

## *1. Overview*

The global economic recovery continued into 2010 Q1, with Asian economies maintaining their robust expansion from both the previous quarter (qoq) and the depth of the crisis last year (yoy). Economic indicators for production, consumption, exports, and imports have been favourable, leading some countries to start normalizing their monetary policy stances. The industrialized economies, particularly G3, continued to recover gradually, supported by fiscal spending as well as some resumption of private demand. Nonetheless, the recovery of major industrialized economies remains fragile, given persistently high unemployment rates and a rise in banking sector's debts which are constraining credit extension to the real sector. Furthermore, some European countries such as Greece are facing growing fiscal problems stemming from high budget deficits and public debts, which in turn have had disruptive impacts on the global financial market.

Over the past three months, the Monetary Policy Committee (MPC) judges that

1. The Thai economy has exhibited a clearer sign of recovery, expanding in 2009 Q4 from the previous quarter by 3.6 per cent, the highest quarter-on-quarter growth rate in 10 years. Among the main supporting factors were (1) exports of goods and services, which grew 7.9 per cent from the previous quarter, as well as an improvement in the tourism sector, (2) a recovery of private consumption, which has surpassed the pre-crisis level in almost every product category, aided by rising farm income, employment, improved consumer


Change from the previous period (Per cent)	2008	2009	2009			
			Q1	Q2	Q3	Q4
<b>Domestic demand <sup>1/</sup></b>	2.6	-2.4	-4.7	1.7	1.3	2.7
Private consumption	2.7	-1.1	-2.8	0.8	1.0	2.7
Private investment	3.2	-12.8	-12.7	1.9	3.8	3.2
Public expenditure	1.2	4.5	-4.2	5.6	0.1	2.5
<b>Net exports of goods and services</b>	-6.4	22.4	112.4	-24.5	6.3	-1.6
Exports of goods and services	5.1	-12.7	-5.9	-3.4	6.1	7.9
Imports of goods and services	8.5	-21.8	-27.0	8.0	4.6	11.6
<b>Gross domestic product</b>	2.5	-2.3	-1.5	2.1	1.7	3.6

Note: <sup>1/</sup>Domestic demand excludes changes in stocks  
Source: National Economic and Social Development Board

confidence, as well as low interest rates, and (3) fiscal stimulus, in particular public consumption, with public investment expected to play a more active role going forward given a continued increase in the disbursement rate in recent periods.

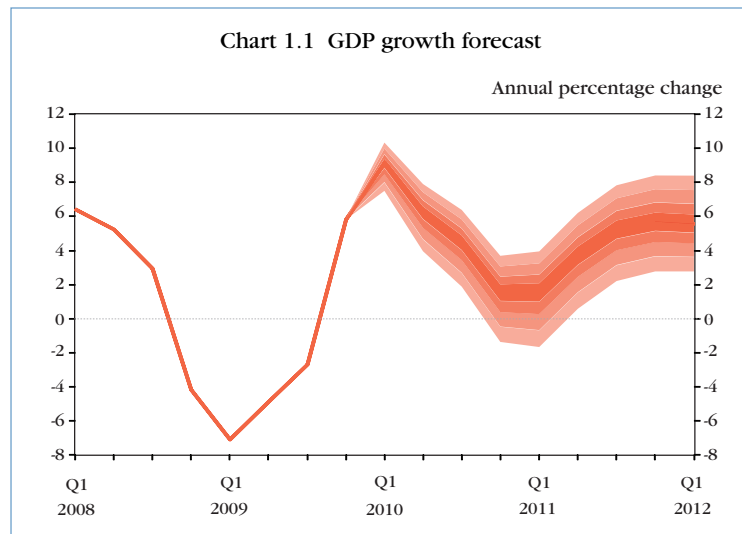
The data for the first two months of 2010 Q1 point toward a continuation of the Thai economy's recovery, backed by improvements in both domestic and external demand. The recovery is likely to have been broad-based, leading to higher resource utilization both in terms of tighter labour market conditions as well as higher capital utilization which has risen to near the pre-crisis level. The political disruption near the end of the quarter is expected to have only a minimal impact on the overall economic expansion in this quarter.

2. Looking ahead, the MPC nonetheless assesses the downside risk to growth and the uncertainty surrounding the outlook to be higher than last assessed in the previous *Inflation Report*. On the external front,



there remain concerns about the fragility of trading partners' economic recovery, given high unemployment rates in G3 economies and fiscal sustainability issues in some European economies. Any repercussion on the Thai export sector could in turn adversely affect domestic consumption and investment. Meanwhile the domestic political uncertainty, if prolonged or intensifying, could inhibit the private sector's confidence to consume and invest, curb tourism income, and potentially compromise the orderly disbursement of the fiscal budget. In addition, a further delay in the resolution of suspended investment projects in the Map Ta Phut area would have direct consequences in terms of investment and revenue foregone due to disruption of projects as well as indirect impact on business confidence, employment, and other related industries.

After assessing the outlook for global and domestic recovery together with the surrounding risks, the MPC anticipates the economy to expand in 2010 at a higher rate than projected in the previous *Inflation Report*, as a result of the robust economic expansion in 2009 Q4 which is also likely to continue into the first quarter of this year. Nevertheless, the growth momentum over the last three quarters of 2010 is projected to be somewhat more subdued owing to heightened political risk. As for 2011, the MPC expects a slightly higher growth rate than the previous forecast. Accordingly, the MPC has revised the projected range for growth over the next eight quarters to 4.3-5.8 per cent for 2010 and 3.0-5.0 per cent for 2011. The risks remain skewed to the downside throughout the forecast horizon.



Note: The fan chart covers 90 per cent of the probability distribution

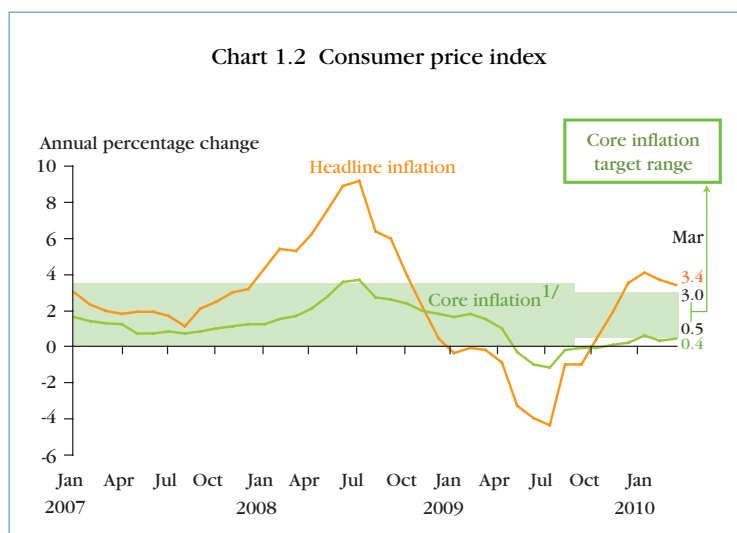
3. The overall economic and financial stability has been favourable, as reflected by continued improvement of corporate profitability and household earnings in line with the economic recovery. Financial institutions remain strong, and private credit growth has accelerated. Senior loan officers reported in the 2010 Q1 survey that they expected the overall demand for credits in 2010 Q2 to pick up in tandem with the economic rebound, and expected an easing of credit standards. Nonetheless, in the period ahead the MPC deems the political uncertainty and the fragile global recovery as the key risks affecting Thailand's economic and financial stability.

### *Inflation outlook and monetary policy*

In 2010 Q1, headline inflation registered at 3.8 per cent, accelerating from 1.9 per cent in the previous quarter. Core inflation stood at 0.4 per cent, up from 0.1 per cent in the previous quarter, but still below the lower

end of the inflation target range of 0.5-3.0 per cent. The government subsidy measures and the 15-year-free-education policy were the major contributing factors. Excluding the artificial effects from these subsidy measures and policy, core inflation would have remained within the inflation target range, with a gradually rising trend in line with the economic recovery. Acceleration of headline inflation in 2010 Q1 was mainly due to an increase of fresh food and retail oil prices.

Demand pressure on inflation has been subdued, as reflected by a marginal pickup in core inflation. Going forward, demand pressure on inflation should rise in line with the continued economic recovery and tighter labor market conditions. Additionally, cost pressure on inflation is also expected to rise, as reflected by the fact that the Producer Price Index has been increasing for a number of consecutive months. Information from survey also indicates that a growing number of producers plan to raise prices over the next three months.

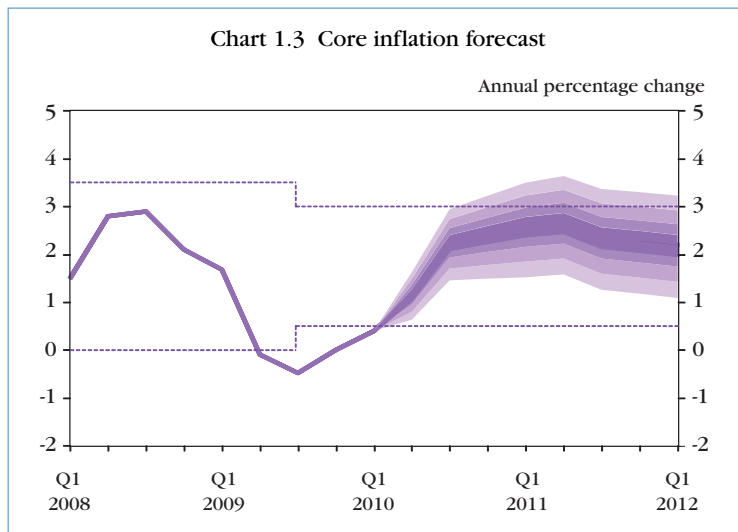


Note: <sup>1/</sup>Consumer price index excluding raw food and energy items  
Source: Trade and Economic Index Bureau, Ministry of Commerce

The MPC expects core inflation in 2010 to be slightly lower than the previous projection, notwithstanding an upward revision to the growth forecast over the same period, owing to an extension of the government subsidy measures for a quarter. Meanwhile, the projection for headline inflation is broadly unchanged, as the effect of lower core inflation is largely offset by a rising trend of agricultural prices.

As for 2011, both core and headline inflation are expected to be higher than projected in the previous *Inflation Report*, due to rising demand pressure on inflation following a firmer economic recovery and a gradual closing of the output gap. As a result, producers should be better positioned to pass on the rising costs of production, consistent with higher inflation expectations of consumers and producers than reported in the previous *Inflation Report*.

Major risks to inflation are (1) oil prices, which could be higher than anticipated owing to nuclear dispute in Iran and conflicts in Nigeria with potential disruptions to the supply of crude oils, as well as the US dollar depreciation which would push up oil prices in dollar terms (2) a more severe drought problem, which could raise agricultural prices and increase supply-side pressure on inflation, and (3) the strength and momentum of global and domestic demand recovery which, if weaker than expected, would act to suppress inflation pressure. Consequently, the MPC revises the projection for inflation as follows. Headline inflation is expected to be within 3.3-4.8 per cent in 2010 and 2.3-4.3 per cent in 2011. Core inflation is projected to be within 1.0-2.0 per cent in 2010 and 2.0-3.0 per cent in 2011.



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With regard to monetary policy, after a complete assessment of the outlook for growth and inflation over the next eight quarters, taking into account the prospects for global and Thai economic recoveries as well as the extent of fiscal impetus, the MPC decided to leave the policy interest rate unchanged on 10 March 2010 and 21 April 2010. The MPC believes that the lower downside risk to growth has significantly lessened the need for an exceptionally accommodative monetary policy stance such as at present. However, given uncertainties surrounding the sustainability of global economic recovery as well as domestic risk factors, heightened political risk in particular, that could adversely impact consumer and investor confidence, the MPC has decided to maintain the policy interest rate at 1.25 per cent per annum, and will consider adjusting the policy interest rate to more normal levels in the period ahead.