

# Economic Outlook



## Thai Economic Performance in Q4 2010 and Outlook for 2011

Macroeconomic Strategy and Planning Office

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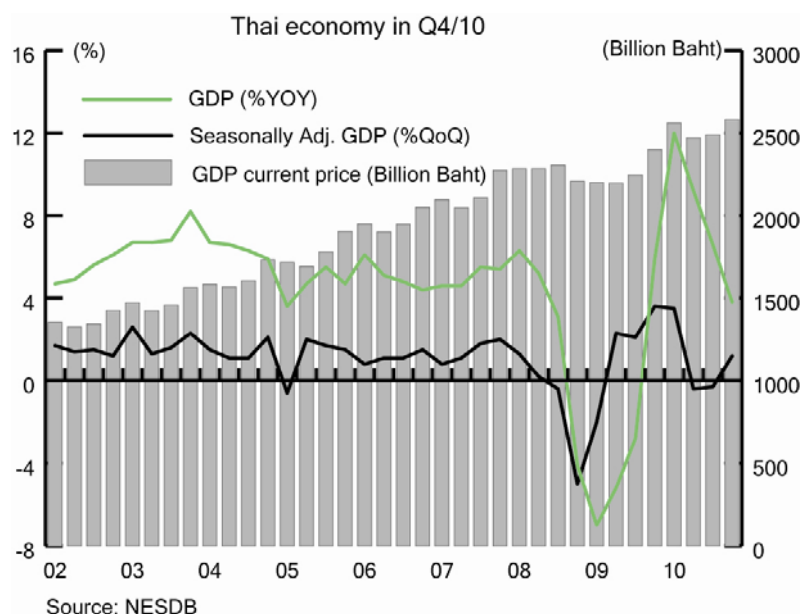
Economic projection Year 2011

(% YOY)	2009	2010			2011F
	Year	Q3	Q4	Year	
GDP (at 1988 price)	-2.3	6.6	3.8	7.8	3.5-4.5
Total Investment (at 1988 price)	-9.2	7.9	6.4	9.4	7.3
Private	-13.1	14.6	9.2	13.8	8.5
Public	2.7	-5.4	-3.1	-2.2	3.5
Total Consumption (at 1988 price)	0.1	4.8	3.5	5.0	3.9
Private	-1.1	5.0	3.8	4.8	4.0
Public	7.5	3.7	1.8	6.0	3.2
Export of Goods (US\$)	-14.0	22.2	21.1	28.5	12.5
Volume	-13.6	13.1	12.2	17.3	6.8
Import of Goods (US\$)	-25.2	30.7	18.8	36.8	14.6
Volume	-23.1	24.9	12.0	26.5	8.1
Current Account to GDP (%)	8.3	2.5	6.4	4.6	3.5
Inflation	-0.8	3.3	2.8	3.3	2.8-3.8
Unemployment rate	1.5	0.9	0.9	1.0	0.9

- Thai economy in the fourth quarter of 2010 grew by 3.8 percent. Such expansion was driven by global economic recovery that resulted in higher export, expansion in the tourism sector and greater farm income. Unemployment rate remained low. After seasonal adjustment, the Thai economy expanded by 1.2 percent.
- Thai economy expanded by 7.8 percent in 2010. The supporting factors were the global economic recovery and strong domestic demand. Private investment and consumption grew by 13.8 and 4.8 percent respectively. Moreover, export value in US dollar term considerably expanded by 28.5 percent.
- Thai economy is expected to grow in the range of 3.5 - 4.5 percent, a slower growth in comparison to last year. Export is projected to expand by 12.5 percent, while private investment and consumption are anticipated to increase by 8.5 and 4.0 percent respectively. Headline inflation is in the range of 2.8-3.8 percent, with unemployment rate at 0.9 percent. Current account surplus is expected to be equivalent to 3.5 percent of GDP.
- The economic management for 2011 should emphasize the following issues: (i) manage the problem of rising commodity prices since there is a tendency of higher costs of production due to an increase in prices of oil and agricultural products. Monitoring system of production trend and stock management of key products must be employed consistently; (ii) implementation of balanced monetary and exchange rate policy that accommodate both economic growth and stability. This would prepare the economy for the uncertainty in global economic, financial market and capital flow; (iii) accelerate budget disbursement and major public infrastructure investment in order to improve long run economic potential; (iv) improve the water management for both irrigation and consumption to alleviate the impact of climate change; (v) urgently tackle labor shortage in production sector, which could affect the foreign investors' decisions; and (vi) creating harmony and solidarity among Thai people and resolve border political conflicts in order to restore the country's image and confidence of foreign tourists and investors.

## Thai Economic Performance in Q4/2010 and outlook for 2011

In the fourth quarter of 2010, Thai economy grew by 3.8 percent which is supported by a strong recovery in global economy as well as investor confidence. This reflected in an expansion of export, investment and private consumption, compared to the third quarter 2010. The seasonally adjusted GDP increased by 1.2 percent from the previous quarter while the GDP in 2010 recorded a solid growth of 7.8 percent.



### Positive signs in Q4/2010

- (1) **Export value in terms of US dollar in the fourth quarter of 2010 recorded at 51,850 million US dollars** or expanded by 21.2 percent compared to the same period of last year. The key drivers were export of vehicle and part, electrical appliances, rubber, rubber products and jewelry, which grew by 23.8 17.3 49.0 27.6 and 77.5 percent respectively. The major export markets included US, EU (15) and Japan continued to grow by 12.0 14.6 and 24.4 percent respectively. In 2010, export value was 193,663 million us dollar or expanded by 28.5 percent
- (2) **Tourism sector.** The number of inbound tourists in this quarter stood at 4.6 million persons, accelerated from the previous quarter by 7.8 percent, compared to 2.9 and 3.7 million persons recorded in the second and third quarter. This significant improvement was due to an increased in number of tourists from South Korea, China and India by 41.1 26.6 and 46.2 percent respectively. As the result, the GDP of hotel and restaurants sector expanded by 7.9 percent. In 2010, the numbers of tourists registered at 15.8 million persons increased by 12.0 percent compared to 2009.

(3) **Household consumption** increased by 3.8 percent, supported by a rise in farm income due to higher prices of major agriculture products such as rubber, cassava, oil palm and maize which increased by 54.0, 71.9, 59.0 and 31.7 percent respectively. Moreover, an employment condition remained favorable, especially employment in agricultural sector that recorded an increase of 3.9 percent. Unemployment rate remained low at 0.9 percent. However, consumer confidence declined over the concern of flood's impact on future economic situation and employment condition. Furthermore, consumer concerned over higher oil price and cost of living has increased. In 2010, household consumption grew by 4.8 percent.

(4) **Private investment** expanded by 9.2 percent, contributed by spending on machinery and construction. This expansion was reflected in import of capital goods and commercial car sale, which grew by 15.3 and 31.6 percent respectively. Furthermore, the investment in factory construction also increased which reflected future expansion of production. Business Sentiment Index (BSI) remained strong at 51.4, increased from 50.4 in the previous quarter. In 2010, private investment grew by 13.8 percent.

### Thai Economy in 2010

Thai Economy in 2010 expanded by 7.8 percent resulted from an expansion in private investment, household consumption and the export of goods and service by 13.8, 4.8 and 14.7 percent respectively. Likewise, manufacturing sector significantly improved by 13.9 percent and tourism activities (hotels and restaurants sector) also grew by 8.4 percent. Nevertheless, agricultural sector contracted by 2.2 percent, as a result of an impact of draught in the first half and flood in the second half of 2010.

### Thai Economic Outlook for 2011

The NESDB forecast that Thai economy in 2011 will expand in the range of 3.5-4.5 percent, slowdown from 7.8 percent in 2010. The supporting factors are includes (i) strong global economic rebound, and (ii) increase of income in many sectors such as government, private sector and farm income. However, there are risks and uncertainties especially the heightening of inflationary pressure from high oil price, labor shortage in various industries, and volatility in capital flow that would have a vast impact on Thai baht, stock market and real estate sector.

Other economic projections in 2011 are: (i) headline inflation is expected to be in the range of 2.8-3.8 percent, (ii) private consumption projected to expanded by 4.0 percent, (iii) private investment forecasted to grew by 8.5 percent, (iv) export value in us dollar term is projected to expanded by 12.5 percent, and (v) current account surplus of 3.5 percent of GDP, down from 4.6 percent of GDP in 2010.

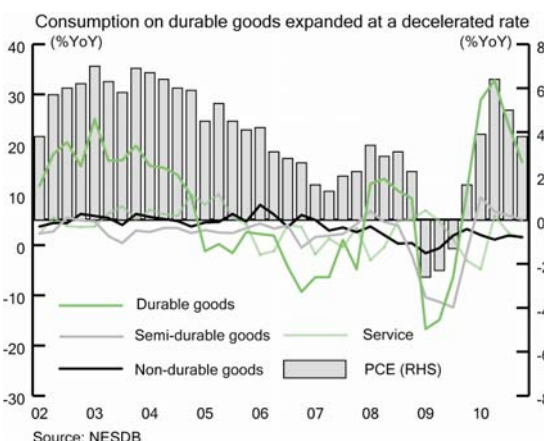
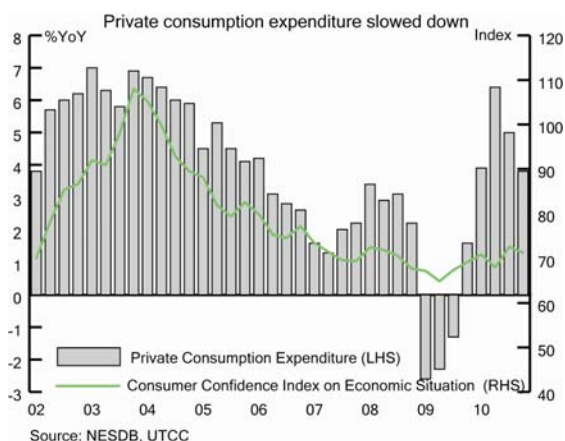
1. Economic Performance in Q4/2010

Expenditure Side

**Private consumption expenditure: expanded with a decelerated rate of 3.8 percent in the fourth quarter**, after an expansion of 5.0 percent in the third quarter. This coincided with the decline in value added tax (VAT) and import value of consumer goods. In the fourth quarter of 2010, VAT and import value of consumer goods at constant prices increased by 8.3 and 13.7 percent. The supporting factors included: (i) low unemployment rate; (ii) an increase in farm income following an improvement in price of agricultural products, due to flood's impact while global demand remain high and; (iii) low interest rate. Consumption on durable goods continued to expand at a decelerated rate of 16.6 percent. In addition, consumer confidence index on economic situation in the fourth quarter was at 71.3, declined from 72.6 in the previous quarter due to concern over flood's impact over economic situation and employment condition. Furthermore, consumer concern over higher oil price and cost of living has increased.

For 2010, private consumption increased by 4.8 percent. This was resulted from an increase of 25.1 percent in durable goods, 6.7 percent in semi-durable goods, 1.7 percent in non-durable goods, and 1.4 percent in services.

*Private consumption expenditure expanded by 3.8 percent as a result of low unemployment rate, increase in farm income as well as low interest rate.*



Private Consumption

%YoY	2009					2010				
	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4
<b>Private Consumption</b>	-1.1	-2.6	-2.3	-1.3	1.6	4.8	3.9	6.4	5.0	3.8
Durable goods	-7.1	-16.7	-14.9	-6.4	10.7	25.1	28.9	32.8	24.0	16.6
Semi-durable goods	-8.8	-10.4	-11.3	-12.4	-1.3	6.7	9.5	6.7	5.9	5.1
Non-durable goods	0.7	-1.6	-0.6	1.9	3.2	1.7	2.0	1.1	1.9	1.6
- Food	0.6	-0.9	-1.2	2.9	1.8	0.3	0.7	1.1	0.2	-1.0
- Non-food	0.7	-2.0	-0.3	1.2	4.1	2.7	3.1	1.2	3.2	3.3
Services	2.2	6.9	4.8	1.2	-3.1	1.4	-4.8	5.9	2.5	1.3

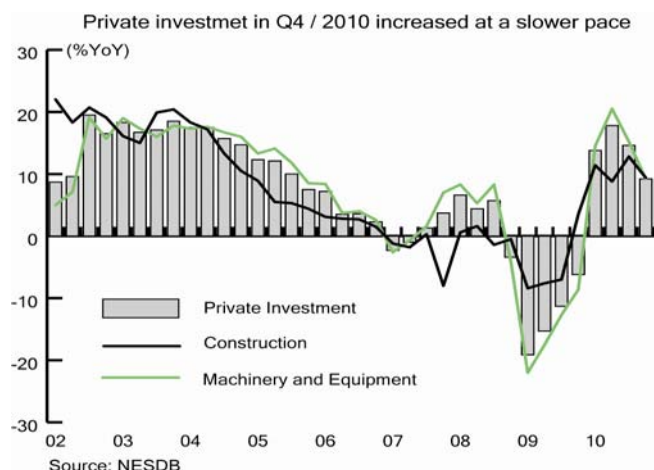
Source: NESDB

**Private Investment increased at a slower pace.** In the fourth quarter of 2010, private investment increased by 9.2 percent slowed down from 14.6 percent in the previous quarter. Investment in equipment increased by 9.2 percent. The import of capital goods increased at a slower pace of 15.3 percent following a slow down in import of machinery particularly for the export-oriented industry such as electronics, electrical appliances, and automobiles. Nevertheless, domestic commercial car sales continued to expand by 31.6 percent owing to credit easing by commercial banks, increase in farm income, and strong consumer and investor confidence. In addition, investment in construction increased by 9.4 percent, mainly resulted from the increase of factory construction, whereas other categories slowed down.

*Private investment expanded at a slower pace, mainly due to a decelerated rate of equipment and construction investment expansion.*

Business Sentiment Index (BSI) remained strong at 51.4, increased from 50.4 in the previous quarter. On the other hand, the expected BSI index for the next 3 months stood at 55.5, declined from 56.1 in the previous quarter. This reflected an uncertainty on economic and political condition. Moreover, an increase in cost of production and restriction on product price adjustment remained the risk factors for investment in the next phase.

For 2010, private investment increased by 13.8 percent as a result of the 14.7 percent increase in equipment investment and 10.6 percent increase in construction investment.



#### Exports value in the last quarter of 2010 recorded the value of 51,850 million US dollars.

However, the export value grew at a slower pace with the rate of 21.1 percent, compared to the second and the third quarter which increased by 41.8 and 22.2 percent respectively. Export volume and price rose by 12.2 and 7.3 percent respectively. Excluding unwrought gold, export value only expanded by 18.3 percent. The deceleration of export growth was due to a high base effect. Nonetheless, in term of value, export remained sound as a result of a continual improvement of global economy and a depreciation of Thai baht during December.

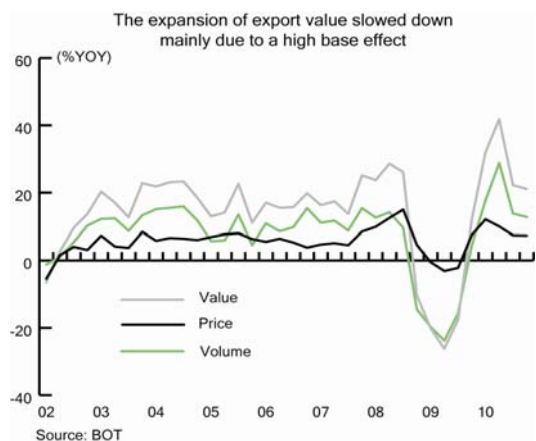
The export of agricultural commodities improved from the previous quarter due to a decline in supply of major agricultural commodities in the world market affected by natural disaster. Agricultural export price grew by 29.7 percent, while export volume dropped by 0.5 percent. As a result, export value of agricultural commodities expanded by 29.0 percent. On the other hand, both volume and value of manufacturing products started to slow down. The volume and value increased by 14.5 and 20.1 percent, slowed down from an expansion of 17.0 and 21.9 percent in the third quarter. The price of manufacturing product slightly grew by 4.9 percent. Major exported products include computer and computer parts and electrical appliances of which export value rose by 1.2 and 17.3 percent respectively. However, when classified by product group, export value of a high-technology products and resource-based products experienced an increase of 17.2 and 9.3 percent respectively. Nevertheless, export value of labor-intensive products considerably grew by 49.2 percent, compared to an increase of 0.2 percent in the third quarter as a result of acceleration in export of unwrought gold.

In 2010, export value and volume in terms of us dollar expanded by 28.5 and 17.3 percent, significantly improved from a contraction of 14.0 and 14.2 percent in 2009 respectively. Export price continued to rise by 9.1 percent from a growth of 0.3 percent in 2009.

**Export market slowed down in both major markets and other markets** as a result of a high base effect from last year. Export value to ASEAN (9) rose by 17.6 percent, decelerated from a growth of 27.5 percent in the previous quarter. Similarly, export to China, US, Japan and EU (15) expanded by 19.2, 12.0, 24.4 and 14.6 percent respectively. Regarding other markets, export to some countries registered a positive growth; for example, Hong Kong and

*Export value in terms of US dollar expanded by 21.1 percent, equivalent to the value of 51,850 million US dollars*

South Korea expanded by 54.0 and 20.1 percent respectively. Conversely, export to Australia contracted by 11.1 percent. The contraction was due to a high base effect in 2009, particularly the export of motor cars, parts and accessories, air conditioning machine and parts thereof, machinery and parts thereof as well as export of iron and steel and their products for construct of gas separation plant in Australia.



Major Export Markets

(%YOY)	2007		2008				2009				2010				Shared(%)
	Year	Year	Year	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Year	Year		
US	-0.2	4.4	-17.8	-27.1	-27.1	-19.2	4.5	22.8	26.4	25.4	12.0	21.3	10.3		
Japan	10.6	10.9	-21.8	-26.2	-31.2	-24.9	-2.7	29.4	34.6	32.0	24.4	29.8	10.5		
EU(15)	17.6	7.2	-24.5	-32.8	-33.1	-26.6	-1.8	21.7	24.1	19.4	14.6	19.7	9.8		
ASEAN (9)	21.4	22.4	-19.1	-31.6	-33.1	-21.7	18.3	67.3	45.3	27.5	17.6	36.5	22.7		
Hong Kong	21.3	15.5	-5.6	-14.2	-22.6	-3.6	23.8	22.3	58.2	21.7	54.0	38.5	6.7		
Taiwan	-1.1	-18.8	-16.7	-42.5	-26.3	-13.1	27.3	69.5	36.1	38.6	37.7	43.5	1.7		
South Korea	11.7	23.0	-23.2	-24.7	-18.7	-36.1	-7.5	42.8	41.7	12.6	20.1	28.1	1.8		
Middle East	30.8	26.9	-7.8	6.7	-17.7	-19.3	4.4	9.4	22.2	3.9	6.8	10.1	4.9		
India	47.1	25.6	-3.6	-17.1	-9.3	-7.7	20.4	92.4	25.2	24.7	20.9	36.3	2.2		
China	26.6	9.1	-0.4	-28.2	-9.3	-6.2	54.1	69.3	30.7	26.9	19.2	33.2	11.0		
Australia	36.5	34.4	7.5	15.4	-27.7	7.1	39.4	3.5	97.6	-16.2	-11.1	9.2	4.8		

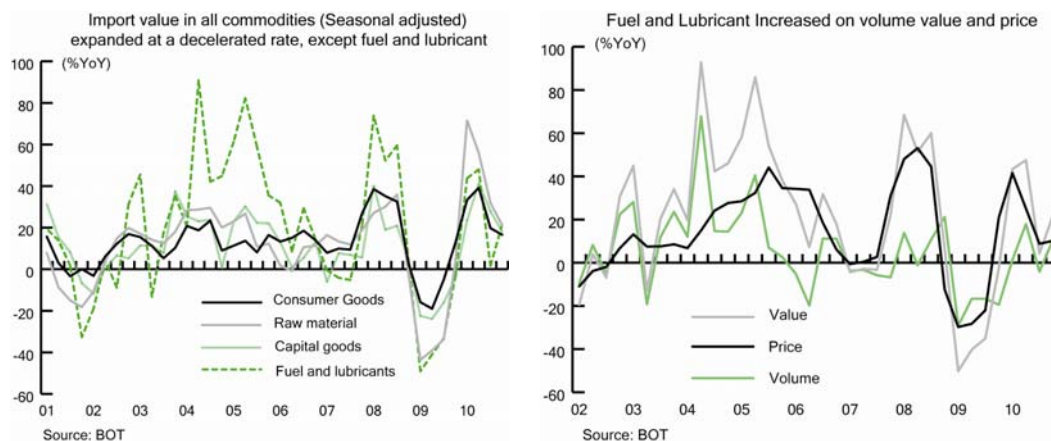
Source: Bank of Thailand

**Imports: Value and volume slowed down, while price continued to expand from the previous quarter.** In the fourth quarter, import value in US dollar terms grew by 18.8 percent, slowed down from 44.8 and 30.7 percent in the second and third quarter respectively. Import volume rose by 12.0 percent, slowed down when compared to 24.9 percent in the previous quarter. Import price accelerated from the previous quarter with a growth rate of 6.5 percent mainly due to an increase in oil price. All imported categories experienced a downturn as a result of high base effect from the second half of 2009 except fuel and lubricant which experienced an increase in volume, value and price as a result of domestic consumption and a rising of world oil price due to high demand during the winter.

After seasonally adjustment, the slowdown in import value and volume was recorded in all commodities except fuel and lubricant, which increased in value, volume and price. **Import value of capital goods** increased by 18.1 percent, down from 27.9 percent in the previous quarter. This was due to steady growth of domestic investment while capital utilization only grew slightly. Similarly, **import value of raw material and semi-finished goods** grew by 21.2 percent, down from 31.9 percent in the previous quarter which was in line with the decelerated growth of export and production. Import goods that recorded an increase in value

*Import value expanded by 18.8 percent, down from the previous quarter. All import categories slowed down except fuel and lubricant which increased in volume, value and price.*

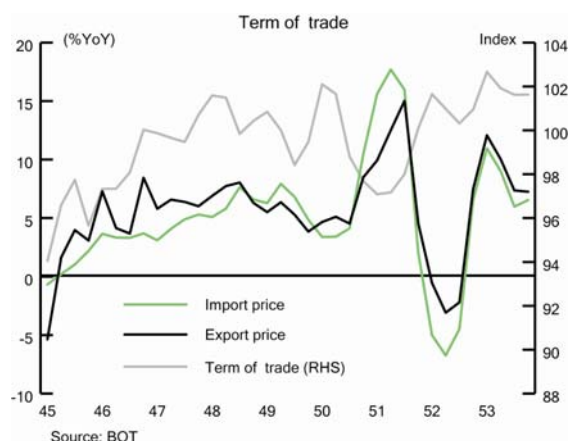
were parts and electrical appliances, chemical products, and plastic products. **Import value of consumer goods** expanded at a slower pace of 16.6 percent, compared to 19.8 percent in the previous quarter, in accordance with slowdown in private consumption. **Fuel and lubricant increased in value, volume and price**, import value expanded by 21.5 percent, accelerated from 1.5 percent in the third quarter (volume and price grew by 11.5 and 10.0 percent respectively), following an increase in domestic demand, and a rising of world crude oil price due to high demand during the winter.



In 2010, imported value, volume and price increased by 36.8, 26.4 and 8.1 percent, compared to 25.2 23.3 and 2.6 in 2009 respectively.

**Term of trade** slowed down from the previous quarter. Export price grew by 7.3 percent, while import price increased 6.5 percent. Hence, term of trade in the last quarter of 2010 expanded by 0.7 percent, which was beneficial to exporters. However, term of trade in this quarter is lower than the expansion of 1.3 percent in the previous quarter.

**In 2010**, term of trade expanded by 1.0 percent, softened down from 3.0 percent in 2009. Export price increased by 9.1 percent, while import price grew by 8.1 percent.



**Trade balance registered a slowdown on surplus.** In the fourth quarter of 2010, trade balance recorded a surplus of 4,072 million US dollars (or equivalent to 122,001 million baht), compared to a surplus of 3,303 million US dollars in the previous quarter (or equivalent to 101,291 million baht).

**In 2010, trade balance recorded a surplus but slowed down from 2009.** In 2010, trade balance recorded a surplus of 14,031 million US dollars (or equivalent to 439,600 million baht) compared to a surplus of 19,388 million US dollars (or equivalent to 669,119 million baht) in 2009. As a result, trade balance in 2010 declined by 27.6 percent.

*Term of trade slowed down from the previous quarter.*

*Trade balance surplus continued from the previous quarter.*

Production side:

**Agricultural sector** in the fourth quarter contracted by 3.3 percent, mainly due to the outbreak of mealy bug in cassava plantations and heavy damage in planting areas caused by wide coverage of flood. This ultimately resulted in the production of cassava, oil palm, sugarcane and paddy to fall by 25.0, 22.5, 5.7 and 5.7 percent respectively. Following a fall in supply, both domestic and international, while demand remain high, crops price expanded significantly by 25.7 percent owing to the increase in prices of cassava, oil palm, rubber and maize by 71.9, 59.0, 54.0 and 31.7 percent respectively. Livestock prices in the fourth quarter expanded by 3.9 percent down from 7.4 percent in the preceding quarter, partially a result of an increase in livestock supplies in response to high livestock prices evident in the past three quarter. Fishery prices have expanded by 6.9 percent, caused by shortage of shrimps supply in the world market. In addition, the limited supply of shrimps was a result of epidemic disease in Indonesia and oil leak incident in the Gulf of Mexico. The rising of agriculture price has improved farm income by 19.4 percent in this quarter. In conclusion, the agricultural sector in 2010 contracted by 2.2 percent and the farm income increased by 24.0 percent, while farm income increased by 24.0 percent

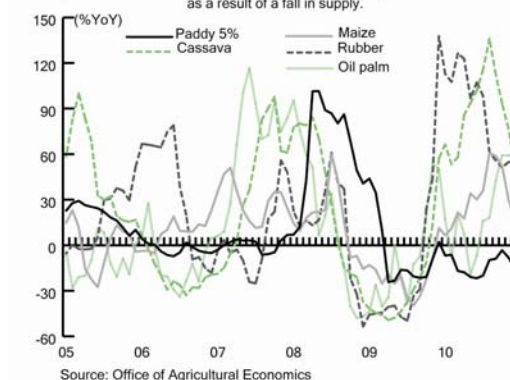
*Agricultural sector contracted by 3.3 percent as a result of flood and outbreak of mealy bug in major plantation area. While crop price expanded by 25.7 percent.*

Crop Production Index

%YoY	2008	2009					2010				
	Year	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4
GDP (Agriculture sector)	4.2	1.3	5.2	-1.1	0.6	0.4	-2.2	-2.2	1.5	-4.5	-3.3
Crop Production index	9.0	-1.3	2.5	-6.4	-1.3	-1.1	-2.4	-0.8	4.2	-5.9	-5.0
Crop Price Index	22.1	-7.5	0.0	-16.1	-14.9	2.9	27.1	17.1	28.0	38.2	25.7
Farm Income	33.1	-8.7	2.6	-21.5	-16.0	1.7	24.0	16.2	33.3	30.1	19.4

Source: Bank of Thailand

Prices of agricultural products in the world market: RSS3, maize, and tapioca continued to rise as a result of increasing demand from the industrial sector. Rice price increased, compared to the preceding quarter due to the negative impacts from the natural disaster. Farm prices: Prices of Cassava, paddy, and maize contracted from the preceding quarter, following the harvest season. While prices of rubber and oil palm continued to increase as a result of a fall in supply.

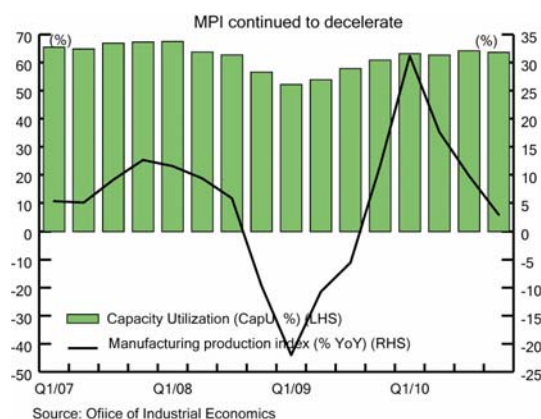


**Manufacturing Sector** expanded at a slower pace by 4.8 percent, compared to an 11.6 percent expansion in the previous quarter. The main engine of growth for the fourth quarter were motor vehicle industry, electronic industry, tires industry, cement industry and polymer industry, which grew by 21.4, 12.8, 6.1, 7.0, and 23.5 percent respectively. As the result of (1) sale order remain strong following the recovery of domestic and international economy, (2) Map Ta Phut dispute have been partially settle with clear directions for issuing operating permits to industrial projects, and (3) Implementation of Stimulus Package by the government, such as farm income insurance scheme and speed up of public investment on basic infrastructure.

*Manufacturing sector grew by 4.8 percent following an expansion of motor vehicle industry, electronic industry, tires industry, cement industry and polymer industry.*

However, the risk factors opposing prospect of manufacturing were (1) Shortage of labor in motor vehicle industry, textiles industry and electronic industry, (2) Shortage of raw material in seafood industry, and (3) Rising of production cost especially in raw materials, energy and operating cost.





**The Capacity utilization** in the fourth quarter was at 63.6 percent improved from 60.8 percent in the same period of last year. The major industries which employed capacity utilization above 80 percent were upstream chemical industry (82.6 percent), plastic production industry (98.5 percent), rubber products industry (89.2 percent) and motor vehicle industry (84.7 percent). In 2010, manufacturing sector expanded by 13.8 percent.

**Construction Sector** grew by 6.6 percent, increased from 5.2 percent in the previous quarter. This was mainly a result of acceleration of public construction, which expanded by 3.6 percent compared to 0.1 percent in the previous quarter. On the contrary, the private construction expanded by 9.4 percent slowed down from 12.8 percent in the previous quarter. Accordingly, the total permitted area for construction contracted by 23.7 percent. In particular, construction of residential and commercial building declined by 15.9 and 52.9 percent respectively due to concern of over supply in residential market and high base case in the previous quarter. The price of construction index grew by 2.1 percent, the fourth-consecutive-quarter expansion, following an increase in iron and steel, and wood and wood products prices by 4.4 and 4.1 percent respectively. However, price of cement and concrete products slowed down by 3.5 and 0.4 percent respectively. In 2010, construction sector expanded by 6.8 percent.

**Real estate sector** expanded by 2.1 percent. Such expansion was mainly driven by an increase in demand for residential property, which reflected in an expansion of 9.2 percent in housing loan. Furthermore, condominium purchasers speeded up their ownership transfer process in order to avoid tighter Loan to Value (LTV)<sup>1</sup> ratio imposed by Bank of Thailand (effective on January 1<sup>st</sup>, 2011). As a result, ownership transfer of condominium grew by 4.6 percent compared to the same period of last year and expanded by 88.5 percent compared to the previous quarter. Moreover, the real estate price index for both single house and townhouse expanded by 6.0 and 3.6 percent, respectively, due to soaring price of construction materials. The price of land grew by 2.0 percent, after an expansion of 2.1 percent in the previous quarter. In 2010, real estate sector expanded by 3.8 percent.

**Hotels and Restaurants** expanded by 7.9 percent compared to the same period of last year. The number of inbound tourists in this quarter stood at 4.6 million persons, accelerated from the previous quarter by 7.8 percent. This improvement was due to increased number of tourists from Asian countries particularly India, South Korea and China by 46.2, 41.1 and 26.6 percent respectively. As a result, the average occupancy rate in this quarter registered at 54.1 percent, up from 38.9 and 46.7 percent expansion in the second and third quarter of 2010.

Nevertheless, the number of tourists from United Kingdom and Germany continued to decline since the second quarter of 2010, as a result of an ongoing impact from economic crisis in Europe. In 2010, the total number of inbound tourists registered at 15.8 million persons, accelerated by 12.0 percent compared to 2009.

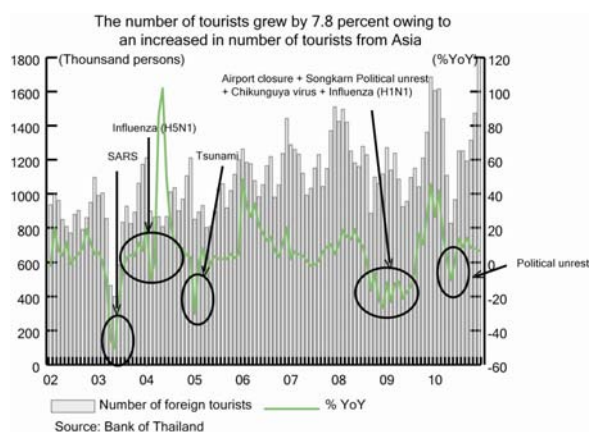
*Capacity utilization was at 63.6 percent*

*Construction sector increased 6.6 percent according to an expansion of public construction. On the contrary, private construction slowed down due to concern of over supply in residential market.*

*Real estate sector expanded by 2.1 percent, admit to strong economic growth.*

*Hotels and Restaurants expanded by 7.9 percent. The number of inbound tourists in this quarter stood at 4.6 million persons, accelerated by 7.8 percent due to increased number of tourists from Asia.*

<sup>1</sup> Bank of Thailand announced anew limit on the Loan to Value (LTV) ratio in property lending, particularly loan to condominium purchaser. The new LTV ratio for condominium loan will be set at 90 percent of underlining asset price unless financial institutions set up fund to cover extra loan approval. The measure will take effect on January 1<sup>st</sup>, 2011.



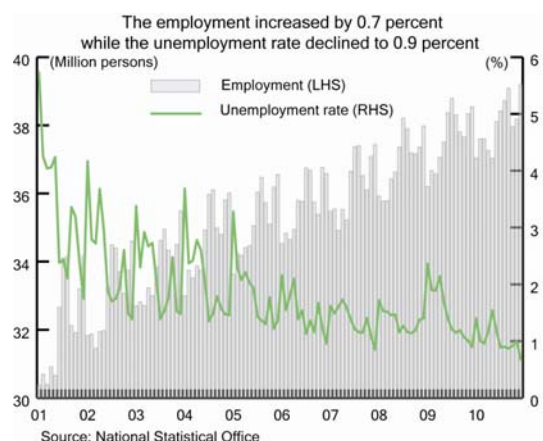
Tourism sectors continued to grow. This can be seen in increased number of flights and passengers of Low-cost carriers (LCCs) by 21.3 and 26.6 percent respectively. In conclusion, hotels and restaurants sector in 2010 expanded by 8.4 percent.

**Employment** in the fourth quarter stood at 38.44 million persons, increased by 0.7 percent compared to the same period of last year. Employment in agricultural sector grew by 3.9 percent. On the other hand, employment in non-agricultural sector contracted by 1.3 percent particularly in hotels and restaurants, construction and manufacturing sectors which contracted by 4.8, 3.0 and 2.1 percent respectively.

Number of unemployment in the fourth quarter stood at 337,000 persons, declined by 47,000 persons compared to the same period last year (equivalent to 12.2 percent reduction). The unemployment rate stood at 0.9 percent. This has resulted in the number of registered persons claimed for unemployment compensation to substantially drop by 11.1 percent.

In 2010, employment increased by 1.0 percent with number of unemployed stood at 402,560 persons and unemployment rate of 1.0 percent. Tension in labor market situation continued to linger as the ratio of vacancies to registered applicants remained relatively constant throughout 2010 at 1.0, 0.7, 1.0 and 1.2 in Q1, Q2, Q3, and Q4 respectively. Skill labor shortage remains visible in motor vehicle, electronics appliances and electronics, food, and textiles industries.

*The employment increased by 0.7 percent while the unemployment rate declined to 0.9 percent. Tension in labor market situation persisted since the beginning of the year.*



%YoY	Employed Persons by Industry					Employed Persons by Industry							
	Year	Q1	Q2	Q3	Q4	Year	H1	H2	Q1	Q2	Q3	Q4	
Employed	1.9	1.9	2.3	1.4	1.8	1.0	1.0	0.9	2.6	-0.5	0.8	0.7	
- Agricultural	-0.1	0.8	2.4	-0.8	-2.3	0.5	-2.2	2.8	2.8	-6.6	-1.2	3.9	
- Non-Agricultural	3.1	2.5	2.2	3.1	4.9	1.3	2.8	-0.3	2.5	3.1	2.3	-1.3	
Manufacturing	-1.5	-3.7	-4.6	1.3	0.2	-1.3	-0.2	-2.5	-1.1	0.8	-2.3	-2.1	
Construction	4.0	3.4	5.2	1.6	5.3	2.2	4.0	-0.1	-1.2	9.3	1.9	-3.0	
Hotel and Restaurant	8.8	7.7	7.3	8.7	11.4	1.3	6.0	-3.4	10.3	1.7	0.1	-4.8	
Wholesale	5.1	5.5	5.3	4.2	5.4	3.0	3.9	2.0	2.9	4.9	4.1	-0.5	
Unemployed (Hundred thousand person)	5.7	7.8	6.7	4.6	3.8	4.0	4.7	3.4	4.3	5.0	3.4	3.3	
Unemployment rate(%)	1.5	2.0	1.8	1.2	1.0	1.0	1.2	0.9	1.1	1.3	0.9	0.9	

Source: NESDB

- **Fiscal condition:** Budget deficit continued from the previous quarter, while revenue collection remained high since fiscal year 2010 and disbursement level exceed set target. As a result, public debt declined compared to the last quarter.

In the first quarter of fiscal year 2011 (October-December 2010) government revenue was 392,328 million baht, exceeded the target by 41,050.7 million bath or 11.7 percent and grew by 12.6 percent compared to the same period of last year. The revenue collection remained high since fiscal year 2010 following strong growth in domestic economy and private consumption, especially in durable goods. Tax category which experienced a higher collection rate, compared to same period of last year, were corporate income tax, value added tax, specific business tax and automobile tax.

**On expenditure side**, the total budget disbursement was 598,371 million baht. In detail, the total budget disbursement comprise of (1) the 2011 budget disbursement of 553,323.0 million baht, equivalent to 28.9 percent of the annual budget (exceed the set target of 20 percent), and (2) carry-over budget disbursement of 45,048.0 million baht. Furthermore, the 2011 budget disbursement included (1) current budget disbursement of 520,091 million baht or 31.3 percent of total current budget, and (2) capital budget disbursement of 33,226 million baht, equivalent to 9.6 percent of the total capital budget (lower than the set target of 10 percent).

**The Stimulus Package 2 (SP2)**, the total budget allocated for SP2 was at 334,914.3 million baht. The total disbursement of SP2 investment projects was at 257,061.0 million baht, equivalent to 76.8 percent of the total SP2 budget.

Fiscal Balance

Fiscal Year	2010					2011
	Q1/10	Q2/10	Q3/10	Q4/10	Year	Q4/10
Government Revenue	348,962.3	336,235.9	554,866.1	448,041.9	1,678,911.0	392,328.0
Compared with the target (%)	24.1	26.7	24.1	25.8	24.4	11.7
Compared with prior year (%)	25.9	17.7	20.6	15.5	19.0	12.6
Budget disbursement	396,783.7	432,449.6	379,459.5	419,153.5	1,627,846.3	598,371
Percent of annual budget <sup>1</sup> (%)	23.3	25.4	22.3	24.7	95.8	28.9
Higher/lower than target (%)	3.3	2.4	-2.7	-1.3	1.8	8.9
SP2 Disbursement	20,152.0	70,766.9	73,086.0	55,531.7	219,515.5	257,061.0
Percent of total SP2 budget <sup>2</sup> (%)	5.8	20.2	20.9	15.9	62.7	73.4
Percent of total allocated budget <sup>3</sup> (%)	6.6	23.2	23.9	17.3	68.4	76.8

Remarks <sup>1</sup> Total annual budget 2,070,000 Million Baht

<sup>2</sup> Total SP2 budget 350,000 Million Baht

<sup>3</sup> Total allocate budget 34,914.3 Million Baht (As of the first quarter of fiscal year 2011)

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

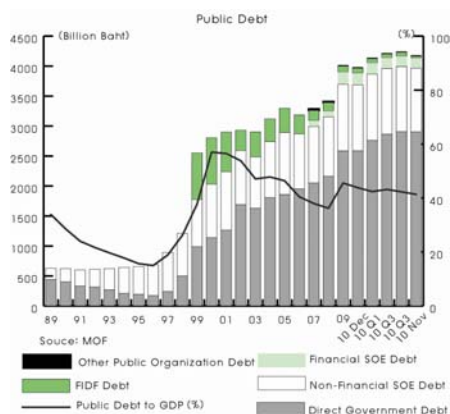
**Fiscal balance in the first quarter of fiscal year 2011**, the budget balance on cash basis recorded a deficit of 168,914 million baht. In detail, budget balance recorded a deficit of 206,043 million baht and non-budgetary balance posted a surplus of 37,129 million baht. Moreover, government has conducted a cash balance management, that was consistent with budget demand and improve country fiscal stability, through debt financing in the amount of 53,021 million baht. As a result, budget cash balance, after borrowing, registered a deficit of 115,893 million baht. On December 2010, the treasury reserves recorded a total of 313,429 million baht.

*In the first quarter of fiscal year 2011 government revenue exceeded its target by 11.7 percent.*

*Budget disbursement exceeded the target.*

**Public Debt at the end of November 2010 amount to 4,166,322 million baht**, declined by 64,423 million baht or by 1.5 percent from the end of September 2010. The ratio of public debt of GDP was 41.4 percent declined from 42.3 percent at the end of September 2010.

*Public debt at the end of November 2010 was 41.4 percent of GDP.*



Public Debt to GDP

Fiscal Year	2004	2005	2006	2007	2008	2009	2010 (End of November)
Public Debt to GDP (%)	19.7	18.7	47.8	37.5	37.7	44.2	41.4

Source: MOF

**Financial Condition:**

**Policy rate slightly increased as inflation risk heightened.** During the fourth quarter, the Monetary Policy Committee (MPC) decided to raise the policy interest rate by 0.25 per cent per annum, from 1.75 to 2.00 percent per annum. The decision was made in tandem with strong economic outlook, while inflationary pressure is expected to rise in the near future. Similarly, policy rate in many Asian countries, such as India, South Korea and Australia, were adjusted upward in order to slowdown expected inflationary risk.

**Policy rate movement in 2010.** During the first half, the policy rate remained low at 1.25 percent per annum to support economic recovery. However, in the second half, the Thai economy has shown sign of robust growth, thus MPC decided to raise policy rates 3 times. Furthermore, in January 2011, MPC decided to increase the policy rate by 0.25 per cent per annum to 2.25 percent per annum. The reasons supporting the decision included: 1) to ease inflationary pressure, which is currently driven by continual increase in domestic and external demand, 2) inevitable upward trend in oil and commodity prices, and 3) Thai economy is expected to grow robustly in 2011. Likewise, some countries in the region, such as South Korea, India and China, have raised the policy interest rate during January and February 2011 to reduce inflationary pressures as the economic recovery become more evident.

**Commercial banks' interest rate increased following the policy rate hike.** An average of 12-month deposit rate and MLR lending rate slightly increased from 1.26 and 6.00 percent per annum, at the end of third quarter, to 1.55 and 6.12 percent per annum, at the end of the fourth quarter. Headline inflation rate slightly declined, from the previous quarter, to 3.0 percent. As a result, real deposit and lending rate slightly increased to -1.45 and 3.12 percent per annum, respectively.

*Policy rate was in upward trend following better economic prospect and upward inflationary pressure.*

*Deposit and lending rate slightly increased.*

World Policy Rate Changes

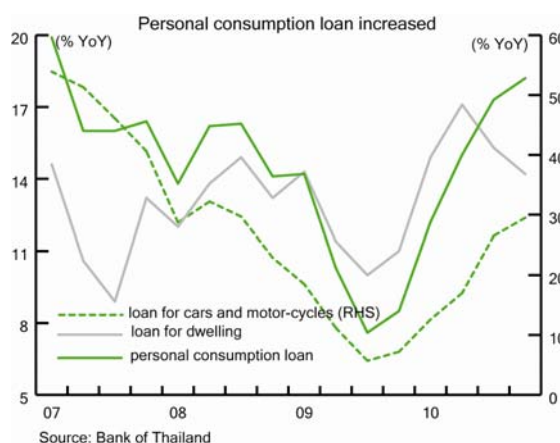
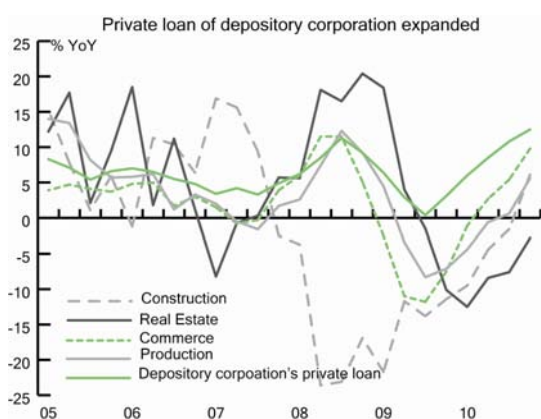
Unit: percent

Country	2009				2010				2011	Policy Rate
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Jan	At the end of Jan 2011
Thai	-1.25	-0.25					0.50	0.25	0.25	2.25
USA										0.25
Europe	-1.00	-0.25								1.00
China								0.50		5.81
Japan								-(0-0.1)		0 - 0.10
Taiwan	-0.75					0.125		0.25		1.63
Malaysia	-1.25				0.25	0.25	0.25	0.25		2.75
Australia	-1.00	-0.25		0.75	0.25	0.50		0.25		4.75
India	-1.00	-0.25			0.25	0.25	0.25	0.25	0.25	6.50
South Korea	-1.00						0.25	0.25	0.25	2.75

Source: Collected by NESDB.

**Depository corporations' deposits including bill of exchange (B/E) accelerated by 10.9 percent**, compared to an expansion of 9.7 percent in the previous quarter. In particular, Bill of Exchange (B/E) escalated by 40.2 percent, mainly due to increased in fundraising activity by financial institutions to support future credit expansion. Likewise, **private loan (excluding accrued interest)** increased by 12.5 percent, accelerated from 10.8 percent in the preceding quarter. This was mainly due to an expansion of household loan, particularly in loan for purchase or hire purchase of cars and motor-cycle. Corporate loan had shifted into positive territory for the first time since the third quarter of 2009. Moreover, corporate loan improved in all sectors following an economic recovery. Moreover, number of credit card declined while credit outstanding picked up in tandem with hike of Thai's consumer spending. In addition, NPL<sup>2</sup> to outstanding loan decreased to 1.9 percent from 2.3 percent in the prior quarter as repayment, debt restructuring and selling of debt process increased. **For the year 2010**, **Depository corporations' deposit including bill of exchange (B/E)** continually expanded in line with economic recovery, an ongoing of policy rate normalization, and the retirement of Korean Bond. Meanwhile, **private loan (excluding accrued interest)** had increased significantly, especially in household loan following an implementation of economic stimulus measures.

*Depository corporations' deposit accelerated. Likewise, private loan increased owing to expansion of loan for purchase or hire purchase of cars and motorcycles.*



<sup>2</sup> NPLs in financial institutions (excluding BIF and credit fanciers)

**Commercial banks' credit (excluding repurchase position (R/P)) to deposits (including B/E) ratio tightened** to 92.1 percent from 90.5 percent in the preceding quarter, as a result of acceleration in loan extension. Excess liquidity in commercial banking system, accordingly, slightly dropped from 1.26 trillion baht in the previous quarter to 1.24 trillion baht but remained ample. Furthermore, the current level of excess liquidity will be adequate to facilitate future loan extension.

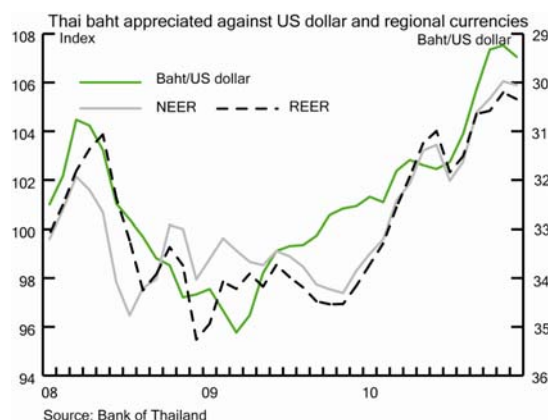
*Excess liquidity slightly dropped but remained ample.*

**Thai baht continued to appreciate against US dollar.** An average exchange rate in the fourth quarter of 2010 was at 29.988 baht per US dollar, appreciated by 4.99 percent from the previous quarter and 9.84 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 US quantitative easing measure (QE) and an ongoing process of policy rate normalization in regional countries. In addition, 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 2.52 and 1.85 percent.

*Thai baht continued to appreciate against US dollar and regional currencies.*

In 2010, Thai baht appreciated by 7.60 percent compared to 2009 with an average exchange rate of 31.665 baht per US dollar and movement range between 29.563 – 33.255 baht per US dollar and real effective exchange rate (REER) increased by 5.48 percent.

In January 2011, appreciation of Thai baht started to slow down with an average of 30.580 baht per US dollar, an average exchange rate over period of 1st – 17th February was at 30.765 baht per US dollar.



**Capital and financial account recorded a net inflow.<sup>3</sup>** In the fourth quarter, capital and financial account recorded a net inflow of 3.02 billion US dollars, slowed down from 7.31 billion US dollars in the previous quarter. The decline in net inflow was mainly contributed by outflow of non-banking sector, shifted from net inflow of 1.72 billion US dollars to a net outflow of 2.25 billion US dollars, following an increased in outflow of trade credits by Thai's exporter.

*The net inflow declined, especially in non-banking sector.*

In 2010, capital and financial account recorded a net inflow of 15.21 billion US dollars, shifted from net outflow of 2.78 billion US dollars in 2009. These dramatic improvements were seen in all sectors especially in banking sector, following an increase in hedging position of Thai's exporter. Furthermore, inflow in government and Monetary authorities sectors also improved, owing to higher foreign investor demand for debt securities in the secondary market.

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

Capital and Financial Account

(Million US dollars)	2009	2010	Q1/10	Q2/10	Q3/10	Q4/10
<b>Monetary authorities</b>	1.48	2.54	0.59	-0.02	0.82	1.14
<b>Government</b>	0.59	3.41	0.75	0.39	1.91	0.36
<b>Bank</b>	7.85	10.16	1.43	2.10	2.87	3.76
<b>Non-Bank</b>	-12.69	-0.89	1.01	-1.37	1.72	-2.25
<b>FDI</b>	-10.08	-2.16	0.98	-1.82	0.62	-1.93
Foreign	4.49	5.28	1.54	0.91	1.58	1.26
Local	-7.70	0.62	1.37	-0.44	-0.06	-0.25
<b>State Enterprises</b>	-2.61	1.27	0.03	0.45	1.1	-0.32
<b>Total Capital and Financial Account</b>	-2.78	15.21	3.78	1.10	7.31	3.02

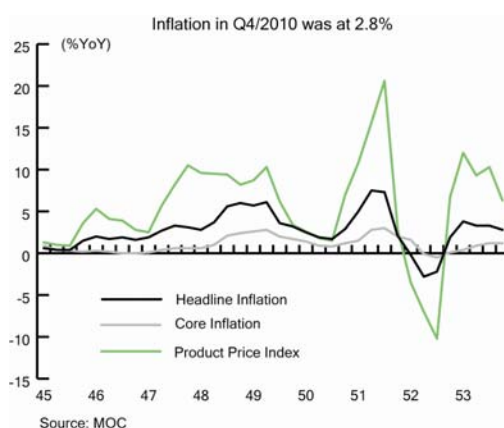
Source: BOT

**Current account in the fourth quarter registered a surplus of 5,509 million US dollars** (or equivalent to 164,910 million baht), continued from a surplus of 2,047 million US dollars in the previous quarter. This was attributed by trade balance surplus of 4,072 million US dollars and income and transfer surplus of 1,436 million US dollars.

**In 2010, current account surplus recorded** at 14,784 million US dollars and income and transfer surplus at 753 million US dollars.

**In 2010**, international reserve was at 172.13 billion US dollars, expanded by 34.4 percent from the same period last year. It is also revealed that the international reserve at the end of January 2011 stood at 173.98 billion US dollars (excluding Net Forward Position of 19.30 billion US dollars), which was equivalent to 4.1 times of short-term foreign debt or 3.6 months of import.

**Headline Inflation** in the fourth quarter of 2010 was at 2.8 percent as a result of increased in price of fresh foods (particularly fruits and vegetables), in accordance with an increased in world price. In the fourth quarter, food and beverage price index escalated by 5.6 percent. Whereas non-food and beverage price index increased by 1.4 percent, mainly due to (i) termination of water supply subsidy scheme (effective on April 1st 2010), and (ii) higher oil price following a rise in world crude oil price. Core inflation (excluding fresh food and energy) in the fourth quarter remained constant from the previous quarter at 1.2 percent. This reflected an upward trend of most commodities' prices. Therefore, Bank of Thailand decided to normalize policy rate in order to maintain domestic economic stability and control inflation pressure that is expected to elevate in 2011. In 2010, headline inflation stood at 3.3 percent, with 5.4 percent of food and beverage price index and 1.4 percent of non-food and beverage price index. However, the 15 years free education program subdued the expenditure on education including text books, stationeries as well as student uniforms.<sup>4</sup>



*Current Account continued surplus from the previous quarter.*

*International reserve at the end of January 2011 stood at 173.98 billion US dollars.*

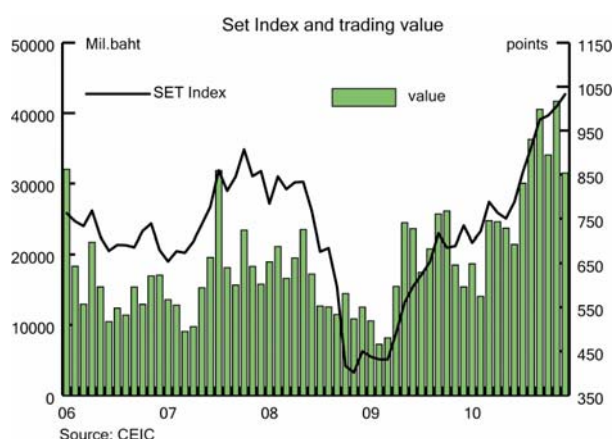
*Headline inflation in the fourth quarter was at 2.8 percent, declined from the previous quarter.*

<sup>4</sup> In January 2011, headline inflation was at 3.0 percent, while core inflation was at 1.3 percent.

Producer price index in the fourth quarter of 2010 remained high with an expansion rate of 6.3 percent. Key contributing factor to this phenomenon was higher prices of agricultural products as a result of lower crop production affected by flood while domestic and external demands remained high. This has put tremendous amount of pressure toward the production cost specifically non-food raw materials and the price of consumer products especially fresh food. This may result in less profit margin of production and ultimately lead to an increase in price in 2011.<sup>5</sup>

**SET index continued to improve from the previous quarter, while net buy position of foreign investor declined.** In the fourth quarter, SET index closed at 1,032.8 points, increased from 975.3 points (equivalent to 5.9 percent) in the previous quarter. This improvement was mainly contributed by (1) higher investor's confidence over economic outlook of Thai and regional countries, and (2) increase of net buy position by investment funds. However, some investors have realized capital gain profit following a full year acceleration of SET index. As a result, foreign investors' net buy position had declined from 60.0 billion baht in the third quarter to 40.1 billion baht in this quarter. Average daily trading value slightly increased from 35.7 billion baht to 35.9 billion baht.

In 2010, SET index significantly improved, especially in the second half, by 40.6 percent from the previous year. This remarkable improvement was a result of (1) expectation over positive earning of listed companies, supported by strong regional economic outlook, and (2) anticipated return from increase in stock price and upward trend of Thai baht. For the year 2010, foreign investors' posted a total net buy of 81.7 billion baht.



**Foreign investors' net buy position improved significantly.** Daily average outright trading in the fourth quarter registered at 77.0 billion baht, slightly declined from 78.6 billion baht in the previous quarter. Foreign investors' recorded a net buy of 142.2 billion baht due to an expectation of regional interest rate hike, while the termination of tax exemption on profit from debt securities trading had marginal effect on debt securities' demand. Nevertheless, government bond index declined as debt security supply remain high.

**In 2010,** Daily average outright trading significantly improved with foreign investors' posted a net buy of 323.7 billion baht, compared to a net buy of 26.9 billion baht in the previous year. The strong improvement in foreign trading position was evident in the second half following a clearer upward trend in policy rate.

*SET index in the fourth quarter reached 1,000 points, the highest level since 1997.*

*Foreign investors continued to record a net buy, especially in the fourth quarter. As a result, in 2010, foreign investors posted a total net buy of 323.7 billion baht.*

<sup>5</sup> In January 2011, producer price index increased by 6.0 percent.



Set and Bond market performance

(Billion Baht)	2009			2010							2011
	Year	Q3	Q4	Year	H1	H2	Q1	Q2	Q3	Q4	Jan.
<b>Stock Market</b>											
Set Index (Point)	734.5	717.1	734.5	1,032.8	797.3	1,032.8	788.0	797.3	975.3	1,032.8	964.1
Daily average trading	17.8	21.3	20.0	28.7	21.1	35.8	19.1	21.4	35.7	35.9	35.5
Net Trading of Foreign Investors	38.2	35.0	-17.0	81.7	-17.3	99.1	42.5	-59.9	60.0	40.1	-28.6
<b>Bond Market</b>											
Gross Price Index (Point)	103.5	103.7	103.5	104.9	108.0	104.9	104.6	108.0	108.9	104.9	104.0
Daily Average Outright Trading Value	59.9	53.6	51.6	68.6	63.0	74.0	61.4	64.8	78.6	77.03	82.8
Net Trading of Foreign Investors	26.9	19.1	-1.9	323.7	50.4	273.3	23.8	26.6	131.2	142.2	126.5

Source: SET and ThaiBMA

**Corporate fundraising improved in tandem with economic expansion.** Private fundraising totaled at 275.4 billion baht, increased from 267.5 billion baht in the same period of last year. Debt securities issuance remained high at 258.8 billion baht. The majority of debt securities issuance came from financial intermediation, real estate and production sectors. Moreover, fundraising through equity securities significantly improved from the same period of 2009, with a total of 16.7 billion baht which equivalent to a 59.2 percent growth.

**In 2010**, corporate fundraising totaled at 1.1 trillion baht, slightly improved from 2009. In detail, debt securities issuance recorded at 965.7 billion baht slightly dropped from last year, according to interest rate hike in the second half of 2010. Meanwhile, fundraising through equity securities dramatically increased by 219.7 percent, reflect an remarkable improvement in equity market condition.

*Corporate fundraising remained high in both debt and equity securities.*

Issuance of Private securities in Primary Market

(Billion Baht)	2008	2009					2010				
	Year	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4
Equity Securities	45.0	29.5	11.0	3.4	8.0	10.4	94.3	19.1	36.8	21.7	16.7
Debt Securities	1,267.2	984.8	191.9	290.7	246.2	257.1	965.7	218.2	275.3	224.2	258.8
Short-term	981.4	571.8	109.8	134.9	157.2	170.0	678.2	144.4	164.5	178.0	191.3
Long-term	285.8	414.1	82.1	155.8	89.1	87.1	298.2	73.8	110.7	46.2	67.5
<b>Total</b>	<b>1,312.2</b>	<b>1,018.7</b>	<b>202.9</b>	<b>294.1</b>	<b>254.2</b>	<b>267.5</b>	<b>1,054.0</b>	<b>220.4</b>	<b>312.0</b>	<b>246.2</b>	<b>275.4</b>

Source: BOT

2. Oil Price and Oil Price Trend in 2011

Oil price in Q4/2010

World crude oil price increased, driven by high demand during the winter season. In the fourth quarter of 2010, an average world crude oil price (Dubai, Brent, Oman, and WTI) stood at 85.24 US dollars per barrel, increased by 12.7 percent, compared to 75.63 US dollars per barrel in the same period of last year. In 2010, the average crude oil price (Dubai, Brent, Oman, and WTI) stood at 78.90 US dollars per barrel, increased by 27.5 percent, compared to 61.90 US dollars per barrel in 2009.

*Dubai crude oil price increased due to high demand during winter.*

**Crude Oil Price**

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
	Q3	73.84	73.83	76.74	75.70	75.03
	Q4	84.40	84.22	87.23	85.13	85.24
	Year	78.12	77.91	80.17	79.41	78.90
2011	Jan	92.33	92.16	96.95	89.71	92.79
	1-16 Feb	96.90	96.92	101.46	87.40	95.67
	16 Feb	97.80	97.80	103.78	84.99	96.09

Source: Reuter

Oil price trend in 2011

An average Dubai crude oil price in 2011 was expected to be in a range of 85-95 US dollars per barrel, higher than 77.91 US dollars per barrel in 2010. The average Dubai and WTI crude oil price in January 2011 equaled to 92.16 and 89.71 US dollars per barrel and currently (on 18<sup>th</sup> February 2011) stood at 97.80 and 84.99 US dollars per barrel, respectively. Several institutions adjusted their WTI crude oil forecast. The energy information Administration (EIA) of USA expected that the average WTI oil price would increase to 93 US dollars per barrel in 2011. BMI (Business Monitor International) of UK forecasted that the price will move up to 81.93 US dollars per barrel. Whereas Morgan Stanley and Goldman Sachs expected that in 2011, the price will be over 100 and 105 US dollars per barrel respectively. Key factors affecting the oil price include (i) global economic recovery, (ii) higher demand, particularly from China. In addition, EIA expected that world oil consumption in 2011 will increase to 1.5 million barrels per day, (iii) uncertainty in level of oil production in petroleum exporting countries, and (iv) political unrest in Egypt and Middle East.

*An average Dubai crude oil price in 2011 is expected to be in the range of 85-95 US dollars per barrel.*

WTI Oil Price Forecast for 2011

Institution	WTI oil price forecast in 2011
BMI (January 2011)	WTI = 81.93 US\$/Barrel
EIA (February 2011)	WTI = 93 US\$/Barrel
World Bank (December 2010)	WTI = 86.1 US\$/Barrel
Morgan Stanley (January 2011)	WTI = Higher than 100 US\$/Barrel
Goldman Sachs (January 2011)	WTI = 105 US\$/Barrel
JP Morgan (January 2011)	WTI = 100 US\$/Barrel

Source: compiled by NESDB

### 3. World Economic Performance in Q4/2010 and Outlook in 2011

The world economy showed a sign of improvement in the last quarter of 2010. The US economic growth reflected positive contributions from higher exports, reduced trade deficit and prominent personal consumption expenditure. The Eurozone economy and China picked up slightly, nevertheless, budget deficit and accumulated public debt has remained the problems facing many economies in the Eurozone. China has become the world's second-largest economy with the GDP of 5.879 trillion US dollars, surpassing Japan which has the GDP of 5.474 trillion US dollars. Unemployment remained severe in the US, Eurozone and Japan. Inflation was a staggering problem especially in Asia due to rising food, commodity and energy prices, and it led many countries to implement a tight monetary policy to slow down the rate of inflation. The summary of the economic performance in the main economies are illustrated as follows:

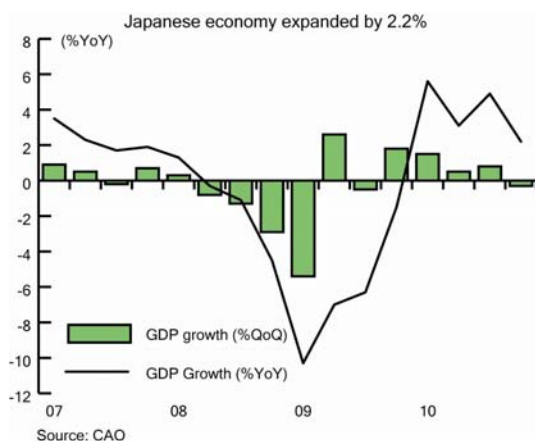
- **US economy** expanded by 2.8 percent on a year-on-year basis, down from the 3.2 percent growth in the preceding quarter. On a seasonally adjusted quarter-on-quarter basis, the economy grew by 3.2 percent, as compared to 2.6 percent in the previous quarter. The acceleration in real GDP primarily reflected a significant reduction in trade deficit due to an increase in exports and a sharp downturn in imports. The PMI in this quarter improved to 57.9 and in January the PMI reached its peak of 60.8 due to an increase in new orders and higher export production. Personal consumption expenditure grew by 4.4 percent, the highest expansion since the fourth quarter of 2006. Residential fixed investment increased. Consumer Price Index (CPI) slightly increased by 0.3 percent in the fourth quarter and it rose by 0.5 percent in December. The unemployment rate remained at 9.6 percent, the same rate as the third quarter. At the end of the fourth quarter, 14.5 million persons were unemployed. However, the unemployment rate fell to 9.0 percent in January, and the number of unemployed decreased to 13.9 million persons. The US economy was estimated to expand by 2.9 percent in 2010, up from a contraction of 2.6 (%YoY) last year.
- **Eurozone Economy** expanded by 2.0 percent, up from 1.9 percent on a year-on-year basis. On a seasonally adjusted quarter-on-quarter basis, the Eurozone economy grew at the same rate as the preceding quarter at 0.3 percent. However, Portugal and the United Kingdom contracted as a result of tight fiscal policy. Greece has also been contracted since 2008, while the Netherlands, Spain and Estonia expanded, and the key contributions to their positive growth including: (i) domestic demand growth, particularly in investments and inventories, and (ii) the decelerating expansion in trade (trade surplus of 0.7 billion euro in 2010, in comparison to 16.6 billion euro in 2009). The Eurozone economy expanded by 1.7 percent in 2010 with highest expansion in Sweden, Slovakia and Germany at 4.8, 4.4 and 3.6 percent respectively. Rising food and energy prices led to increased inflation rate by 2.0 percent in the fourth quarter. Inflation rate reached 2.2 percent in December 2010 and this upward tendency increased the pressure on the ECB to hike the interest rates in the near future. Estonia experienced the highest level of inflation among the Eurozone economy, with the average inflation rate of 5.0 percent in 2010. The euro slightly appreciated against the baht, the yen and the US dollar in the fourth quarter, compared with the previous quarter. Nevertheless, the euro began to show signs of depreciation since November 2010, which coincided with the improvement in the US economic condition. Unemployment rate and interest rate remain unchanged at 10.0 and 1.0 percent respectively.

*The US economy expanded by 2.8 percent, reflected growth in personal consumption expenditure and greater exports that led to a reduction in trade deficit. However, unemployment remained its concerning problem.*

*The Eurozone economy expanded at 1.7 percent in 2010 with higher inflation rate at 2.0. Unemployment rate and interest rate remained stable at 10.0 and 1.0 percent respectively. The euro slightly appreciated, while budget deficit and public debt has still been the problems facing many economies in the Euro area.*

□ **Japanese Economy** expanded by 2.2 percent on a year-on-year basis, down from the 4.9 percent growth in the third quarter. On a seasonally adjusted quarter-on-quarter basis, the Japanese economy contracted by 0.3 percent, decreased from the 0.8 percent growth in the previous quarter. The contraction was due to lower exports and the expiry of government subsidies on consumer goods. The Japanese economy grew a respectable 3.9 percent in 2010, up from a contraction of 6.3 percent in 2009. In the fourth quarter of 2010, private consumption contracted by 0.7 percent, compared with the previous quarter, and likewise, retail sales contracted by 0.4 percent (%YoY), reflecting tightened consumer spending. The manufacturing PMI dropped from 50.8 in the third quarter to 47.6 in the fourth quarter. The PMI has been below the benchmark level of 50 since September. Exports expanded by 10 percent, down from 17.8 percent in the preceding quarter due to a slowdown in importing economies and the strongest yen against the US dollar in 15 years. Imports, on the other hand, grew by 11.2 percent, decreased from 14.5 percent in the third quarter. In the fourth quarter, the price started to increase as a result of rising commodity prices. However, the extremely low level of Consumer Price Index (CPI) at 0.1 percent in the final quarter becomes a growing concern for the risk of deflation in Japan. The Bank of Japan has kept the overnight policy rate unchanged at a range of 0.0 to 0.1 percent, until the inflation rate surpasses a 1.0 percent level. Unemployment rate in the last quarter of 2010 remains relatively high at around 5.0 percent, down slightly from 5.1 percent in the preceding quarter.

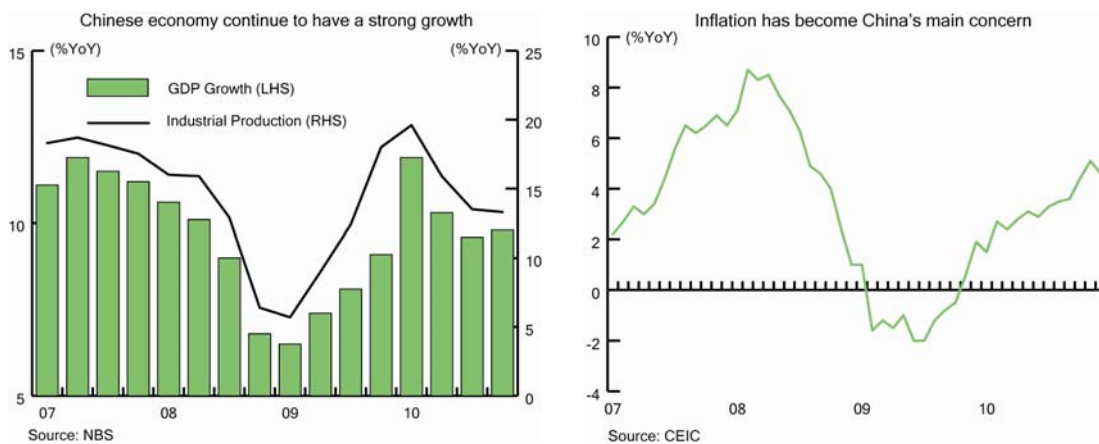
*Japan was replaced by China as the second-largest economy in the world. The economy expanded by 2.2 percent (%YoY) in the fourth quarter, down from 4.9 percent in the 3<sup>rd</sup> quarter.*



□ **Chinese Economy** experienced a higher-than-expected growth of 9.8 percent on a year-on-year basis, increased from a 9.6 percent growth in the preceding quarter. The Chinese Economy expanded by 10.3 percent in 2010 and the main contribution to growth in the final quarter was from manufacturing industry, reflected by the increased manufacturing PMI of 54.6, up from 52.2 in the third quarter. The PMI stood at 52.9 in January 2011, the 23<sup>rd</sup> consecutive month above the 50 benchmark, indicating that Chinese manufacturing sector continued to exhibit positive growth. Industrial production expanded by 13.3 percent in the final quarter of 2010, a diminutive decrease from 13.5 percent in the third quarter. As a result, industrial production expanded by 15.7 percent in 2010, compared to 11.0 percent in 2009. While Chinese Economy continued to expand, inflationary pressure has become a major concern. In November 2010, inflation rate drastically reached 5.1 percent, the highest level in the last 28 months. However, inflation began to cool down to 4.6 percent in December. This has led the Chinese Government to implement tight monetary policy including interest rate hikes and increase in bank's required reserve ratios (RRRs) to curb inflation and economic bubbles. On

*While Chinese Economy continued to expand, inflationary pressure has become a major concern. This has led the Chinese government to rigorously implement tight monetary policy.*

February 8<sup>th</sup> 2011, People's Bank of China increased the one-year lending rate by 0.25 percent from 5.81 percent to 6.06 percent, the third time in four months. Inflation rate reached 3.3 percent in 2010, exceeding its 3.0 percent target. Inflation rate is anticipated to continue to rise in 2011 due to increased food price.



- **Indian Economy** experienced a volatile industrial production in the final quarter of 2010, as can be seen from the 11.3 percent growth in October and 2.7 percent growth in November. However, the HSBC PMI stood at 57.4, up from 56.5 in the third quarter, indicating that the Indian economy will continue to expand approximately by 8.8 percent. Inflation rate (WPI) reduced to 8.2 percent in the fourth quarter. In response to an increase in energy, food, and commodity prices, the Reserve Bank of India implemented tight monetary policy to reduce inflation pressure. On January 25<sup>th</sup> 2011, the Reserve Bank of India increased the repurchase rate by 0.25 percent from 6.25 to 6.5 percent, the seventh rate hike in one year. Further interest rate hikes are anticipated, until the inflation rate is in the range of 4.0 to 4.5 percent, while maintaining cash reserve ratio (CRR) at 6.0 percent.
- **Newly Industrialized Economies (NIEs)** on the whole, expanded in the fourth quarter of 2010. Singapore and South Korea grew at a rate of 12.5 percent and 4.8 percent respectively, up from 10.5 and 4.4 percent in the preceding quarter. Key contributing factors to the economic growth were the expansion of industrial sector and higher exports. On a contrary, Taiwan grew at a slower rate of 6.5 percent, down from a 9.8 percent growth in the previous quarter. Key contributing factor to this was the contraction in private consumption and investment. Inflation in NIEs mostly increased as a result of rising food and energy prices. This has led many NIEs to implement tight monetary measures to control and reduce inflation pressure. For example, on December 30<sup>th</sup> 2010, the Bank of Taiwan increased its discount rate by 0.125 percent to 1.625 percent per year. Likewise, the Bank of South Korea increased the policy rate by 0.25 percent, from 2.50 percent to 2.75 percent per year.
- **Australian Economy** in the fourth quarter are expected to continual expand as the rise of terms of trade and the improving current account deficit could compensate for the fall in domestic demand, due to the appreciation of AUD, specially in tourism, housing market and car sales (car sales during July and October expanded by -24.2 -0.3 3.6 and -4.9 respectively). Moreover, the appreciation of AUD had little effect on domestic production side because Australian economy has a sizable domestic market and that the majorities of exports are raw materials and commodities which remain essential to the world. On the other hand, consumer confidence declined slightly. The financial and capital markets in 2010 improved when compared to 2008 and 2009 but still continued to contract. While inflation in the fourth quarter expanded from the preceding quarter by 0.4 percent to stand at 2.7 percent in 2010, unemployment remained constant and stood at 5.0 percent. Inflation is anticipated to remain

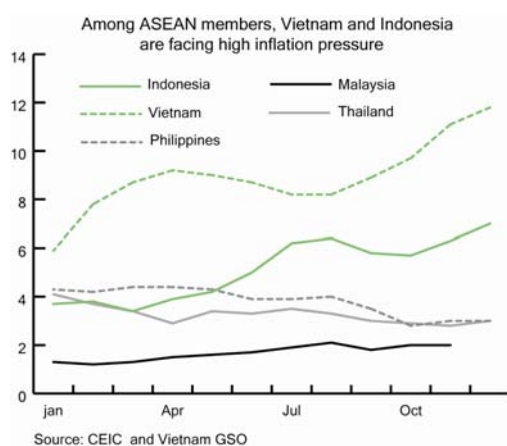
*Industry production in the fourth quarter has remained unstable, while inflation reduced to 8.2 percent due to effective government monetary measures. In 2010, overall growth is expected to expand at 8.8 percent.*

*Newly Industrialized Economies (NIEs) on the whole, expanded in the fourth quarter of 2010. However, inflation has become their concerning problem.*

*Growth continual expanded mainly due to pricing exports. Tourism and housing market, as well as consumer confidence, contracted in line with currency appreciation, whereas inflation and unemployment remained stable.*

stable at this level until mid-2011. Over all, Australian Economy in 2010 is expected to expand by 2.7-3.0 percent depending on: (i) public spending; (ii) exports and; (iii) risks relating to increasing lending cost as household debt burden remains high. The Reserve Bank of Australia is likely to increase the policy interest rate in order to maintain inflation level below 3.0 percent

- **ASEAN Economy:** Vietnam expanded by 7.3 percent on a year-on-year basis, up from 7.2 percent in the third quarter. A higher-than-expected annual average of 6.8 percent was more than the anticipated 6.5 percent growth, as a result of consumption stimulus measures, government expenditure, and exchange rate manipulation that encouraged exports. Industrial and services sectors accounted for 93 percent of GDP growth. Meanwhile, Indonesia grew by 6.9 percent (%YoY), a rise from a 5.8 percent growth in the preceding quarter. However, the seasonal adjusted figure revealed a 1.4 percent contraction, in comparison to the 3.5 percent expansion in the third quarter. An annual GDP growth in 2010 was 6.1 percent due to a rising food and energy prices. Both Vietnam and Indonesia are facing the continual inflationary pressure that went above their inflation targets, and this may led to further Interest rate hikes in the future<sup>6</sup>. Nevertheless, inflation in Malaysia, Philippines, and Thailand was still at an acceptable level. Currencies in the region have been appreciated against US dollar. However, Vietnamese dong has been stabilized and undervalued due to its pegged system. On the 10<sup>th</sup> of February 2011, the Vietnamese government devalued its currency by 8.5 percent as a result of considerable current account deficit<sup>7</sup>.



#### □ Global Economic Outlook in 2011

The world economy showed a continual and stronger-than-expected recovery in 2010, particularly in the fourth quarter which the expansion was led by the revival of the US, Japan, and China. This is consistent with the IMF which announced an upward adjustment of the global GDP growth in 2010 from 4.8 percent (as of October 2010) to 5.0 percent (as of January 2011). The satisfactory growth of the world economy will be the key driver to the stabilized world economic expansion in 2011.

**The US economy** is expected to grow by 3.0 percent in 2011, an improvement from the 2.9 percent growth in 2010. Nonetheless, unemployment rate will remain high. Key factor contributing to the US recovery is the implementation of the Quantitative Easing 2 (QE2) measures, which accounted for 650,000 million US dollars. This would cause the depreciation of US dollar and lead to lower current account deficit and improve the world balance on trade and real sectors. However, the QE2 could generate a discrepancy in the world financial system, causing the appreciation of Asian currencies due to the outflows of short-term capital

*Vietnam experienced a higher-than-expected growth mainly due to currency devaluation, whereas Indonesia slightly contracted. The pressure on inflation in both countries has become a major concern, as compare to lower levels in other ASEAN members.*

<sup>6</sup> On 18 Feb 2011, Vietnam has raised its interest rate by 200 bps to 11% from 9%.

<sup>7</sup> Approximately 8 billion US dollar or almost 8 percent of GDP.

from Europe and the US to emerging Asia. Bubbles in property and stock markets have also become concerning issues which would pressure Asian countries to pursue tight monetary policy in 2011.

**The Eurozone economy** remains uncertain due to the public debt and financial crises in Ireland, Greece, and Spain. The Eurozone economy is expected to grow by 1.4 percent and unemployment rate is expected to be stable at 10.1 percent. Inflation risk would lead to the interest rate adjustment, and it is possible that the European Central Bank would follow suit on the FED's QE measures.

**The Japanese Economy** is expected to grow by 1.3 percent in 2011, a sharp deceleration from a 3.9 percent growth in 2010. The key factors contributing to the economic slowdown in 2011 is the huge reduction in exports partly due to a strong yen. As can be seen in 2010, export expanded by 20 to 25 percent (at constant price) and it is expected to grow by 5.0 to 10.0 percent in 2011. Domestic demand remains weak due to lower public and private consumption as well as reduced private investment. Public investment tends to shrink while unemployment continues to be high.

**The Chinese economy** is forecasted to grow by 9.0 percent in 2011. Domestic demand, especially in terms of private consumption is one of the main positive contributors to growth. Exports, investment and consumption continue to expand at a high level. Nevertheless, the inflationary pressure, the appreciation of local currencies, and the tension on the Korean peninsula are the main risk factors. Moreover, China is likely to invoke more restrictive monetary measures this year.

**The ASEAN economy**, overall, is expected to slow down. The governments are obliged to constantly control their inflation rates, and monitor the exchange rate in order to maintain the trade balance.

GDP Growth of Major Economies

Countries (%YoY)	2008	2009					2010					2011*
	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year*	Year*
World*	2.3	-2.3	-1.7	-0.4	1.9	-0.6	4.9	4.8	4.6	5.1*	5.0	4.0
USA	0.0	-3.8	-4.1	-2.7	0.2	-2.6	2.4	3.0	3.2	2.8	2.9	3.0
Eurozone	0.4	-5.2	-4.9	-4.0	-2.0	-4.0	0.8	2.0	1.9	2.0	1.7	1.4
UK	-0.1	-5.5	-6.0	-5.4	-3.0	-5.0	-0.3	1.6	2.7	1.7	1.4	2.1
Japan	-1.2	-10.3	-7.0	-6.3	-1.5	-6.3	5.6	3.1	4.9	2.2	3.9	1.3
China	9.0	6.5	7.4	8.1	9.1	9.2	11.9	10.3	9.6	9.8	10.3	9.0
India	6.7	5.8	6.0	8.6	6.3	6.7	8.6	8.9	8.9	8.8*	8.8	8.3
South Korea	2.3	-4.3	-2.2	1.0	6.0	0.2	8.1	7.2	4.4	4.8	6.1	4.0
Taiwan	0.7	-9.1	-6.9	-1.0	9.1	-1.9	13.7	12.9	9.8	6.5	10.5	4.2
Hong Kong	2.2	-7.7	-3.8	-2.4	2.5	-2.8	8.0	6.5	6.8	4.7*	6.5	4.5
Singapore	1.8	-8.9	-1.7	1.8	3.8	-1.3	16.6	19.4	10.5	12.5	14.7	4.8
Malaysia	4.7	-6.2	-3.9	-1.2	4.4	-1.7	10.1	8.9	5.3	4.1*	7.1	4.9
Philippines	3.7	0.5	1.2	0.2	2.1	1.1	7.8	8.2	6.3	7.1	7.3	4.6
Vietnam	6.2	3.1	4.5	6.0	6.9	5.3	5.8	6.4	7.2	7.3	6.8	6.4
Indonesia	6.0	4.5	4.1	4.2	5.4	4.5	5.7	6.2	5.8	6.9	6.1	6.1

\*NESDB estimation

Source: Data collected and consolidated by NESDB

#### 4. Thai Economic Outlook for 2011

Thai economic situation in 2011 is likely to improve continually from the previous year. The supporting factors for this expansion are as follows: (i) global economic recovery and; (ii) higher income level of grass root consumers following the increase in salaries of government officers and private employment as well as a rise in farm income due to an increase in major crop prices. Nevertheless, there remain risks that require close attention, especially the tendency of the rising inflation due to a higher oil price, the shortage of labor supply in some industries and the volatility of capital flows.

##### □ Supporting Factors for Thai Economic Expansion

- (1) **The improvement of the global economic situation, especially that of US economy,** has brought more stability to the world economy, even though there are several threats faced by many countries. The momentum of global economic recovery will support the expansion in export, production, and tourism sectors of Thailand. Moreover, Thailand's diversified export markets will alleviate the impact of economic decelerations in major countries.
- (2) **An increase in income levels of grass root consumers** remains an important source of economic growth for Thailand. The supporting factors included; (i) an increase of civil servants and private employees' salaries; (ii) the tendency of the rising farm income owing to the increase in major agricultural product prices; and (iii) the low unemployment rate. Besides, the ongoing welfare schemes or "Pracha Viwat", especially the measures to lower the cost of living and the increase of income for SMEs, will be another supporting factors for an expansion of private consumption.
- (3) **The financial institutions will be more stable** as the present NPLs registered at only 1.90 percent while the economic liquidity stood in a good position. Excess liquidity in commercial banking system in the fourth quarter of 2011 was as high as 1.24 trillion baht which will ease the credit approval process and, thus, support the current economic expansion.
- (4) **It is expected that, in 2011, the tourism sector will continue to grow steadily** with an approximated foreign tourists of 16.8 – 17.0 million persons. Thus, the related businesses in production and services sectors are likely to improve.

##### □ Risk Factors and Limitations

- (1) **The world economic revival is still fragile,** especially the sluggish economic recovery of EU and Japan, which will be a threat to the recovery of the world economy. On the other hand, the situation in the rest of the world is improved considerably. However, there are still some possible risks as follows:

**Japan Economy:** several sectors in Japan economy still face with difficulties: (i) the export sector tends to be decelerated at a high pace if the economic growth of Japan's main trading partners, such as China, dramatically decline; (ii) the industrial sector has not yet to fully recover as revealed by the PMI level. The average PMI in the fourth quarter of 2010 was only 47.6 (PMI lower than 50 means deceleration in the industrial sector), continuously declined from the second and the third quarter which registered PMI of 54.1 and 50.8 respectively; (iii) there was a trivial expansion in private consumption due to a high rate of unemployment and an unchanged in wage rate; and (iv) public debt recorded a very high level which is expected to reach 200 percent of GDP. As a consequence, S&P lowered its credit rating for Japan to AA- from AA in January 2011 which was the first downgrade since 2002.

*The 2011 Thai economy is projected to grow at 3.5-4.5 percent with 2.8-3.8 percent of inflation and current account will register a surplus of 3.4 percent to GDP.*



**EU Economy:** there are several risks faced by EU economy: (i) the public debt in many EU members still registered a very high level. A fear of sovereign debt crisis will lead the financial institutions to tighten their credit issuance and also elevate the cost of credit. Then, a recovery of economic activities will be limited, especially in a private consumption and investment which are the major EU economic drivers for 2011; (ii) there is a limitation for EU to use fiscal instruments. EU announced its fiscal consolidation plan aiming to reduce its fiscal deficit to 3.0 percent to GDP in 2012, while, in 2010, the fiscal deficit was 6.0 percent to GDP. Thus, in order to reach its target level, EU must reduce a substantial amount of government spending in 2011 and 2012; (iii) inequalities and differences in economic structure of those EU members will worsen the situation. It can be seen that the EU economic recovery in 2010 was solely led by a high economic growth of Germany whereas other EU members' economies were still fragile and had instable economic conditions; and (iv) there is a high possibility that interest rates will be higher mainly due to an increase of inflation driven by a rising oil price. The decision to increase policy rate by ECB will be one of factors preventing EU members to be fully recovered.

**US Economy:** there are several risks for the US economy: (i) there was a sluggish improvement in labor market, reflected by a high unemployment rate and a reluctance to increase wage rate; (ii) the construction sector experienced a slow expansion; (iii) there was a rapid increase in fiscal deficit during the crisis and a high public debt. However, it is believed that the US economy in 2011 will grow steadily and the problem of the US fiscal condition tends to become a major risk to the world economic expansion in the future periods.

**Chinese Economy:** the probability of China's economic hard landing will pose a threat for 2011. The deceleration is expected to be caused by a tightening financial policy due to a fear of overheating economy experienced in the previous period. As a high economic growth drives the commodities and real estate prices to increase rapidly and, once combined with the expected higher oil price in near future, the rate of inflation tends to increase at a very high pace. Thus the Chinese government might consider using tightening policies such as reducing the target level of credit issuance and increasing the interest rates. The evidence shows that, on 8<sup>th</sup> February 2011, China increased its policy rate (one year loan) by 0.5 percent to 6.1 percent which is the third time since October 2010 and this will directly affect the Chinese private investment.

- (2) **A higher oil price will drive inflation and interest rates higher** which will cause a broad impact on the Thai economy. The consumer and investor confidences will be reduced. Further, the cost of production will be higher. This, in turn, might restrain both new investment and employment. It is also likely that trade balance will decline in such situations. Thus, under such situation, Thai economy, in general, tends to grow slower than forecasted.
- (3) **The instable political conditions and conflicts among Thais remain unfolded.** However, political uncertainty continues to exist and might unfavorably affect consumer confidence and foreign tourists. At the same time, it will also adversely affect investment, especially the foreign direct investment.
- (4) **There will be insecurity in agricultural sector and farm income** due to climate change and a higher cost of production caused by an increase in oil price.
- (5) **The capital flows will be more volatile** since many countries implement widely different monetary policies, especially to that of US. It is expected that, in 2011, the US tends to experience low interest rates and will continue its implementation of quantitative easing

(QE2). This will bring a great difference between US economy and developing economy, like those in Asia, which surely will face a continuously increase in interest rates. Then, the volatility in capital flows would yield instabilities in baht currency, stock market and real estate price.

- (6) **A shortage of labor supply in some industries** will be one of the main obstacles to the expansion in the industrial sector. The shortage in labor supply not only causes some industries to lose their competitiveness, but also drives the cost of production and inflation to be higher.

#### □ **Key Assumption for 2011 Projection**

- (1) **The world economy in 2011 tends to expand by 3.8 - 4.2 percent** while the global trade volume is expected to increase by 6.6-7.6 percent, an upward revision from the previous forecast which anticipated the world economy and the global trade volume to increase by 3.6-4.0 and 6.5-7.5 percent, respectively.
- (2) **Average Dubai crude oil price in 2011 is predicted to be 85-95 US dollars per barrel, an upward adjustment from the prior projection at 80-90 US dollars per barrel.** Supporting factors to the rise of oil price include: (i) the higher demand for oil in accordance with the expansion of the world economy, particularly Asian economies, as well as the domestic price stabilization in many countries, especially developing countries; (ii) the speculation in crude oil due to the imbalance of non-OPEC countries' oil production and the higher demand for oil; (iii) climate change as well as the longer winter and; (iv) conflicts in oil producer countries and countries around Middle East.
- (3) **Export prices of goods in US dollar terms is forecasted to rise by 5.7 percent** with the major supporting factors including; (i) the development of export prices of agricultural products due to the higher global demand and the lower production volume as a result of natural disaster; (ii) the rise of domestic wages and oil price and; (iii) the increase of prices after the government stabilization policy on commodity prices during the economic contraction. This brings about an upward adjustment of export price growth from the earlier forecast. Meanwhile, import prices in US dollar term are projected to expand by 6.5 percent, an increase from 5.3 percent due to the revision of expected oil price.
- (4) **Number of foreign tourists in 2011 is expected to be 16.8-17.0 million persons,** an increase from 15.8 million persons in 2010.

#### □ **Economic outlook for 2011 :**

**Thai economy is forecast to expand between 3.5-4.5 percent, a deceleration from the 7.8 percent growth in 2010. Meanwhile, inflation rate is anticipated to be in the range of 2.8-3.8 percent comparing to the rise of 3.3 percent in 2010. Also, Thai economy is likely to have a current account surplus at 3.5 percent of GDP, a reducing from 4.6 percent in 2010.**

In the press release of 21<sup>st</sup> February 2011, NESDB maintains the economic forecast as announced on 22<sup>nd</sup> November 2010; however, the composition of economic expansion was revised according to the new assumptions. Therefore, the economic growth and inflation rate are projected to grow by 3.5-4.5 and 2.8-3.8 percent respectively, while the current account surplus is predicted at 3.5 percent of GDP.

#### *Key assumptions for 2011 projection*

*(1) Global economy and world trade volume expand at 3.8-4.2 and 6.6 - 7.6 percent respectively*

*(2) Average Dubai crude oil price is 85-95 US dollars per barrel*

*(3) Average export and import prices (in US dollar term) increase by 5.7 and 6.5 percent respectively*

*(4) Number of tourists is approximately 16.8-17.0 million persons.*

#### □ Projected growth components in 2011

- (1) **Total consumption expenditure is projected to grow by 3.9 percent, decelerating from the expansion of 5.0 percent in 2010.** This is due to a slowdown in private consumption as a consequence of an impact of high inflation. However, the supporting factors for the private consumption expansion include: (i) an increase of civil servants' salary; (ii) an increase in minimum wage; and (iii) a farmer income base continues to improve. The public consumption expenditure is expected to grow by 3.2 percent as a result of current budget expenditure and carried-over budget expenditure disbursement which tends to be improved.
- (2) **Total investment is projected to expand by 7.3 percent, slow down from the expansion of 9.4 percent in 2010.** Private investment is likely to grow by 8.5 percent, compared to a growth of 13.8 percent in 2010. The deceleration was due to a high base effect as well as a risk from a rise in interest rate and oil price. Public investment is expected to expand by 3.5 percent, compared to a contraction of 2.2 percent in 2010.
- (3) **Export value of goods in US dollar terms in 2011 is forecasted to expand by 12.5 percent.** This is supported by a favorable economic condition of trading partner countries causing a continual increase in demand from foreign countries. Export volume of goods is projected to expand by 6.8 percent, whereas export of goods and services is also projected to grow by 6.3 percent, decelerated from an expansion of 14.7 percent in 2010.
- (4) **Import value of goods in US dollar terms in 2011 is forecasted to expand by 14.6 percent, decelerating from the growth of 36.8 percent in 2010.** Import volume of goods is expected to experience a rise of 8.1 percent, particularly of imports of fuel, raw materials and capital goods. Import volume of goods and services is projected to expand by 8.1 percent, decelerating from a high growth of 21.5 percent in 2010.
- (5) **Trade balance is expected to register a surplus of 12.1 billion US dollars, declining from the surplus of 14.0 billion US dollars in 2010.** This decline was due to the growth of import which is expected to be higher than that of export. The main factor driving an import growth is the import of fuel that tends to considerably grow in 2011. Combined with a surplus of service account balance of 0.5 billion US dollars, the current account is expected to register a surplus of 12.6 billion US dollars or 3.5 percent of GDP, compared to a surplus of 14.8 billion US dollars in 2010.
- (6) **Economic stability tends to be under inflationary pressure.** The average headline inflation is expected to be in the range of 2.8 – 3.8 percent. A projected unemployment rate remains low at 0.9 percent reflecting labor market tightness which is a factor causing a rise of inflation rate.

#### □ Projection Condition for High and Low Cases

- (1) **The high case scenario:** Thai economy in 2011 is projected to grow more than 4.5 percent under the following conditions: (i) world economic growth exceeds 4.2 percent following the resolution of fiscal deficit problem among EU countries, the stabilization of inflation pressures in developing countries by increasing interest rate and implementing a tight monetary policy to prevent the hard landing, especially in China and the growth of US economy remains unaffected by the high public debt problem and a housing market fragility; (ii) there is no serious political demonstration that would affect the consumers and investors confidence as well as the tourism sector; (iii) the annual average price of Dubai crude oil is less than 95 US dollars per barrel; (iv) there is no delay in the budget disbursement under the Thai Khem Khang and the average disbursement rate of current budget is more than 94 percent of total budget; (v) the policy interest rate is less than 3.5

percent; and (vi) there is no severe natural disaster that would affect the growth of agricultural production.

- (2) **The low case scenario:** Thai economy in 2011 is projected to grow less than 3.5 percent under the following conditions; (i) world economy expands less than 3.8 percent; (ii) the domestic political situation is severe and affects an expansion of major production sectors; (iii) the annual average price of Dubai crude oil is higher than 95 US dollars per barrel; (iv) the budget disbursement interval is delayed and unable to prevent the contraction of government spending; (v) the policy interest rate is higher than 3.5 percent which will negatively affect private investment; and (vi) a severe natural disaster occurs and affects the major agricultural productions such as rice, rubber, sugar cane and palm oil.

## 5. Economic Management for 2011

Thailand's economy in 2011 is expected to expand continuously from last year by the impetus of the strong growth in 2010 as well as the stabilized expansion of the global economy. However, Thai economy in 2011 is likely to face the inflationary pressure, rising oil price, the fluctuation of capital flows, and the natural disaster. Meanwhile, the development of tourism and investment sectors depends on a condition of the peaceful domestic political situation. Thus, the economic management for 2011 should emphasize the following issues:

- (1) Manage the problem of rising commodity prices since there is a tendency of higher costs of production due to an increase in prices of oil and agricultural products. Monitoring system of production trend and stock management of key products must be employed consistently.
- (2) Implementation of balanced monetary and exchange rate policy that accommodate both economic growth and stability. This would prepare the economy for the uncertainty in global economic, financial market and capital flow .
- (3) Accelerate budget disbursement and major public infrastructure investment in order to improve long run economic potential.
- (4) Improve the water management for both irrigation and consumption to alleviate the impact of climate change.
- (5) Urgently tackle labor shortage in production sector, which could affect the foreign investors' decisions.
- (6) Creating harmony and solidarity among Thai people and resolve border political conflicts in order to restore the country's image and confidence of foreign tourists and investors.



## Economic projection of 2011

	Actual Data			Projection 2011F	
	2008	2009	2010	22 Nov. 10	21 Feb. 11
GDP (at current prices: Bil. Bht)	9,080.5	9,041.6	10,103.0	10,777.3	10,840.5
GDP per capita (Bht per year)	136,585	135,144	150,090	159,435	160,370
GDP (at current prices: Bil. USD)	272.2	263.3	317.7	365.3	361.4
GDP per capita (USD per year)	4,093.9	3,936.0	4,719.8	5,404.6	5,345.7
GDP Growth (at constant prices, %)	2.5	-2.3	7.8	3.5 - 4.5	3.5 - 4.5
Investment (at constant prices, %)	1.2	-9.2	9.4	8.0	7.3
Private (at constant prices, %)	3.2	-13.1	13.8	9.8	8.5
Public (at constant prices, %)	-4.7	2.7	-2.2	2.5	3.5
Consumption (at constant prices, %)	2.9	0.1	5.0	4.1	3.9
Private (at constant prices, %)	2.9	-1.1	4.8	4.3	4.0
Public (at constant prices, %)	3.2	7.5	6.0	2.7	3.2
Export volume of goods & services (%)	5.1	-12.5	14.7	6.0	6.3
Export value of goods (Bil. USD)	175.2	150.7	193.7	211.0	217.9
Growth rate (%)	15.9	-14.0	28.5	11.7	12.5
Growth rate (Volume, %)	6.0	-13.6	17.3	6.2	6.8
Import volume of goods & services (%)	8.9	-21.5	21.5	8.0	8.1
Import value of goods (Bil. USD)	175.6	131.4	179.6	199.0	205.8
Growth rate (%)	26.8	-25.2	36.8	13.4	14.6
Growth rate (Volume, %)	8.9	-23.1	26.5	7.9	8.1
Trade balance (Bil. USD)	-0.4	19.4	14.0	12.0	12.1
Current account balance (Bil. USD) <sup>1/</sup>	2.2	21.9	14.8	12.0	12.6
Current account to GDP (%)	0.8	8.3	4.6	3.3	3.5
Inflation (%)					
CPI	5.5	-0.8	3.3	2.5 - 3.5	2.8 - 3.8
GDP Deflator	3.9	1.9	3.7	2.5 - 3.5	2.8 - 3.8

Source: Office of National Economic and Social Development Board, February 21<sup>st</sup>, 2011

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

