deposit Protection Agency Act which will be enforced in August¹ 2011 has caused depositor to reallocate their savings into smaller account (less than 50 million baht) or B/E that gives greater return.

Depository corporations' deposit expanded.

Private loan increased due to an expansion of loan for purchase and hire purchase cars and motorcycles.

¹ Deposit Protection Agency Act 2008, according to the Act, during the 11th Aug 2011- the 10th Aug 2012, protects the deposit not exceeding 50 million baht per person per financial institution, and from the 11th Aug 2012, guarantees the amount of deposit no more than 1 million baht per person per financial institution.

Similarly, private loan (excluding unpaid receivable interest) increased by 15.0 percent, accelerated from 12.6 percent in the preceding quarter. The expansion was mainly due to an acceleration of corporate loan that grew in a robust pace following economic growth. In addition, household loan continued to increase, particularly in loan for purchase and hire purchase cars and motorcycles, while loan for housing decelerated. Number of credit cards increased, but credit outstanding declined because of slow down in consumer spending. Moreover, NPLs² to outstanding loan showed a continuous improvement, from 1.9 percent in the previous quarter to 1.7 percent at the end of current quarter, as a result of an increase in principle repayment, debt restructuring, and amortization for bad debts.

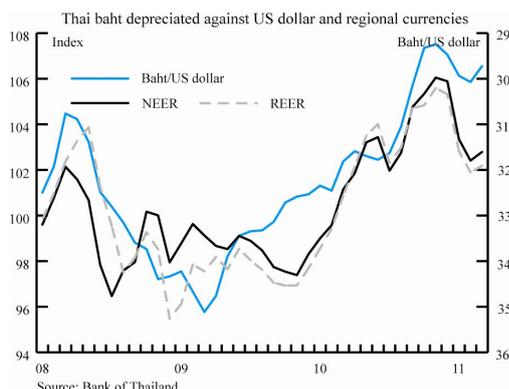


Commercial bank's credit (excluding repurchase position (R/P)) to deposits (including B/E) ratio slightly increased to 92.2 percent at the end of current quarter. On the other hand, excess liquidity in commercial banking system grew from 1.24 trillion baht from the previous quarter to 1.46 trillion baht, which would be sufficient to facilitate loan extension in the future.

Credit to deposit ratio slightly increased, while excess liquidity remained high.

Thai baht slightly depreciated against US dollar. An average exchange rate in the first quarter of 2011 was at 30.554 baht per US dollar, depreciated by 1.9 percent from the previous quarter, but still appreciated from the same period of last year by 7.0 percent. During the first half of the quarter, Thai baht depreciated in accordance with the heightening in regional inflation risk and Middle East unrest. However, in the later half of the quarter, Thai baht appreciated as situation in the Middle East started to ease out. Consequently, this attracted capital inflow into Stock Exchange of Thailand and Bond market, compared with other regional currencies including that of export-competing-countries, Thai baht slightly depreciated. Nominal effective exchange rate (NEER) and real effective exchange rate (REER) decreased by 2.75 percent and 2.80 percent respectively. In April, Thai baht continued to appreciate to an average of 30.054 baht per US dollar. An average exchange rate over the period of 1st – 19th May was at 30.091 baht per US dollar.

Thai baht slightly depreciated against US dollar in accordance with the heightening in regional inflation risk.



² NPLs in financial institutions (excluding BIF and credit fanciers).

Capital and financial account recorded a net inflow³. In the first quarter of 2011, capital and financial account recorded a net inflow of 1.14 billion US dollar, substantially reduced from 3.09 billion US dollar in the previous quarter. The decline in net inflow was mainly contributed by outflow of non-banking sector in the amount of 967 million US dollar. Mainly owing to an increase in outflow of trade credits by Thai's exporter, and 2.32 billion US dollar loan extension of state-owned enterprises sector.

Capital and Financial Account

(Billion US Dollars)	2009	2010					2011
		Year	Q1	Q2	Q3	Q4	Q1
Monetary authorities	1.48	2.66	0.59	0.02	0.77	1.32	1.69
Government	0.59	3.28	0.75	0.39	1.85	0.29	0.64
Bank	7.85	9.79	1.43	2.10	2.87	3.39	2.09
Non-Bank	-12.69	0.19	1.01	-1.37	2.46	-1.91	-3.29
FDI	-10.08	-1.43	0.97	-1.82	1.36	-1.94	-0.97
Foreign	4.49	4.44	1.53	0.91	1.50	0.50	-0.08
Local	-7.70	2.21	1.37	-0.44	0.87	0.41	1.87
State Enterprises	-2.61	1.62	0.04	0.45	1.10	0.03	-2.32
Total Capital and Financial Account	-2.78	15.92	3.78	1.10	7.95	3.09	1.14

Source: BOT

Current account registered a surplus of 6,795 million US dollars (equivalent to 207,903 million baht), continued from a surplus of 5,509 million US dollars in the previous quarter. This was attributed by trade balance surplus of 3,335 million US dollars and income and transfer surplus of 3,460 million US dollars.

International Reserve at the end of March 2011 stood at 181.58 billion US dollars⁴ (excluding Net Forward Position of 21.03 billion US dollars), which was 3.9 times of short-term foreign debt or 9.4 months of import value.

Headline inflation was at 3.0 percent, increased from 2.8 percent in the previous quarter, owing to an increase in price of fresh foods (particularly fruits and vegetables), as well as higher oil price. Food and beverage price index escalated by 5.7 percent, mainly resulted from an increase in price of fruits and vegetables. This was attributable to high demand on agricultural products as well as low domestic and external supply from an effect of natural disaster. Whereas non-food and beverage price index increased by 1.5 percent, mainly due to higher oil price, following a rise in world crude oil price. Core inflation (excluding fresh food and energy) in the first quarter was at 1.5 percent, increased from 1.2 percent in the previous quarter. There was a trend for core inflation to move into the middle of the target inflation rate of 0.5 – 3.0 percent. In addition, core inflation increased by 1.5 percent since December 2010, this reflected an upward trend of most commodities' prices excluding fresh food and energy. Therefore, Bank of Thailand increased policy rate in order to reduce inflation pressure that is anticipated to increase and to maintain domestic economic stability.⁵

Producer price index in the first quarter of 2011 was at 6.4 percent, increased from 6.3 percent in the preceding quarter. Key contributing factor to this phenomenon was higher prices of manufacturing products (particularly petroleum, rubber and plastic products), in accordance with an increase in world price. Moreover, this reflected the pressure toward the production cost, specifically non-food raw materials.⁶

The net inflow declined, caused by an increase in outflow of non-bank and state-owned enterprises sectors.

Current account continued surplus from the previous quarter.

International reserve at the end of March 2011 stood at 181.58 billion US dollars.

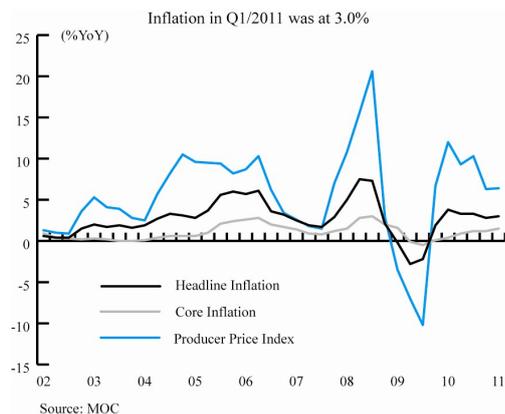
Headline Inflation in the first quarter of 2011 was at 3.0 percent, increased from the previous quarter.

³ Capital and Financial account figure at the end of first quarter preliminary data from Bank of Thailand, which is subjected to changed

⁴ International Reserve at the end of April 2011 stood at 189.88 billion US dollars.

⁵ In April 2011, headline inflation was at 4.0 percent and core inflation was at 2.1 percent. Therefore, in the first four months, headline inflation was at 3.3 percent and core inflation was at 1.6 percent.

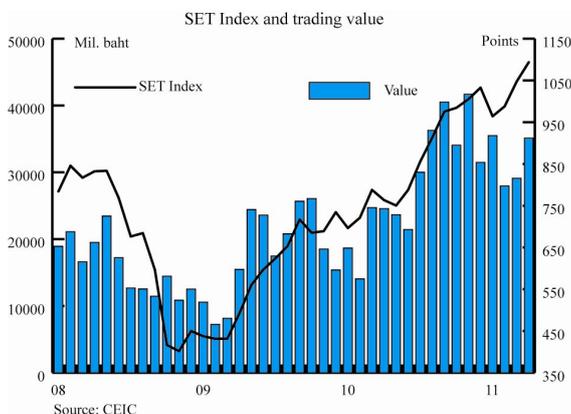
⁶ In April 2011, producer price index was at 6.6 percent, and in the first four months, producer price index was at 6.4 percent.



SET index slightly improved. At the end of the first quarter, SET index closed at 1,047.5 points, slightly increased by 1.4 percent from the previous quarter. During the first half of the quarter, SET index dropped significantly in accordance with a reallocation of investment by foreign investor in order to reduce their overall risks from hiking in regional inflation risk and unstable political situation in the Middle East. Nevertheless, the current high level of world money supply accompanies with sound economic fundamental and strong performance of listed companies have reverted SET index back to an upward trend in the latter half of the quarter. This was reflected in the foreign investor net position which shifted from a net sale of 28.6 billion baht in January to a net buy of 28.1 billion baht in the last two months. Moreover, average daily trading value slightly declined from 35.9 to 30.8 billion baht in this quarter.

In April 2011, SET index continued to increase and closed at 1,093.6 points. Average daily trading value was 35.1 billion baht with foreign investors' posted a net buy of 29.5 billion baht.

Foreign investors' net position shifted to a net buy in the last two months.



Foreign investors' net buy position in bond market improved significantly. Daily average outright trading in the first quarter registered at 80.8 billion baht, slightly increased from 77.0 billion baht in the previous quarter. Foreign investors' recorded a net buy of 292.7 billion baht, compared with 126.5 billion baht in the previous quarter which is expanded by 105.8 percent. This was due to an expectation of Asian region interest rate hike that would further widen the gap between Asian region rate and Federal Fund rate. This reflected the favoring condition of ample money supply caused by the quantitative easing measure also amplified the foreign investor demand.

In April 2011, daily average outright trading increased to 96.7 billion baht with foreign investor posted a net buy of 152.9 billion baht. As a result, total net buy of foreign investor from January to April recorded at 445.6 billion baht, higher than total net buy of 322.4 billion baht in 2010.

Foreign investor recorded a net buy of 292.7 billion baht.

Set and Bond market performance

(Billion Baht)	2008	2009			2010				2011		
	Year	H1	H2	Year	Q1	Q2	Q3	Q4	Year	Q1	Year
Stock Market											
SET Index	450.0	597.5	734.5	734.5	788.0	797.3	975.3	1,032.8	1,032.8	1,047.5	1,093.6
Daily Average Trading	15.9	14.8	20.8	17.8	19.3	23.1	35.7	35.9	28.7	30.8	35.1
Foreign Investors' Net Trading	-162.3	20.2	18.0	38.2	42.5	-59.9	58.9	40.1	81.7	-0.6	29.5
Bond Market											
Gross Price Index	113.2	105.6	103.5	103.5	104.6	108.0	108.9	104.9	104.9	104.2	104.5
Daily average Outright Trading Value	70.3	67.5	52.6	59.9	61.4	64.8	70.9	77.0	68.6	80.8	96.7
Net Trading of foreign Investors	68.4	-0.4	23.5	23.1	25.83	21.64	148.49	126.45	322.4	292.7	152.9

Source: SET and ThaiBMA

Corporate fundraising improved in tandem with economic expansion. Private fundraising totaled at 421.1 billion baht, increased from 221.0 billion baht in the same period of last year. Debt securities issuance accounted for 382.5 billion baht. The majority of debt securities issuance came from banking, finance, insurance and leasing sector. Moreover, fundraising through equity securities significantly improved from the same period of 2010, with total of 38.6 billion baht which equivalent to a 250.9 percent growth. This indicated that business confidence and the acceleration of private investment during a sound economic expansion.

Corporate fundraising through debt and equity securities increased significantly.

Insurance of Private Securities in Primary Market

(Billion Baht)	2008	2009					2010					2011
	Year	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Q1
Equity Securities	45.0	32.8	11.0	3.4	7.9	10.4	96.2	19.8	37.1	22.0	17.3	38.6
Debt Securities	1,267.2	985.9	191.9	290.7	246.2	257.1	969.8	201.2	275.3	224.4	268.9	382.5
Short-term	981.4	571.8	109.8	134.9	157.2	170.0	682.5	144.4	164.5	178.2	195.4	329.8
Long-term	285.8	414.1	82.1	155.8	89.0	87.1	287.3	56.85	110.7	46.2	73.6	52.7
Total	1,312.2	1,018.7	202.9	294.1	254.1	267.5	1,066.0	221.0	312.4	246.4	286.2	421.1

Source: BOT

2. Crude Oil Price and Crude Oil Price Trend in 2011

□ Crude Oil Price in Q1/2011

World crude oil price in the first quarter of 2011 increased. This was driven by high demand during the winter season and political unrest in North Africa and Middle East regions. The average world crude oil price (Dubai, Brent, Oman, and WTI) stood at 100.02 US dollars per barrel, increased by 30.0 percent from 76.95 US dollars per barrel in the same period of last year.

World crude oil price increased, driven by high demand during the winter and political unrest in North Africa and Middle East regions.

Crude Oil Price						
US\$/Barrel		OMAN	DUBAI	BRENT	WTI	Average
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
	Q4	75.42	75.29	75.58	76.22	75.63
	Year	61.80	61.60	62.38	61.82	61.90
2010	Q1	76.08	75.69	77.28	78.72	76.95
	Q2	78.15	77.90	79.44	78.07	78.39
	Q3	73.84	73.83	76.74	75.70	75.03
	Q4	84.40	84.22	87.23	85.13	85.24
	Year	78.12	77.91	80.17	79.41	78.90
2011	Jan	92.33	92.16	96.95	89.71	92.79
	Feb	100.03	99.79	104.03	89.57	98.36
	Mar	109.28	108.56	114.67	103.18	108.92
	Q1	100.55	100.17	105.22	94.15	100.02
	Apr	116.49	115.93	123.20	110.41	116.51
	4 Months	104.53	104.11	109.71	98.22	104.14
	1-19 May	109.94	109.56	114.73	101.92	109.04
	19 May	107.50	106.60	111.42	98.44	105.99

Source: Thairoil PLC.

□ Crude Oil Price Trend in 2011

The average Dubai crude oil price in 2011 is expected to be in the range of 98-107 US dollars per barrel, higher than 77.91 US dollars per barrel in 2010. The average Dubai crude oil price in the first quarter of 2011 reached 100.17 US dollars per barrel. On May 19, 2011, Dubai crude oil price stood at 106.60 US dollars per barrel.

An average Dubai crude oil price in 2011 was expected to be in the range of 98-107 US dollars per barrel.

Various institutions forecasted that the WTI crude oil price in 2011 will be higher than the average WTI crude oil price in 2010 (79.41 US dollars per barrel). The Energy Information Administration (EIA) of USA expected that the average WTI oil price will be at 103 US dollars per barrel in 2011. Whereas Business Monitor International (BMI) of UK forecasted that the price will be at 81.93 US dollars per barrel. Morgan Stanley and Goldman Sachs expected that in 2011 the price will be over 100 and 105 US dollars per barrel respectively. Similarly, JP Morgan and International Monetary Fund (IMF) forecasted that the price will move up to 109.5 and 107.16 US dollars per barrel respectively.

Key factors affecting the oil price in 2011 include (i) global economic recovery; (ii) higher demand, specifically from China. EIA expected that in 2011, world oil consumption will increase to 1.4 million barrels per day; (iii) decreasing oil production in petroleum exporting countries; and (iv) uncertainty situation over political unrest in North Africa and Middle East regions.

WTI Oil Price Forecast for 2011

Institution	WTI oil price forecast in 2011
BMI (January 2011)	WTI = 81.93 US\$/Barrel
EIA (May 2011)	WTI = 103 US\$/Barrel
World Bank (December 2010)	WTI = 86.1 US\$/Barrel
Morgan Stanley (January 2011)	WTI = Over 100 US\$/Barrel
Goldman Sachs (January 2011)	WTI = 105 US\$/Barrel
JP Morgan (May 2011)	WTI = 109.5 US\$/Barrel
IMF (April 2011)	WTI = 107.16 US\$/Barrel

Source: Collected by NESDB.

3. Global Economic Performance in Q1/2011

The global economy in the first quarter of 2011 recorded a positive growth. However, there were decelerations in Japan, US, ASEAN, China and Newly Industrialized Economies (NIEs). While the Eurozone economy continued to expand. The slowdown in the economy was caused by both internal and external factors. On the one hand, monetary tightening for reducing inflationary pressure was an internal factor that caused the deceleration in consumption, investment and trade. On the other hand, the external factors comprised of multiple natural disasters in many economies as well as the price hikes of energy and food. Nevertheless, the increasing exports of major economies in the Eurozone, Germany in particular, alongside a growing domestic consumption in the region supported accelerating growth of the region. The summary of the economic performance in the main economies are illustrated as follows:

- ❑ **US Economy** expanded by 2.3 percent on a year-on-year basis, down from a 2.8 percent growth in the last quarter of 2010. On a seasonally adjusted quarter-on-quarter basis, the economy grew by 1.8 percent, as compared to a 3.1 percent growth in the previous quarter. The decelerated growth was a result of higher imports, decelerated household consumption expenditure and nonresidential fixed investment, a larger decrease in federal government spending as well as lower exports. However, inventory restocking increased from the previous quarter. The Purchasing Manager Index (PMI) in the first quarter reached 61.1, higher than 57.9 in the preceding quarter. Nonetheless, the PMI decreased slightly to 60.4 in April due to lower new order, decreased production and sluggish employment in manufacturing sector. Consumer Price Index (CPI) increased by 0.5 percent from the previous. Employment condition has been improved as the unemployment rate dropped from 9.6 percent from the preceding quarter to 8.9 percent in this quarter which is the lowest unemployment rate in 2 years. At the end of the first quarter of 2011, the number of unemployed persons stood at 13.5 million. Non-farm employment increased by 216,000 persons, up from 152,000 persons in the previous quarter. Moreover, in April non-farm employment rose by 244,000 persons, and the unemployment rate edged up to 9.0 percent, bringing the number of unemployed persons to 13.7 million. The US unemployment rate remained stubbornly high and it will take years to adjust the rate back to normal. In March, Standard and Poor (S&P) has cut the US outlook to negative, while keeping credit rating of long-term and short-term bond at AAA and A1+ respectively. The US economy is expected to grow by 2.8 percent in 2011, decelerated from 2.9 percent in the previous year.
- ❑ **Eurozone Economy** expanded by 2.5 percent on a year-on-year basis, up from a 2.0 percent growth in the previous quarter. On a seasonally adjusted quarter-on-quarter basis, the Eurozone economy grew by 0.8 percent, compared to a 0.3 percent growth in the previous quarter. Germany, France⁷ and the Netherlands economy improved due to increasing domestic consumption and exports, while PIIGS (Portugal, Italy, Ireland, Greece and Spain) surprisingly expanded although its chronic problems on high public debt and budget deficits. Particularly, Greece economy expanded for the first time since the fourth quarter of 2008. Portugal was the only PIIGS member that experienced a contraction for two consecutive quarters due to public debt problem. Unemployment remains stable at 9.9 percent, a slight improve from 10.0 percent

US economy expanded but at a decelerated rate due to higher imports, decelerations in household consumption expenditure and nonresidential fixed investment, and a larger decrease in federal government spending. However, unemployment situation showed a sign of improvement.

The Eurozone economy expanded due to improving trade balance. Unemployment remained stable at 9.9 percent, while inflation persisted at a moderate rate, but has tendency to rise. PIIGS grew faster than expected, particularly in Greece and Ireland, while Portuguese debt problem is to be in serious concerns.

⁷ France grew by 2.2 percent in the first quarter, the fastest pace since the second quarter of 2006, and expected to reach 2.0 percent growth target in 2011. Ireland is likely to expand at accelerated pace due to internal devaluation measures by rising wage to compensate the limitation of the single currency.

in the previous quarter. Spain recorded highest rate of unemployment of 20.6 percent. Inflation has continually rose at 2.5 percent, above the 2.0 percent target, and moved further in an upward trend. This was a pressure for ECB to increase the policy rate or implement the quantitative easing measure in some economy.

Key indicators in selected high public debt economies

Country	Debt/GDP	Public Debt as ratio of EA total public debt (%)	Budget deficits (% GDP)		Debt dued in 2011 (bn eur)	CDS of 10-year bonds (bps)	Unemployment Q1/2011 (%)
			2010	2011			
Greece	142.8	1.69	-10.5	-7.4	40.1	934.7	10.5
Ireland	96.2	1.82	-32.4	-10.3	11.9	552.8	14.8
Portugal	93.0	3.67	-9.1	-4.9	23.2	526.8	11.1
Spain	60.1	8.58	-9.2	-6.4	128.9	173.7	20.6
Italy	119.0	23.35	-4.6	-4.2	332.9	121.5	8.3
Belgium	96.8	4.40	-4.1	-4.7	70.1	68.4	7.7

Source: Thomson Reuters (24 Mar 2011) and EC (26 April 2011)

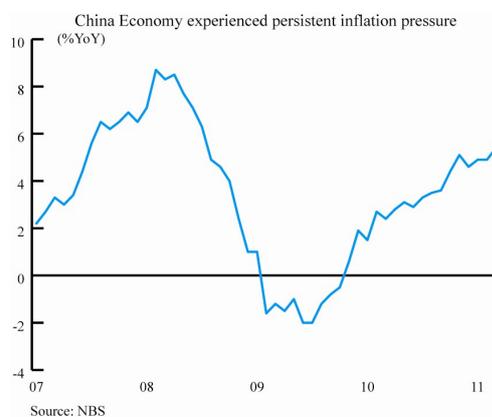
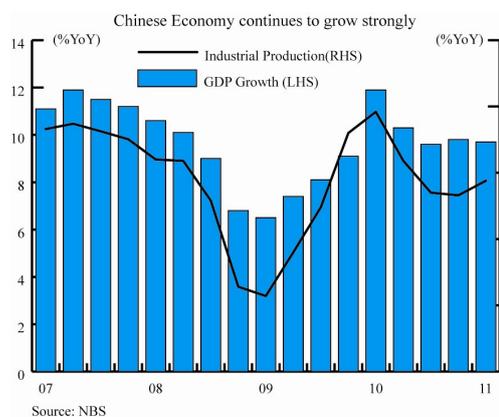
□ **Japanese Economy** contracted by 1.0 percent on a year-on-year basis, down from 2.2 percent growth in the fourth quarter of 2010. On a seasonally adjusted quarter-on-quarter basis, the economy contracted by 0.9 percent, down from the contraction of 0.8 percent in the previous quarter. The Japanese Economy showed a sign of recovery in the very beginning of this quarter, as can be seen from the Tankan survey, the index of sentiment of large manufacturers, which increased from 5 in the fourth quarter of last year to 6 in the first quarter of this year. Moreover, the manufacturing PMI increased from 47.6 in the preceding quarter to 50.2 in this quarter. However, the nation's strongest earthquake on record that hit the northeast region on March 11 has deteriorated the country's economic situation. The disaster resulted in fall in the PMI to 46.4 and 45.7 in March and April, respectively. The PMI in April was at the lowest level in two years. In addition, the industrial production in March contracted by 15.3 percent compared to last month and the retail sales contracted by 8.5 percent, the largest contraction in 13 years. Furthermore, Standard and Poor (S&P) has cut the Japanese outlook to negative from stable and affirmed its long-term sovereign credit rating on at AA-. S&P also stated that the huge cost of the devastating earthquake would dampen Japan's fiscal hardship.

□ **Chinese Economy** expanded by 9.7 percent on a year-on-year basis, down from a 9.8 percent growth in the previous quarter. On a seasonally adjusted quarter-on-quarter basis, the economy grew by 2.1 percent. This showed the sign of continuing growth of the Chinese economy, despite the implementation of tight monetary policy. The manufacturing PMI in the first quarter stood at 52.8, decreased from 54.6 in the preceding quarter. In February, the PMI reached its lowest point in 6 months at 52.2, however, it picked up to 53.4 in March. The PMI has remained at the level above 50 for 25 consecutive months. Industrial production in the first quarter of this year expanded by 14.4 percent, up from 13.3 percent in the previous quarter. Industrial production in March grew significantly by 14.8 percent in comparison to the same month of last year. The Chinese economy has experienced persistent inflation pressure, in which inflation rate reached 5.0 percent in this quarter, exceeding its 4.0 percent target. The Chinese government has implemented tight monetary policy including interest rate hikes and increase in bank's reserve requirement ratios (RRRs) to rein in inflation. The People's Bank of China recently lifted the RRRs for large and medium financial institutions to a record high of 21.0 and 18.0 percent respectively. The raise became effective on May 18 and this was the fifth move since the beginning of this year. Moreover, on April 5, the Central Bank raised the one-

The Japanese economy showed a sign of recovery in the very beginning of the quarter. However, the earthquake that hit the northeast region on March 11 has deteriorated the country's economic situation, and the economy may need a few years to rebuild.

Chinese economy continued to expand, however, at a decelerated pace due to high inflation and tight monetary policy.

year bank deposit rate by 0.25 percent, to 3.25 percent and the one-year lending rate by the same amount, to 6.31 percent. This interest hike was the fourth time in two quarters. Overall, the Chinese economy is expected to continuously expand due to strong domestic demand, huge trade surplus and persistent growth in investment.



- **Indian Economy** was likely to robustly grow but at a decelerated rate, as inflation has continued to rise at a faster pace. In March, the industrial production grew by 7.3 percent compared to the same month of last year, posing the fastest pace in five months. The expansion was significant as compared to a 3.7 percent gain in both January and February. In addition, India's HSBC PMI in the first quarter stood at 58.0, up from 57.8 in the previous quarter. However, the Indian economy continues to experience rising inflationary pressure. Due to increased energy, food, and other commodity prices, the inflation rate (Whole Sale Inflation-WPI) in the first quarter reached 8.9 percent, a rise from 8.7 percent in the preceding quarter. As a result, the Reserve Bank of India has persistently imposed tight monetary policy to curb inflation. On May 3, the Bank raised the repo rate by 50 basis points to 7.25 percent, the 9 interest hike since the beginning of 2010. Further interest rate hikes are also anticipated, until the inflation rate stays in the range of 4.0 to 4.5 percent.
- **Newly Industrialized Economies (NIEs)** in general, expanded at a decelerated pace. Singapore, South Korea and Taiwan grew at a rate of 8.5, 4.2 and 6.2 percent, decelerated from a 12.0, 4.8 and 6.9 percent growth in the previous quarter respectively. On the contrary, Hong Kong grew with the faster rate of 7.2 percent, compared to the 6.2 percent growth in the fourth quarter of last year. Key contributing factors to growth in these economies were the expansion in manufacturing sector, and export of goods and services. However, the persisting problem in the region was inflation. Hong Kong's inflation rate in March reached 4.6 percent, the highest level in 30 months (since August 2008). South Korea also experienced high inflationary pressure, as the inflation rate reached 4.5 percent in February, exceeding its 4.0 percent target. High inflationary pressure prompted the officials to implement tight monetary policy through raising interest rates. For example, on March 10, the Bank of Korea increased the policy rate to 3.0 percent per year. Likewise, the Bank of Taiwan raised its discount rate to 1.75 percent per year on March 31.
- **Australian Economy** was expected to expand at a decelerated rate due to the impacts of the country's double disasters alongside the Japanese disaster. Australian experienced trade deficit for the first time in eleven months, mainly due to the impacts of such disasters. The rise in private investment is expected to offset the fall in consumption, while housing market continued to contract. Unemployment remained unchanged at 5.0 percent. Upward price of oil

India Economy is likely to experience a robust growth but at a decelerated rate as inflation continued to rise at a faster pace.

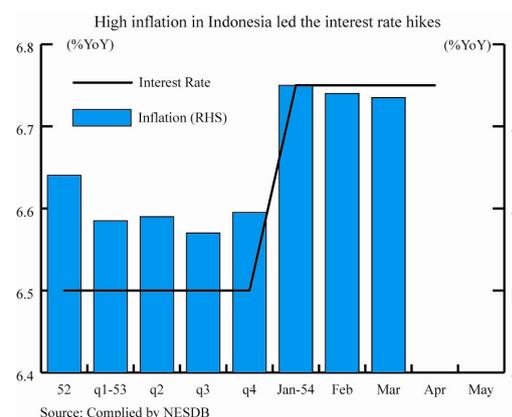
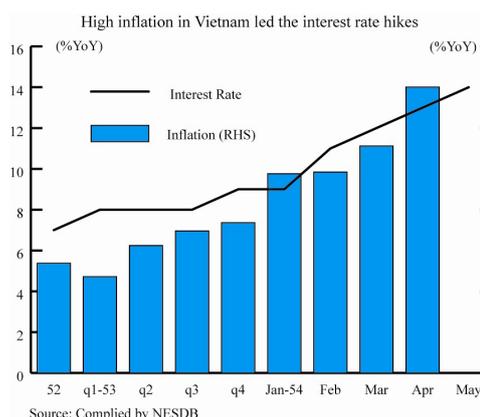
Most NIEs expanded, but at a decelerated pace, except Hong Kong that grew with a faster rate compared to the previous quarter. The key contributors to economic expansion were exports and industrial production. However, inflation and tight monetary policy could have negative impact on growth.

Growth in the first quarter of the year is expected to expand at decelerating pace due to double disasters causing the downward production and trade deficit for the first time in eleven months, while domestic demand appeared to be firm.

and food in combination with wage rise in mining industry pushed inflation rate to 3.3 percent, up from 2.7 percent in the previous quarter. However, the inflation trend relies on the disinflationary effect of the AUD appreciation and commodity prices.

- ASEAN-4 economy (Indonesia, Malaysia, Philippines and Vietnam):** Most countries continued to expand, but at decelerated pace. Vietnam, Malaysia and Indonesia, expanded by 5.4, 4.6 and 6.5 percent on a year-on-year basis, decelerated from 7.3, 4.8 and 6.9 percent in the previous quarter respectively. Vietnam and Indonesia have faced the chronic inflationary pressure that went upward to reach 12.8 and 6.8 percent in the first quarter respectively, compared to 4.0 and 2.8 percent in the Philippines and Malaysia respectively. High inflation and exchange rate depreciation may lead to further interest rate hikes in the coming quarters.

Most countries expanded, but at a decelerated pace, while inflation has become a major concern for Vietnam and Indonesia to bring out tighter monetary policy.



Global Economic Outlook

The world economy has shown a sign of recovery and tends to expand with mainly led by emerging economies. However, the expansion relies upon the combination of factors, including the deceleration in production, investment and consumption, the late effects of natural disasters in Japan, oil and food prices, and the chronic debt problem in the euro area. The likely increase of US and Australian exports in the next quarter supports the global continual recovery, while the rising prices of energy and food increases pressure on continuous tightening monetary measures, particularly for China, India, Vietnam and Latin America. On the other hand, the downward domestic demands in Japan and the UAE increase the probability to adopt quantitative easing measures to ease the problems of deflation. Overall, the world economy is expected to grow, but at a slower pace, compared to 2010.

GDP Growth of Major Economies

(%YoY) Countries	2008	2009	2010				2011		
	Year	Year	Year	Q1	Q2	Q3	Q4	Q1	Year*
World	2.3	-0.6	5.0	4.9	4.8	4.6	5.1	4.2	4.0
USA	0.0	-2.6	2.9	2.4	3.0	3.2	2.8	2.3	2.8
Eurozone	0.4	-4.0	1.7	0.8	2.0	2.0	2.0	2.5	1.6
UK	-0.1	-5.0	1.4	-0.3	1.6	2.7	1.7	1.8	1.7
Japan	-1.2	-6.3	4.0	5.6	3.1	5.0	2.2	-1.0	1.1
China	9.0	9.2	10.3	11.9	10.3	9.6	9.8	9.7	9.0
India	6.7	6.7	8.6	8.6	8.9	8.9	8.2	na	8.2
South Korea	2.3	0.2	6.1	8.1	7.2	4.4	4.8	4.2	4.5
Taiwan	0.7	-1.9	10.8	13.6	12.9	10.7	6.9	6.2	5.4
Hong Kong	2.3	-2.7	7.0	8.0	6.7	6.9	6.4	7.2	5.4
Singapore	1.5	-0.8	14.5	16.4	19.4	10.5	12.0	8.3	5.2
Malaysia	4.7	-1.7	7.2	10.1	8.9	5.3	4.8	4.6	5.5
Philippines	3.7	1.1	7.3	7.8	8.2	6.3	7.1	na	5.0
Vietnam	6.2	5.3	6.8	5.8	6.4	7.2	7.3	8.5	7.0
Indonesia	6.0	4.5	6.1	5.6	6.1	5.8	6.9	6.5	6.4

Source: Collected by NESDB, na- not available

4. Thai Economic Outlook for 2011

Thai economy in the first quarter of 2011 expanded by 3.0 percent, owing to increased demand and production. Key supporting factors for the increase on the expenditure side were the expansion of domestic private investment and export sectors, following a strong economic expansion of Asian trading partners. On the other hand, growth in production sector was driven by the expansion in agriculture, hotels and restaurants, and financial intermediation sectors. Meanwhile, industrial sector expanded at a decelerated rate.

Thai Economic Outlook in the second quarter of 2011, the industrial sector tends to slow down. Key factors responsible for this decline in growth are: (i) slower growth in automobile and its related industries owing to declined Japanese economy following the Tsunami on 11 March 2011; and (ii) lower production of the hard-disk-drive (HDD) owing to technological modification in order to generate the new products. In addition, agricultural sector is forecasted to show signs of slow down, owing to the high base effect and accelerated paddy harvest time. This will result in the output in the second quarter to decline, compared to the same period in 2010. Inflation is expected to exceed of that in the first quarter. On the other hand, there still remain positive factors which may aid economic expansion. These factors include: (i) a high number of foreign tourists in April that stood at 1.49 million persons (expanded by 35.2 percent from the same period of last year); (ii) increased government investment (the first time in the last four consecutive quarters); and (iii) continued expansion in export sectors.

Thai Economic Outlook in the second half of 2011 is expected to surpass that of the first half. Steady expansion in agricultural, industrial production and tourism sectors is believed to be the key factors responsible for this expansion. Nevertheless, manufacturing sector which has been affected by a shortage of parts from Japan will return to a normal condition and accelerate production. However, several factors pose risks to economic expansion in the second half of 2011. These factors include high inflation and increasing oil price.

□ Supporting Factors for Thai Economic Expansion

- (1) **The tourism sector has been improved continually** as evident from the historical high level of tourists in the first quarter 2011 which recorded a number of 5.36 million foreign visitors. Furthermore, it registered the total number of 1.49 million foreign visitors in April. Thus, for the first four months of the year 2011, there were as high as 6.85 million tourists visiting Thailand. Therefore, under the conditions of no further political instability and the continual economic expansion in Asia, it is anticipated that the 2011 tourist number will be around 18.0 million persons. This will cause the related businesses in production and service sectors to grow accordingly.
- (2) **Prices of agricultural products continue to increase** owing to a high demand in the world market, especially for the major crop products like rubber, palm oil, sugarcane and cassava. It is expected that the increase in agricultural product prices will raise farm income and will be one of the supporting factors that drive the private consumption higher.
- (3) **The economic liquidity and the pace of loan approval expansion are still in a good prospect.** Excess liquidity in commercial banking system in the first quarter 2011 was as high as 1.46 trillion baht. Furthermore, credit easing of commercial bank and a continually increase in credit approval of Specialized Financial Institutions (SFIs) will be key supporting factors for credit expansion and, thus, economic expansion in the future.
- (4) **Consumer and investor confidence are still at good levels.** The consumer confidence index stood at a high level owing to (i) an increase in minimum wage and civil servants'

Thai economy in 2011 is projected to grow 3.5-4.5 percent with 3.0-3.8 percent of inflation and current account will record a surplus of 3.1 percent to GDP.

salaries; (ii) a high growth in agricultural product prices; and (iii) low unemployment rate of 0.8 percent. In addition, the business sentiment index also registered a high level. This was due to (i) continued increase in demand for commodities; (ii) an impressive expansion of investment project approvals from the Board of Investment (BOI). During the first quarter of 2011, there were 451 applications, with the total value of 117.8 billion baht which increased by 57.7 and 12.8 percent respectively, compared to the same period of last year; and (iii) a tendency of Thai baht's appreciation which is also one of the supporting factors for an increase in investment, especially to import machineries used for capacity expansion.

- (5) **The potential of export competitiveness remains in a good prospect** as there is a tendency of China's yuan appreciation as well as an increase in production costs in Vietnam, Indonesia and India which was driven by a higher inflation and interest. Although Thai export prices tend to increase, it is concentrated in only agricultural products (expanded by 22.7 percent in the first quarter of 2011). On the other hand, high-technology export oriented industries, which accounted for the most of Thai exports volume, had only a minor increase of 4.3 percent in this quarter compared to the same period of last year.

□ Risk Factors and Limitations

- (1) **There is still instability in the world economy**, especially in the developed countries. Even though IMF maintains its world economic projection for the year 2011 which is estimated to expand 4.4 percent, the projection of economic expansion for those of developed economies has been reduced from 2.5 to 2.4 percent. It is expected that the US economy will grow at a good pace in the first half of 2011. However, there remains uncertainty after the end of quantitative easing program (QE2) as the US economy still faces a high unemployment rate, a fragile in real estate sector, and a high level of public and household debt. At the same time, the EU is facing high public debt and is also constrained by limitations in implementing the fiscal policy. Thus, the EU economic recovery would not be properly supported. In addition, the problem in Greece economy still remains. Across the world to Asia, it is very unfortunate that **Japan's** economy is greatly affected by the recent earthquake and tsunami. Consequently, it is expected that the damage on the Japanese economy will have an impact on the automotive and electronic industries in Thailand during the second and third quarters this year. While **China** experienced a high inflation rate of 5.3 percent (as of April 2011) and the average rate over the first 4 months was 5.1 percent. Thus a tight monetary policy was implemented in order to control the inflation and the prices in real estate sector. As a result, this probably slowdown the China's ongoing economic expansion.
- (2) **Oil price and inflation rate are expected to be higher, compared to the previous year's level.** A higher inflation is assured when the oil price remains at a high level for a long period of time. This persistence in oil price would drive inflation higher as it will lead to an increase in production cost. Moreover, higher agricultural product prices and demand for consumption commodities will also stimulate the inflation to be even higher. Likewise, the end of the diesel subsidy scheme in September will also raise the inflation expectation. It is believed that high inflation would affect Thai economy widely as it might reduce consumer and investor confidence. Additionally, it will also lead to a higher cost of production which is the source of difficulties in production planning and investment. Besides, a higher oil price will cause trade balance to decline.
- (3) **The interest rate is on its way up** which would negatively affect both producer and investor. Those in small and medium businesses will especially be affected because of their

limitation in fund access. They will also face a higher production cost which, in turn, reduces their competitiveness compared to those of large firms as the small and medium businesses will be charged with a higher loan rate.

- (4) **There will be an impact from a slowdown of Japanese economy** especially on Thailand's automotive and its related industries. The producers expect that the automobile production will be severely sluggish during June and July 2011 and will be reduced by about 150 thousand units or 10.7 percent of total produced cars in 2010. This also is a reduction of 8.3 percent from the target of automobile production set for this year which is estimated to be 1.8 million units. The impact is anticipated to occur during the second and third quarters of this year. Thus, not only the automotive industries would be greatly decelerated but, in turn, the production of the overall industrial sector will also decline.

□ Key Assumption for 2011 Projection

- (1) **The world economy in 2011 is likely to expand by 3.8 – 4.2 percent, the same as the prior expectation.** Meanwhile, the global trade volume is expected to increase by 6.7 – 7.7 percent, an upward revision from the previous forecast which anticipated the trade volume to grow by 6.6 – 7.6 percent.

US economy in the first quarter of 2011 rose by 2.3 percent, compared to the same period of last year, a 1.8 percent growth from the preceding quarter (qoq, sa annualized) which was below the expectation. Although unemployment rate decreased in the first quarter, it picked up to 9.0 percent again in April 2011. This reflects a fragile recovery of the US economy. Meanwhile, the real estate market remains low and is not showing a signal of its revival. In general, US economic position and indicators remain in the range of prior forecast. Thus, NESDB maintains the forecast of US economic growth at 2.8 percent.

EU economy in the first quarter of 2011 rose by 2.5 percent compared to the same period of last year while some of PIIGS economies contracted. Major risk factors for EU economy are: (i) high level of public debt and slow remedy. Thus the credit rating companies' revised their debt securities' credit downward continually; (ii) unemployment rate remained high; and (iii) an increase of inflationary pressure brought about an improvement of interest rate. Overall, the EU economic condition remains in the range of prior forecast with the satisfactory economic expansion of Germany and France. As a result, NESDB revised the EU economic growth upward from 1.4 percent to 1.6 percent.

Japanese economy contracted by 1.0 percent in the first quarter of 2011 due to the harsh effects of the natural disaster on 11 March 2011 and was anticipated to fall in the second quarter. In the latter half of this year, Japan's economy is likely to expand with the support from government investment to restore and construct public utility affected by the natural disaster. However, Japan still faces the following risks: (i) consumption and production sectors were still weak; (ii) the unemployment rate was high; and (iii) public debt was higher than 200 percent of GDP. Therefore, Japanese economy is anticipated to grow at the lower rate than the previous forecast; NESDB revised Japan's economic expansion downward from 1.3 percent to 1.1 percent.

Chinese economy in the first quarter rose by 9.7 percent though it faced the inflationary pressure and the implementation of tight monetary policy which are expected to continue for the rest of this year. Nevertheless, the domestic demand is forecasted to increase favorably together with the continual expansion of Asian major trading partners' economies. Hence, NESDB maintains the forecast of Chinese economic growth at 9.0 percent.

Key assumptions for the 2011 projection

- (1) Global economy and trade volume expand at 3.8-4.2 and 6.7-7.7 percent respectively*
- (2) Average Dubai crude oil price is 98-107 US dollars per barrel*
- (3) Average export and import prices (in US dollar terms) increase by 7.2 and 8.5 percent respectively*
- (4) Exchange rate is anticipated to be 29.5-30.5 baht per US dollar*
- (5) Number of tourists is approximately 18.0 million persons*

- (2) Average Dubai crude oil price in 2011 is predicted to be in the range of 98 - 107 US dollars per barrel**, an upward adjustment from the previous projection of 85-95 US dollars per barrel. In the first quarter of 2011, crude oil price stood at 100.17 US dollars per barrel and reached 115.93 US dollars per barrel in April 2011. Taken together, the average of crude oil prices during the first four months was 104.11 US dollars per barrel. In addition, fluctuations in crude oil prices are anticipated in the remaining period of 2011. Key supporting factors are: (i) fall in oil price pressure following downward revision of economic growth in developed countries and; (ii) increase in supply following an increase in oil production from 86.81 million barrels per day in 2010 to 87.81 million barrels per day in 2011. Nevertheless, there remain several factors which may lead to increase oil prices. Such factors are: (i) political unrest in OPEC countries in North Africa and Middle East countries and (ii) speculation by several hedge funds.
- (3) Export prices of goods in US dollar terms are forecasted to increase by 7.2 percent**, an upward adjustment from the previous forecast of 5.7 percent. Import prices in US dollar terms are projected to expand by 8.5 percent, an increase from 6.5 percent due to the revision of expected oil price and the forecast that agricultural export products are expected to remain elevated.
- (4) Exchange rate is forecasted to be in the range of 29.5 – 30.5 baht per US dollar**, the same figure to the latest forecast. Thai baht tends to appreciate slightly during the rest of this year together with the average exchange rate in the first quarter of 2011 at 30.55 baht per US dollars; consequently, the exchange rate is forecasted to move in the range of the earlier forecast.
- (5) Number of foreign tourists in 2011 is expected to reach 18.0 million persons**, an upward revision from the prior forecast of 16.8 – 17.0 million persons as a result of a satisfactory continual increase of the number of foreign tourists in the first quarter which revealed the historical high at 5.4 million persons and 1.49 million persons in April 2011, accumulated to be 6.85 million persons during the first four months. This reflects the high confidence of foreign tourists to travel to Thailand as well as the better climate of political situation.

□ Economic outlook for 2011

In the press release on May 23, 2011, NESDB maintains its economic forecast at the same level as the previous announcement on February 21, 2011. However, the economic growth components were revised according to the new assumptions. Thai economy is forecasted to expand between 3.5-4.5 percent, a deceleration from the 7.8 percent growth in 2010. Meanwhile, inflation rate is anticipated to be in the range of 3.0-3.8 percent, compared to the rise of 3.3 percent in 2010. Also, current account is likely to register a surplus of 3.1 percent of GDP, reducing from a 4.6 percent in 2010.

□ Projected growth components in 2011

- (1) Total consumption expenditure is projected to expand by 3.6 percent, a downward revision from the previous projection at 3.9 percent.** This slowdown is due to a downward revision of household consumption expenditure from 4.0 percent to 3.7 percent as a consequence of an increasing inflation rate following a rise in oil price. However, the deceleration of total household consumption expenditure is modest (In a case that an annual average oil price in 2011 does not exceed 107 US dollar per barrel) although an inflationary pressure remains and a lower than expected growth of 3.4 percent in the first quarter. Nevertheless, supporting factors for higher private consumption expenditure include (i) an improvement of households' income as the government raised a salary of

civil servant and a minimum wage rate and (ii) a farmer income base continues to increase. The public consumption expenditure is expected to grow by 3.2 percent, the same figure as the previous projection. This is because current budget expenditure and carried-over budget expenditure disbursement remain at a projected level.

- (2) Projected total investment growth is kept unchanged at 7.3 percent, both private and public investments growth are maintained at the same level as previous projection.** Private investment in 2011 is likely to grow by 8.5 percent as private investment in the first quarter expanded by 12.6 percent, a higher than expected growth. Another supporting factor is a continual increase of exports. However, investment risks remain which include a rise in oil price, a high rate of inflation and an upward trend of interest rate. Public investment is expected to expand by 3.5 percent.
- (3) Export value of goods in US dollar terms in 2011 is forecasted to expand by 17.0 percent, an upward revision from the previous forecast of 12.5 percent.** This is supported by an upward revision of both export volume and price. Export volume is expected to grow by 9.8 percent, revised up from a 6.8 percent growth in the previous projection, owing to a better than expected growth during the first quarter of 2011 which grew by 18.6 percent as well as higher projected growth of world trade volume. Export price is expected to increase by 7.2 percent, revised up from a 5.7 percent growth in the previous projection due to an upward trend of export of agricultural prices. Total export of goods and services is projected to expand by 9.7 percent, revised up from a 6.3 percent growth in the previous projection.
- (4) Import value of goods in US dollar terms in 2011 is forecasted to expand by 20.5 percent, an upward revision from the previous forecast of 14.6 percent.** This is a consequence of a revision of both projected import volume and price. Import volume is expected to grow by 12.0 percent, revised up from a 8.1 percent growth in previous projection, due to its high growth of 18.5 percent in the first quarter and an upward revision on export trend. Import price is expected to expand by 8.5 percent, revised up from a 6.5 percent growth in the previous projection, owing to a rise in oil price. Import of goods and services is projected to grow by 11.5 percent, revised up from an 8.1 percent growth in the previous projection.
- (5) Trade balance is expected to register a surplus of 10.4 billion US dollars,** a downward revision from a surplus of 12.1 billion US dollars in the previous projection. This is due to a growth of import which is higher than that of export. Service account balance is expected to register a surplus of 0.8 billion US dollars, revised up from the previous projection at 0.5 billion US dollars, partly because of a higher number of projected foreign tourists. Therefore, the current account is expected to register a surplus of 11.2 billion US dollars or 3.1 percent of GDP, a lower figure than a surplus of 12.6 billion US dollars in previous projection.
- (6) Economic stability in 2011:** average headline inflation is expected to be in the range of 3.0-3.8 percent, an upward revision from the previous projection of 2.8-3.8 percent. A projected unemployment rate remains low at 0.8 percent, reflecting labor market tightness.

❑ Projection Condition for High and Low Cases

- (1) High Case Scenario:** Thai economy in 2011 is projected to grow more than 4.5 percent under the following conditions: (i) world economic growth exceeds 4.2 percent following two factors. First, a continued expansion of developed countries' economies which includes stable growth of EU economy following strong economic expansion in Germany

and France as well as controllable public debt crisis, a growth of US economy remains unaffected by the high public debt problem and a housing market fragility, and a strong recovery of Japanese Economy in the second half of 2011 after the Tohoku earthquake and Tsunami on March 11, 2011. Second, a continued economic expansion in developing countries (specifically China) despite risk factors including the increase in oil price, interest rate and inflation rate; (ii) no serious political unrest after an election in July that would affect the consumers and investors confidence as well as the tourism sector; (iii) the annual average price of Dubai crude oil remains below 107 US dollars per barrel; (iv) quick recovery of affected automobile industry and its related industries following the Tohoku earthquake and Tsunami on March 11, 2011; and (v) the policy interest rate is below 3.5 percent.

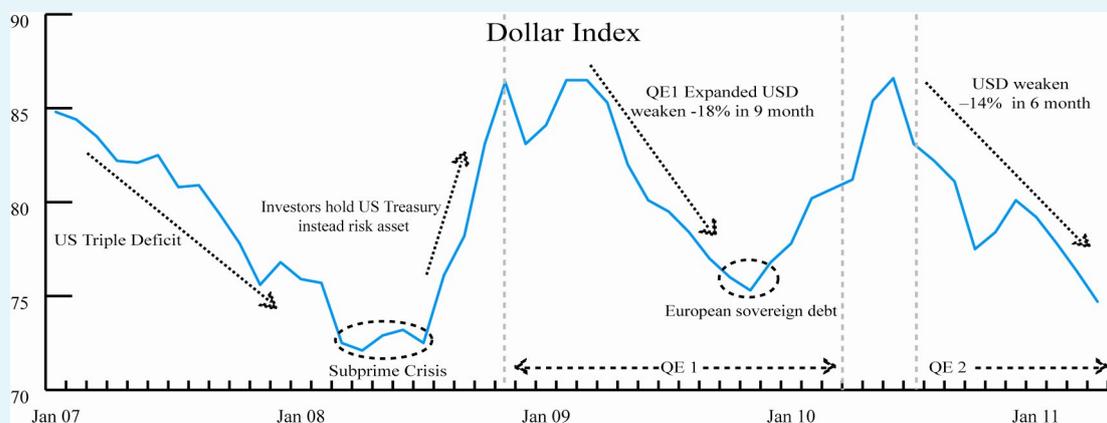
- (2) **Low Case Scenario:** Thai economy in 2011 is projected to grow less than 3.5 percent under the following conditions: (i) world economy expands less than 3.8 percent; (ii) the annual average price of Dubai crude oil exceeds 107 US dollars per barrel resulting in lower level of consumption expenditure, investment as well as trade balance than previously forecasted; (iii) the budget disbursement interval is delayed and unable to prevent the contraction of government spending; (iv) the policy interest exceeds 3.5 percent which will negatively affect private investment; and (v) severe natural disasters occur and affect major agricultural productions such as rice, rubber, sugar cane and palm oil.

5. The economic management for 2011

- (1) Domestic demand is consistently improving. Factors leading to this increase were: (i) rising purchasing power in rural area following a continual increase of agricultural products' prices in the last two years as a result of the implementation of measures of farm income and agricultural price stability; and (ii) increase purchasing power from rising minimum wage rate. For that reason, the government should maintain stability and strengthen income of the majority of Thai citizens. Thus, the government should give emphasis to: (i) increase productivity, specifically on agricultural products and food processing; (ii) employ proactive marketing strategy in the agricultural sector; and (iii) improve labor productivity in the industrial and service sectors by various approaches.
- (2) Trend of oil price in the world market remains elevated. This continues to have considerably impact on price of commodities and cost of living. Thus, emphasis should be placed on monitoring price of commodities which have a strong tendency to rise in the near future in order to maintain equality and fairness among consumers and producers. Government should lay emphasis on providing information regarding commodities' prices to consumers together with measures to assist producers in improving production efficiency to reduce unnecessary cost.
- (3) During the economic recovery period, emphasis should be placed on enhancing competitiveness of Thai economy. This can be achieved by; (i) accelerating logistics infrastructure projects; (ii) a promoting renewable energy; (iii) improving research and development in science and technology; (iv) reforming environmental tax; and (v) developing human capital in order to overcome shortage of labor in the manufacturing sector.
- (4) Since border trade with neighboring countries and trade with ASEAN countries is expanding and becoming increasingly important. Government should accelerate a regional cooperation in trade and transportation to facilitate border and regional trades through ASEAN Single Window and preparing the public and private sectors as well as the people in order to utilize and gain benefit from this cooperation.

Prospects on U.S. Dollar in 2011

US dollar movements during 2007 to April 2011



The performance of US dollar has been volatile during 2007 to April 2011. Dollar index⁸ fluctuated between 71.33 and 89.11 points due to: (i) economic performances and economic policies in US and other major countries; (ii) market expectation of future economic condition and; (iii) the US money supply. On the one hand, US dollar has experienced an appreciation when there are vulnerable risks in global economy. For example, during Sub-prime crisis in 2008 and European sovereign debts crisis in the late 2009, investors have reallocated their investments from risky assets to US treasury notes which is considered as a safe asset. On the other hand, US dollar has depreciated when the US raises their money supply or the US economy has performed well. This was occurred during the implementation of quantitative easing measures (QE1 in March 2008 and QE2 in July 2010.) In the second half of 2011, it is expected that **US dollar will slightly depreciate** due to the following factors:

- (1) The US economic conditions and monetary policy.** The US economy has been slowly recovered since the global crisis in 2008. The IMF expects that the US economy will expand by 3.1 and 1.8 percent in the first and the second half of the year 2011 respectively. The number of employment and labor income have shown a sign of recovery. There is also a reduction in current account deficit and the level of inflation rate is not post a threat to the economy. Thus it is expected that the 3rd round of the quantitative easing scheme would not be implemented. However there is a tendency of US dollar depreciation as the US economic expansion was lower than global economy. In addition, the recovery in current account deficit and unemployment situation was still not high enough to stimulate the US economy. **Therefore, it is expected that FED would remain its low interest rate for rest of this year**



⁸ Dollar Index is an index of the value of the United States dollar relative to a weighted geometric mean of the dollar's value compared only with 6 major currencies: Euro (57.6%), Japanese yen (13.6%), Pound sterling (11.9%), Canadian dollar (9.1%), Swedish krona (4.2%), Swiss franc (3.6%)

- (2) **Eurozone Economy:** In the beginning of 2011, most countries in Eurozone began to experience inflationary pressure. Consequently, the ECB raised policy rate from 1.0 percent to 1.25 percent per annum in April 2011. Furthermore, the Euro depreciated against US dollar following the adjustment of policy rate. In addition, **an upward trend of inflationary pressure may lead the ECB to hike its policy rate** and will affect US dollar depreciation. On the other hand, high level of European Sovereign debts will limit the ECB decision; the elevated interest rate will also increase cost of funds. Hence, US dollar movement will be affected by the speed and level of Euro zone policy rate amendment.



- (2) **Japanese Economy:** The interest rate in Japan is expected to remain unchanged. Japanese economy has been sluggish in the past few years and the devastating damage from the earthquake would certainly deteriorate the country's economic growth. It is anticipated that the Bank of Japan (BOJ) will keep its benchmark interest rate unchanged at a range of zero to 0.1 percent and this will not significantly affect the dollar index.

Conclusion: In the second half of 2011, the dollar is forecasted to be weakened and less volatile in comparison to that in the first half of year due to future interest rate hikes by the ECB. This forecast is made under the assumption that the US economy continues to recover with no implementation of QE3 program and no severe risks i.e. European debt or Middle East crisis.

Economic projection of 2011

	Actual Data			Projection 2011F	
	2008	2009	2010	21 Feb 11	23 May. 11
GDP (at current prices: Bil. Bht)	9,080.5	9,041.6	10,104.8	10,840.5	10,852.6
GDP per capita (Bht per year)	136,585	135,144	150,117	160,370	160,548
GDP (at current prices: Bil. USD)	272.2	263.3	317.8	361.4	361.8
GDP per capita (USD per year)	4,093.9	3,936.0	4,720.7	5,345.7	5,351.6
GDP Growth (at constant prices, %)	2.5	-2.3	7.8	3.5 – 4.5	3.5 – 4.5
Investment (at constant prices, %)	1.2	-9.2	9.4	7.3	7.3
Private (at constant prices, %)	3.2	-13.1	13.8	8.5	8.5
Public (at constant prices, %)	-4.7	2.7	-2.2	3.5	3.5
Consumption (at constant prices, %)	2.9	0.1	5.1	3.9	3.6
Private (at constant prices, %)	2.9	-1.1	4.8	4.0	3.7
Public (at constant prices, %)	3.2	7.5	6.4	3.2	3.2
Export volume of goods & services (%)	5.1	-12.5	14.7	6.3	9.7
Export value of goods (Bil. USD)	175.2	150.7	193.7	217.9	226.7
Growth rate (%)	15.9	-14.0	28.5	12.5	17.0
Growth rate (Volume, %)	6.0	-13.6	17.3	6.8	9.8
Import volume of goods & services (%)	8.9	-21.5	21.5	8.1	11.5
Import value of goods (Bil. USD)	175.6	131.4	179.6	205.8	216.3
Growth rate (%)	26.8	-25.2	36.8	14.6	20.5
Growth rate (Volume, %)	8.9	-23.1	26.5	8.1	12.0
Trade balance (Bil. USD)	-0.4	19.4	14.0	12.1	10.4
Current account balance (Bil. USD) ^{1/}	2.2	21.9	14.8	12.6	11.2
Current account to GDP (%)	0.8	8.3	4.6	3.5	3.1
Inflation (%)					
CPI	5.4	-0.9	3.3	2.8 - 3.8	3.0-3.8
GDP Deflator	3.9	1.9	3.7	2.8 - 3.8	3.0-3.8

Source: Office of National Economic and Social Development Board, May 23rd, 2011

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