Economic Outlook

Thai Economic Performance in Q1 and Outlook for 2010

Macroeconomic Strategy and Planning Office

Press Release 9.30 a.m. May 24, 2010

Economic Forecast year 2010

(% YOY)	2009			2010
	Q3	Q4	2009	Projection
GDP (at 1988 price)	-2.7	5.9	-2.2	3.5-4.5
Total Investment (at 1988 price)	-6.3	-3.4	-9.0	4.6
Private	-12.2	-4.6	-12.8	5.0
Public	8.0	1.1	2.7	3.5
Total Consumption (at 1988 price)	-0.3	1.9	-0.1	2.8
Private	-1.3	1.4	-1.1	3.0
Public	4.8	5.2	5.8	1.6
Export of Goods,	-17.5	12.2	-13.9	15.5
Volume	-15.6	4.4	-14.2	9.0
Import of Goods,	-28.3	1.4	-24.9	24.0
Volume	-24.9	-4.8	-23.0	18.0
Current Account to GDP (%)	5.6	5.9	7.7	4.1
Inflation	-2.2	1.9	-0.9	3.0-4.0
Unemployment rate	1.2	1.0	1.5	1.3

- The Thai economy in first quarter of 2010 grew by 12.0 percent, a higher-than-expected expansion from 5.9 percent in the previous quarter. Household consumption, private investment and exports continued to improve, supported by global economic recovery. Regarding the domestic factors, farm income rose due to higher prices of major agriculture products while tourism sector remarkably expanded with the total number of tourists hitting its record high.

- After seasonal adjustment, the economy continued to grow from the previous quarter by 3.8 percent. This fourth quarter of consecutive expansion clearly indicates a strong recovery of the Thai economy, denoted by a growth in manufacturing sector, higher capacity utilization and a lower unemployment rate.

- The economic forecast for 2010 remains in a range of 3.5-4.5 percent due to high uncertainties. Despite an outstanding growth of 12.0 percent in the first quarter, the economy remains under certain risks, including (i) Debt crisis in European Union could endanger global economic recovery, (ii) Political instability can inevitably lead to lower number of inbound tourists, while posing difficulties to the government administrative process and causing a delay in both budget disbursement of Stimulus Package 2 (SP2) or Thai Kem Khang 2012 and fiscal budget 2011, (iii) Private consumption and investment are expected to slow down while long-term capital outflow tends to surge following a worsen confidence of all domestic parties, and (iv) Severe drought is expected to disrupt agricultural production, subsequently lead to a lower farm income. Hence, several economic indicators are forecasted as follows: (i) Headline inflation between 3.0-4.0 percent, (ii) Unemployment rate at 1.3 percent, and (iii) Current account surplus of 4.1 percent of GDP.

- In order to enhance economic expansion in 2010, economic management should emphasize the following issues: (i) Restore confidence of foreign tourists and investors and improve the country image, (ii) Mitigate the impact of drought as well as maintaining the stability of agricultural prices, (iii) Implementation of well-balanced monetary and exchange rate policy to maintain economic stability, (iv) Speed up key investment projects under SP2 in order to offset a reduction of government spending under regular budget (v) Monitor and evaluate the impact of debt crisis in European countries as well as preparing counter measures for the possible impacts such as the volatility in capital flow and the decelerated production and export.

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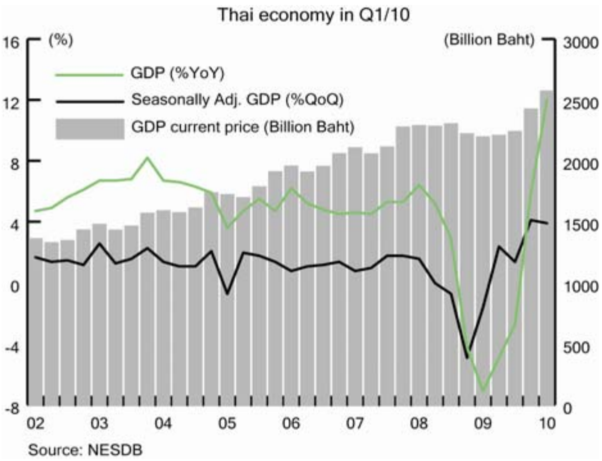
Thai Economic Performance in Q1/2010 and outlook for 2010

In the first quarter of 2010, Thai economy considerably expanded by 12.0 percent compared to the same period of last year, supported by global economic recovery as well as better investor confidence. Exports, tourism, private investment and consumption collectively improved. Manufacturing productions for both domestic-consumption and exports accelerated from the previous quarter. The seasonally adjusted GDP grew by 3.8 percent compared to the previous quarter, and gradually expanded for four consecutive quarters (from 2.4 percent, 1.4 percent and 4.0 percent in the second, third and fourth quarter of 2009 respectively). This clearly indicates a strong recovery of Thai economy.



Positive signs in Q1/2010

(1) **Export values in term of US dollar** rose by 32.0 percent, considerably up from a 12.2 percent growth in the previous quarter. The key drivers included a 73.4 percent growth in vehicles, parts and accessories, a 53.0 percent growth in computer and accessories, a 35.5 percent growth in electrical appliances and a 59.5 percent growth in electronic integrated circuits.

(2) **Household consumption surged by 4.0 percent** owing to an improvement in purchasing power as a result of rising employment in various industries. Furthermore, a growth of 16.9 percent in crop prices led to an increase of 19.3 percent in farm income. Consumer confidence also rose, reflected by an improvement in consumer confidence index from 69.2 in the previous quarter to 70.9.

(3) **Private investment** remarkably grew by 15.8 percent, indicating an improvement in investor confidence towards economic prospect. In addition, the housing developer sentiment index (HDSI) rose from 57.8 in the previous quarter to 59.0. This was attributed by the benefit from the real estate stimulus package.

(4) **Manufacturing production** expanded by 22.8 percent especially the export-oriented industries such as electronic products, electrical appliances and automobile industries which recorded a growth rate of 60.7, 52.2 and 86.6 percent respectively. Besides, the domestic-oriented industries including construction materials, iron and steel products and rubber and rubber products, continued to grow. The capacity utilization stood at 68.4 percent, up from 61.0 percent in 2009 and 67.6 percent in 2008.

(5) **Tourism sector:** the total number of foreign tourists in this quarter recorded a historical high of 4.7 million persons, or expanded by 28.4 percent compared to the same period of last year. Most of the tourists came from China, Taiwan, South Korea and Japan. The occupancy rate also improved from 53.4 percent in the first quarter of last year to 60.7 percent in this quarter. Hotels and restaurants, as a result, experienced an expansion of 15.5 percent.

Thai Economic Outlook for 2010

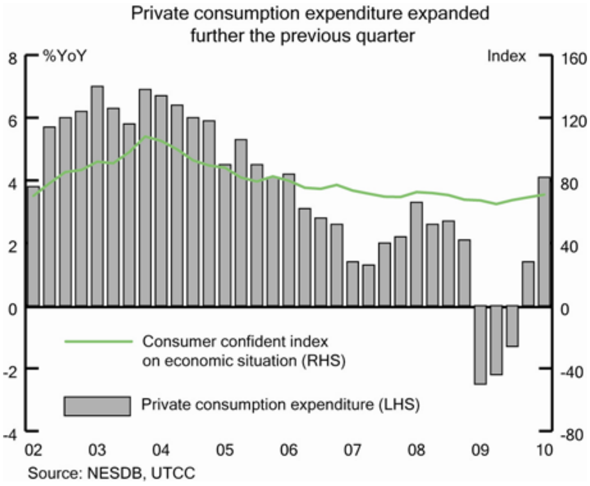
A remarkable expansion in the first quarter presumably indicates two significant implications. First of all, the economy has completely bottomed out. Secondly, there is a strong likelihood of a high annual growth rate with a widespread expansion in its key drivers including export, tourism, private investment and private consumption while government spending under the SP2 also plays an important role in supporting the economic growth. However, several risks including uncertainty in global economic recovery as well as domestic political situation may cause the economy to grow at a lower-than-expected rate. Therefore, economic projection for 2010 remains unchanged from the previous forecast, published on 22nd of February 2010. In addition, the economy is expected to expand in a range of 3.5-4.5 percent, with 3.0-4.0 percent of headline inflation. Export value in US dollar term is expected to grow by 15.5 percent with a current account surplus of 4.1 percent of GDP, down from a surplus of 7.7 percent of GDP in 2009.

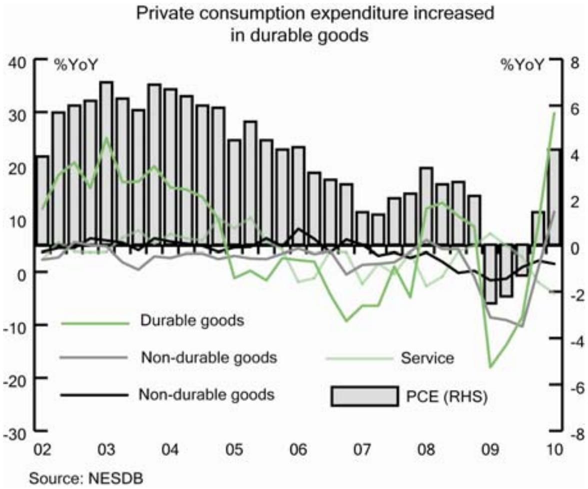
1. Economic Performance in Q1/2010

❑ Expenditure Side

Household consumption expenditure: continued to expand from the previous quarter with a growth rate of 4.0 percent, compared to a contraction of 1.1 percent in 2009. Key supporting factors to the improvement were: (i) an increase in employment especially in the hotels and restaurants sector, (ii) increase in farm income following an improvement in prices of agricultural products, resulted by an increase in global demand in accordance with recent economic recovery, and (iii) an improvement of consumer confidence following the implementation of SP2. During the first quarter, such expansion of household consumption expenditure was contributed by a collective growth in durable goods, semi-durable goods and non-durable goods by 29.8, 11.2, and 1.4percent consecutively. Under the non-durable goods category, food and non-food consumption rose by 1.2 and 1.5 percent consecutively. On the contrary, household consumption in service sector declined by 4.1 percent. In addition, consumer confident index on economic situation over the first three months of 2010 continually declined from 71.9 in January to 70.9 in February and 69.8 in March respectively . Such reduction was influenced by concerns on political situation with a rising tension since the middle of March.[1]

Household consumption expenditure expanded further from the previous quarter. Consumers gained more confidence and increased their expenditure particularly on durable





Private Consumption

(%YoY)	2009					2010
	Year	Q1	Q2	Q3	Q4	Q1
Private Consumption	**-1.1**	**-2.5**	**-2.2**	**-1.3**	**1.4**	**4.0**
Durable goods	-8.2	-18.0	-13.8	-8.5	8.8	29.8
Semi-durable goods	-6.7	-8.6	-9.1	-10.3	0.7	11.2
Non-durable goods	0.0	-1.6	-1.3	0.9	2.1	1.4
- Food	1.4	1.2	-0.2	3.2	1.4	1.2
- Non-food	-1.0	-3.7	-2.0	-0.8	2.6	1.5
Services	2.9	7.1	4.8	2.8	-2.0	-4.1

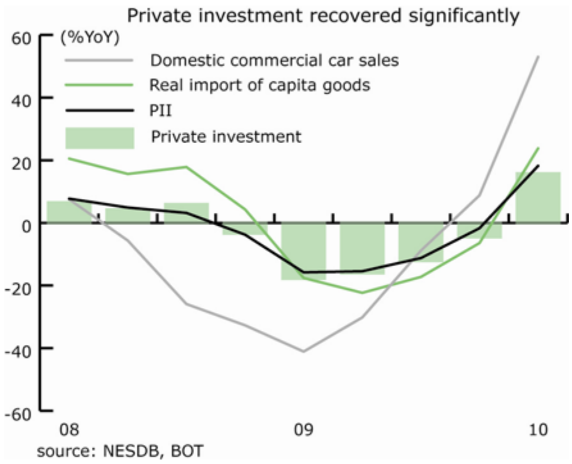
Source: NESDB

[1] Consumer confident index on economic situation in April 2010 was stood at 67.2

Private Investment: expanded by 15.8 percent, the first expansion since the last quarter of 2008. The expansion was attributed to an increase in both equipment and construction by 17.7 and 9.7 percent respectively. This was owing to the improvement of economic condition and investors' confidence as well as the increase in capacity utilization. Private investment index expanded by 18.2 percent compared to a contraction of 1.7 percent in the last quarter of 2009 In addition, import of capital goods expanded by 23.8 percent, the first expansion after a four consecutive quarters of contraction. The construction investment continuously rose for two consecutive quarters especially in Bangkok metropolis area where the construction areas permitted increased by 46.9 percent. The expansion of construction area was for all purposes including residential, commercial and industrial area.

Private Investment expanded for the first time since the last quarter of 2008 both in equipment and construction.

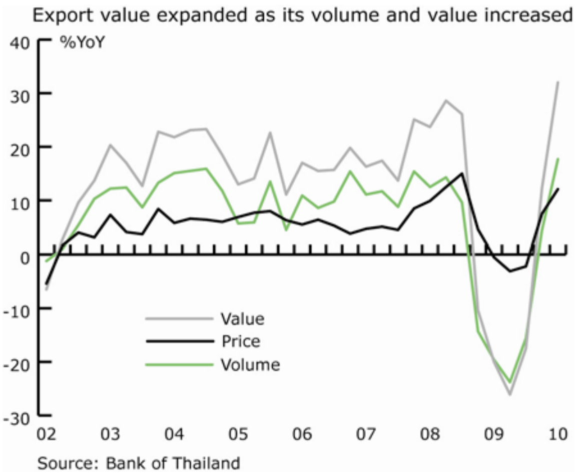
Business sentiment index continued picking up to 55.7 in March, which was the highest level in its history led by significant improvement in performance, orders and production categories during the first quarter. Nevertheless, the 3-month expected business sentiment index dropped to 53.5 in March from 57.3 in February due to the concern over the domestic political unrest of which the intensification started in mid-March.

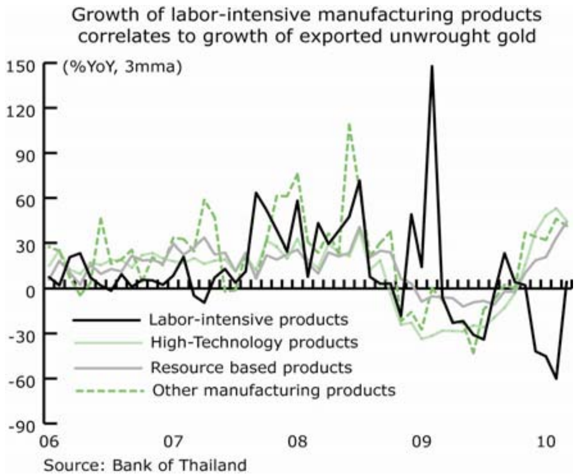


Export: both value and volume increased. In the first quarter of 2010, export value in US dollars term picked up by 32.0 percent after the contraction of 13.9 percent in 2009. The export volume and price also increased by 17.7 and 12.1 percent respectively. This improvement was supported by a recovery of foreign demand as the global economic condition improved. Moreover, it was a result from the implementation of (ASEAN Free Trade Area: AFTA) as well as a low base effect. In term of Thai Baht, during the first quarter of 2010, the export value rose by 22.7 percent and the export price increased by 4.2 percent as the Thai Baht appreciated.

The export of agricultural commodities, industrial products and food products (exclude sugar) were all expanded led by the improvement in major markets such as ASEAN China and US. while other markets also expanded favorably.

The export of agricultural commodities increased both in terms of volume and price with 6.1 and 51.0 percent growth respectively, leading to a considerable increase of export value of 60.2 percent. **Similarly, both volume and value of manufacturing products continued to expand** by 20.2 and 29.3 percent respectively while the export price increased by 7.6 percent. Major exported commodities were electronics and electric appliances of which export value increased by 52.7 and 40.8 percent respectively. This was attributed by the improvement of major trading partners' economic condition as well as the implementation of AFTA and significant expansion of export to China. **Export value of food products (excluding sugar)** increased by 16.2 percent. The food products that recorded an increase are frozen and processed shrimps (34.1 percent) and, canned, fresh, frozen and processed vegetables and fruits (18.7 percent). However, when classified by product group, high-technology products and resource-based products increased by 48.4 and 33.2 percent consecutively. Whereas, export of labor-intensive products experienced a drop in value of 40.8 percent due to a decline in the value of unwrought gold (In 2009, the export of unwrought gold was accounted for 34 percent of labor-intensive export products).





Export market expanded in both major markets and other markets particularly in ASEAN (9) an increase of 67.3 percent in export value, whereas other markets including those in China, US, Japan and EU(15) experienced an increase in export value of 69.9, 22.8, 29.4 and 21.7 percent consecutively. Regarding new markets, the value of export to South Korea, Taiwan and India have increased favorably by 42.8, 69.6 and 92.4 percent respectively.

Export of Major Agricultural Products

(%YOY)		2007	2008	2009					2010
		Year	Year	Year	Q1	Q2	Q3	Q4	Q1
Rice	Value	34.2	78.9	-18.7	-13.7	-35.7	-29.3	27.1	15.7
	Price	9.5	63.0	-4.7	29.6	-19.8	-16.3	2.2	11.9
	Volume	22.7	11.1	-15.6	-33.5	-20.5	-15.0	24.1	3.7
Rubber	Value	4.5	20.4	-36.6	-45.7	-53.0	-52.5	22.5	102.1
	Price	7.1	24.7	-34.9	-42.5	-45.7	-44.2	0.6	90.9
	Volume	-3.0	-4.5	-3.2	-5.9	-13.6	-14.8	24.3	6.4
Cassava	Value	23.1	3.6	4.4	-45.6	-20.1	13.5	122.7	143.7
	Price	24.5	40.0	-27.4	-15.1	-29.1	-38.3	-23.7	22.1
	Volume	3.8	-27.8	40.0	-34.1	12.9	84.1	180.1	94.4
Maize	Value	48.6	110.3	12.1	-48.8	68.0	-24.2	155.2	123.0
	Price	-7.0	64.3	-43.5	-14.2	-61.2	-36.2	-23.2	-3.4
	Volume	22.7	79.1	60.7	-40.0	175.5	23.0	244.3	118.5

Source: Ministry of Commerce

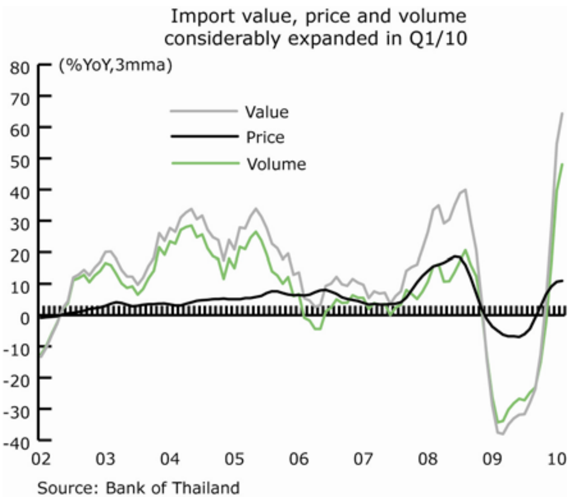
Major Export Markets

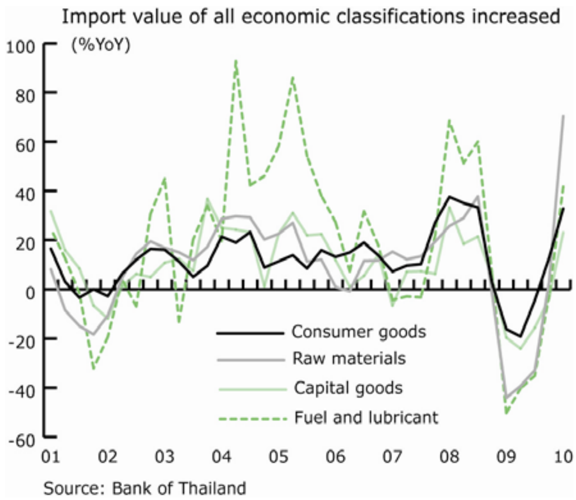
(%YOY)	2007	2008	2009					2010	
	Year	Year	Year	Q1	Q2	Q3	Q4	Q1	Ratio
US	-0.2	4.4	-17.8	-27.1	-27.1	-19.2	4.5	22.8	9.9
Japan	10.6	10.9	-21.7	-26.2	-31.2	-24.9	-2.6	29.4	10.3
EU (15)	17.6	7.2	-24.5	-32.8	-33.1	-26.6	-1.8	21.7	10.2
ASEAN (9)	21.4	22.4	-19.1	-31.6	-33.1	-21.7	18.3	67.3	23.7
Hong Kong	21.3	15.5	-5.6	-14.2	-22.6	-3.6	23.8	22.7	6.2
Taiwan	-1.1	-18.8	-16.7	-42.5	-26.3	-13.1	27.3	69.6	1.6
South Korea	11.7	23.0	-23.2	-24.7	-18.7	-36.1	-7.5	42.8	2.0
Middle East	30.8	26.9	-7.8	6.7	-17.7	-19.2	4.4	9.4	5.3
India	47.1	25.6	-3.6	-17.1	-9.3	-7.7	20.4	92.4	2.6
China	26.6	9.1	-0.4	-28.1	-9.3	-6.2	54.2	69.9	11.4

Source: Bank of Thailand

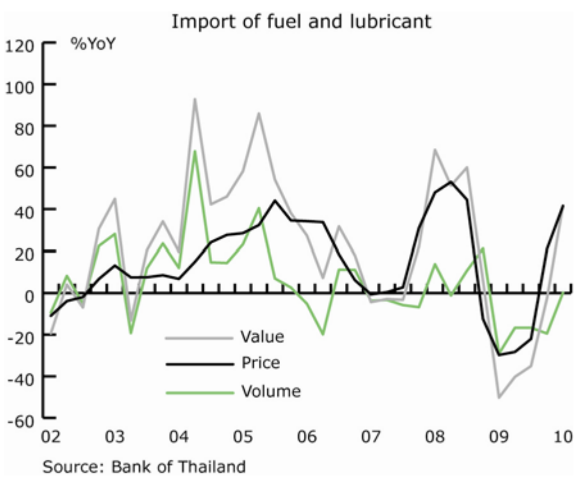
Imports: value, volume and price expanded considerably. In the first quarter of 2010, import value in US dollar term rose by 63.6 percent expanding further from the previous quarter which increased by 1.4 percent. The import price rose by 11.0 percent mainly due to the rising in oil price. The import volume expanded by 47.4 compared to the contraction of 4.81 percent in the previous quarter. A sign of domestic and global economic recovery stimulated production in response to the increase in import orders and economic activities. In addition, the considerable increase of import volume in this quarter was partly due to a low base effect.

Import significantly increased which expanded in all commodities particularly in semi-finish goods, raw materials and consumer goods. Besides, import price of fuel and lubricant had accelerated due to the rising of crude oil price.



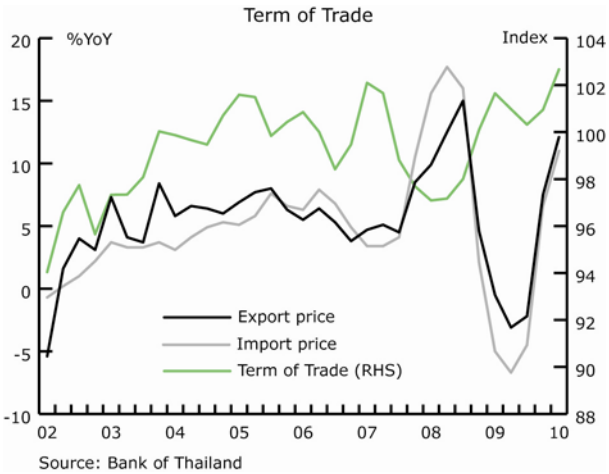


By economic classification, import increased in all classifications, for example, (i) **Import of capital goods** rose by 23.1 percent compared to the contraction of 3.9 percent in the previous quarter. This was due to the improvement in domestic investment and capacity utilization. (ii) **Import of semi-finished goods and raw materials** continually expanded by 70.4 percent from the expansion of 2.95 percent in the previous quarter. The expansion in export and the improvement in domestic economy enhanced more demand on raw material. (iii) **Import of consumer goods** rose by 32.8 percent, compared to the expansion of 12.7 percent in the previous quarter, as consumer gained more confidence on economic recovery. Import volume and price of consumer goods increased by 29.3 and 2.7 percent respectively. (iv) **Import of fuel and lubricant:** import price increased whereas import volume decreased at a deceleration rate. Import value increased by 41.7 percent compared to the contraction of 2.5 percent in the previous quarter, while import volume rose by 0.2 percent. The import price rose by 41.5 percent, The improvement of the import value was owing to a considerable increase in crude oil price, together with economic recovery affecting more demand on fuel and lubricant.



Term of trade improved from the same period of previous year as export price in US dollars term increased at a faster pace than import price. The price of export rose by 12.1 percent, whereas import price increased by 11.0 percent. Hence, term of trade in first quarter of 2010 increased by 1.0 percent, which reflected a positive income effect of exporters.

Term of trade improved which expanded by 1.0 percent due to the pace of export price that was faster than that of import price.



Trade balance in the first quarter recorded a surplus of 2,133 million US dollars (equivalent to 69,834 **million** baht), lower than a surplus of 2,673 million US dollars (equivalent to 89,039 million baht) in the previous quarter.

Trade Balance remained surplus, however, decelerated from the previous quarter.

- **Production side**

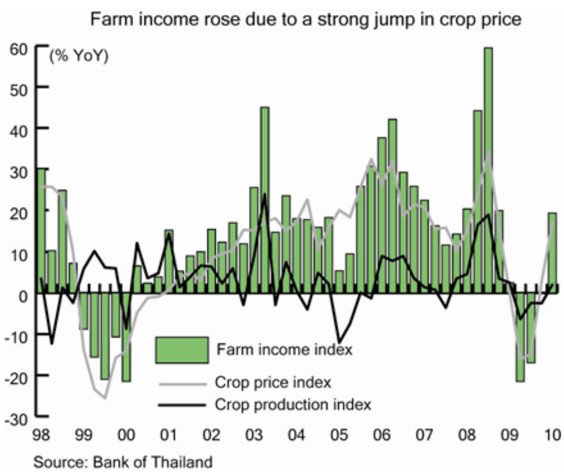
Agricultural sector grew by 0.2 percent owing to an increase in production of oil palm, paddy and rubber plantations, by 15.7, 4.2 and 3.3 percent respectively. Notably, the growth of oil palm and rubber production was partly contributed by the expansion of cultivated areas. The growth in rice production was essentially due to a higher price expectation, which reflected through an increase in off-season rice production. Meanwhile, crop prices recorded a considerable growth of 16.9 percent, particularly the rubber price which skyrocketed by 110.7 percent. A boost in rubber price was a result of the domestic and world economic recovery which, in turn, pushed the demand of rubber in the automobile sector and its related industries especially in China. Paddy price also surged by 8.2 percent, mostly due to the supply disruption as a result of the drought in major exporting countries such as India and Philippines. Thus, those countries inevitably needed to import rice from Thailand. Livestock price also rose by 11.3 percent, particularly the prices of swine and chicken, whose production were limited due to a higher cost of production. In summary, such expansions in price and production of major agricultural products contributed to a 19.3 percent growth in farm income.

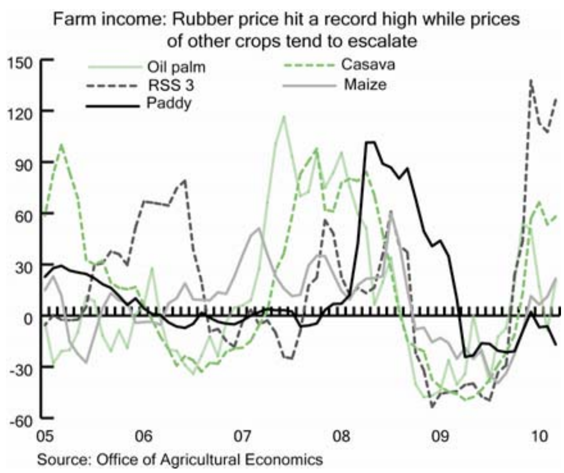
Agriculture sector grew by 0.2 percent while crop prices expanded notably. Thus, farm income experienced consider-able growth.

Crop Production Index

% YoY	2007	2008					2009					2010
	Year	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Q1
Crop Production Index	1.1	9.0	4.6	16.4	18.9	3.5	-2.3	2.5	-6.4	-2.4	-2.5	2.0
Crop Price Index	15.3	22.1	15.0	23.9	34.2	15.8	-7.5	0.0	-16.1	-14.9	2.8	16.9
Farm Income	16.5	33.1	20.3	44.2	59.5	19.9	-9.6	2.5	-21.5	-17.0	0.2	19.3

Source: Bank of Thailand

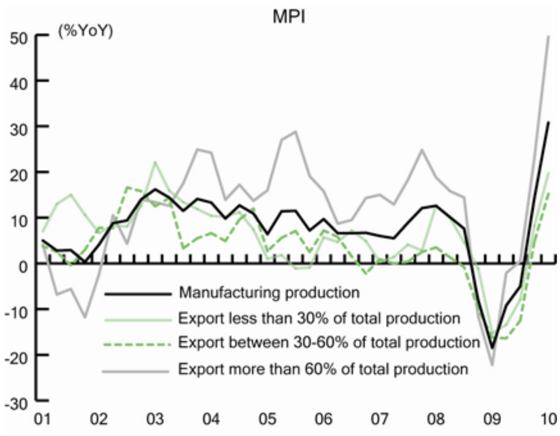




Manufacturing sector grew by 22.8 percent, considerably up from 9.9 percent in the previous quarter. Such expansion was mainly influenced by the recovery of both domestic and global economies. Accordingly, the export-oriented industries substantially rose by 49.6 percent while export of manufacturing products also recorded an impressive growth of 41.8 percent. Those well-performed industries included (i) frozen seafood and canned seafood industries registered an expansion of 12.7 and 23.8 percent respectively, (ii) the automobile industry and transportation equipments recorded a growth rate of 86.6 and 52.2 percent respectively, (iii) electrical appliances and electronic products consecutively expanded for the forth quarter with a rate of 60.7 percent amid a demand surged from China, which has set itself to become the world largest manufacturing-base of electronics. The domestic-oriented industries also experienced a remarkable expansion following the recovery of domestic demand. In particular, iron and steel products and construction materials, which directly benefited from expansion in private construction, grew by 62.5 and 8.4 percent respectively. Meanwhile, rubber and rubber products expanded by 20.2 percent amid the recovery in automobile industry.

The industrial sector accelerates according to the world and the domestic economic expansion.

At the end of quarter, capacity utilization stood at 68.4 percent, improved from 66.0 percent in the previous quarter. Major industries that expanded their production capacity were food (83.4 percent from 60.9 percent), rubber and rubber products (68.6 percent from 62.2 percent), iron and steel products (58.6 percent from 54.9 percent), and automobile and transportation equipments (72.8 percent from 69.9 percent). Whereas, several industries such as footwear products (40.6 percent), leather products (29.8 percent) and furniture (27.8 percent) continually operated under 50 percent of their capacity.



Source: Bank of Thailand

Construction sector grew by 5.2 percent, mainly driven by private construction following the recovery in domestic economy. Additionally, the expansion can be seen in sales volume of construction materials such as cement (7.2 percent), steel bar (11.5 percent), and wire rod (25.0 percent). Meanwhile, the permitted area for construction rose by 35.4 percent, the second month in a row. Such expansion was attributed by 35.8 and 37.9 percent growths of residential and commercial construction respectively. Regarding residential construction, the expansion can be observed in all major categories including single house, townhouse, and condominium. For commercial construction, the expansion was mainly concentrated in the development of retail trading, especially in form of small retail and community mall. Such action was driven by the recovery of consumer demand in tandem with the adjustment of marketing strategies in which a small discount store has become more suitable to consumer lifestyle.

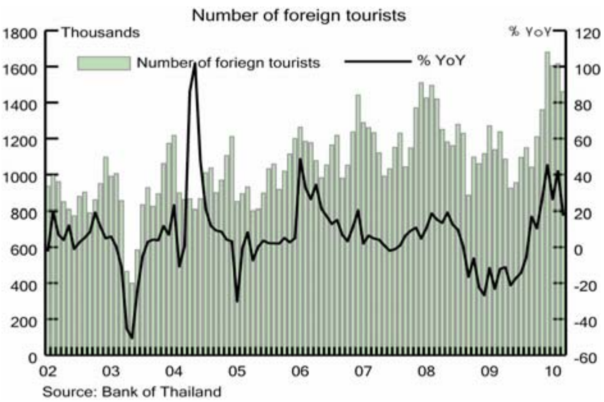
The construction and real estate sectors expand according to the expansion of the private construction and the government measure to stimulate the real estate sector.

Construction materials price index slightly rose by 0.7 percent. Such growth was mainly contributed by a 4.0 percent increase in prices of steel in line with the world market. On the contrary, prices of concrete and cement declined by 7.9 and 2.2 percent respectively.

Real estate sector grew by 3.9 percent, slightly improving from 1.9 percent in the previous quarter as a result of economic recovery and the government measures to stimulate demands for the real estates. Moreover, the housing developer sentiment index (HSDI) appreciated from 57.8 in the previous quarter to 59.0 in this quarter, reflecting a better confidence of real estate developer. Consumer confidence also improved, witnessed by an expansion of 10.7 percent in housing loan.

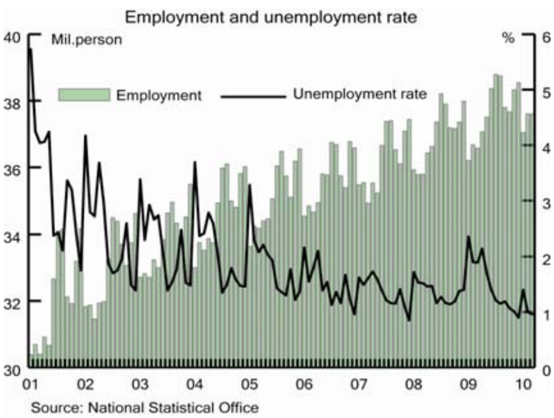
Hotels and restaurants expanded 15.5 percent compared to the same period of last year following the economic recovery of major counterparts such as China, Taiwan, and Japan. Number of tourists in the first quarter was 4.7 million persons, considerably expanded by 28.4 percent. Average occupancy rate was 60.7 percent, up from 54.1 percent in the previous quarter. In addition, average room rate also rose by 37.1 percent; the increasing rates were revealed in all area but the central region. Nevertheless, number of tourists in March started to slow down, decreasing from 41.9 percent in February to only 18.0 percent. Such decline was mainly due to the political protest within the metropolitan area which commenced since the 12th of March. In addition, several countries have already issued a warning, suggesting their citizens to avoid travelling to Thailand.

The tourism sector grows at a good pace which has the total number of tourists in this quarter of 4.7 million and this is the highest figure in history.



Employment in the first quarter was 37.4 million persons, up by 2.6 percent compared to the same period of last year. Sectors with an increase in employment include hotel and restaurant (10.3 percent), wholesale and retail (3.0 percent), both of which partly benefited from the expansion in tourism sector. On the other hand, sectors with a decrease in employment include manufacturing and construction which registered contractions of 1.1 percent and 1.2 percent respectively. Number of unemployment in the first quarter was 426,000 persons, considerably declined from 780,000 persons (or down by 44.4 percent) compared to the same period of last year. Therefore, the unemployment rate stood at 1.1 percent while the number of registered persons claimed for unemployment compensation substantially declined by 49.1 percent. Nevertheless, the employment situation started to tighten. For the first two months of 2010, the ratio of vacancies and registered applicants was 0.9, indicating an almost equilibrium in labor market. As a result, labor shortage could be observed in several industries such as automobile, electronics and textile.

The employment increases while the unemployment rate decline to 1.1 percent.



Employed Persons by Industry

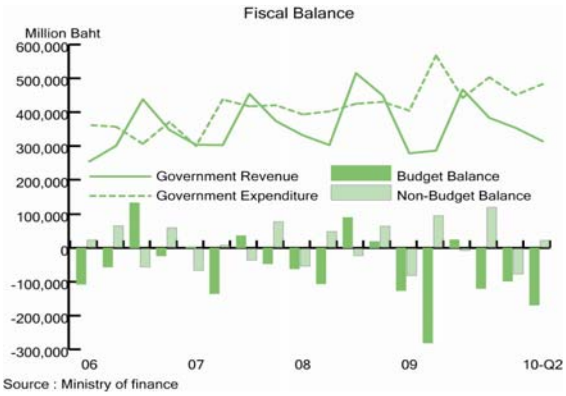
(%YOY)	2008	2009					2010
	Year	Year	Q1	Q2	Q3	Q4	Q1
Employed	2.1	1.9	1.9	2.3	1.4	1.8	2.6
Agricultural	2.7	-0.1	0.8	2.4	-0.8	-2.3	2.8
Non-Agricultural	1.7	3.1	2.5	2.2	3.1	4.9	2.5
Industry	-3.0	-1.5	-3.7	-4.6	1.3	0.2	-1.1
Construction	3.3	4.0	3.4	5.2	1.6	5.3	-1.2
Hotal and Restaurant	1.8	8.8	7.7	7.3	8.7	11.4	10.3
Wholesale	3.2	5.1	5.5	5.3	4.2	5.4	3.0
Unemployed (Mil.persons)	0.5	0.6	0.8	0.7	0.5	0.4	0.4
Unemployment rate (%)	1.4	1.5	2.0	1.8	1.2	1.0	1.1

Source: National Statistical Office

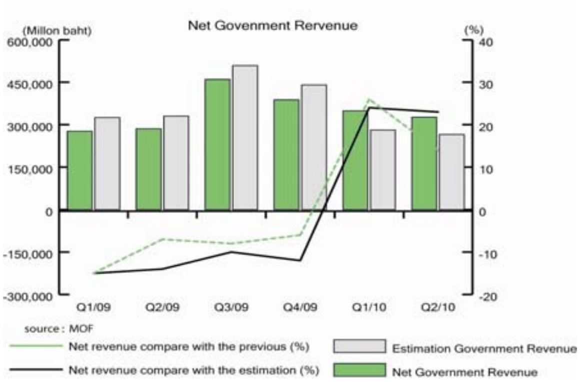
- **Fiscal condition:**

Fiscal balance: In the second quarter of fiscal year 2010 (January - March 2010), government revenue was 326,509 million baht, exceeded the target by 61,220.9 million baht or 23.1 percent. The higher-than-expected collection was attributed to an increase in value added tax (VAT) and excise taxes on oil and automobile. For the first half of fiscal year 2010 (October 2009 – March 2010), revenue collection has exceeded the target by 128,896 million baht which equivalent to 23.6 percent. On expenditure side, the total budget disbursement was 432,473 million baht, equivalent to 25.4 percent of the annual budget (1,700,000 million baht). The current disbursement level was proved to be higher than 23 percent target set by the cabinet. Comprise of, the current budget has been disbursed by 24.7 percent of total current budget while the capital budget has been disbursed by 30 percent of total capital budget, given the target for capital budget disbursement at 21 percent. Regarding the SP2, the disbursement of investment projects during the second quarter of fiscal year 2010, was 70,781.9 million baht, equivalent to 26.6 percent of total allocate budget (265,979 million baht). For the first half of fiscal year 2010, the total disbursement under SP2 was 105,806 million baht, equivalent to 39.8 percent of total allocate budget. In sum, the budget balance in the second quarter of fiscal year 2010 recorded a deficit of 169,112 million baht, while the non-budgetary balance registered a surplus of 22,351 million baht. Given the issuance of 95,000 million baht on government bonds and treasury bills to finance deficits, therefore, the cash balance registered a deficit of 51,762 million baht. The treasury reserves at the end of March 2009 concluded at 118,551 million baht.

Government revenue collection was remarkably above the target especially in consumption-based taxes that was attributable by economic recovery, similar to disbursement level that was higher than target

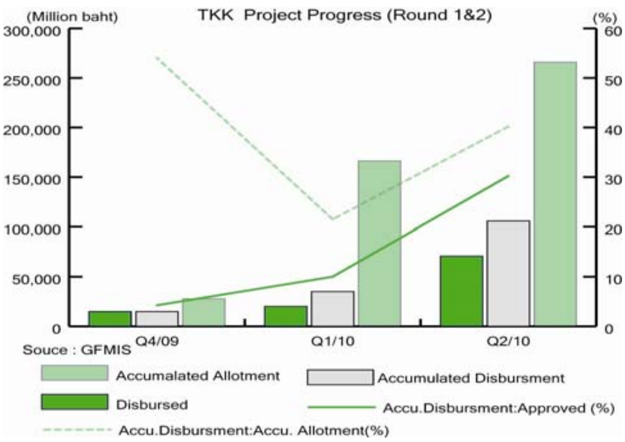


Source : Ministry of finance



Public Debt at the end of February 2010 stood at 4,075,144 million baht, equivalent to 41.9 percent of GDP, increased from 3,967,155 million baht at the end of December 2009. The increase in public debt was due to increase in direct government borrowing in domestic market in order to finance budget deficit, debt management, SP2 , and to compensate FIDF's loss.

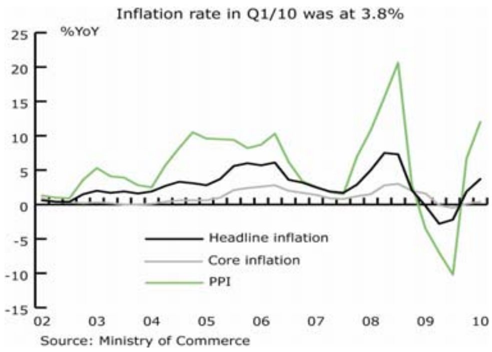
The treasury reserves posted at strong position and public debt equaled to 41.9 percent of GDP,



❑ Financial Condition:

Headline inflation in Q1 was at 3.8 percent.

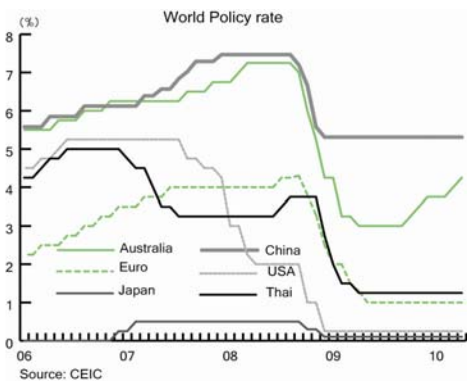
Headline inflation: average headline inflation in the first quarter was 3.8 percent, which remained in a positive territory for two consecutive quarters. The acceleration was attributed by the increase of 4.3 percent in food and beverage price index and 3.5 percent in non-food and beverage index. Meanwhile, producer price index recorded at 12.0 percent, remained in positive territory for two consecutive quarter. The rising of producer price index was contributed by an increase in price of agricultural (21.8 percent), mining (11.4 percent), and manufacturing products (9.7 percent). This has put pressure toward production cost especially on petroleum products and rubber and rubber products due to an increase in demand from automobile industry following a recovery in global economy and purchasing orders[2].



Policy rate in Thailand and in several countries remained unchanged to accommodate economic recovery

Policy rate kept unchanged. During the first quarter, the Monetary Policy Committee (MPC) decided to maintain the policy rate at 1.25 percent per annum. The decision was made in order to support gradual recovery of the Thai economy, while the heightened political risk remained a key obstacle clouding the economic growth outlook. Similarly, policy rate in most of the countries were kept unchanged except India, Australia, and Malaysia where the policy rate was adjusted upward. Nevertheless, sign for monetary-policy tightening was experienced in many countries for example, China has raised bank reserve requirement ratio and directly withdrawn capital from the market through open market operation , and the Philippines has reduced budget on repurchase agreement transaction.

Commercial banks' interest rate remained low. At the end of the first quarter, an average of 12-month deposit rate slightly declined from 0.70 percent to 0.68 percent per annum. On the other hand, MLR lending rate remained stable at 5.86 percent per annum. The real deposit and lending rate continued to decelerate to -2.73 and 2.46 percent per annum, respectively, caused by inflation rate hike. Even though, real deposit rate has entered its negative zone for two consecutive quarters but there was still no sign of overheating in real estate market, which experienced a continual decline in price index since 2009.



World Policy Rate and Infalation

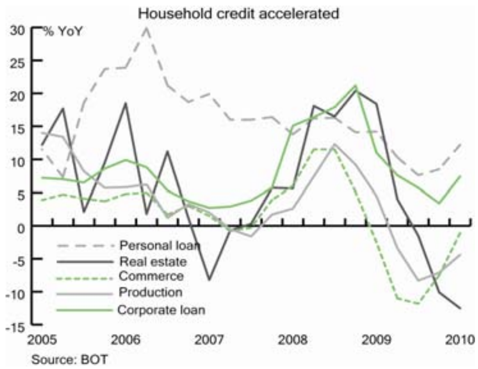
	2009				2010		Policy Rate	Inflation
Country	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**เม.ย.**	**Apr. 10**	**Mar 10**
Thailand	-1.25	-0.25					1.25	3.41
USA							0.25	2.30
Europe	-1.00	-0.25					1.00	1.40
China							5.31	2.40
Japan							0.10	-1.10
Taiwan	-0.75						1.25	1.34
Malaysia	-1.25				0.25		2.25	1.20
Australia	-1.00	-0.25		0.75	0.25	0.25	4.25	2.90
India	-1.00	-0.25			0.25	0.25	5.25	14.86

Source: compiled by NESDB

[2] In April 2010, producer price index expanded by 8.5 percent

Commercial banks' deposits including bill of exchange (B/E) expanded by 1.1 percent, slightly decelerated from 1.2 percent expansion in the previous quarter. This resulted from growing appetite for higher yield investment, like bill of exchange (B/E), in the current low interest rate environment. **Depository Institutions' loan** expanded at a faster pace, from 6.9 percent at the end of the previous quarter to 10.6 percent at the end of current quarter, owing to the household loan expansion, especially in housing loans and loan for purchase or hire purchase of cars and motorcycles. Corporate loan contracted by 6.5 percent, slightly improved from a contraction of 8.3 percent posted in the previous quarter. Such improvement was attributed to positive outlook over economic recovery path. Credit card spending expanded at a slower pace, but remained higher than the expansion rate in the first quarter 2009. Cash advance has improved significantly. High expansion rate experienced in both credit card spending and cash advance was mainly attributed to the improved consumer confidence over economic prospect. In addition, NPLs[3] to outstanding loan has continually curved down to 2.5 percent from 2.6 percent in the previous quarter. Moreover, excess liquidity in commercial banking system accelerated from 1.32 trillion baht to 1.45 trillion baht at the end of the current quarter. This was attributed to a strong expansion in the issuance of Government and Monetary Authorities bond and net R/P position.

Commercial banks' deposits and B/E slowed down. Depository Corporations' loan expanded at a faster pace by accelerated household credits, while corporate loan contracted at a slower pace. Excess liquidity in commercial bank system remained ample



- **Current account** in the first quarter registered a surplus of 5.25 billion US dollars which was equivalent to 172.51 billion baht, continued surplus from the previous quarter which registered a surplus of 4.27 billion US dollars. This was attributed by trade balance surplus of 2.13 billion US dollars and net service, income and transfer surplus of 3.12 billion US dollars.

- **Capital and financial account recorded net inflow.**[4] In the first quarter, capital and financial account recorded a net inflow of 6.1 billion US dollars, increased from 2.6 billion US dollars in the previous quarter. The net inflow was mainly contributed by inflow from portfolio investment, total of 1.4 billion US dollars, and inflow from foreign direct investment that continue to increased.

Current Account remained surplus and international reserve at the end of April 2010 stood at 147.58 billion US dollars

Capital and financial account

	2009(e)	H1	H2	Q4-09(e)	Q1-10 (e)
Monetary authorities	1,481	-206	1,687	-50	591
Government	-302	-916	615	124	768
Bank	8,380	-1,038	9,417	5,010	1,186
Non-bank	-8,754	-3,502	-5,252	-2,000	3,720
FDI	5,325	2,358	2,967	1,532	1,611
Portfolio Investment	-10,289	-4,123	-6,166	-2,262	1,376
Foreign	1,270	441	830	-53	705
Local	-11,559	-4,564	-6,996	-2,208	671
State Enterprises	-2,004	-1,002	-1,002	-467	-173
Total Capital and Financial Account	-1,199	-6,664	5,465	2,617	6,091

Source: Bank of Thailand

[3] NPLs in financial institutions (excluding BIF and credit fanciers)
[4] Capital and financial account figure at the end of 3rd quarter is preliminary data from Bank of Thailand, which is subjected to change.

- **International reserve** at the end of April 2010 stood at 147.6 billion US dollars (excluding Net Forward Position 11.9 billion US dollars), which was equivalent to 5.3 times of short-term foreign debt or 9.8 months of import.

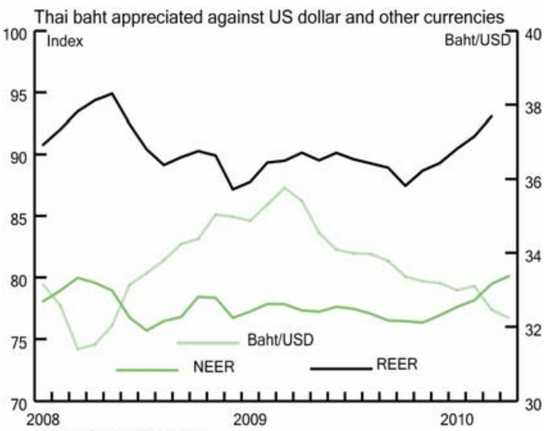
International reserve at the end of April 2010 stood at 147.58 billion US dollars

- **Thai baht continued to appreciate against US dollar.** An average exchange rate in the first quarter of 2010 was at 32.84 baht per US Dollar, appreciated by 1.28 percent from the previous quarter and 6.99 percent from the same period of last year. Thai baht continued to appreciate against US dollar due to inflow of investment capital in response to economic recovery. Furthermore, Thai baht appreciated against other regional currencies including that of export-competing-countries, as a result, nominal effective exchange rate (NEER) and real effective exchange rate (REER) increased by 2.40 and 2.39 percent respectively. In April 2010, Thai baht continually appreciated to an average of 32.24 baht per US dollar, an average exchange rate over period of 1st – 18th May was at 32.28 baht per US dollar.

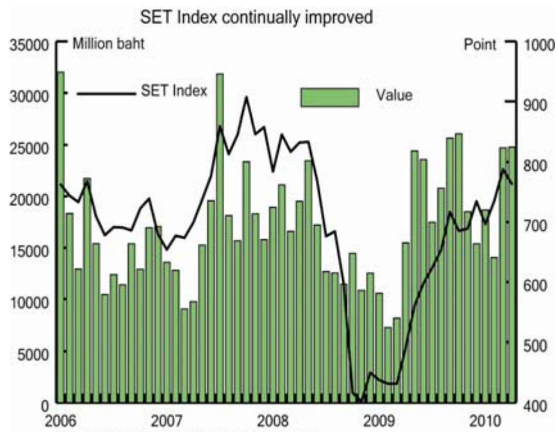
Thai baht appreciated against US dollar and export-competing-countries, NEER and REER increased

- **SET index performance improved.** At the end of the first quarter, SET index closed at 788.0 points, increased by 7.3 percent from the previous quarter. Such improvement was caused by inflow of foreign capital, following recovery of domestic and regional economy. On the contrary, daily average trading volume was at 19.1 billion baht, slightly decreased from 20.0 billion baht in the fourth quarter of last year. During April through 19th May, SET index performance was continually suppressed by heighten political risk, as a result, SET index, at the end of 19th May, closed at 765.54 points. Moreover, daily average trading volume was at 14.3 billion baht and foreign investors posted a net sell of 42.8 billion baht.

SET performance improved in response to Asian economic recovery



Source: Bank of Thailand



Source: The Stock Exchange of Thailand

- **Bond trading volume escalated.** Daily average outright trading in the first quarter was 61.4 billion baht, increased from the fourth quarter of 2009. The government bond yield, with medium to long term maturity, declined from the previous quarter. The downward pressures were created by (i) decline of government bond supply in primary market and (ii) market expectation on delay of policy rate hike. On the contrary, foreign investors' recorded a net sell of 23.8 billion baht. In April, investor has shifted their investment to bond market to lessen exposure to country risk as political uncertainty heightened. As a result, daily average outright trading volume was recorded at 70.6 billion baht while foreign investors recorded a net buy of 10.6 billion baht and the government bond yield decreased in all maturity.

SET and Bond market performance

(Billion Baht)	2007 Year	2008 H1	2008 H2	2008 Year	2009 Q1	2009 Q2	2009 Q3	2009 Q4	2009 Year	2010 Q1	2010 Apr.
Stock Market											
SET Index (Point)	858.1	768.6	450.0	450.0	431.5	597.5	717.1	734.5	734.5	788.0	763.5
Daily average trading	17.1	19.5	12.4	15.9	8.6	21.2	21.3	20.0	17.8	19.1	24.6
Net Trading of Foreign Investors	55.0	-50.3	-112.0	-162.3	-5.6	25.8	35.0	-17.0	38.2	42.5	-4.1
Bond Market											
Gross Price Index (Point)	100.18	94.63	113.16	113.16	107.4	105.6	103.7	103.5	103.5	104.5	106.6
Daily Average Outright Trading Value	42.99	67.46	52.56	70.29	68.06	66.83	53.56	51.56	59.86	61.42	70.57
Net Trading of Foreign Investors	-40.3	55.6	12.8	68.4	-1.9	11.7	19.1	-1.9	26.9	23.8	10.6

Source: SET and ThaiBMA

- **Corporate fundraising heightened.** Private fundraising totaled at 232.1 billion baht, increased from 202.9 billion baht in the same period of last year. Fundraising through equity securities was 31.4 billion baht, mainly from production and financial intermediation sectors. Meanwhile, debt securities issuance recorded at 200.7 billion baht, with most of the issuance from real estate sector. This was resulted from high cost of commercial banks' long term credit and tight credit approval standard.

Corporate fundraising in capital market heightened, particularly debt securities of real estate sector

Issuance of public and private securities in primary market

(Billion)	2007 Year	2008 H1	2008 H2	2008 Year	2009 Q1	2009 Q2	2009 Q3	2009 Q4	2009 Year	2010 Q1	2010 Apr.
Public Securities Circulation											
Treasury Bond	-43.0	26.0	-58.0	-32.0	143.0	74.8	47.0	-72.5	192.3	21.5	16.0
Government Bond	71.7	68.8	5.4	58.0	102.6	19.7	61.6	55.5	239.5	95.4	-14.9
Monetary Authority	109.0	489.3	1,170.7	1,660.1	1,012.9	1,336	1,244	1,010	4,602.6	1,112.3	468.0
Private Securities Issues											
Equity Securities	107.8	35.4	9.6	45.0	11.0	3.4	8.0	10.4	29.5	23.3	-
Debt Securities	1,167.0	696.8	570.4	1,267.2	191.9	290.7	246.2	257.1	984.8	200.7	-

Source: Bank of Thailand

2. Oil price in Q1/2010

- **World crude oil price continued to escalate at a faster pace due to last year low base effect.** In the first quarter, the average world crude oil price (Dubai, Brent, Oman, and WTI) stood at 76.9 US dollars per barrel, increased by 73.5 percent from the same period of last year. This was due to the low base effect resulting from world economic recession. Moreover, the upward trend was due to a faster-than-expected recovery of US economy and a strong recovery of Asian countries particularly China and India. In addition, the depreciation of US dollar also stimulated investors to overweight their speculation in commodity markets.

World crude oil price continued to escalate at a faster pace due to last year low base effect.

Crude Oil Price

USD/Barrel		OMAN	DUBAI	BRENT	WTI	Avg.
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	78.82	76.95
	Apr.	83.56	83.48	85.80	84.69	84.38
	1-14 May	82.05	81.78	81.44	77.58	80.71
	14 May	79.40	79.00	77.18	71.61	76.80

Source: Reuters

Domestic retail price of all petroleum products increased from its 2009 level. Retail price of gasoline 95, gasoline 91, gasohol 95 (E10), gasohol 95 (E20), and gasohol 91 increased by 26.3, 44.6, 57.5, 57.9 and 58.0 percent respectively. Similarly, average price of high speed diesel and bio-diesel (B5) rose by 43.5 and 51.2 percent. The acceleration in domestic retail petrol price, was mainly due to a low base effect as a result of lower world oil price during last year, together with the impact of reducing excise tax under the "6 measures 6 months economic package" which was effective from the 25th July 2008 to 31st January 2009. Nevertheless, after the end of the "6 measures 6 months economic package", there were an adjustment in excise tax structure in order to promote energy saving, including (i) the cabinet's resolution in February 2009[5] to increase excise tax and (ii) an expansion of excise tax ceiling from 5 baht to 10 baht per litre in May 2009.[6] Such measure on excise tax structure accompanied with an upward trend of world oil price has considerably pushed up domestic retail petrol price in the first quarter of 2010, compared to the same period of last year.

Domestic retail petrol price of all petroleum products heightened than those of last year.

Retail Petro Price

Baht/Litre		ULG95	UGR91	Gasohol			HSD	HSD B5
				95E10	95E20	91		
2008	Year	35.33	33.43	28.97	27.37	28.16	31.26	30.39
2009	Q1	32.95	25.22	20.88	19.36	20.06	19.74	17.90
	Q2	37.51	30.93	27.14	24.84	26.33	24.52	21.57
	Q3	39.51	34.37	31.68	28.45	29.97	27.32	25.29
	Q4	39.91	34.71	31.21	28.91	30.42	27.50	26.09
	Year	37.47	31.31	27.73	25.39	26.69	24.77	22.71
2010	Q1	41.62	36.48	32.88	30.58	31.68	28.32	27.05
	Apr.	43.33	37.33	33.67	31.37	32.17	29.44	28.24
	1-14 May	43.30	37.30	33.50	31.20	32.00	29.83	28.63
	14 May	42.44	36.44	32.64	30.34	31.14	29.49	28.29

Source: EPPO

[5] On January 28th, 2009, the cabinet agreed to increase the excise tax on petrol in order to promote energy saving and the usage of alternative energy, decrease the dependency of crude oil import and stabilize fiscal and economic condition.
[6] The government gazette was announced on May 13th, 2009 to raise the ceiling of petro excise tax from 5 baht to 10 baht per litre.

❑ Oil price trend in 2010

The average Dubai crude oil price in 2010 is expected to be in the range of 75-85 US dollars per barrel, higher than the average price of 61.60 US dollars per barrel in 2009. In the first 4 months of 2010, the average Dubai crude oil price was 77.64 US dollars per barrel, and on the 13th May 2010 the Dubai crude oil price stood at 81.08 US dollars per barrel. However in the remaining of 2010, oil price is expected to escalate due to the global economic recovery, particularly Asia countries such as China and India, ASEAN countries, and other emerging countries. In addition, current level of production is expected to remain unchanged as OPEC will avoid putting more pressure onto the world crude oil price.

The average Dubai crude oil in 2010 is expected to be in the range of 75-85 US dollars per barrel higher than an average of 61.60 US dollars per barrel in 2009.

Oil price has a tendency to fluctuate due to the public debt crisis that has spread over the European countries leading to a depreciation of EURO against US dollar causing a pressure on the world crude oil price. Such pressure could be observed in the performance of WTI crude oil price during April through May. In details, WTI crude oil price has hit its peak at 86.64 US dollars per barrel on the 6th of April and remained in a range of 82-86 US dollars per barrel until the 4th of May. Furthermore, from 4th through 14th May WTI crude oil price rapidly plunged to 71.61 US dollars per barrel, while EURO has depreciated to its lowest level in 14 months. However, in the long term, the average crude oil price in 2010 is likely to be higher than that of last year. The Energy Information Administration (EIA) forecasted that the average crude oil price in 2010 will be 82.2 US dollars per barrel and most analysts estimated crude oil price in the range of 75-95 US dollars per barrel. Similarly, NESDB expected that the average crude oil price of WTI will be in a range of 75-85 US dollars per barrel, higher than the average price of 61.82 US dollars per barrel in 2009. Key supporting factors for higher oil price are as followed:

Crude Oil Price Forecast 2010

EIA (May 2010)	WTI = 82.2 USD/Barrel
Nomura (May 2010)	WTI = 85 USD/Barrel
IEA (March 2010)	WTI = 82 USD/Barrel
World Bank (January 2010)	WTI = 76.0 USD/Barrel
Morgan Stanley (January 2010)	End of year WTI = 95.0 USD/Barrel
Barclays Capital (January 2010)	WTI = 85 USD/Barrel

- **The increase in oil demand in tandem with global economic recovery, especially in Asian countries:** According to EIA's report on oil market situation in May 2010, the oil demand in 2010 was adjusted upward following an increase in the global economic expansion. Thus, the EIA forecasted that the amount of global oil demand will rise by 1.57 and 1.6 million barrels per day in 2010 and 2011 respectively. The increase in global oil demand will be mainly from the ASIA-Pacific and Middle East countries. However, the oil demand in OECD countries during 2010 will slightly drop as a result of slow down in demand by European countries and Japan.

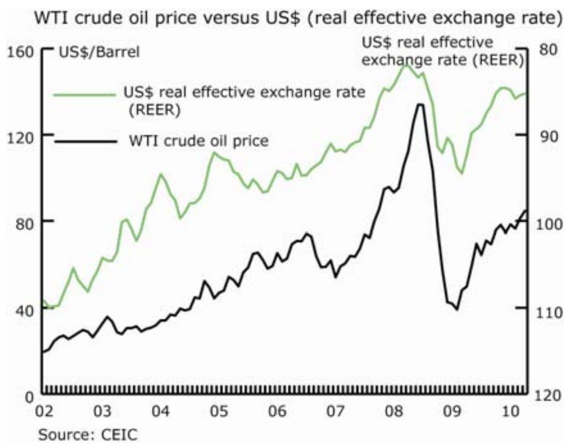
World Oil Consumption

(million barrels per day)

	Year				2010			
Consumption	2008	2009	2010_f	2011_f	Q1	Q2_f	Q3_f	Q4_f
OECD	**47.58**	**45.36**	**45.34**	**45.54**	**45.80**	**44.49**	**45.08**	**46.01**
U.S. (50 States)	19.50	18.69	18.84	19.11	18.77	18.83	18.86	18.92
U.S. Territories	0.27	0.27	0.27	0.27	0.27	0.27	0.27	0.27
Canada	2.26	2.16	2.22	2.26	2.26	2.11	2.23	2.27
Europe	15.35	14.50	14.34	14.32	14.18	14.00	14.51	14.67
Japan	4.78	4.36	4.21	4.08	4.76	3.89	3.92	4.29
Other OECD	5.41	5.39	5.46	5.50	5.57	5.39	5.30	5.59
Non-OECD	**38.20**	**38.66**	**40.24**	**41.65**	**39.22**	**40.66**	**40.76**	**40.31**
Former Soviet Union	4.35	4.21	4.29	4.32	4.21	4.23	4.38	4.34
Europe	0.80	0.79	0.80	0.78	0.79	0.77	0.83	0.83
China	7.83	8.22	8.78	9.32	8.54	8.90	8.78	8.89
Other Asia	9.31	9.34	9.59	9.93	9.67	9.79	9.33	9.55
Other Non-OECD	15.91	16.09	16.79	17.30	16.01	16.98	17.45	16.70
Total World Consumption	**85.78**	**84.02**	**85.59**	**87.19**	**85.02**	**85.15**	**85.84**	**86.32**

Source : Energy Information Administration (EIA)

- **The US dollar likely to depreciate in 2010** due to a concern over US economic recovery in relative to other trading partners. Thus, this tends to encourage investors to shift their investment portfolios from equity market to commodity market, particularly oil market which is an alternative investment as well as a hedging product against currency depreciation and inflation. Nevertheless, the US dollar is expected to stabilize during the second half of the year.



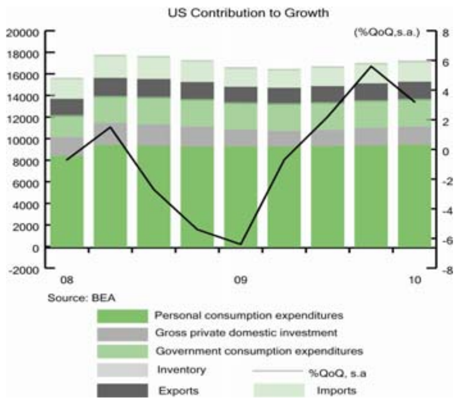
3. World Economic Performance in Q1/2010 and Outlook in 2010

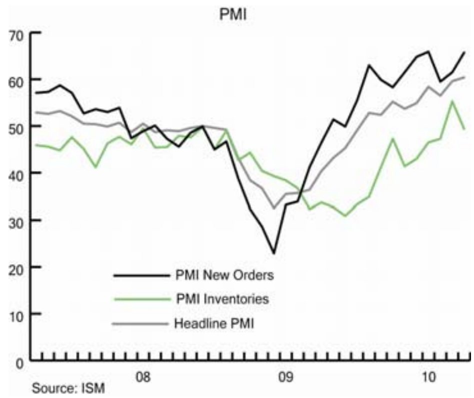
The world economy continued to expand especially those in Asia, China, and US. Whereas there is a high chance of fiscal uncertainty in PIIGS.

In the first quarter, the world economy has recovered continuously especially the US, China and Asia whose domestic demand had improved continually. The consumption in the US showed a clear sign of continuous improvement. The consumption in Japan also had a positive trend but will remain at a low level due to prolonged deflation. In the Eurozone, private consumption and domestic demand still at the low level and fragile because of high unemployment and sovereign risk. Inflation pressure in the US, Japan and EU remains low, whereas inflation pressure in Asia starts to rise.

- **US economy** expanded by 2.5 percent accelerated from 0.1 percent in the fourth quarter of 2009. The seasonally adjusted data shows that the US economy expanded at a slower pace of 0.8 percent, compare to that of 1.4 percent in the previous quarter. This was a result of a slowdown in inventory accumulation, exports, home sales and the investment in equipments and software. The expansion in the first quarter was supported by an increase in consumption of durable goods and services. The prices of goods and services (except food and energy) grew at a slower pace, of 1.7 percent, compared to the 2.0 percent increase in the previous quarter. PMI in the first quarter was 58.2 and picked up to 60.4 in April, the highest level in the past 4 years. This reflects the improvement in manufacturing production as a result of economic stimulus measures.

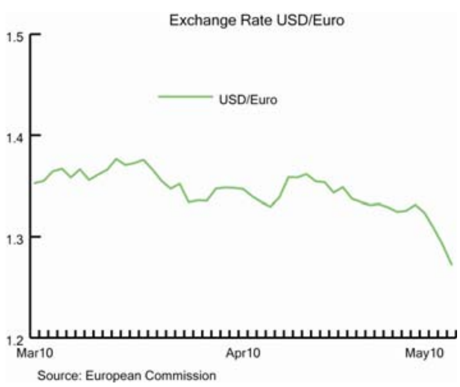
  Despite the clear sign of recovery, the US economy remains fragile due to unstable employment. In the first quarter, number of unemployment were 15.0 million people. The unemployment rate was at 9.7 percent ,decreased from 10.0 percent in the previous quarter. The rate soared to 9.9 percent in April, accounted for 15.3 million people. However, the employment in non-agricultural sector started to recover. Trade deficit tended to move upward from the increased imports value. Due to the rise in crude oil and non-energy goods price. In the first quarter of 2010, the level of trade deficit reached 116,802 million US dollars (seasonally adjusted), compared to 92,221 million US dollars in the first quarter of 2009.

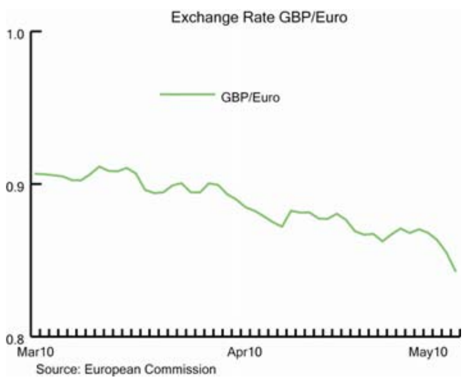




- **Eurozone Economy** grew by 0.5 percent, the first positive growth in six quarters, increased from a contraction of 2.2 percent in the last quarter of 2009. Seasonally adjusted data shows that the economy expanded by 0.2 percent, up from 0.0 percent in the previous quarter. This is a result of economic recovery in the major market, Germany and France. Inflation rate continued to rise to 1.4 and 1.5 percent in March and April respectively. In May 2010 Euro depreciated significantly by 5.2 percent (%MoM) against US dollar (the lowest level in 14 months) and also depreciated by 2.7 percent against the pound sterling (the lowest level in 9 months). Unemployment rates remained high at 1.0 percent. In March, unemployment rate in Latvia and Spain reached 22.3 and 19.1 percent respectively.

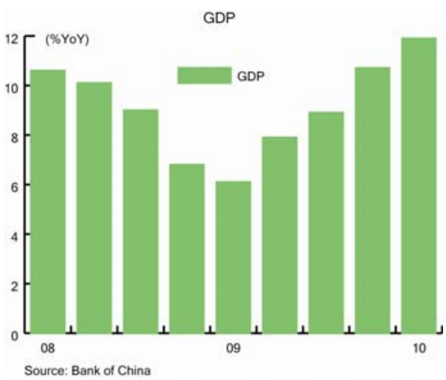
The PIIGS economies faced with a monetary and fiscal instability, especially Italy and Greece that have the highest public debt of 115.8 and 115.1 percent of GDP, respectively, while average public debt per GDP of Euro zone was 78.7 percent of GDP.[7] The European commission forecasted that public debt in Euro zone at the end of 2010 will accelerate to 84.7 percent of GDP.

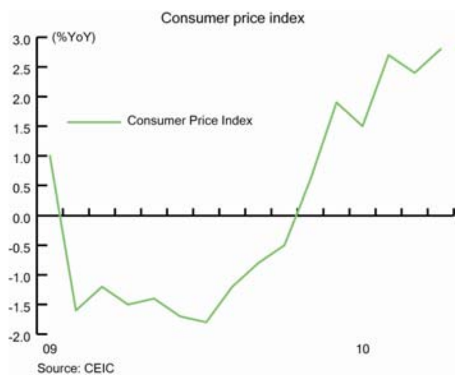




- **Japanese Economy** expanded by 4.6 percent, compared to the contraction of 1.1 percent in the previous quarter. After seasonal adjustment, the economy grew by 1.2 percent, slightly increased from 1.0 percent in the previous quarter. Unemployment rate in January stood below 5 percent for the first time in the past ten months with a decline from 5.2 percent in December to 4.9 percent. Manufacturing PMI decreased slightly from 52.5 in January and February to 52.4 in March. Manufacturing output rose by 2.5 percent, an 11th consecutive expansion due to more exports and the effects of the stimulus measures to manufacturing sector. Fixed asset investment continued to be moderate as Japanese companies still operate with excess capacity while domestic demand remain subdued.
- **Chinese Economy** expanded by 11.9 percent, increased from 10.7 percent in the previous quarter. The V-shaped recovery path in 2009 was a result of expansionary monetary and fiscal policy that continues to be implemented in 2010. Consumer price inflation modestly grew by 2.2 percent, whereas producer price index rose by 5.2 percent. Trade balance in the first quarter registered a surplus of 617.9 billion US dollars, an increase of 44.1 percent compared to the same period of last year. In addition, export values expanded by 28.7 percent while import values surged by 64.6 percent, indicated a faster-than-expected recovery. Investment in fixed assets increased by 25.6 percent, declined from the expansion of 30.1 percent in the previous quarter.

The Chinese economy expanded 11.9 percent in the first quarter which had a V-shape growth due to the current expansion monetary policy.





[7] In 2009, Portugal implemented expansionary fiscal policy where 8.1 percent of GDP was spent. The level of public debt reached 81.2 percent of GDP, the unemployment rate was 9.5 percent and the current account deficit accounted for 9 percent of GDP. Italy had a fiscal deficit of 5 percent of GDP, where public debt reached 116 percent of GDP, the unemployment rate was 7.6 percent and the current account deficit accounted for 2.7 percent of GDP. Greece experienced a massive fiscal deficit -12.7 percent of GDP, which was the highest level of public debt in PIIGS countries. Greece's public debt was 113 of GDP, the unemployment rate was 8.9 and current account deficit was 12.4 percent of GDP. Spain faced a fiscal deficit of 11.4 percent of GDP, its public debt reached 55.1 percent of GDP, the unemployment rate was 18.2 percent and the current account deficit was 5.0 percent of GDP.

- **New Industrial Economies (NIEs) and India** generally had a positive growth. In the first quarter, Singapore experienced the highest growth of 15.5 percent, higher than 4.0 percent in the last quarter of 2009. South Korea grew by 7.8 percent, compared to a 6.0 percent growth in the last quarter of 2009. Hong Kong expanded by 8.2 percent, compared to 2.6 percent growth in the fourth quarter of last year. Taiwan expanded by 13.3 percent, a slower pace of growth compared to an expansion of 9.2 percent in previous quarter. Manufacturing sector continued to expand in every NIEs economies. South Korea's manufacturing sector increased by 19.1 and 22.1 percent in February and March respectively. The expansion in manufacturing sector was a result of the recovery of electrical appliances and electronic industries. Inflationary pressure in NIEs countries remained high. In the first quarter of 2010, South Korea's inflation rate was 2.7 percent, higher than 2.4 percent in the previous quarter. Bank of Korea announced its inflation target for 2010 to 2012 to lie between 2.0-4.0 percent and will keep the interest rates at 2 percent until the US and other major economies start to withdraw their stimulus plan. Taiwan's inflation rate was 0.9 percent. India's inflation has escalated due to the drought, low harvest and the rise in price of crude oil. Bank of India has adjusted the interest rate twice this year, and the current interest rate is now at 5.25 percent.

The NIEs and Asian economy expanded at a high prospect in the first quarter. That was Singapore, Taiwan, and Malaysia experienced an expansion of 15.5, 13.3, and 10.1 respectively.

- **ASEAN Economies** showed a high expansion in the first quarter of 2010. Malaysia expanded by 10.1 percent, increased from 4.5 percent in the fourth quarter of 2009. Indonesia grew by 5.7 percent, compared to 5.4 percent in the last quarter of 2009. Vietnam expanded by 5.8 percent, a slight increased from 5.1 percent in the fourth quarter of 2009. Inflationary pressure among ASEAN economies in February remained high, especially the Philippines and Thailand whose inflation rate was 4.2. Malaysia's inflation was 1.3 percent, whereas Indonesia's inflation was 0.3 percent. Vietnam's inflation for 2010 is forecasted to be 9.0 percent, higher than last year of 6.5 percent.

- **Global Economic Outlook in 2010**

The global economy is forecasted to grow by 3.9 – 4.3 percent, better than the previous expectation in early 2010. This upward trend is fueled by several factors: (i) the higher-than -expected growth of the Asian economy in the first quarter, (ii) the growing of the domestic private demand in major industrialized countries especially in US and Japan, and (iii) the change in the inventory stock cycle in the major industrialized countries, NIEs and the developing countries in Asia especially the world production and import based countries. It is expected that US, Japan, China and India economies would expand by 3.0, 1.5, 10.0 and 8.0 percent respectively, more than the previous forecast of 2.7, 1.2, 9.7, and 7.8 percent respectively. However, the debt crisis in Europe would slowdown the recovery pace for the region which is likely to grow at 0.9 percent, compared to the previous forecast of 1.6 percent.

The projection of the world economic expansion in 2010 would be more than previously projected at the beginning of this year, while there is a high possibility of uncertainty.

Real GDP % YOY	2008	2009					2010	
	Year	Q1	Q2	Q3	Q4	Year	Q1	Year*
World*	2.7	-3.4	-1.7	-0.3	3.1	-0.7	6.0	3.8-4.2
US	0.4	-3.3	-3.8	-2.6	0.1	-2.4	2.5	3.0
Eurozone	0.6	-5.0	-4.8	-4.0	-2.1	-4.1	0.3	0.9
UK	0.5	-5.2	-5.8	-5.1	-3.2	-4.9	0.2	1.1
Japan	-1.2	-8.8	-5.7	-5.2	-0.4	-5.2	4.6	1.5
China	9.6	6.2	7.9	9.1	10.7	8.7	11.9	10.0
India	7.3	5.8	6.1	7.9	6.0	5.7	9.0*	8.0
South Korea	2.3	-4.2	-2.2	0.9	6.0	0.2	7.8	5.0
Taiwan	0.7	-9.1	-6.9	-1.0	9.2	-1.9	13.3	6.0
Hong Kong	2.1	-7.5	-3.7	-2.2	2.6	-2.7	8.2	4.8
Singapore	1.4	-9.4	-3.1	0.6	4.0	-2.0	15.5	6.2
Malaysia	4.6	-6.2	-3.9	-1.2	4.5	-1.7	10.1	5.0
Philippines	3.8	0.6	0.8	0.4	1.8	0.9	6.1*	3.6
Vietnam	6.2	3.1	4.5	5.8	5.1	5.3	5.8	6.0
Indonesia	6.0	4.5	4.1	4.2	5.4	4.5	5.7	6.0

* NESDB estimated

Nonetheless, the world growth expansion for the rest of this year still faces the risk of debt crisis in Europe along with the limited credit approval measure in China that needs to be closely monitored. Although the assistance from ECB and IMF for Greece with the total amount of 14.6 billion US dollars and the establishment of European crisis fund of 1 trillion dollars to assist member countries with credit default problem could reduce the chance that the debt crisis will develop to global financial crisis, however, the effect of Volcano eruption in Iceland and the measure to decrease the fiscal deficit could slowdown the European economy. Then the wariness among investors and the tendency that the Euro would depreciate against US dollars could have a negative impact on the US and Japan economic recoveries. At the same time, the Chinese economy in the second half of 2010 could also be slowdown by (i) the implication of a limited credit approval policy of 7.5 trillion Yuan for the whole year, and (ii) a deceleration in European economies.

Bonds Redemption and Coupon Payments in 2010

Billions of Euro	Greece		Portugal		Spain		Ireland		Italy	
	Redemption	Coupon	Redemption	Coupon	Redemption	Coupon	Redemption	Coupon	Redemption	Coupon
February	0.3	0.1	-	-	-	0.1	-	-	-	-
March	-	1.7	-	-	-	-	-	0.4	15.5	4.7
April	8.2	0.4	-	0.7	-	1.2	0.8	1.1	13.5	1.1
May	8.4	2.3	5.9	0.4	-	-	-	-	-	4.1
June	-	0.1	-	1.5	-	0.1	-	0.3	30.0	1.6
July	-	3.3	-	-	16.2	7.0	0.4	-	-	0.4
August	-	2.0	-	-	-	-	-	-	17.9	11.0
September	0.2	0.8	-	0.4	-	-	-	-	30.7	4.4
October	-	1.1	-	1.2	-	2.4	-	0.9	-	1.2
November	-	0.1	-	-	-	-	-	0.2	21.2	4.1
December	-	0.1	-	-	-	-	-	-	14.2	1.1
Public Debt to GDP 2009 (%)	115.1		76.8		53.2		64.0		115.8	

Source: Bank of America, EUROSTAT

Interest rate in the world market is on the upward side. The US dollar tends to appreciate against the other major currencies, but depreciate against Asian currencies. The high growth in the last quarter of 2009 and the first quarter of 2010 puts a pressure on inflation rate to go up. This tends to force Asian countries to raise their interest rate particularly China which is under a great pressure to increase the interest rate and the currency value. Meanwhile, the US inflation rate is historically low. Therefore, the adjustment in US monetary policy to reduce liquidity excess is very likely at this stage, and it is possible that FED will slowly increase its interest rate in the late third quarter or in the fourth quarter. The limitation in managing the fiscal policy of Japan and its high debt level can be expected that Japan will remain its current interest policy throughout year 2010 and 2011, and will increase its money supply to reduce the pressure on the ongoing deflation, similarly to the ECB policy to remain its interest rate for the year 2010.

The time difference in changing the monetary policy direction, together with the difference in the length of economic recovery cycle, plus the concern on debt crisis in Europe will cause the US dollar to continually appreciate against Yen and Euro, thereby tends to depreciate against Asian currencies. These conditions will be the supporting factor to the mobility of fund into the developing and emerging countries in Asia. It is also likely to be fluctuated according to the fear on debt payment and the situation in European economy.

4. Thai Economic Outlook in 2010

The Thai economic expansion was high in the first quarter, which show the opportunity of continued high economic expansion in 2010.

Providing the strong economic expansion in the first quarter and the better-than-expected global economic condition, the Thai economy in 2010 has an opportunity to expand at a faster pace than previously expected. However, the deteriorating political condition prevented the tourism sector to gain a full benefit from improving global condition. Meanwhile, economic confidence tends to be weakened by recent political unrest. This will in turn impede the expansion of private consumption and investment. Given improving private demand condition in major countries, export grew strongly in the first quarter. Nevertheless, export performance in the remaining of 2010 remains subjected to downside risks that are facing the global economy. The Thai Baht is facing an appreciation pressure and tends to fluctuate due to volatile financial and economic condition in European countries. Lastly, the agricultural production faces the risk of drought and a fluctuation of the agricultural prices in the world market.

❑ **The supporting factors**

According to economic assessment in the first quarter, the Thai economy in 2010 has a favorable prospect for a high growth signaled by several supporting factors namely:

(1) **The global economy and trade volume** tend to expand at a faster pace than previously expected due to the robust economic expansion in Asia and the improving private demand condition in the U.S. and Japan. These favorable global economic conditions will support the adjustment process of inventory cycle in major countries and benefit to manufacturing production and export.

(2) **Economic fundamentals remain favorable for the Thai economic recovery especially**:

- **The faster-than-expected economic recovery.** In the first quarter, the Thai economy expanded by 12.0 percent, continuing from 5.9 percent in the last quarter of 2009. This rapid recovery pulled the main economic activities back to their normal level in the year 2008, and provided economic momentum for the remaining of 2010. Especially, the rate of capacity utilization has increased to over 70.0 percent in March and consumer and investor confidences has picked up significantly.

Key Economic Indicators

	Normal Level		Actual Level		%QoQ sa.			
					Avg. 2002-2007		Actual	
	Q4/07	Q1/08	Q4/09	Q1/10	Q4	Q1	Q4/09	Q1/10
Private Investment Index	175.35	179.51	165.88	173.87	1.00	3.09	5.54	4.81
Private Consumption Index	128.24	130.98	131.84	133.58	1.31	0.93	2.12	0.91
Export Volume Index	109.45	103.21	97.90	97.68	1.99	-2.17	2.15	-0.22
Manufacturing Production Index	191.84	199.29	201.39	212.42	3.11	2.20	8.00	5.77
Capacity Utilization	73.12	73.56	65.97	68.38	0.93	0.83	6.50	3.22
Real Inventories (Millions Baht)	9,546	14,463	17,776	n.a.	16,894	23,605	17,776	n.a.

Source: NESDB, BOT

- **The financial liquidity remains favorable.** The stock and bonds markets are favorable for mobilizing private fund. Special Financial Institutions (SFIs) are also in good position to provide liquidity and support the recovery of SMEs. At the end of April 2010, the SFIs have approved credit of 286,794 million Baht, compared to the target of 821,175 million Baht for the year 2010.
- **The real deposit interest rates are still in negative region and the real lending rates still at the bottom of interest rate cycle.** That is, the real deposit rate in April was at -2.32 percent and the real lending rate (MLR) was at 2.86 percent. Although interest rate tends to increase in the remaining of 2010, the adjustment is expected to be gradual and remain accommodative for sometimes to support private investment and consumption expansion.
- **World oil price is unlikely to rise significantly from its price in the first quarter.** Although the strong Asian economic recovery and the growing private demand in the U.S. and Japan will eventually raise demand for oil consumption, the upward pressure on oil price will be partially reduced by the weakening economic activities in Europe. In addition, the concerns over debt crisis in European countries and the appreciation of U.S. dollar against major currencies will tone down the speculative demand and facilitate oil prices to move more closely to the fundamental factors.

❑ **Risk Factors and the Forecast 2010**

Despite the strong growth in the first quarter, the development of global and domestic conditions after the first quarter posed downside risks to the Thai economic outlook in the remaining of the year that could severely curb the rate of economic expansion. These are including:

However, there will be high risk streaming from both domestic and international factors which will decelerate the economy in the first quarter.

(1) **The downside risks posed by global economic condition**: With the contribution from growing private demand in the U.S. and Japan as well as the China-led Asian economic recovery, the world economy grew strongly in the first quarter. However, there are downside risks to global economy in the remaining of 2010, which included (i) the high unemployment, debt overhang in private balance sheet and twin deficit in the U.S. economy, (ii) the severe debt problem in Europe in which the Greece's public debt has been accumulated to 405.7 billion U.S. dollars and the average debt of countries in Eurozone is as high as 78.7 percent of GDP and, (iii) the threat from inflation pressures in China that could lead to strong credit policy reaction and result in the sharp slowdown of Chinese economy.

(2) **The downside risks posed by domestic condition:** The recent political unrests affected severely the image of the country. This will be an obstacle for the country to gain a full benefit from the world economic recovery. The important impacts are as follows:

- **The impact on the tourism sector and its related industries**: The conflict between the protestors and officers during the 10th of April – 19th of May and the extremely violence by riots will leave some concerns over the safety of tourists in Thailand and reduce the number of foreign tourists especially those from Asia such as Chinese, Korean, and Japanese. Thus, it is expected that, in the year 2010, there will be approximately 13 millions of foreign tourists which is less than the target of 16 millions by 3 millions. This will, in turn, reduce the income from foreign tourists by about 113 billion Baht from the target of 600 billion Baht. The number of tourists will decrease by 8 percent, compared to 14.1 million tourists in 2009.

- **The impact on the investment, consumption and export**: the effect on the investors, businesses, and people confidence will cause a deceleration in consumption and investment. It may also reduce the confidence of foreigners to order goods from Thailand which will have an impact on the export sector.
- **The impact on budget disbursement**: the unfavorable political condition both before and after the political unrest is expected to put a difficulty in disbursing budget under the SPII and the 2011 fiscal budget.

(3) **The drought and the fluctuation in agricultural product prices could also affect the Thai economy.** Providing the farm income guarantee scheme and the increase of price in the world market, the agriculturists' income in the remaining of 2010 is expected to be higher than in 2009. Nevertheless, agricultural production remains at risk from drought. In addition, agricultural price fluctuation tends to be more intense in response to the expectation of global economic and financial condition as well as the alteration of exchange rate between major currencies. This situation will affect the price of oil and other primary commodities in the world market.

(4) **The fluctuation of exchange rate and the Thai Baht appreciation that are combined with inflationary pressure:** In the remaining of 2010, the Thai Baht will remain under appreciation pressure and tends to increasingly fluctuate. The appreciation pressure of Thai baht currency tends to be generated mainly by the changing of economic fundamental in major economies. Meanwhile, the exchange rate fluctuation tends to be more intense due to concerns over sovereign risks in European countries. The appreciation of Thai Baht (combined with rising inflation and exchange rate intervention in export-competing countries) could affect the performance of export sector, especially in European market will be aggravated by the economic downturn.

According to the above mentioned risks, NESDB maintain the previous economic projection released on the 22nd of February 2010. That is the Thai economy is forecasted to grow by 3.5 – 4.5 percent with the inflation rate of 3.0 – 4.0 percent and current account surplus of 4.1 percent of GDP.

The projection of the economic growth rate is between 3.5-4.5 percent.

Share of 10 Major Export Commodities: Classified by Destinations

Percentage	PIIGS	EU15	ASEAN 9	US	China	Japan	Others
Computer and electrical appliances	1.4	12.0	12.4	18.4	27.0	6.3	23.9
Vehicles, parts and accessories	1.4	4.5	27.8	2.0	0.6	5.0	60.1
Gems and Jewelry	1.9	12.5	0.8	8.6	0.1	2.0	76.2
Electronic integrated circuit	0.1	8.8	24.1	7.5	11.4	13.8	34.4
Rubber	2.7	6.2	21.3	6.9	36.1	10.6	18.9
Rubber Product	2.2	13.3	18.0	19.3	17.5	7.1	24.8
Steel and steel product	1.3	4.3	25.4	4.0	2.4	7.6	58.6
Rice	1.1	6.0	9.2	7.5	4.2	2.7	70.4
Chemical Product	2.1	5.2	29.4	2.2	30.4	5.7	27.1
Plastic Resin	1.3	3.2	18.1	1.9	24.3	6.2	46.3
Others	2.1	12.4	24.8	12.6	7.4	13.8	29.1

Source: MOC

5. Economic Management for 2010

1With the contribution from the strong economic expansion in the first quarter and the better-than-expected global economic condition, the Thai economy in 2010 has an opportunity to grow at a faster pace than previously expected. Nevertheless, the political instability prevents Thai economy from gaining a full benefit from the world economic recovery. The recent deteriorating political condition tends to jeopardize economic momentum that has been accumulated by continued economic recovery. Meanwhile, the strong export expansion, which is the key driver for economic recovery, remains subjected to downside risks posed by the debt crisis in European countries and the alteration of exchange rate between major currencies, as well as the continuity of Chinese economic expansion. In addition, the drought posed a great risk to agricultural production. In this respect, the key issues of economic management in 2010 are as follows:

(1) Restoring economic and political confidences by restoring Thailand images and confidences among Thai people, foreign tourists and investors in order to mitigate the negative impacts on economic expansion. This includes the expedition of compensation measures for people who suffered from political unrests.

(2) Minimizing downside risks to agricultural production posed by the parched situation. This includes the implementation of appropriate measures to stabilize agricultural price which is likely to fluctuate in response to changing global economic and financial condition.

(3) Implementation of well-balanced monetary and exchange rate policy to (i) facilitate economic recovery in the remaining of the year, (ii) maintain economic stability under the circumstances of global economic and financial fluctuation, and (iii) maintain the price competitiveness of export goods.

(4) Speeding up key investment projects under the second stimulus package (SP2) to offset the reduction of government spending under the regular budget, and to assure investor confidence.

(5) Monitoring and preparing safeguard measures to mitigate the impacts of debt crisis in European countries, particularly its impact on capital flow and exchange rate fluctuation. This includes the long-run measures to assist the production and export sectors that are suffered from the slowdown of European countries, and the asymmetric alteration of exchange rate between Thai baht, RMB, U.S. Dollar and Euro that tends to bias against Thai exports in European market.

Economic Projection 2010

	Actual Data			Projection 2010
	2007	2008	2009	24 May 2010[1/]
GDP (at current prices: Bil. Bht)	8,529.8	9,075.5	9,050.7	9,729.5
GDP per capita (Bht per year)	129,240	135,455	134,683	144,141
GDP (at current prices: Bil. USD)	245.8	273.4	263.6	299.4
GDP per capita (USD per year)	3,724.2	4,080.6	3,922.6	4,435.1
GDP Growth (at constant prices, %)	4.9	2.5	-2.2	3.5 - 4.5
Investment (at constant prices, %)	1.5	1.2	-9.0	4.6
Private (at constant prices, %)	0.6	3.2	-12.8	5.0
Public (at constant prices, %)	4.2	-4.6	2.7	3.5
Consumption (at constant prices, %)	2.8	3.0	-0.1	2.8
Private (at constant prices, %)	1.7	2.7	-1.1	3.0
Public (at constant prices, %)	9.7	4.6	5.8	1.6
Export volume of goods & services (%)	7.8	5.1	-12.7	8.8
Export value of goods (Bil. USD)	151.3	175.2	150.9	174.3
Growth rate (%)	18.2	15.9	-13.9	15.5
Growth rate (Volume, %)	11.9	4.9	-14.2	9.0
Import volume of goods & services (%)	4.4	8.5	-21.8	16.4
Import value of goods (Bil. USD)	138.5	175.1	131.5	163.0
Growth rate (%)	9.1	26.5	-24.9	24.0
Growth rate (Volume, %)	3.5	12.3	-23.0	18.0
Trade balance (Bil. USD)	12.8	0.1	19.4	11.3
Current account balance (Bil. USD) [2/]	15.7	1.6	20.3	12.2
Current account to GDP (%)	6.3	0.5	7.7	4.1
Inflation (%)				
CPI	2.3	5.5	-0.9	3.0 - 4.0
GDP Deflator	3.2	4.5	2.0	3.0 - 4.0

Source: Office of National Economic and Social Development Board, 24th May 2010

Note [1/] The projection will be remained as previously announced on the 22nd February 2010.

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