



Thai Economic Performance in Q2 and Outlook for 2010

Macroeconomic Strategy and Planning Office

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Economic Forecast Year 2010

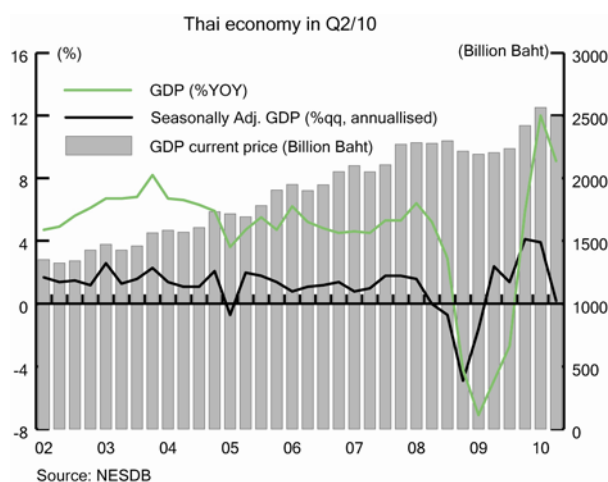
(% YOY)	2009		2010	
	Year	Q1	Q2	Projection
GDP (at 1988 price)	-2.2	12.0	9.1	7.0-7.5
Total Investment (at 1988 price)	-9.0	12.9	12.2	9.2
Private	-12.8	15.8	18.5	12.1
Public	2.7	3.8	-3.4	1.7
Total Consumption (at 1988 price)	-0.1	4.5	6.5	4.0
Private	-1.1	4.0	6.5	4.1
Public	5.8	7.3	6.3	3.9
Export of Goods,	-13.9	32.0	41.8	25.7
Volume	-14.0	16.5	28.3	17.2
Import of Goods,	-24.9	63.6	44.8	32.9
Volume	-22.7	47.4	30.2	24.9
Current Account to GDP (%)	7.8	6.7	6.0	4.9
Inflation	-0.8	3.8	3.3	3.0-3.5
Unemployment rate	1.5	1.1	1.3	1.3

- Thai Economy in the second quarter of 2010 grew by 9.1 percent, thus the first half of 2010 Thai economy expanded by 10.6 percent. This was supported by the recovery of the world economy and the investor confidence – which led to the improvement of production, exports, investment, and private consumption. In addition, farm income rose due to higher prices of major agriculture products. Nonetheless, domestic political unrest has dampened inbound tourists' confidence, as a consequence, the number of foreign tourists declined by 3.6 percent.
- After seasonal adjustment, the economy continued to grow from the previous quarter by 0.2 percent, the fifth-consecutive-quarter expansion since the second quarter of 2009.
- The economic forecast for 2010 is expected to be in the range of 7.0 – 7.5 percent. With regard to the assessment of economic outlook, exports and private consumption are forecasted to grow by 25.7 and 4.1 percent respectively. Tourism and investment are expected to expand by 4.7 and 9.2 percent, consecutively, providing that domestic political situation remains stable. Consequently, key economic indicators are forecasted as follows: (i) headline inflation between 3.0 – 3.5 percent; (ii) unemployment rate at 1.3 percent; and (iii) current account surplus of 4.9 percent of GDP.
- The economic management for the rest of 2010 should emphasize the following issues: (i) improve country image in order to restore confidence of foreign tourists and investors. At the same time, the government should expedite the implementation of national reconciliation plan to ensure the constant improvement of domestic political condition and general economic confidences; (ii) resolve key limitations to economic expansion, especially the Map Ta Phut Industrial Estate environmental regulations problem and related issues under the Section 67 of the 2007 Constitution, as well as, labor shortage in key manufacturing sectors; (iii) monitor and mitigate the impacts of drought on agricultural production as well as maintain the stability of agricultural prices in the presence of Thai baht appreciation against the constant devaluation of Vietnamese's Dong; (iv) speed up key investment projects under the Thai Khem Kaeng Stimulus Package (SP2) and prepare key projects under the budget of FY2011 to be ready for implementation in the last quarter of 2010 and the first quarter of 2011 when the world economy tends to slowdown; and (v) implementation of well-balanced monetary and exchange rate policies to maintain economic stability and to facilitate economic expansion under the pressure from Thai baht appreciation as well as an increase in volatility of capital flow and exchange rate movement of major currencies .

Thai Economic Performance in Q2/2010 and outlook for 2010

In the second quarter of 2010, Thai economy grew by 9.1 percent, a faster-than-expected recovery. Such expansion was mainly supported by a strong recovery in both global economy as well as consumer and investor confidence. Additionally, manufacturing productions, exports, and private investment and consumption collectively improved while farm income also rose amid a rise in crop price. Nevertheless, the political unrest adversely affected tourists' confidence which, as a result, led to a contraction of 3.6 percent in the number of inbound tourists. The seasonally adjusted GDP grew by 0.2 percent compared to the previous quarter, a fifth consecutive expansion since the second quarter of 2009. For the first half of the year, the economy recorded a solid growth of 10.6 percent.

Thai economy grew by 9.1 percent in the second quarter of 2010. As a result, it recorded a growth of 10.6 percent for the first half.



Positive signs in Q2/2010

- (1) **Exports considerably expanded.** Export values in term of US dollar surged by 41.8 percent, up from a 32.0 percent growth in the previous quarter. The key drivers included a 97.1 percent growth of vehicles, parts and accessories, a 43.5 percent growth of electrical appliances, a 37.2 percent growth of air conditioning machine, and a 236.6 percent growth of precious stones and jewellery.
- (2) **Household consumption continued to rise from the previous quarter with a growth of 6.5 percent** owing to an increase in crop price which grew by 27.8 percent, particularly rubber (108.7 percent), cassava (93.8 percent) and maize (26.9 percent) prices. As a result, farm income rose by 30.0 percent while other conditions such as employment remains favorable. Unemployment rate stood at only 1.3 percent.
- (3) **Private investment** remarkably grew by 18.5 percent, compared to an increase of 15.8 percent in the previous quarter. Such expansion can be seen in both construction as well as equipment investment, indicated by domestic cement sales and import of capital goods which grew by 12.2 and 35.2 percent respectively, up from 7.2 and 23.8 percent in the previous quarter.
- (4) **Manufacturing production** expanded by 18.0 percent, especially domestic-oriented industries such as passenger cars, motorcycles, construction materials, steel and steel products as well as rubber and rubber products which grew by 93.9, 36.3, 10.4, 32.7 and

16.8 percent respectively following a recovery in domestic demand as well as a better prospect in construction sector. The capacity utilization stood at 66.1 percent compared to 58.4 percent at the same period of last year.

Although the political unrest in the second quarter adversely affected the tourism sector, leading to a contraction of 3.6 percent with only 2.9 million of inbound tourists, the total number of inbound tourists stood at 7.5 million persons for the first half of the year, or up by 13.7 percent compared to the same period of last year. This clearly indicated a strong potential of the tourism sector as a key driver for the Thai economy.

Thai Economic Outlook for 2010

For the year 2010, the economy is expected to expand in the range of 7.0 – 7.5 percent, with 3.0 – 3.5 percent of headline inflation and 0 – 1.25 percent of core inflation. Household consumption is projected to grow by 4.1 percent while investment is estimated to expand by 9.2 percent. Export value in US dollar term is forecasted to grow by 25.7 percent, with a current account surplus of 4.9 percent of GDP, down from a surplus of 7.8 percent of GDP in 2009. It should be noted that the above forecasts are based on the following conditions: (i) the political situation remains calm at least for the rest of the year; and (ii) the inflation rate is expected to ease off, partly due to the high base effect.

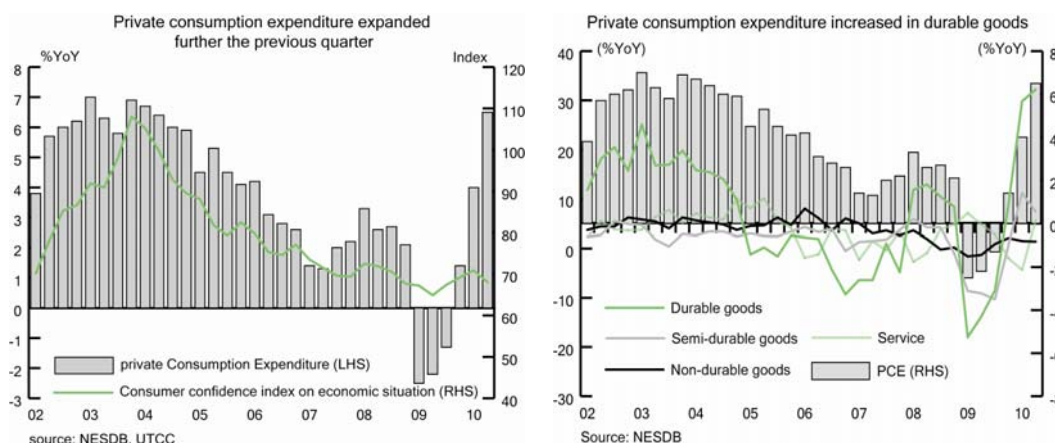
Thai economy is projected to expand in the range of 7.0 - 7.5 percent in 2010.

1. Economic Performance in Q2/2010

□ Expenditure Side

Household consumption expenditure: continued to expand from the previous quarter with the rate of 6.5 percent accelerated from 4.0 percent in the first quarter. Key supporting factors to this improvement were: i) an increase in employment especially in the construction sector; ii) an increase in farm income following an improvement in price of agricultural products, resulted from an increase in global demand in accordance with recent economic recovery; and iii) the improvement in consumer confidence following the implementation of SP2 which stimulated domestic consumption reflected in the continuing increase of 32.2 percent in durable goods consumption such as passenger cars and air conditioners. In addition, consumer confidence index on economic situation over the second quarter of 2010 stood at 68.0, declined from 70.9 in the previous quarter due to an impact of political unrest during March - Mid-May 2010. Nevertheless, the consumer confidence index in this quarter recorded a significant improvement in May and continued to expand in June resulted from the implementation of government rehabilitation measures which partially regained the consumers' confidence.¹

Household consumption expenditure expanded by 6.5 percent owing to an increase in employment and farm income



Private Consumption

%YoY	2009					2010		
	Year	Q1	Q2	Q3	Q4	Q1	Q2	H1
Private Consumption	-1.1	-2.5	-2.2	-1.3	1.4	4.0	6.5	5.3
Durable goods	-8.2	-18.0	-13.8	-8.5	8.8	29.8	32.2	31.0
Semi-durable goods	-6.7	-8.6	-9.1	-10.3	0.7	11.2	7.4	9.3
Non-durable goods	0.0	-1.6	-1.3	0.9	2.1	1.5	1.4	1.4
- Food	1.4	1.2	-0.2	3.2	1.4	0.9	1.7	1.3
- Non-food	-1.0	-3.7	-2.0	-0.8	2.6	1.9	1.2	1.5
Service	2.9	7.1	4.8	2.8	-2.0	-4.3	5.6	1.0

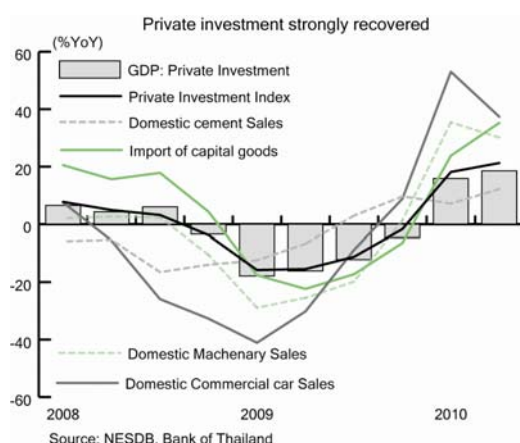
Source: NESDB

Private Investment increased by 18.5 percent, continued to expand from the 15.8 percent of growth in the previous quarter. The escalation was attributed by an increase in both equipment and construction by 21.7 and 8.4 percent respectively. Such expansion was reflected in the growth rate of 21.2 percent of private investment index, 35.2 percent of import of capital goods

Private investment expanded further from the previous quarter in both equipment and construction.

¹ Consumer confidence index on economic situation for the first half of 2010 stood at 69.4.

and 37.3 percent of domestic commercial car sales. In addition, domestic cement sales and construction area permitted also boosted up by 12.2 and 10.4 percent respectively.



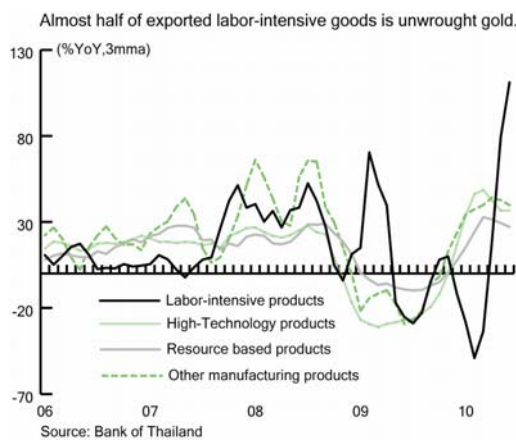
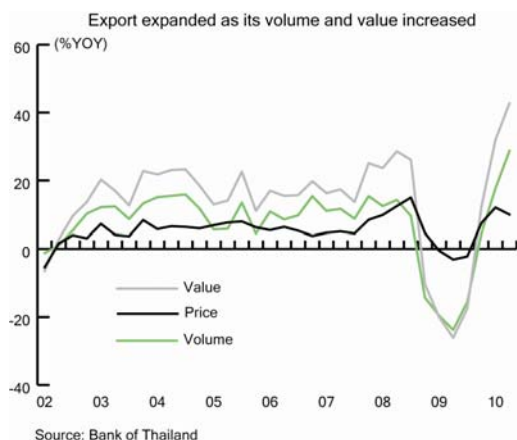
Business Sentiment Index (BSI) in the second quarter was at 49.3, slightly dropped from 52.5 in the previous quarter due to the anxiety about domestic political unrest started in March. Thus, BSI in April considerably decreased to 46.0 from 55.7 in March. Nevertheless, after the end of disruptive political unrest in mid-May, BSI picked up to 49.9 and 52.1 in May and June respectively.

Export: both value and volume increased. In the second quarter of 2010, export value in US dollar term increased by 41.8 percent after an expansion of 32.0 percent in the first quarter. The export volume and price also gained by 28.3 and 10.0 percent respectively. Excluding unwrought gold, the export value expanded by 33.9 percent. The expansion was caused by an increase in a speculation of unwrought gold. In addition, it was due to a recovery of foreign demand as the global economic condition improved, the implementation of ASEAN Free Trade Area (AFTA) and a low base effect. The export of manufacturing products continued to expand. In contrast, the agricultural sector was affected by the drought, causing a shrink in supply and thus leading to a higher price of agricultural products. In terms of Thai baht, export value picked up by 32.3 percent.

The export of agricultural commodities continued to expand. Export price grew by 48.5 percent while its volume dropped by 7.7 percent leading to an increase of 37.1 percent in export value. **Similarly, both volume and value of manufacturing products continually grew** by 35.0 and 42.9 percent respectively, while export price slightly increased by 5.9 percent. Major exported commodities were electronics and electrical appliances of which export value rose by 24.2 and 40.1 percent respectively as a result of higher orders. Export value of food products (excluding sugar) expanded by 14.7 percent. The food products which recorded an expansion in export value were frozen and processed shrimps (17.0 percent); and canned, fresh, frozen and processed vegetables and fruits (9.7 percent). However, when classified by product group, high-technology products and resource-based products experienced the increase of 37.2 and 27.5 percent respectively. Export of labor-intensive products significantly grew by 111.0 percent compared to a contraction of 40.8 percent in the first quarter due to an increase in export of unwrought gold which accounted for 54.3 percent of total exported labor-intensive products.

Export value increased by 41.8 after the expansion of 32.0 percent in the first quarter. Export markets expanded in both major markets and other markets.

Export market expanded in both major markets and other markets, particularly in ASEAN (9) of which export value increased by 45.3 percent. Similarly, export to China, US, Japan and EU(15) experienced an expansion in export value of 30.7, 26.4, 34.6 and 24.1 percent respectively. Regarding new markets, the value of export to Australia, South Korea, Taiwan and India rose by 97.6, 41.7, 36.1 and 25.2 percent respectively.



Major Export Markets

(%YOY)	2007	2008	2009				2010			Share (%)	
	Year	Year	Year	Q1	Q2	Q3	Q4	Q1	Q2		H1
US	-0.2	4.4	-17.8	-27.1	-27.1	-19.2	4.5	22.8	26.4	24.7	9.8
Japan	10.6	10.9	-21.7	-26.2	-31.2	-24.9	-2.7	29.4	34.6	32.1	10.1
EU(15)	17.6	7.2	-24.5	-32.8	-33.1	-26.6	-1.8	21.7	24.1	22.9	9.8
ASEAN (9)	21.4	22.4	-19.1	-31.6	-33.1	-21.7	18.3	67.3	45.3	55.2	23.3
Hong Kong	21.3	15.5	-5.6	-14.2	-22.6	-3.6	23.8	22.7	58.2	39.5	6.4
Taiwan	-1.1	-18.8	-16.7	-42.5	-26.3	-13.1	27.3	69.6	36.1	50.7	1.6
South Korea	11.7	23.0	-23.2	-24.7	-18.7	-36.1	-7.5	42.8	41.7	42.2	2.0
Middle East	30.8	26.9	-7.8	6.7	-17.7	-19.3	4.4	9.4	22.2	15.5	5.1
India	47.1	25.6	-3.6	-17.1	-9.3	-7.7	20.4	92.4	25.2	54.4	2.3
China	26.6	9.1	-0.4	-28.2	-9.3	-6.2	54.1	70.0	30.7	47.8	10.9
Australia	36.5	34.4	7.5	15.4	-27.7	7.1	39.4	3.5	97.6	41.5	5.4

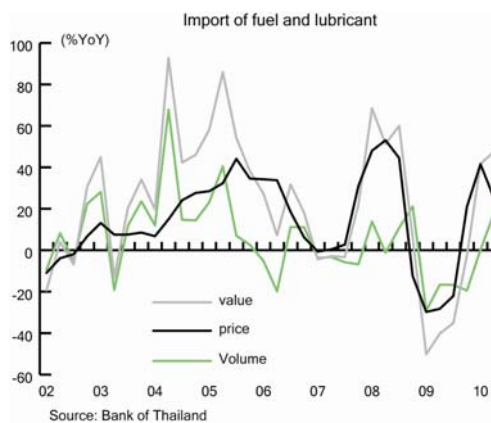
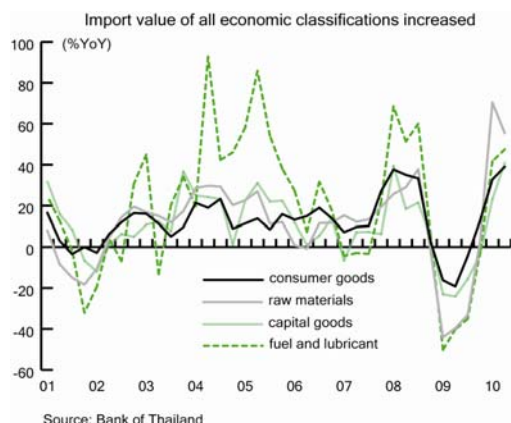
Source: Bank of Thailand

Imports: value, volume and price expanded considerably. In the second quarter of 2010, import value in US dollar term rose by 44.8 percent, continually expanding from 63.6 percent in the previous quarter. The import price rose by 9.0 percent, mainly due to the rise in oil prices. The import volume expanded by 33.5 percent, compared to the expansion of 47.4 percent in the previous quarter. The sign of domestic and global economic recovery induced a higher import orders of both raw materials and finished products in order to response to a higher economic activities. In addition, the considerable increase of import volume in this quarter was partly due to a low base effect in last year.

Expansion of import was recorded in most commodities including: (i) **capital goods** remarkably rose by 41.2 percent, compared to the expansion of 23.1 percent in the first quarter. This was due to the improvement in domestic investment and capacity utilization; (ii) **semi-finished goods and raw materials** continually expanded by 55.8 percent from the expansion of 70.4 percent in the previous quarter. The expansion in export and the improvement in domestic economy enhanced more demand on raw materials; (iii) **consumer goods** rose by 39.2 percent, compared to 32.8 percent expansion in the last quarter due to the improvement of private consumption and (iv) **fuel and lubricant** import price increased whereas import volume grew at a decelerated rate. Import value increased by 48.0 percent, compared to the expansion of 41.7 percent in the previous quarter, while import volume rose by 0.2 percent. The import price rose by 25.3 percent. The improvement of import value was

Import value rose by 44.8 percent expanding further from 63.6 percent in the previous quarter. Import value increased in most commodities.

owing to a considerable increase in crude oil prices, and economic recovery inducing more demand on fuel and lubricant products in an economy



Term of trade improved from the same period of last year as export price in the US dollar term increased at a faster pace than that of import price. The price of export rose by 10.0 percent, whereas the import price increased by 9.0 percent. Hence, term of trade in the second quarter of 2010 increased by 1.0 percent.

Trade balance in the second quarter recorded a surplus of 4,645 million US dollars (equivalent to 150,437 million baht), higher than a surplus of 2,133 million US dollar (equivalent to 69,834 million baht) in the previous quarter.

□ **Production side:**

Agricultural sector contracted by 1.1 percent due to the drought and the outbreak of mealy bug in cassava and brown plant hopper in rice plantations. In addition, the production of sugarcane, cassava, rubber and paddy rice declined by 47.7 23.8 4.3 and 2.1 percent respectively. However, the production of oil palm continued to grow by 18.3 percent amid an expansion of 14.1 percent in its harvesting area.

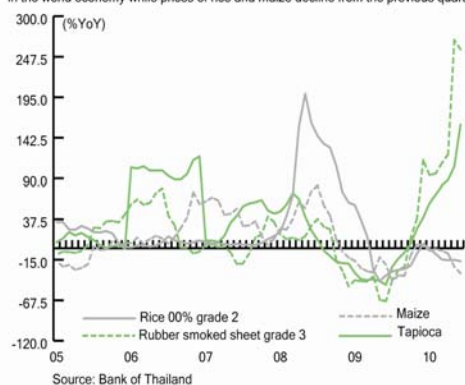
Meanwhile, crop prices recorded a growth of 27.8 percent, mainly contributed by rubber price which skyrocketed by 108.7 percent as demand from Chinese automobile sector and its related industries continued to grow. Cassava price also surged by 93.8 percent, mostly due to supply disruption as a result of the outbreak of mealy bug while demand remains strong. Domestic price of paddy decreased by 20.1 percent, in line with the world market. In addition, the lower price of paddy was also resulted from a reduction in demand from major counterparts such as the Philippines, which has already switched its import orders to Vietnam. Livestock price rose by 6.5 percent, slightly down from the previous quarter following the reduction in prices of swine and chicken due to excess supply in the market.

Term of trade expanded by 1.0 percent.

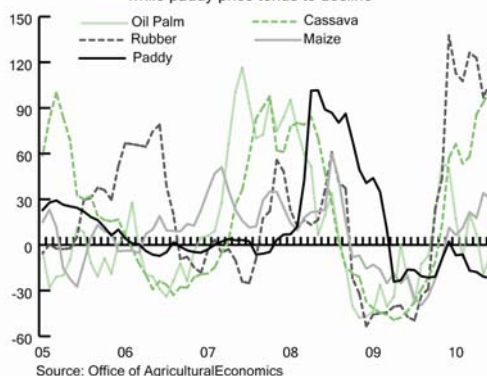
Trade balance remained surplus, accelerated from the previous quarter.

Agricultural sector contracted by 1.1 percent due to drought whereas a crop price and farm income improved.

World agricultural price: Prices of RSS 3 and tapioca substantially surged following an expansion in the world economy while prices of rice and maize decline from the previous quarter

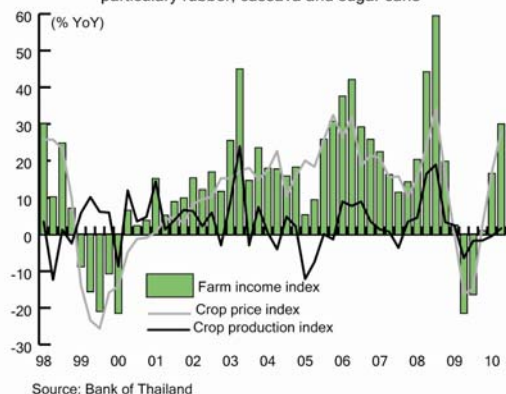


Farm income: Prices of rubber, cassava and sugar cane continued to grow while paddy price tends to decline



In summary, despite a contraction of 0.9 percent in agricultural sector for the first half of the year, farm income continued to grow by 30.0 percent amid the expansions in price and production of major agricultural products.

Farm income rose from the previous quarter amid an increase in crop price particularly rubber, cassava and sugar cane



Manufacturing sector grew by 18.0 percent, mainly driven by a strong recovery in domestic demand. As a result, the domestic-oriented industries expanded by 22.6 percent, up from 20.1 percent in the previous quarter. Main engines of growth comprised: (i) Passenger cars and motorcycles industries, which considerably expanded by 93.9 and 36.3 percent respectively. Such expansions were mainly supported by a strong demand following better confidence of domestic consumers in conjunction with an increase in farm income; (ii) Construction materials, expanded by 10.4 percent amid better prospect in construction sector; and (iii) Export-oriented industries, grew by 19.8 percent, substantially lower than a growth of 50.2 percent in the previous quarter. This was particular a result of lower exports of electronics (22.2 percent from 61.1 percent) and electrical appliances (32.0 percent from 52.2 percent). In addition, the export values of computers and integrated circuits increased by 20.5 and 27.7 percent, down from 53.0 and 59.5 percent respectively. Other industries that continued to expand were leather and footwear products, growing by 21.8 and 8.3 percent respectively, up from 14.1 and 6.5 percent in the previous quarter. Frozen seafood and canned seafood products increased by 12.2 and 0.4 percent, down from 23.9 and 8.8 percent in the previous quarter respectively. The industries which export between 30 – 60 percent of their production, grew by 17.6 percent, particularly the production of commercial cars which substantially rose by 108.2 percent. For the first half of this year, manufacturing sector expanded by 20.4 percent.

At the end of this quarter, the capacity utilization stood at 66.1 percent, slightly down from 68.4 percent in the previous quarter. Major industries that expanded their production capacity included chemical products (88.5 percent from 81.1 percent), construction materials (73.6 percent from 72.9 percent), automobile and transportation equipments (72.0 percent from 69.2 percent), and electrical appliances (60.0 percent from 56.0 percent). However, several industries continued to operate under 50 percent of their capacity. Those included tobacco (48.9 percent), leather products (29.9 percent), footwear products (46.2 percent), and furniture (26.5 percent).

Construction grew by 8.1 percent, up from 6.0 percent in the previous quarter. Such expansion was mainly driven by public construction which registered an impressive growth of 7.9 percent, considerably up from 2.5 percent in the previous quarter. Meanwhile, private construction expanded by 8.4 percent, slightly lower than 9.7 percent in the previous quarter. In addition, the total permitted area for construction declined from a growth of 35.4 percent in the previous quarter to 10.4 percent in this quarter. A slower pace of growth can be observed in all types of construction, particularly residential and industrial construction which were

Manufacturing sector grew by 18.0 percent, mainly driven by a strong recovery in domestic demand and an improvement of construction sector.

Construction improved, mainly driven by public construction while private investment grew at a slower pace.

mainly affected by the political unrest during April - May and the suspensions of several projects especially in Map Tha Put area due to environmental problems under Article 67 of the constitution. Nevertheless, domestic cement sales continued to grow by 12.2 percent compared to the same period of last year. On the other hand, sales volumes of other construction materials remained in their downward trends, for instance, steel bar and wire rod contracted by 6.4 and 1.3 percent respectively. For the first half of the year, construction sector grew by 7.1 percent.

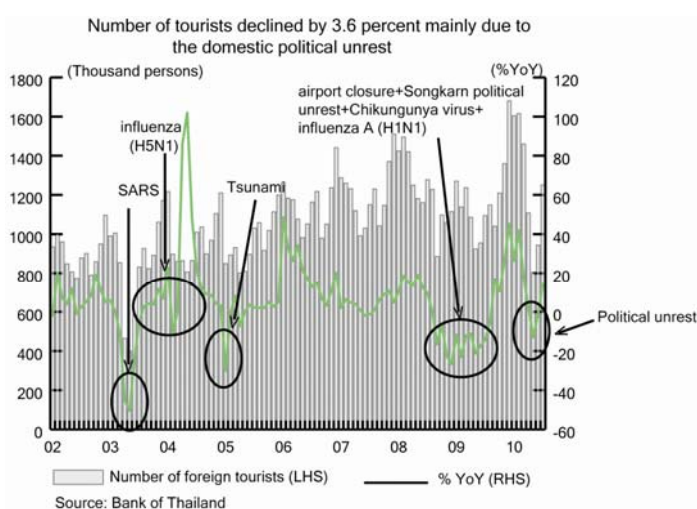
Real estate sector grew by 1.6 percent, down from 3.6 percent in the previous quarter. The number of newly completed and registered housing substantially declined from the previous quarter, particularly in April in which the overall number slumped to only 3,040 units, the lowest in the last two years. Similarly, the property transferring grew by 31.7 percent, considerably down from a growth of 59.2 percent in the previous quarter, particularly the condominium transferring which substantially declined by 33.1 percent (QoQ). However, the property transferring started to recover since May, partly influenced by the extension of real estate stimulus measures which initially supposed to terminate at the end of March.

Hotels and restaurants moderately expanded by 0.2 percent compared to the same period of last year, considerably down from 15.3 percent growth in the previous quarter. This was mainly a result of political unrest in conjunction with the Iceland volcanic ash which disrupted the air traffic in Northern and Western Europe. As a result, number of inbound tourists in the second quarter was only 2.9 million persons, or declined by 3.6 percent. Average occupancy rate dropped to only 39.2 percent amid the substantial reduction in the number of tourists. In addition, the occupancy rate in central area, where the political turmoil took place, was only 35.9 percent while in the southern region reached the peak at 49.9 percent as tourists decided to change their destination towards the southern region. For the first half of the year, hotels and restaurants expanded by 7.9 percent despite a slowdown in the second quarter.

Besides, the tourism sector started to recover during the end of the quarter, indicated by the number of tourists in June with a lower-than-expected contraction of 1.1 percent compared to a considerable decline of 12.9 percent in May. The number of tourists continued to improve in July with a growth of 14.2 percent where most of returning tourists included those from China, Malaysia and South Korea. For the first 7 months of this year, as a result, the number of tourists already reached 8.8 million persons, or up by 13.8 percent compared to the same period of last year.

Real estate sector grew by 1.6 percent, declined from the previous quarter.

Number of tourists declined by 3.6 percent due to domestic political unrest.

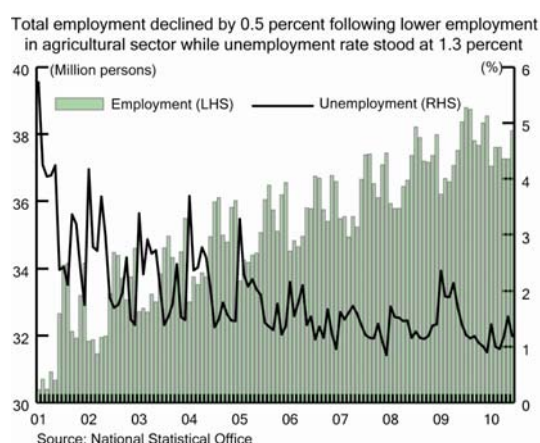


Employment in the second quarter was 37.46 million persons, down by 0.5 percent compared to the same period of last year. In addition, employment in agricultural sector declined by 6.6 percent while employment in non-agricultural sectors grew by 3.1 percent. In particular, construction sector and wholesale and retail sector recorded a growth rate of 9.3 and 4.9 percent respectively amid the recovery in domestic economy and construction sector.

Number of unemployment in this quarter was 499,000 persons, considerably declined by 174,000 persons compared to the same period of last year (or down by 25.9 percent). Additionally, the unemployment rate stood at 1.3 percent, as a result, the number of registered persons claimed for unemployment compensation substantially declined by 18.5 percent.

Moreover, tension in employment situation particularly in manufacturing sector started to ease off as the ratio of vacancies to registered applicants went down from 1.0 in the previous quarter to 0.7 in this quarter. Consequently, employment in manufacturing sector expanded by 0.8 percent, gradually improved from a contraction of 1.1 percent in the previous quarter. Nevertheless, skill labor shortage can still be observed in several industries such as electronics and automobile.

Employment dropped by 0.5 percent. The unemployment rate recorded at 1.3 percent. In addition, tension in employment situation started to ease off.



Employed Persons by Industry

%YoY	2009							2010		
	Year	H1	H2	Q1	Q2	Q3	Q4	H1	Q1	Q2
Employment	1.9	2.4	1.5	1.9	2.3	1.4	1.8	0.5	2.6	-0.5
Agricultural	-0.1	1.7	-1.5	0.8	2.4	-0.8	-2.3	-4.2	2.8	-6.6
Non-Agricultural	3.1	2.3	4.0	2.5	2.2	3.1	4.9	4.0	2.5	3.1
Industry	-1.5	-3.5	0.7	-3.7	-4.6	1.3	0.2	2.4	-1.1	0.8
Construction	4.0	4.5	3.5	3.4	5.2	1.6	5.3	5.3	-1.2	9.3
Hotel and Restaurant	8.8	7.5	10.1	7.7	7.3	8.7	11.4	7.3	10.3	1.7
Wholesale	5.1	5.4	4.8	5.5	5.3	4.2	5.4	3.9	2.9	4.9
Unemployment (Mil.persons)	5.7	7.3	4.2	7.8	6.7	4.6	3.8	4.7	4.3	5.0
Unemployment rate (%)	1.5	1.9	1.1	2.0	1.8	1.2	1.0	1.2	1.1	1.3

Source: National Statistical Office

Fiscal condition:

Fiscal balance: In the third quarter of fiscal year 2010 (April – June 2010), government revenue was 554,866 million baht, exceeded the target and previous year collection by 24.0 and 20.6 percent respectively. For the first 9 months of fiscal year 2010 (October 2009 – June 2010), revenue collection has exceeded the target by 246,177 million baht or 24.8 percent.

On expenditure side, the total budget disbursement was 379,479 million baht, equivalent to 22.3 percent of the annual budget. The current disbursement level was proved to be less than 25.0 percent of the target set by the cabinet and below the disbursement level of the same quarter of fiscal year 2009. The current budget has been disbursed by 23.6 percent of total current budget while the capital budget has been disbursed by 13.8 percent of total capital budget, significantly below the target for capital budget disbursement set at 23.0 percent. Such low levels of capital budget disbursement were due to long public holiday and political unrest

Government revenue collection exceeded the target, following economic expansion. Whereas, budget disbursement lower than target

during the second quarter. On the contrary, for the first 9 months of fiscal year 2010, the total budget disbursement was 1,208,779 million baht, equivalent to 71.0 percent of the annual budget and higher-than-targeted at 68.0 percent.

Regarding the SP2, the disbursement of investment projects during the third quarter of fiscal year 2010, was 73,086 million baht, equivalent to 23.9 percent of total allocated budget (305,369 million baht). For the first 9 months of fiscal year 2010, the total disbursement under SP2 was 178,876 million baht, equivalent to 58.6 percent of total allocated budget.

Government revenue collection and budget disbursement, fiscal year 2010

(Million Baht)

FY	2009		2010			
	Q3/09	Q4/09	Q1/10	Q2/10	Q3/10	9 Months
Government Revenue	460,038.57	387,972.29	348,962.27	336,235.85	554,866.13	1,240,064.24
Compared with the target (%)	-9.58	-11.88	24.05	26.74	24.05	24.77
Compared with prior year (%)	-7.76	-6.24	25.94	17.67	20.61	21.23
Total actual budget disbursement	424,056.97	481,181.86	396,843.18	432,456.76	379,478.87	1,208,778.80
Total annual budget ¹ (%)	21.73	24.65	23.34	25.44	22.32	71.10
Compared with prior year (%)	4.04	20.99	9.12	-17.15	-10.51	-7.70
The total disbursement under SP2		14,871.64	20,152.02	70,766.89	73,085.98	178,876.53
Total SP2 budget ² (%)		4.25	5.76	20.22	20.88	51.11
Total allocate budget ³ (%)		4.87	6.60	23.17	23.93	58.58

Note ¹ Total annual budget 1,700,000 Million Baht² Total SP2 budget 350,000 Million Baht³ Total allocated budget 305,369 Million Baht

Source: Fiscal Policy Office (FPO) and The Comptroller General's Department (CGD)

Public Debt at the end of May 2010 stood at 4,144,261 million baht, equivalent to 42.6 percent of GDP, slightly increased from 4,124,712 million baht at the end of March 2010. The increase in public debt was due to an increase in direct government borrowing in domestic market in order to finance budget deficit, debt management and SP2.

Public Debt

(Million Baht)

FY	2009		2010		
	Q3/52	Q4/52	Q1/53	Q2/53	Q3/53
Public Debt Outstanding (million baht)	3,831,573.93	4,002,037.46	3,967,481.62	4,124,711.68	4,144,260.75
Compared with prior year (%)	13.49	17.42	14.29	11.24	8.16
Total Public Debt / GDP (%)	42.35	44.23	43.85	42.39	42.59
Direct Government Debt (million baht)	2,466,914.79	2,586,513.19	2,588,126.45	2,762,302.71	2,806,656.27
Compared with prior year (%)	14.27	19.63	21.24	16.81	13.77
Total Public Debt / GDP (%)	25.10	28.30	28.50	29.47	28.85

Note: As of 31 May 2010

Source: Public Debt Management Office (PDMO)

□ Financial Condition:

Policy rate kept unchanged. During the second 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. Similarly, policy rate in most of the countries were kept unchanged except India, Australia, Taiwan and Malaysia where the policy rate was adjusted upward. Nevertheless, in July 2010, the MPC decided to raise the policy interest rate by 25 basis points, from 1.25 to 1.50 percent per annum. Such decision was made on the basis that economic recovery has become more evident and the economy should continue to grow, thus lessening the need for an exceptionally accommodative monetary policy.

For the first 9 months of fiscal year 2010, the total disbursement under SP2 was at 58.6 percent of total allocated budget.

Fiscal condition remained sound with public debt per GDP at 42.6 percent.

Policy rate remain low in most of the countries.

Commercial banks' interest rate remained low. At the end of the second quarter, an average of 12-month deposit rate and MLR lending rate remains stable at 0.68 and 5.86 percent per annum. The real deposit and lending rate slightly increased to -2.63 and 2.56 percent per annum, respectively.

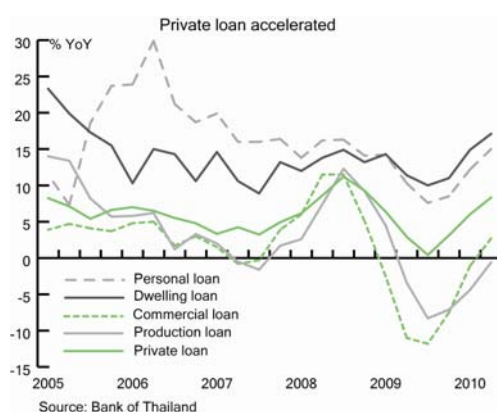
Commercial banks' deposit and lending rate remains stable.

Country	2009				2010			Policy Rate Jul
	Q1	Q2	Q3	Q4	Q1	Q2	Jul	
Thailand	-1.25	-0.25					+0.25	1.50
USA								0.25
Europe	-1.00	-0.25						1.00
China								5.31
Japan								0.10
Taiwan	-0.75					+0.125		1.375
Malaysia	-1.25				+0.25	+0.25	+0.25	2.75
Australia	-1.00	-0.25		+0.75	+0.25	+0.50		4.50
India	-1.00	-0.25			+0.25	+0.25	+0.50	5.75

Source: compiled by NESDB

Commercial bank's deposits including bill of exchange (B/E) expanded by 2.2 percent, accelerated from 1.1 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. Similarly, private loan expanded at a faster pace, from 6.0 percent in the previous quarter to 8.3 percent at the end of the 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 2.5 percent, significantly improved from a contraction of 6.5 percent at the end of the previous quarter following advance in private investment. Nevertheless, credit card spending continued to slowdown from raising concern over the political unrest. In addition, NPLs² to outstanding loan has continually curved down to 2.40 percent from 2.50 percent in the previous quarter.

Commercial banks' deposit and loan extend to private sector continued to expand



Source: Bank of Thailand

Credit (excluding R/P) to deposits (including bill of exchange) ratio increased from 88.6 percent at the end of the first quarter to 91.2 percent at the end of the current quarter, following acceleration in loans. Consequently, excess liquidity in commercial banking system decelerated from 1.45 trillion baht to 1.18 trillion baht.

Liquidity decreased sharply in net repurchase position.

Thai baht continued to appreciate against US dollar. An average exchange rate in the second quarter of 2010 was at 32.34 baht per US dollar, appreciated by 1.52 percent from the previous quarter and 6.64 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 Asian economic recovery.

Thai baht continued to appreciate against US dollar.

Furthermore, Thai baht appreciated against other regional currencies including that of export-competing-countries. Nominal effective exchange rate (NEER) and real effective exchange rate (REER) increased by 3.21 and 4.77 percent respectively.

In July 2010, Thai baht continually appreciated to an average of 32.28 baht per US dollar, an average exchange rate over period of 1st – 19th August was at 31.91 baht per US dollar.

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

Capital and financial account recorded a net inflow.³ In the second quarter, capital and financial account recorded a net inflow of 3.6 billion US dollars, decreased from 5.2 billion US dollars in the previous quarter. The net inflow was mainly contributed by inflow from banking sector, accelerated from 0.2 billion US dollars to 2.3 billion US dollars, while inflow from non-bank sector slowed down to 0.7 billion US dollars.

Capital inflow in banking sector increased.

Capital and Financial Account						
(million US dollar)	2009(e)	H1-09	H2-09	H1-10 (e)	Q1-10 (e)	Q2-10 (e)
Monetary authorities	1,481	-206	1,687	575	591	-16
Government	-302	-916	615	1,138	775	363
Bank	8,380	-1,038	9,417	2,562	216	2,346
Non-Bank	-8,754	-3,502	-5,252	4,571	3,838	733
FDI	5,325	2,358	2,967	2,529	1,671	858
Portfolio Investment	-10,289	-4,123	-6,166	671	699	-29
Foreign	1,270	441	830	-451	344	-794
Local	-11,559	-4,564	-6,996	1,121	356	766
State Enterprises	-2,004	-1,002	-1,002	14	-178	192
Total Capital and Financial Account	-1,199	-6,664	5,465	8,860	5,242	3,618

Source: Bank of Thailand

International reserve at the end of July 2010 stood at 151.52 billion US dollars (excluding Net Forward Position 11.02 billion US dollars), which was equivalent to 4.8 time of short-term foreign debt or 3.5 months of import.

International reserve at the end of July 2010 stood at 151.52 billion US dollars.

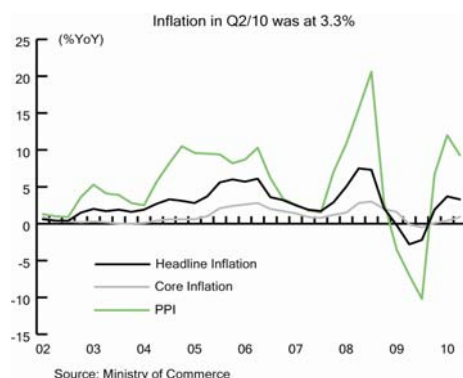
Current account in the second quarter registered a surplus of 1,297 million US dollars which was equivalent to 42,041 million baht, a continued surplus from 5,252 million US dollars in the previous quarter. This was attributed by trade balance surplus of 4,645 million US dollars and net service, income and transfer surplus of 3,348 million US dollars.

Current account remained surplus.

Headline inflation: average headline inflation in the second quarter of 2010 was at 3.3 percent, declined from 3.8 percent in the previous quarter, mainly resulted from an increase in fresh food products, particularly in vegetables, fruits and consumer goods, as shown in the 4.8 percent growth in food and beverage price index. Whereas non-food and beverage price index increased by 2.3 percent, mainly due to higher retail oil prices in the domestic market, as well as higher water supply charge due to the termination of water supply subsidy from the government since April 1, 2010. In the second quarter, core inflation rate was at 0.9 percent, increased from 0.4 percent in the previous quarter. This reflects in the upward trend of most commodities' prices. In the first half of 2010, headline inflation was 3.5 percent and core inflation was 0.7 percent.⁴

Headline inflation in the second quarter of 2010 stood at 3.3 percent, declined from the previous quarter.

Producer price index in the second quarter rose by 9.3 percent, declined from 12.0 percent in the first quarter. Such rising was mainly contributed by higher agricultural products prices, as a result of lower supply of crop production which was damaged by drought. Moreover, this has put pressure toward production cost, especially on petroleum and rubber products due to an increase in demand from automobile industry following a recovery in global economy and purchasing orders. For the first half of 2010, producer price index expanded by 10.6 percent.⁵



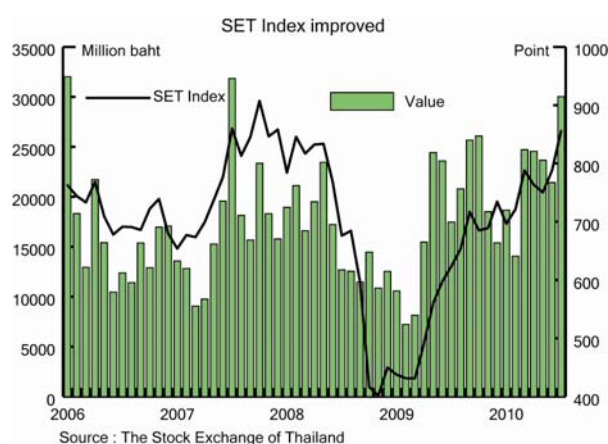
Source: Ministry of Commerce

³ Capital and financial account figure at the end of 2nd quarter is preliminary data from Bank of Thailand, which is subjected to change.

⁴ In July 2010, headline inflation was 3.4 percent, whereas core inflation was 1.2 percent.

⁵ In July 2010, producer price index rose by 11.1 percent.

SET index volatility increased. In the second quarter, SET index moved in the range between 714.7 - 820.1 points. At the beginning of the second quarter, SET index has plunged from heightening in uncertainty of domestic political unrest and EU fiscal solvency. Nevertheless, SET index has recovered during the last month of the second quarter, following improvement in regional stock index performance and continued in surplus earning of listed companies. SET index closed at 797.3 points, slightly increased from 788.0 points in the previous quarter. In this quarter, foreign investor recorded a net sell of 59.9 billion baht, compared to a net buy of 42.5 billion baht in the previous quarter. Average daily trading value accelerated from 19.1 billion baht to 21.4 billion baht. During July through 19th August 2010, investors' confidence over the stock market has risen sharply from better-than-expected regional economic outlook and continue appreciation of regional exchange rate. As a result, SET Index closed at 891.2 points. Average trading value was 31.2 billion baht and foreign investors' net buy value of 17.5 billion baht.



SET index experienced downward volatility but managed to recover during the end of the quarter.

Bond market sentiment improved and foreign investors' recorded a net buy. Daily average outright trading in the second quarter was 64.8 billion baht, slightly increased from 61.4 billion baht in the first quarter. Government bond index increased from the previous quarter due to (i) decline of government bond supply in the primary market and (ii) foreign investors posted a net buy of 26.6 billion baht in accordance with regional capital inflow. In July 2010, daily average outright trading and government bond index slightly decreased. Bond yield increased following policy rate rise. However, foreign investors continued to record a net buy.

Daily average outright trading and government bond index improved. Foreign investors continued to record a net buy.

SET and Bond market performance

(Billion Baht)	2007	2008		2009				2010				
	Year	H1	H2	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Jul
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	797.3	855.8
Daily average trading	17.1	19.5	12.4	15.9	8.6	21.2	21.3	20.0	17.8	19.1	21.4	30.0
Foreigner Investors	55.0	-50.3	-112.0	-162.3	-5.6	25.8	35.0	-17.0	38.2	42.5	-59.9	6.9
Bond Market												
Gross Price Index (Point)	100.2	94.6	113.2	113.2	107.4	105.6	103.7	103.5	103.5	104.5	108.0	107.0
Daily Average Outright Trading Value	43.0	67.5	52.6	70.3	68.1	66.8	53.6	51.6	59.9	61.4	64.8	58.3
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	26.6	16.7

Source: SET and ThaiBMA

Corporate fundraising increased. Private fundraising totaled at 312.2 billion baht, increased from 294.1 billion baht in the same quarter of 2009. Debt securities issuance has dominated the private fundraising market, with a total of 275.5 billion baht. The majority of debt securities issuance came from financial intermediation and real estate sectors. Meanwhile, fundraising through equity securities were improved significantly to 36.8 billion baht, higher than the amount of fundraising for the whole year of 2009 at 29.5 billion baht. Most of equity securities were issued by real estate sector. This reflected higher investors' confidence over the future economic outlook.

Fundraising through equity securities were improved, while fundraising through debt securities remains high.

Issuance of Private securities in Primary Market

(Billion Baht)	2007	2008		2009				2010			
	Year	H1	H2	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2
Equity Securities	107.8	35.4	9.6	45.0	11.0	3.4	8.0	10.4	29.5	19.1	36.8
Debt Securities	1,167.0	696.8	570.4	1,267.2	191.9	290.7	246.2	257.1	984.8	217.9	275.5
Short-term	947.2	549.2	432.2	981.4	109.8	134.9	157.2	170.0	571.8	144.1	164.8
Long-term	219.8	147.6	138.2	285.8	82.1	155.8	89.1	87.1	414.1	73.8	110.7

Source: Bank of Thailand

2. Oil Price and Oil Price Trend in 2010

Oil price in Q2/2010

World crude oil prices continued to escalate at a faster pace due to the last year low base effect. In the second quarter of 2010, an average world crude oil price (Dubai, Brent, Oman, and WTI) stood at 78.4 US dollars per barrel, increased by 32.2 percent from the same period of last year. Such expansion was due to the low base effect resulting from the world economic recession. Moreover, the upward trend was owing to a faster-than-expected recovery of the US economy and strong recovery of Asian countries, particularly China and India. In addition, the depreciation of US dollar also encouraged investors to increase their position in commodity markets.

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

US\$/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	78.72	76.95
	Q2	78.15	77.90	79.44	78.07	78.39
	1-19 Aug.	75.62	76.16	78.19	72.22	76.80
	19 Aug	73.93	73.88	74.84	74.43	74.27
	7 Months	76.42	76.14	77.92	78.07	76.80

Source: Reuter

Domestic retail prices in the second quarter of 2010 heightened in all petroleum products, compared to the same period of last year. Retail prices of gasoline 95, gasoline 91, gasohol 95 (E10), gasohol 95 (E20) and gasohol 91 increased by 10.9, 17.9, 21.7, 23.2 and 17.9 percent respectively. Similarly, an average price of high speed diesel and bio-diesel (B5) rose by 18.2 and 29.3 percent respectively. The acceleration in domestic retail petroleum prices was mainly due to a low base effect, resulted from lower oil price in last year.

Domestic retail petrol prices of all petroleum products heightened from last year.

Baht/Litre		ULG95	UGR91	Gasohol			HSD	HSD B5
				95 (E10)	95 (E20)	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	38.38	30.94	27.14	24.84	26.33	24.52	21.57
	Q3	39.51	34.37	30.76	28.45	29.97	27.32	25.29
	Q4	39.91	34.82	31.21	28.91	30.42	27.50	26.09
	Year	37.47	31.34	27.50	25.39	26.69	24.77	22.71
2010	Q1	41.62	36.48	32.88	30.58	31.68	28.32	27.05
	Q2	42.57	36.48	33.04	30.59	31.06	28.99	27.87
	1-20 Aug	41.82	35.82	32.02	29.72	30.52	28.77	27.57
	20 Aug	41.64	35.64	31.84	29.54	30.34	28.59	27.39
	7 Months	42.40	36.37	32.82	30.45	31.25	28.60	27.43

Source: Energy Policy and Planning Office (EPPO), Ministry of Energy

Oil price trend in 2010

An average Dubai crude oil price in the first 7 months of 2010 was 76.14 US dollars per barrel, and stood at 73.88 US dollars per barrel on the 19 August 2010. Recently, several institutions adjusted the crude oil price forecast. The Energy Information Administration (EIA) forecasted that the average crude oil price of WTI would drop to 75 - 79 US dollars per barrel in 2010. Nomura revised its forecast upward from 72 to 85 US dollar per barrel in 2010 and expects the prices in 2011 and 2012 to be 95 and 110 US dollars per barrel respectively. Similarly, NESDB expects that the average crude oil price would be in the range of 75 - 80 US dollars per barrel, higher than 61.60 US dollars per barrel in 2009. Key supporting factor for higher oil price is the continued recovery of the global economy.

The average Dubai crude oil price in 2010 is expected to be in the range of 75-85 US dollars per barrel.

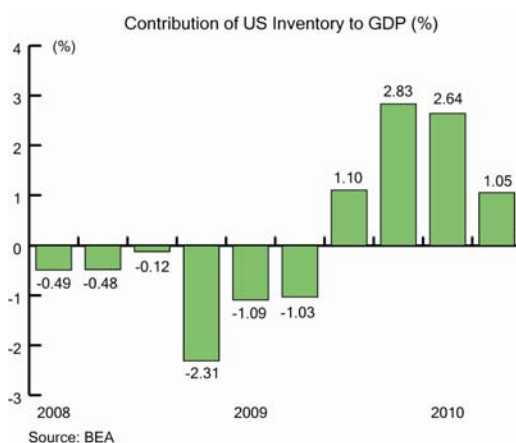
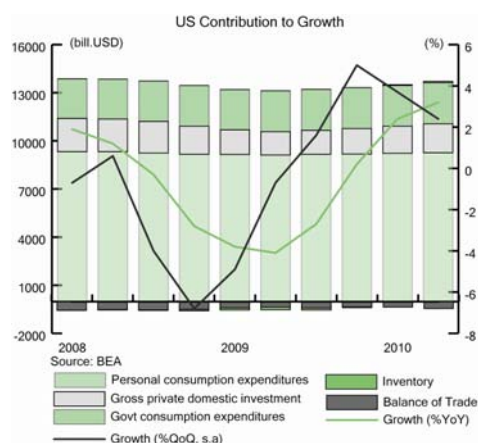
EIA (Aug 2010)	WTI = 75-79 US\$/barrel
Nomura (May 2010)	2010 = 85 US\$/barrel
Barclays Capital (July 2010)	Q4/10 = 87 US\$/barrel
Goldman Sachs (June 2010)	Q3/10 = 82 US\$/barrel
	Q4/10 = 90 US\$/barrel

3. World Economic Performance in Q2/2010 and Outlook in 2010

The world economy showed a sign of slowing down in the second quarter of 2010, especially the economies in the Eurozone. Although the commercial banks in Greece has passed the Stress Test and guaranteed for secured debt financing, the economic situation of the economies in the southern part of the Eurozone was still vulnerable. This could dampen the recovery of domestic demand in the Eurozone, which in turn could cause a reduction in exports to Europe from some Asian economies. The growth momentum in Chinese economy also developed at a slower pace, compared to the remarkable expansion in the first quarter, whereas the US economy has continuously expanded. However, there are some signs of economic slowdown in the US, for example, the gradual fall in inventory stock cycle, the vulnerability of the employment and housing sector, and shrinking consumer confidence. The summary of the economic performance in the main economies are illustrated as follows:

The world economy has shown a sign of slowing down in the second quarter of 2010, especially the economies in the Eurozone where the economic condition remained vulnerable due to the decline in domestic demand. The US economy, on the other hand, has persistently expanded, although the signs of slowdown have presented.

- US economy** expanded by 3.2 percent on a year-on-year basis, increased from the 2.4 percent growth in the previous quarter. On a seasonally adjusted quarter-on-quarter basis, the US economy expanded at a slower pace of 2.4 percent, as compared to 3.7 percent in the previous quarter. This was a result of the expiration of some fiscal stimulus measures in the coming months and a slowdown in the inventory restocking. Private consumption and investment in this period was on a recovery path, while industrial production expanded by 7.2 percent (Y-o-Y). Capacity utilization index escalated by 73.8 percent, while new orders grew by 63.3 percent. The PMI in this quarter improved slightly to 58.8, however, the PMI in July shrank to 55.5, as a result of a slowdown in new orders and a fall in production. Imports showed a slower sign, whereas exports grew by 5.5 percent (Y-o-Y). The US trade balance was 132.2 billion dollars deficit. Furthermore, in the first half of 2010, the US trade deficit accumulated to 247.5 billion dollars, as compared to 170.9 billion dollars in the same period of last year. In the second quarter of 2010, the inflation decreased to 1.8 percent. In terms of employment, 14.95 million people were unemployed which reflected an unemployment rate of 9.7 percent, the same percentage as the previous quarter. The nonfarm payroll employment continued to grow as 130.04 million more people were employed in the second quarter.

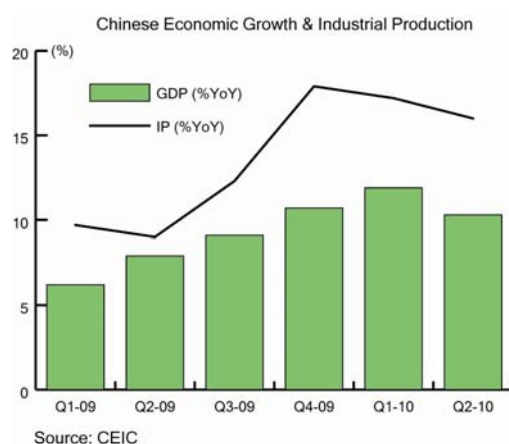


- Eurozone Economy** expanded for the fourth consecutive quarters in the second quarter of 2010. GDP grew by 1.7 percent on a year-on-year basis, increased from a 0.6 percent gain in the preceding quarter. On a seasonally adjusted quarter-on-quarter basis, the Eurozone economy grew by 1.0 percent, up from 0.2 percent growth in the first quarter. An increase in domestic demand, mainly public spending and inventory offset the deceleration of external trade, private consumption continuously dropped due to the tightened fiscal policy in the region caused lower income of households. In addition, a construction sector seemed to experience a downturn, whereas industrial production and service sectors have developed positively since the third quarter of 2009, except Greece that have persistently experienced an economic slowdown. In the second quarter, the industrial producer price index rose by 1.7 percent.

Hungary, Greece and Romania were the countries with high inflation, inflation reached 5.2, 5.1 and 4.3 percent respectively, whereas Latvia and Ireland experienced the deflation of 2.0 percent. In the second quarter, the average inflation in the Eurozone rose by 1.5 percent and the annual inflation rate is expected to be 1.7 percent. The current account deficit was 25.4 billion EUR, decreasing from the same quarter of 2009 (37.2 billion Euro) which accounted for 1.1 percent of GDP. Euro currency continuously appreciated against USD and Japanese Yen.⁶ Unemployment remained stable at 10.0 percent for two consecutive quarters.

- **Japanese economy** expanded by 2.0 percent on a year-on-year basis, decreased from the 4.7 percent growth in the previous quarter. On a seasonally adjusted quarter-on-quarter, basis, the Japanese economy expanded at a slower pace of 0.1 percent, compared to that of 1.1 percent growth in the preceding quarter. This was a result of shrinking domestic demand, private consumption and private investment, which in turn, an effect of deflation and high unemployment. Industrial production grew by 1.4 percent, the slowest growth since the economic crisis in the second quarter of 2009. PMI was at 53.8, exhibiting a strong manufacturing sector. Furthermore, in July, the PMI decreased to 52.8, reduced from a 53.9 in June. In this quarter, exports expanded by 30.0 percent, a decrease from the preceding quarter whereas imports expanded by 16.0 percent. Inflation rate in the second quarter contracted by 0.9 percent. In June, inflation rate contracted by 0.7 percent. Unemployment rate reached 5.3 percent and in June was also 5.3 percent, the highest rate in the first 6 months.
- **Chinese economy** expanded by 10.3 percent on a year-on-year basis, decreased from 11.9 percent growth in the previous quarter. Industrial production expanded by 15.9 percent, contracted from 19.6 percent growth in the preceding quarter. The PMI in this quarter was 53.9, fall from 54.3 in the previous quarter. In the first six months, consumer goods retail sales increased by 18.2 percent on a year-on-year basis, higher than in the first quarter. Exports expanded by 40.9 percent, an increased rate compared to the previous quarter. Imports, on the other hand, expanded by 44.1 percent, sharply decreased from 64.6 percent growth in the previous quarter, reflected from a slowdown in domestic investment. Inflation in this quarter rose to 2.9 percent. Investment in fixed assets grew at a slower pace of 25.2 percent, whereas in the first half of the year, the investment in fixed assets expanded by 25.5 percent, totaling to 9,804.7 billion Yuan. The PMI fell to 51.2 in July, raising the concern about a downturn in manufacturing sector in the second half of the year.

Chinese economy has slowed down in the second quarter of 2010. Furthermore, the industrial production has decelerated as compared to the previous quarter. This was corresponded to the lower PMI of 53.9.



⁶ As of August 4th, the Euro/USD strengthened by 9.9 percent from its weakest point (as of June 9th, 2010), whereas Euro/Yen appreciated by 3.29 percent from its weakest point (as of June 8th, 2010). As a consequence of the Euro authorities (CEBS)'s stress test exercise on July 23, 2010 of which only 7 banks out of 91 did not meet the threshold of 6% capital ratio benchmark.

- **New Industrial Economies (NIEs) and India**, generally, had a positive growth. In the second quarter, Singapore grew by 18.8 percent on a year-on-year basis, increase from the 16.9 percent growth in the first quarter. For the first half of the year, Singapore grew by 17.9 percent, compared to the 2.8 percent growth in the same period of last year. The strong growth momentum in the first half of 2010, however, is not likely to continue into the second half of the year because of the anticipated plant maintenance shutdowns in the biomedical manufacturing cluster which will drag down overall growth.

Indian economy is likely to grow by 9.3 percent on a year-on-year basis in the second quarter, increase from the 8.6 percent growth in the first quarter. The economic expansion in India is a result of the fiscal stimulus measures and the loose monetary policy, which caused a continuous expansion of the domestic demand.

Taiwan, South Korea and Hong Kong all expanded at a slower rate of 12.5, 7.2 and 6.5 percent respectively, down from the 13.7, 8.1 and 8.0 percent growth correspondingly. The slowdown in these economies was due to a fall in both private and government consumption and investment. In Korea, the industrial production grew by 19.5 percent, a slower pace than the first quarter. The weakening of Korean won by 6.3 percent in these 3 months (May-July) enhanced the country's competitiveness especially in the export market.

Inflation rates in most countries tended to rise compared to the previous quarter, particularly India where inflation peaked at 10.6 percent, followed by Singapore, Hong Kong and Korea where inflation rates were 3.5, 3.0 and 2.7 percent respectively. Taiwan was an exception since its inflation rate reduced to 0.9 percent growth in this second quarter.

- **ASEAN economies** tend to grow at a sluggish pace. On a year-on-year basis, the Malaysian, Vietnamese and Indonesian economies expanded by 8.9, 6.4 and 6.2 respectively, a slower rate compared to that of 10.1, 5.8 and 5.7 percent in the previous quarter. Industrial production continued to grow, as well as the service sector that persistently expanded as a result of robust private consumption, exports and domestic demand. In the second quarter, the exchange rate of the Vietnamese dong against the US dollar weakened by 8.6 percent (Y-o-Y). As of the first half of the year, the dong weakened by 7.8 percent. Inflation rates in Vietnam, Indonesia and Malaysia remained at a high level of 9.0, 4.3 and 1.7 percent respectively.

□ **Global Economic Outlook in the second half of 2010**

The global economy in 2010 is forecasted to grow by 3.9-4.3 percent, better than the previous forecast in May 2010. The trend is explained by: (1) the upturn of private consumption and investment, (2) the persistent expansion in manufacturing production with a sign of slowdown, and (3) the decreasing inventory stock cycle in major industrialized countries, NIEs and developing countries in Asia. The global economy is expected to grow continuously which is due to the economic recovery in the USA, Japan and China, in particular. Euro currency tends to appreciate after the investor's distress on European debt problem begins to ease. However, the public debt crises in Eurozone would slowdown the recovery pace of the region, and in turn, affect global economic expansion in the forthcoming period. It is expected that the US, Eurozone, Japan and China would expand by 3.0, 0.9, 1.1 and 9.7 percent respectively. The countries in NIEs such as Singapore, South Korea, Taiwan, Hong Kong and India are expected to grow by 10.0, 5.8, 7.0, 5.2 and 8.3 percent respectively, while the economies in ASEAN, namely, Malaysia, Indonesia and Vietnam are anticipated to grow by 7.0, 6.0 and 6.0 percent respectively.

New Industrial Economies (NIEs) and ASEAN economies have started to slow down in the second quarter. Taiwan, Malaysia, Korea, Hong Kong, Vietnam and Indonesia grew at 12.5, 8.9, 7.2, 6.5, 6.4 and 6.2 respectively. In addition, the inflation rates in these countries have generally increased.

The global economic growth in 2010 is expected to be higher than the forecast in May, however, the expansion tends to occur at a slower pace.

GDP Growth of Major Economies

Countries (%YoY)	2008	2009					2010		
	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Year*
World*	2.5	-3.5	-1.7	-0.4	2.8	-0.6	6.7	-	3.9-4.3
USA	0.0	-3.8	-4.1	-2.7	0.2	-2.5	2.4	3.2	3.0
Eurozone	0.4	-5.2	-4.9	-4.1	-2.1	-4.1	0.6	1.7	0.9
UK	-0.1	-5.5	-5.9	-5.3	-2.9	-4.9	0.2	1.6	1.1
Japan	-1.2	-8.9	-5.7	-5.2	-1.1	-5.3	4.7	2.0	1.5
China	9.0	6.5	7.4	8.1	9.1	9.1	11.9	10.3	9.7
India	6.7	5.8	6.0	8.6	6.5	7.4	8.6	-	8.3
South Korea	2.3	-4.3	-2.2	1.0	6.0	0.2	8.1	7.2	5.8
Taiwan	0.7	-9.1	-6.9	-1.0	9.1	-1.9	13.7	12.5	7.0
Hong Kong	2.2	-7.7	-3.8	-2.4	2.5	-2.8	8.0	6.5	5.2
Singapore	1.8	-8.9	-1.7	1.8	3.8	-1.3	16.9	18.8	10.0
Malaysia	4.7	-6.2	-3.9	-1.2	4.4	-1.7	10.1	8.9	7.0
Philippines	3.7	0.5	1.2	0.2	2.1	1.1	7.3	-	5.5
Vietnam	6.2	3.1	4.5	6.0	6.9	5.3	5.8	6.4	6.0
Indonesia	6.0	4.5	4.1	4.2	5.4	4.5	5.7	6.2	6.0

* NESDB estimation

Considering the US economy, there is a clear sign of economic downturn that indicates a fragile recovery in production sector and consumption. The US PMI in July was the lowest in 3 months at 55.5, lower than 56.2 in June. Consumer confidence index also fell to 50.4, the lowest in 5 months. The number of people who have received unemployment benefits before July, 31 reached its peak since April. Despite the reduction of unemployment rate in July which has been reduced to 9.5 percent (14.6 million people), however, the nonfarm payroll employment in July fell by 131,000 people due to the Federal Government quit hiring their 143,000 temporary workers, whereas private sector employment has slightly been improved.

In Chinese economy, manufacturing PMI in July fell to 51.2 which reflected the lowest level in 17 months, down from 52.1 in the preceding month. Industrial production in July expanded by 13.7 percent, a downturn from a 16.5 percent gain in June. In Japanese economy, PMI also showed a sign of slowing down and the appreciation of the yen against the euro which resulted in a higher price of Japanese products would affect its competitiveness in the Eurozone market.

In Eurozone economy, inspite of having signs of improvement but it is not likely that such improvement could be sustained in the second half of the year, owing to the clearer tightened fiscal policy imposed by the government in many countries. Additionally, Greece, the UK and Ireland will have to manage their public debt and continual budget deficit problems. The European Commission has forecasted the Eurozone economy's public debt to be at 84.7 percent of GDP this year, with the closer monitor of the double-dip recession. Meanwhile, twin deficits problem is still enduring in Greece, Spain, Italy and Turkey. The UK and France have started to witness the same problem and may lead to the budget and current account restructuring to prevent the problem's severity. Also, Euro currency has started to appreciate, whereas, the US dollar has started to depreciate, this will lead to more sluggish exports and production of the Eurozone economy and have negative impacts on Thailand's exports and production in the second half of 2010.

4. Thai Economic Outlook in the Second Half and 2010

Thailand's economic growth pace in 2010 is edging up to high territory providing a stronger-than-expected economic expansion in the first half and the sign of encouraging rate of economic expansion in the remaining of the year that will be supported by (i) the improvement of global economic and trade conditions; (ii) the ease of domestic political unrest; (iii) the economic momentum that has been accumulated by continual economic recovery ; and (iv) the supportive economic fundamental including financial liquidity, low real interest rate, and the proceeding of government measures. Nevertheless, taking into consideration the trend of global economic slowdown and the high base effect in domestic economy, Thailand's economic growth pace tends to decelerate in the last two quarters. In addition, these two conditions pose to be a growth constraint in early 2011.

□ Supporting factors for Thai economic recovery

- (1) The global economic and trade environments remain supportive for Thailand's economic expansion in the latter half of 2010 despite the recovery in major economy tends to lose some momentum. In the baseline scenario, the pace of economic recovery in major economies is expected to decline to historical norm in the latter half. This situation will cause global economic slowdown in the remaining of 2010 and reduce the pace of Thailand's export expansion. Nevertheless, the negative impacts will be partially offset by growing intraregional trade and the broadened export market structure.
- (2) The fast recovery of tourism sector as seen in the increase of the number of foreign tourists in July after a two-month consecutive contraction of 12.9 percent and 1.1 percent in May and June respectively. Taking into consideration the easing political condition in the latter half and a favorable economic condition in Asia, the tourism sector is expected to return to its normal condition and support economic expansion in the latter half.
- (3) The improvement of domestic political condition will ensure the recovery of consumer and investor confidences, and facilitate economic expansion. The improvement of economic sentiment could be seen in the increase of consumer confidence index from 75.0 in May to 77.1 in June and the increase of business sentiment index from 46.0 percent to 52.1 percent over the same period. Meanwhile, foreign investors turned their investment position in stock market from the net sell of 4,097 and 58,745 million baht in April and May respectively to the net buy of 6,879 million baht in July.
- (4) Financial liquidity remains favorable. The ease of financial condition will be among supporting factors for the expansion of real economic activity in the latter half of 2010, providing (i) the ample excess liquidity in commercial banking system of 1.18 trillion baht at the end of June; (ii) the improvement of capital and bond markets that will accommodate financial demand from business sector; and (iii) the target of credit extension by Specialized Financial Institutions of 821,000 million baht for the whole year of 2010 that will facilitate financial demand from grass-roots economy and SMEs.
- (5) Low real interest rate: In July, the real deposit rate remains in a negative region of -2.48 percent and the real lending remains in the neighborhood of the bottom of current interest rate cycle of 2.70 percent. Although, the interest rate tends to edge up in the remaining of 2010, the pace of interest rate increase is expected to be slowly and remains accommodate the expansion of domestic demand.
- (6) The appreciation of Chinese RMB that is combined with wage increase tends to be supporting factor for Thai exports and investment in the remaining of the year.
- (7) Government stimulus measures: The expedition of disbursement from Thai Khem Kaeng (SP 2) budget and the regular budget of FY 2011 will help reduce the impacts from the

Thailand's economic growth pace in 2010 is edging up to high territory providing a stronger-than-expected economic expansion in the first half and the sign of encouraging rate of economic expansion in the remaining of the year. Nevertheless, the economic growth pace tends to decelerate in the last two quarters due to the trend of global economic slowdown and the high base effect.

reduction of government expenditure under the regular budget of FY 2010 as well as reducing the impacts of global slowdown in the latter half. Moreover, the extension of the three measures to reduce living costs till the end of 2010 will lower the price pressure and support the economic expansion in the second half.

- (8) The farmers' income in the second half of this year tends to be higher than that in 2009 due to (i) the increase in price of major agricultural commodities such as rubber, cassava, and sugar cane; and (ii) the implementation of income guarantee scheme for farmers.

□ Risk Factors and Limitations

- (1) Global economic slowdown: In the base scenario, the pace of economic recovery in major economies is expected to decline to historical norm in the latter half. Combined with the high base effect in domestic economy, the pace of Thailand's economic expansion tend to decline gradually in the latter half. This situation could be growth constraint in early 2011. In addition, there remain negative factors which potentially cause the slowdown in major economies to be more pronounced than in baseline scenario.
- (2) The fluctuation of international capital flow and exchange rate between major currencies: In the baseline scenario, capital inflow and rising current account surplus will pose an appreciation pressure on Thai baht currency. However, capital movement and exchange rate between major currencies could be volatile in response to the fluctuation of economic condition and monetary policy direction in major economies. This situation requires close monitoring, particularly economic condition and monetary policy direction in the US.
- (3) Domestic political condition and the resolution of national conflict: The recovery of tourism sector and investment is conditional upon the constant improvement of domestic political environment. In this respect, the reemergence of the political unrest and the delay of the measures for conflict resolution will hinder the recovery of economic sentiments.
- (4) The agricultural production and the farmer's income could be negatively affected by: (i) the drought that requires close monitoring and resolution measures as water in major dams are still lower than their normal level; and (ii) the appreciation of Thai baht currency amid the tendency of continual Vietnamese currency depreciation.
- (5) The fluctuation of oil prices: Although the global economic slowdown tends to reduce the pressure on oil demand, oil price in the latter half could increase and fluctuate under the condition of: (i) the fluctuation of exchange rate between major currencies; and (ii) the natural disaster and supply disruption in oil producing countries.

□ Key Assumptions for 2010 Projection

- (1) The global economy and trade volume is expected to grow by 3.9 - 4.3 and 7.5 percent respectively. This assumption is revised upward from 3.8 - 4.2 percent and 5.0 percent in previous projection assumption. This revision is in line with the stronger-than-expected global economic expansion in the first half of 2010.
- (2) An average Dubai crude oil price in 2010 is estimated at 75-80 dollars per barrel, narrowed down from 75 – 85 US dollar in previous projection assumption. From the beginning of the year until the August 18, 2010, the crude oil prices (Dubai) is at the average of 76.51 US dollars per barrel. During the remaining of the year, the average crude oil price is projected to be in the range of 75-85 US dollars per barrel.
- (3) Export and import prices in US dollar terms are projected to increase by 8.5 and 8.0 percent, respectively which is the upward revision from the assumption of 6.5 and 6.0

The key assumption for 2010 projection: global economy and trade volume grow by 3.9 - 4.3 and 7.5 percent. An average Dubai crude oil price in 2010 is in the range of 75-80 dollars per barrel. Export and import prices in US dollar terms increase by 8.5 and 8.0 percent. The number of the foreign tourists is at 14.8 million persons

percent in previous projection. This upward revision reflected the strong increase of export and import prices in the first half of the year.

- (4) The number of the foreign tourists in 2010 is forecasted at 14.8 million persons, increase from 14.1 million persons in 2009 but decline from 16.0 million persons in previous projection assumption. This downward revision reflected the impacts of the political unrest in the second quarter.

□ **Economic outlook for 2010: Thai economy is forecasted to grow in the range of 7.0 - 7.5 with 3.0 - 3.5 percent headline inflation and a current account surplus of 4.9 percent of GDP.**

In the press release on 24 May 2010, Office of the National Economic and Social Development Board (NESDB) maintained its economic projection that was released on 22 February 2010 due to the uncertainty in political condition. That is, the growth projection was maintained in the range of 3.5 – 4.5 percent with 3.0 - 4.0 headline inflation and a current account surplus of 4.1 percent of GDP.

In this release on 23 August 2010, NESDB revised GDP projection upward to 7.0 - 7.5 percent, due to the following reasons.

- (1) The world economic and trade volume are likely to grow at a faster pace than previously forecast. In this projection, the global economy and trade volume in 2010 are forecasted to grow by 3.9 - 4.3 percent and 7.5 percent respectively, compared with the estimated of 3.8 - 4.2 percent and 5.0 percent in the previous projection assumptions. Therefore, export growth pace is likely to be higher than in previous projection.
- (2) The stronger-than-expected economic expansion in the first half will boost the whole year economic expansion rate to be higher than that in previous projection. In addition, the faster-than-expected expansion in key economic sectors such as the production and export of manufacturing products, and private consumption and investment will provide momentum for strong economic expansion in the remaining of 2010.
- (3) The political unrest has not had a major impact on the Thai economy while the recent improvement of political environment has accommodated the recovery of tourism sector. In this respect, the number of foreign tourism is revised downward only slightly from 16.0 million persons in previous projection assumption to 14.8 million persons in this projection assumption.

□ **Projected growth components in 2010**

- (1) Total consumption expenditure is projected to increase by 4.0 percent in contrast with the contraction of 0.1 percent in 2009. Private consumption is revised upward from 3.0 percent in previous projection to 4.1 percent, reflecting (i) the strong expansion in H1, and (ii) the favorable household income condition in the latter half that will be supported by the expansion of manufacturing production and the farm income expansion in agricultural sector. Meanwhile public consumption is revised upward from 1.6 percent in previous projection to 3.9 percent, in line with the strong increase in H1.
- (2) Total investment is forecasted to expand by 9.2 percent, compared to a contraction of 9.0 percent in 2009 and the expansion of 4.6 percent in previous projection. The upward revision of total investment is attributable to the revision of private investment from 5.0 percent in the previous projection to 12.1 percent and the favorable investment conditions in H2 such as the rate of capacity utilization that are approaching 70 percent in various manufacturing sectors, low real interest rate and Thai baht appreciation that lowers cost of capital, and the recovery of business confidence. Nevertheless, the projection of public

Thai economy is forecasted to grow in the range of 7.0 - 7.5 with 3.0 - 3.5 percent headline inflation and a current account surplus of 4.9 percent

investment is revised downward from 3.5 percent expansion in previous projection to 1.7 percent, reflecting the reduction of public investment spending in Q2.

- (3) Value of total export in US dollar terms is projected to expand by 25.7 percent, compared to a decrease of 13.9 percent in 2009 and the expansion of 15.5 percent in previous projection. This upward revision is mainly attributable to (i) the revision of export quantity from 9.0 percent in previous projection to 17.2 percent which is in line with the stronger-than-expected expansion in H1 and the revision of projection assumption of global economic and trade volume; and (ii) the upward revision of export price assumption.
- (4) Value of total export in US dollar terms is forecasted to grow by 32.9 percent, compared to a contraction of 24.9 percent in 2009 and the expansion of 24.0 percent in previous forecast. Import quantity of goods is revised upward from 18.0 percent to 24.9 percent, in line with the upward revision of consumption, investment and export that require import to increase accordingly.
- (5) Trade balance is forecasted to record a surplus of 14.9 billion US dollar, declines from a surplus of 19.4 billion US dollar in 2009 but increase from 11.3 billion US dollar in previous projection. This upward revision reflects a large surplus of 6.8 billion US dollar in H1 and the upward revision of export forecast. Meanwhile, surplus in service account is revised downward to reflect a deficit in Q2 and a downward revision of projection assumption of the number of foreign tourists. However, current account is forecasted to register a surplus of 4.9 percent of GDP compare to 7.8 percent of GDP in 2009 and 4.1 percent of GDP in previous projection.
- (6) Average headline inflation is projected to be in the range of 3.0-3.5 percent, narrowed down from 3.0 – 4.0 percent in previous projection and downward revision of the midpoint projection. The downward revision of midpoint projection is in line with the revision of oil price assumption from 75 – 85 US dollars per barrel in previous projection assumption to 75 – 80 US dollars per barrel in current projection and the extension of the 3 measures to reduce living costs.

□ Projection Condition for High and Low cases

- (1) The high case scenario: The Thai economy in 2010 is projected to grow more than 7.5 percent under the following conditions: (i) world economic and trade volume expand more than 3.9 and 7.5 percent respectively, without serious economic slowdown in the U.S. and China in the remaining of the year, and the financial condition in Europe improve continuously; (ii) the national reconciliation plan is effectively implemented and political condition improves continuously; (iii) the Thai Khem Khang budget is sufficiently disbursed to offset the reduction of government spending under regular budget of FY 2010 and clearly provide extra stimulation effects to economic expansion; (iv) the average price of Dubai crude oil is not higher than 80 US dollar per barrel; and (v) there is no severe impacts of drought situation on agricultural sector.
- (2) The low case scenario: The Thai economy in 2010 is projected to grow by less than 7.0 percent under following conditions (i) world economic and trade volume grow by less than 3.9 and 7.5 percent respectively; (ii) serious economic slowdown in major economies; (iii) the reemergence of political unrest; (iv) the disbursement from the Thai Khem Khang budget is delayed and unable to prevent the contraction of government spending; (v) the average price of Dubai crude oil is higher than 80 US dollar per barrel; and (vi) severe drought situation results in the contraction of agricultural sector.

5. Economic Management for 2010

Thailand's economic growth pace in 2010 is edging up to high territory, providing (i) a strong expansion in the first half of the year, (ii) the improvement of global economic and domestic political conditions, (iii) the economic momentum that has been accumulated from strong recovery, and (iv) supportive fundamental factors in the latter half. Nevertheless, taking into consideration the trend of global economic slowdown that will reduce the pace of Thailand's economic recovery and the high base effect of domestic economy, the pace of economic expansion in the latter half is likely to decline gradually and these two conditions tends to limit economic growth in early 2011. In addition, there remain downside risks that could render economic growth to lower than in the baseline projection and cause difficulties to economic management, particularly risks from severe economic slowdown in major economies, the fluctuation of capital flow and exchange rate between major currencies, and drought condition. Meanwhile, the recovery of tourism sector and investment remains conditional upon the constant improvement of domestic political condition. In this respect, the guidelines for economic management in the latter half are as follows:

- (1) Improve country image in order to restore confidence of foreign tourists and investors. At the same time, the government should expedite the implementation of national reconciliation plan to ensure the constant improvement of domestic political condition and general economic confidences.
- (2) Resolve key limitations to economic expansion, especially the Map Ta Phut Industrial Estate environmental regulations problem and related issues under the Section 67 of the 2007 Constitution, as well as, labor shortage in key manufacturing sectors.
- (3) Monitor and mitigate the impacts of drought on agricultural production as well as maintain the stability of agricultural prices in the presence of Thai baht appreciation against the constant devaluation of Vietnamese's Dong.
- (4) Speed up key investment projects under the Thai Khem Kaeng Stimulus Package (SP2) and prepare key projects under the budget of FY2011 to be ready for implementation in the last quarter of 2010 and the first quarter of 2011 when the world economy tends to slowdown.
- (5) Implementation of well-balanced monetary and exchange rate policies to maintain economic stability and to facilitate economic expansion under the pressure from Thai baht appreciation as well as an increase in volatility of capital flow and exchange rate movement of major currencies . Restore Thailand's image to foster the recovery of tourism sector in the latter half and expedite the implementation of national reconciliation plan to ensure the constant improvement of domestic political condition and economic confidences.

Economic Projection 2010

	Actual Data			Projection 2010	
	2007	2008	2009	24 May 10	23 August 10 ^{1/}
GDP (at current prices: Bil. Bht)	8,529.8	9,075.5	9,050.7	9,729.5	10,000.9
GDP per capita (Bht per year)	129,239.6	135,454.6	134,683	144,141	148,162
GDP (at current prices: Bil. USD)	246.8	272.0	263.6	299.4	307.7
GDP per capita (USD per year)	3,739.2	4,060.0	3,922.6	4,435.1	4,558.8
GDP Growth (at constant prices, %)	4.9	2.5	-2.2	3.5 - 4.5	7.0 - 7.5
Investment (at constant prices, %)	1.5	1.2	-9.0	4.6	9.2
Private (at constant prices, %)	0.6	3.2	-12.8	5.0	12.1
Public (at constant prices, %)	4.2	-4.6	2.7	3.5	1.7
Consumption (at constant prices, %)	2.8	3.0	-0.1	2.8	4.0
Private (at constant prices, %)	1.7	2.7	-1.1	3.0	4.1
Public (at constant prices, %)	9.7	4.6	5.8	1.6	3.9
Export volume of goods & services (%)	7.8	5.1	-12.7	8.8	15.1
Export value of goods (Bil. USD)	151.3	175.2	150.9	174.3	189.7
Growth rate (%)	18.2	15.9	-13.9	15.5	25.7
Growth rate (Volume, %)	11.9	6.0	-14.0	9.0	17.2
Import volume of goods & services (%)	4.4	8.5	-21.8	16.4	20.6
Import value of goods (Bil. USD)	138.5	175.1	131.5	163.0	174.8
Growth rate (%)	9.1	26.5	-24.9	24.0	32.9
Growth rate (Volume, %)	3.5	8.4	-22.7	18.0	24.9
Trade balance (Bil. USD)	12.8	0.1	19.4	11.3	14.9
Current account balance (Bil. USD) ^{2/}	15.7	1.6	20.3	12.2	15.1
Current account to GDP (%)	6.3	0.5	7.8	4.1	4.9
Inflation (%)					
CPI	2.3	5.5	-0.8	3.0 - 4.0	3.0 - 3.5
GDP Deflator	3.2	3.8	2.0	3.0 - 4.0	3.0 - 3.5

Source: Office of National Economic and Social Development Board, 23 August 2010

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.

