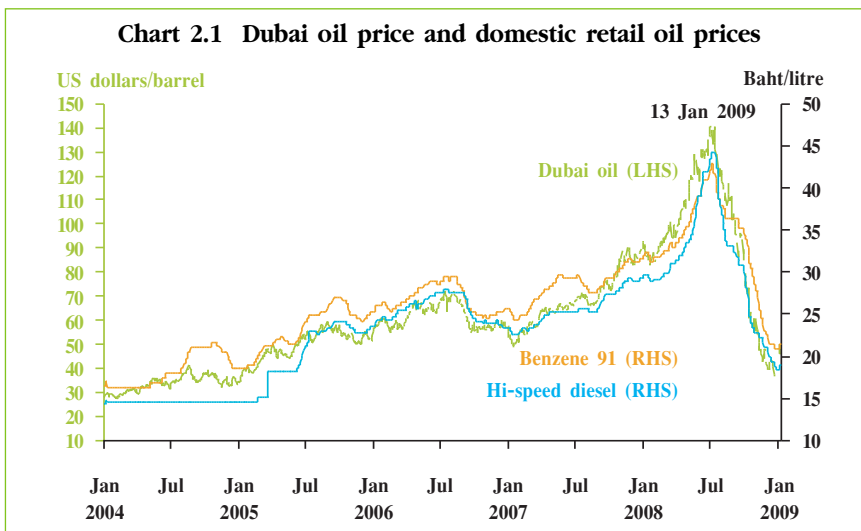


## 2. Inflation and Economic Conditions

### Inflation trends

In 2008 Q4, global oil prices continued to decline from the previous quarter, with the price of Dubai oil falling considerably from an average of 113.62 US dollars per barrel in 2008 Q3 to 52.8 US dollars per barrel in this quarter. The drop in oil prices resulted from the decline in global oil demand following the economic slowdown in major industrialized countries. Furthermore, OPEC's announcements to reduce oil production by 3.7 million barrels in this quarter were unsuccessful at pushing up oil prices, but merely kept oil prices from dropping further from the current level.

*The continued decline in global oil prices reduced pressure on domestic energy prices.*



Source: PTT Public Company Limited

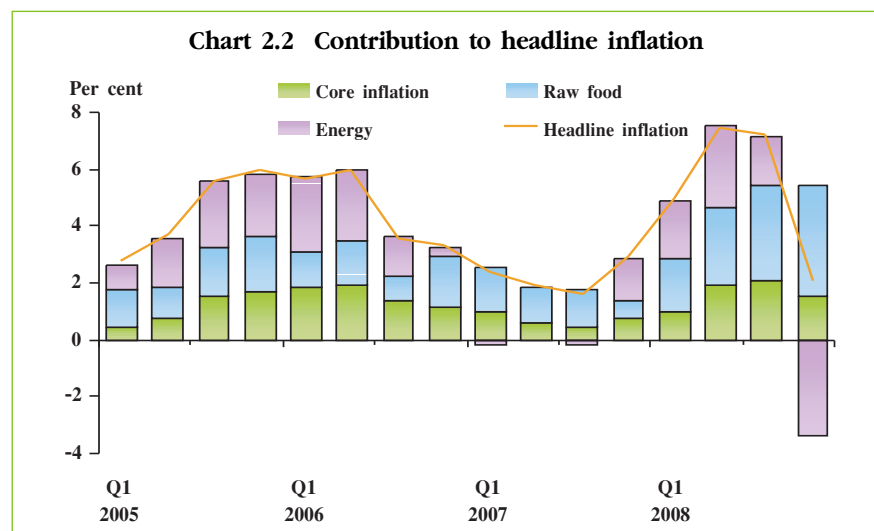
The decline in world oil prices led to a drop in domestic retail oil prices. The average prices of ULG 91 and high-speed diesel fell from 37.85 and 36.19 baht per litre in 2008 Q3 to 26.36 and 22.71 baht per litre in this quarter, respectively. Moreover, prices of other raw materials used in production also fell in line with those in the world market. As a result, the overall Producer Price Index (PPI) in 2008 Q4 increased from the same period last year by only 2.9 per cent, slowing down considerably from the rates of 15.7 and 20.6 per cent encountered in 2008 Q2 and 2008 Q3, respectively.

*The pass-through of production costs to prices of goods and services slowed down due to the decline in production costs, particularly in energy prices.*

The decline in production costs, the effect from the government's measures to alleviate the cost of living and the slowdown in domestic demand resulted in a lower pass-through from production costs to prices of goods and services than previously experienced. As a consequence, pressure on consumer prices declined significantly, as reflected by the drop in headline inflation from 7.3 per cent in 2008 Q3 to 2.1 per cent in this quarter. Furthermore, core inflation decelerated from 2.9 per cent in 2008 Q3 to 2.1 per cent in this quarter.

Table 2.1 Quarterly inflation						
Unit: Per cent	2007	2008	2008			
			Q1	Q2	Q3	Q4
<b>Percentage change from the previous year (%Δyoy)</b>						
- Headline consumer price index	2.3	5.5	5.0	7.5	7.3	2.1
• Core consumer price index	1.1	2.4	1.5	2.8	2.9	2.1
• Raw food	6.5	15.3	10.3	15.5	17.5	18.5
• Energy	2.4	8.0	17.2	23.0	14.9	-20.9
- Producer price index	3.3	12.4	10.8	15.7	20.6	2.9
<b>Percentage change from the previous quarter (%Δqoq)</b>						
- Headline consumer price index	-	-	1.6	4.2	-0.2	-3.4
• Core consumer price index	-	-	0.5	1.6	0.4	-0.4
• Raw food	-	-	4.2	8.0	2.6	2.6
• Energy	-	-	3.8	12.4	-6.9	-27.3
- Producer price index	-	-	4.1	8.9	2.4	-11.4

Source: Trade and Economic Index Bureau, Ministry of Commerce

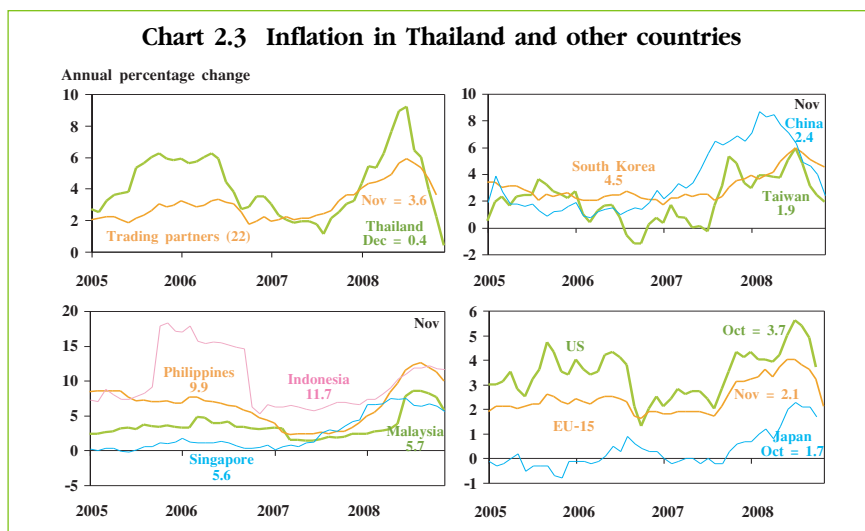


Source: Trade and Economic Index Bureau, Ministry of Commerce

Overall, foreign inflation trended downwards, similar to that experienced in Thailand. The deceleration was mainly due to lower energy costs and weak economic conditions. In October 2008, US headline inflation declined to 3.7 per cent from 4.9 per cent in the previous month, while inflation in Japan decelerated to 1.7 per cent in October from 2.1 per cent in the previous month. Meanwhile, European HICP inflation stood at 2.1 per cent in November, down from 3.2 per cent in the previous month.

*Foreign inflation decelerated continuously following the global economic slowdown and significant decline in energy prices.*

With regards to inflation in the region, inflation in China decelerated from 4 per cent in October to 2.4 per cent in November. Nevertheless, inflation in some countries such as the Philippines, Malaysia, Indonesia and Singapore also decelerated, albeit at a slower pace. This was due to exchange rate depreciation from risk aversion which led investors to withdraw funds from these countries to more secure investment alternatives such as US Treasury bills, especially in the current situation where uncertainties in global money markets were heightened.

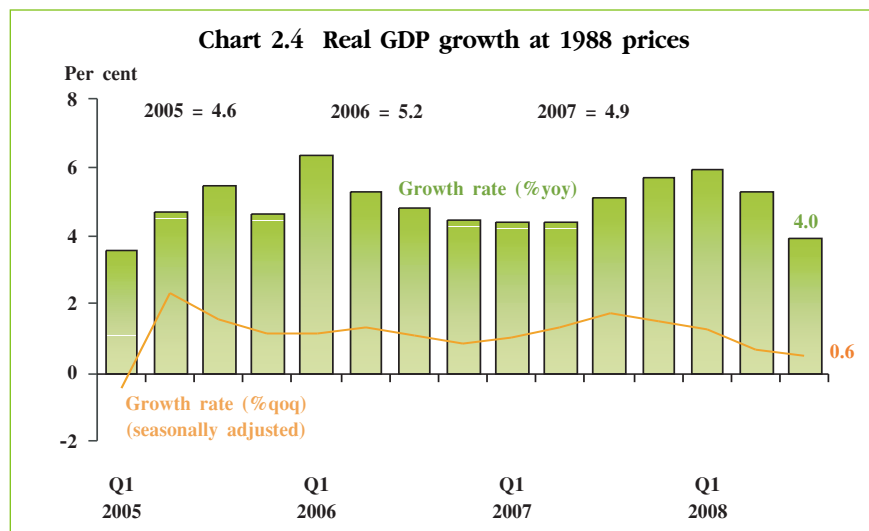


Source: Various official sources and Bloomberg

## Aggregate demand in 2008 Q3 <sup>1/</sup>

*In 2008 Q3, the Thai economy grew by 4.0 per cent year-on-year.*

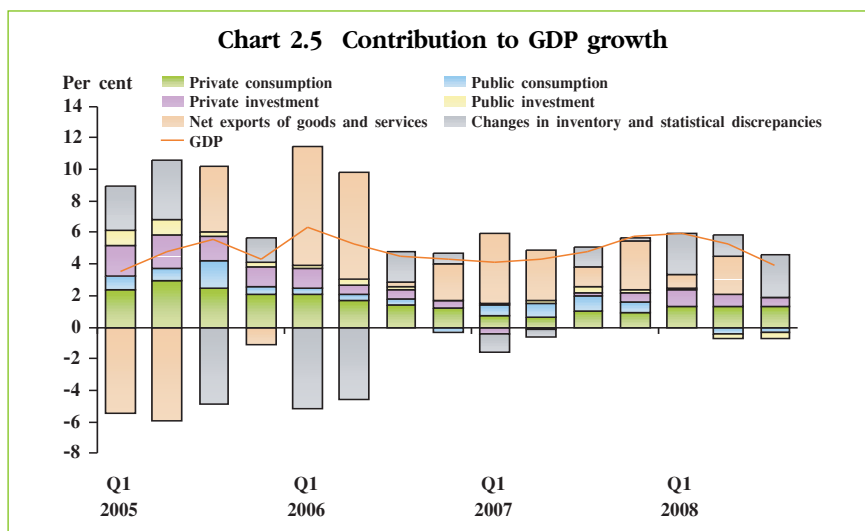
In 2008 Q3, the Thai economy grew by 4.0 per cent from the same period last year, slowing down from 6.0 and 5.3 per cent in the first and the second quarters, respectively, due to marked deceleration in net exports, coupled with a decline in real government expenditure - both in consumption and investment. Nevertheless, private expenditure expanded to some extent. As a result, the overall contribution to GDP growth was attributable to private expenditure along with inventory accumulation. However, the rise in inventory was due mainly to businesses' excessive orders and imports of raw materials resulting from an overly-optimistic economic assessment during the prior period. Taking this into consideration, the signs of a slowdown in the Thai economy became apparent from the third quarter of this year.



Source: National Economic and Social Development Board

<sup>1/</sup> Data used to analyze aggregate demand in 2008 Q3 was obtained from the NESDB. Economic indicators used for analyzing 2008 Q3 and the outlook for 2008 Q4 were obtained from the BOT, except for the Consumer Confidence Index, which was produced by the University of the Thai Chamber of Commerce, and data on government expenditure, which originated from the Comptroller General's Department and was compiled by the Fiscal Policy Office.

On a seasonally-adjusted basis, the Thai economy displayed an unbroken trend of deceleration. In the third quarter, the economy grew by 0.6 per cent quarter-on-quarter, compared to 0.8 per cent in 2008 Q2 and 1.2 per cent in 2008 Q1. However, excluding the large, aforementioned increase in inventory, the Thai economy would have grown at an even lower rate than 0.6 per cent from the previous quarter.



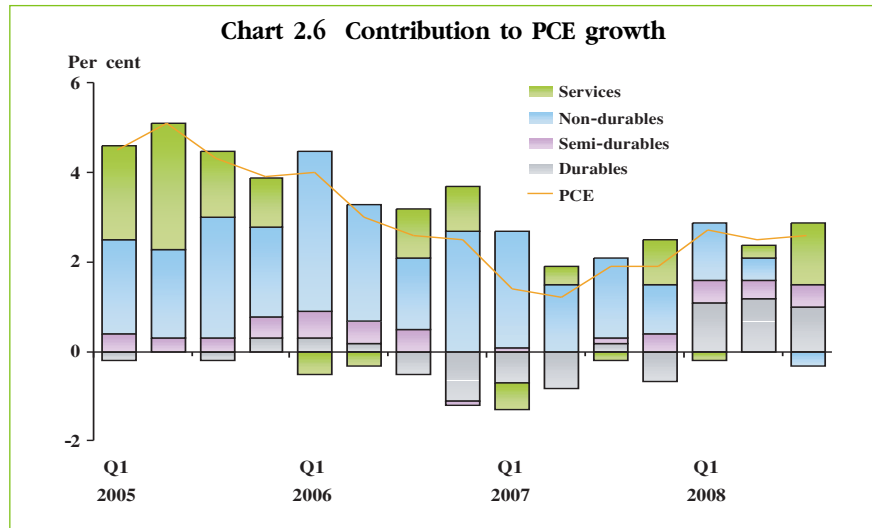
Source: National Economic and Social Development Board

A closer inspection of aggregate demand components in 2008 Q3 showed private consumption growth of 2.6 per cent from the same period last year, close to the growth rate of 2.5 per cent in the previous quarter. The growth was attributed mainly to the expansion in consumption of durable goods such as passenger cars, motorcycles, computers, and electrical appliances. This was partly due to a rise in farm income during the past period, in conjunction with a substantial increase in service expenses. Nevertheless, political instability and the worsening world financial crisis dampened consumer confidence in this quarter.

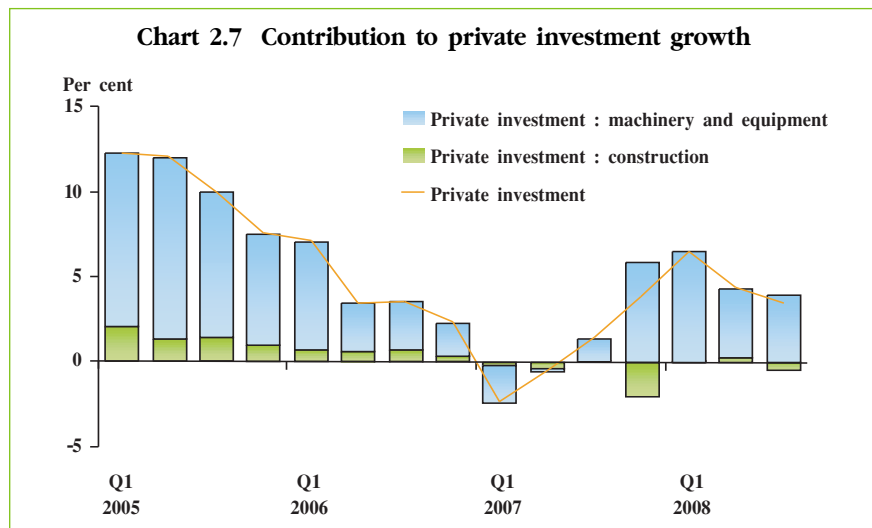
Private investment in the third quarter of 2008 expanded by 3.5 per cent year-on-year and continued to slow down from the first and the second quarters in which the growth rates registered at 6.5 and 4.3 per cent respectively. The deceleration resulted mainly from contraction in construction investment, particularly in factory construction. This was partly due to a rise in the prices of construction materials during the past period. Meanwhile, the expansion of machinery and equipment

*The slowdown in net exports and the contraction in government expenditure contributed to lower economic expansion than in the previous quarter.*

investment remained steady from the previous quarter. In any case, the slowdown in private investment was in line with the decline in the Business Sentiment Index (BSI), which fell from 42.6 in the previous quarter to 41.1 this quarter.



Source: National Economic and Social Development Board



Source: National Economic and Social Development Board

On the fiscal side, nominal spending in the fourth quarter of fiscal year 2008 (Q3 of calendar year 2008) registered at 24.0 per cent of the entire annual budget, which was lower than the same period last year. Contrary to what was anticipated, government expenditure in this

quarter did not help contribute to economic growth. A closer inspection showed that public consumption expenditure contracted by 2.9 per cent from the same period last year, while public investment expenditure shrunk by 5.5 per cent, following a decline in construction activities of the central government, local government and state-owned enterprises, coupled with a slowdown in mega-project investment. Moreover, public investment in machinery and equipment also contracted, as both the central and local governments delayed their purchases of vehicles and office appliances.

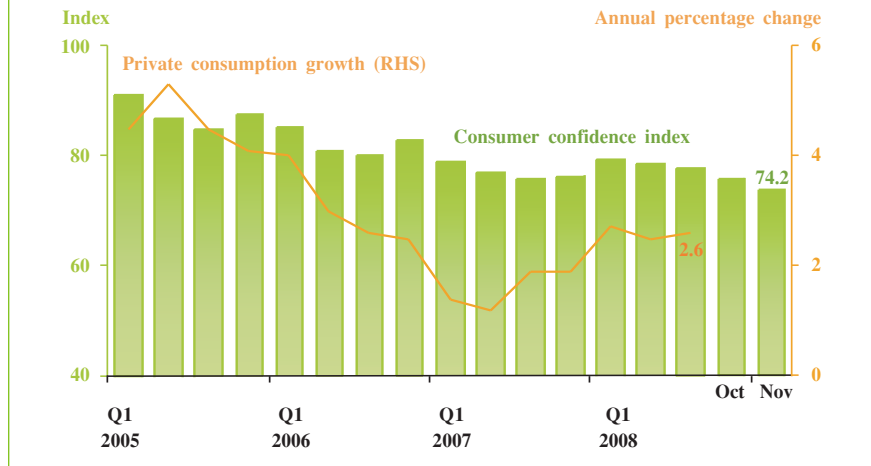
On the external front, net exports in 2008 Q3 played a smaller role in driving economic growth compared to the previous quarters due to sluggish export growth. The volume of exports of goods and services grew by 8.2 per cent from the same period last year, decelerating from 9.1 per cent in the previous quarter, owing to a slowdown in trading partners' economies - particularly in major industrialized countries. At the same time, however, imports accelerated markedly. The volume of imports of goods and services grew by 10.5 per cent compared to 6.9 per cent in the previous quarter. Imports accelerated across all goods categories, particularly in raw materials such as chemical and metal products.

### ***Trend of aggregate demand in 2008 Q4***

In October and November 2008, private consumption and private investment indicators compiled by the Bank of Thailand pointed towards a continued deceleration in overall private expenditure. The Private Consumption Index (PCI) averaged at 130.3, down from 133.7 in the third quarter. The fall in PCI was attributable to a slowdown in VAT receipts, imports of consumer goods, motorcycle sales - in line with the decline in farm income following the slowdown in agricultural prices - as well as a contraction in commercial car sales. Declining trends of these indicators were in tandem with deteriorating consumer confidence against the backdrop of domestic political unrest, in spite of the government's economic stimulus measures and positive developments from lower oil prices and inflation. All in all, the average Consumer Confidence Index (CCI) for the October-November period stood at 75.0, down from 77.8 in the previous quarter.

*Political unrest was partly responsible for the slowdown in private consumption and the marginal expansion of private investment in 2008 Q4.*

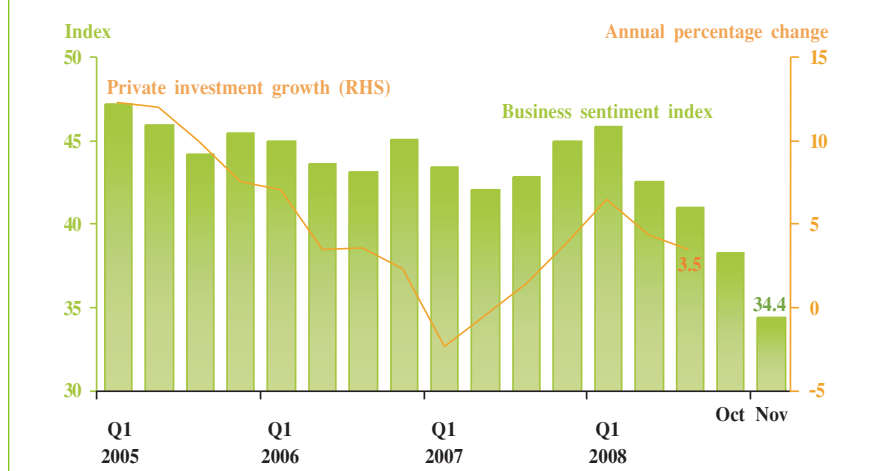
**Chart 2.8 Consumer confidence index and private consumption growth**



Source: The University of the Thai Chamber of Commerce and National Economic and Social Development Board

The Private Investment Index (PII) during the October-November period grew on average by 1.3 per cent, down from 3.3 per cent in the third quarter. Investment in machinery and equipment turned sluggish in tandem with the slowdown in imports of capital goods and contraction of commercial car sales. Meanwhile, construction investment continued to shrink, as reflected in the decline in domestic cement sales. The low expansion in private investment stemmed partly from the continued deterioration in business confidence. Specifically, the Business Sentiment Index (BSI) for the October-November period averaged at 36.4, adjusting downwards from an average of 42.6 in the second quarter and 41.1 in the first quarter, a result of businesses'

**Chart 2.9 Business sentiment index and private investment growth**



Source: Bank of Thailand and National Economic and Social Development Board

concerns over political instability as well as the domestic and world economic slowdown.

On the fiscal side, government revenue collection in October and November 2008 declined on average by 10.1 per cent from the same period last year, owing largely to contraction in both tax and non-tax receipts. Nevertheless, this drop was due to several unusual factors; therefore, the large contraction in government revenue collection might not fully reflect economic activities during the past period. More specifically, the decline in tax income was a result of the reduction in income from excise tax and specific business tax, namely excise tax on oil consumption, as part of the government's measures to relieve the cost-of-living burden for a period of 6 months, and specific business tax for real estate transactions, respectively. Meanwhile, the contraction in non-tax income resulted from the delay in state-owned enterprises' remittances, which were postponed to December 2008. In any case, the MPC anticipated that government revenue collection in the next period would inevitably be lower from the current economic slowdown. As a result, even though the unusual factors listed above would account for lower-than-normal government revenue collection during the October-November period, it was likely that government revenue collection on average would remain low until the economy recovered.

Government expenditure in October and November contracted on average by 5.1 per cent from the same period last year, mainly from capital expenditure. Moreover, the overall disbursement rate in the first quarter of fiscal year 2009 was likely to be lower than the same period of the last fiscal year, partly because of the political turmoil that affected government stability, leading to delays in the implementation of some government projects.

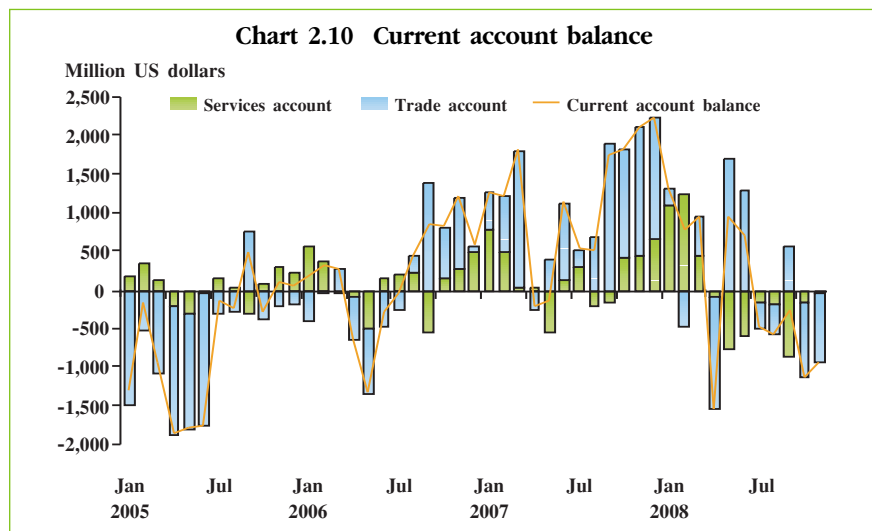
On the external front, export volume in October and November 2008 contracted considerably after slowing down in the previous quarter. Export volume contracted due to weakening external demand as the impact of the global financial crisis intensified in the US, where the crisis originated, as well as in the euro area, Japan, China, Australia, and ASEAN countries. Moreover, the economic slowdown was responsible for diminishing income in the Middle East as oil prices

*Government expenditure continued to contract from the same period last year.*

*Export volume contracted, following a slowdown in external demand and the impact from airport closure. Meanwhile, import volume weakened considerably.*

plummeted. The slowdown in the economy of these important trading partners caused export demand for Thai goods to weaken across almost all categories, most apparently for agricultural and high-technology products such as computers, computer parts, electrical circuit boards, and electrical appliances. All in all, contracting export volume coupled with declining export prices caused export values to fall in the last quarter of 2008.

Income from the services sector in 2008 Q4 was also expected to decline following a contraction of income from tourism. This was a result of the economic slowdown in the home countries of foreign tourists, in conjunction with domestic political unrest during the previous period (see box for further details).



Source: Bank of Thailand

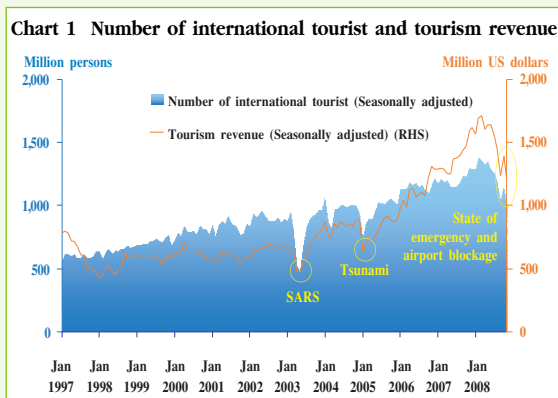
Both the value and volume of imports in the October-November period expanded at a decelerated rate from the previous quarter as a result of declining price and volume across almost all goods categories. Overall, this was in line with the slowdown in domestic and external demand. Specifically, imports of raw materials diminished considerably, in part due to excessive imports in the previous quarter.

Given the deceleration of import value and contraction of export value, the trade balance in the fourth quarter of this year was likely to register a deficit, continuing from the previous quarter. This differed markedly from previous years, as the trade balance tended to register a surplus in the last quarter of the year. Moreover, the service account was

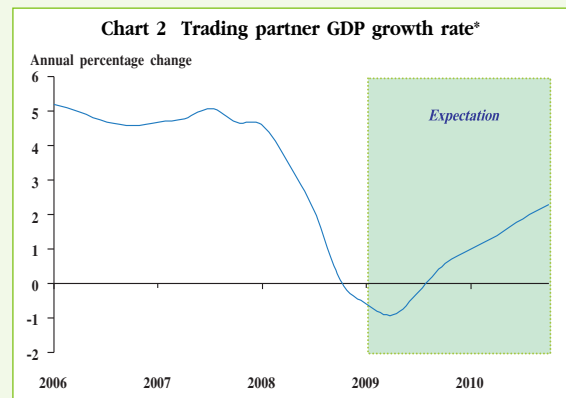
## Impact of the global economic slowdown and political unrest on tourism in Thailand

Tourism in Thailand is expected to perform less satisfactorily as a consequence of the global economic slowdown - particularly in Thailand's major tourism markets - and the political tension that led to the closure of Suvarnabhumi and Don Mueang international airports in late November to early December 2008. In early December 2008, the Bank of Thailand made an assessment of the direct impact of the airport closure on the tourism sector and its extended effect on other related sectors for the Monetary Policy Committee, based on the situation as of 3 December. From this earlier estimation, the number of foreign tourist arrivals in 2008 and 2009 was projected to fall to 14.0 and 12.8 million persons, down by 3.0 and 8.8 per cent respectively. This would result in a loss in tourism revenue (direct impact) of 140 billion baht. This direct loss of foreign tourists' expenditures would affect activities in other related sectors and result in an economy-wide loss in income totaling 290 billion baht<sup>2</sup>, or equivalent to approximately 3 per cent of nominal GDP in 2009.

Nevertheless, this estimation has been revised to take into account the actual turnout in December, with preliminary figures for foreign tourist arrivals indicating a drop of foreign tourist arrivals of 38.5 per cent, lower than our earlier forecast of 60 per cent. Key factors behind this lower reduction included the easing of political tension since mid-December 2008, which was more quickly than expected, and the increase in the number of direct and chartered flights to important tourist destinations in the south of Thailand. As a result, the performance of the tourism sector improved slightly when compared to the previous forecast. The number of foreign tourist arrivals in 2008 and 2009 was therefore revised up to 14.3 and 13.5 million persons, a contraction of 0.8 and 5.6 per cent from the previous year, respectively. Hence, the projected loss to tourism revenue during the November 2008 - December 2009 period was reduced to 100 billion baht<sup>3</sup>. The overall projected loss in income (direct and indirect) incurred to the economy was reduced to 210 billion baht, accounting for 2 per cent of 2009 nominal GDP. The service sector would experience the highest income loss of 91 billion baht, followed by the transportation and the manufacturing sectors which would see income fall by 68 and 42 billion baht respectively.



Source: Tourism Authority of Thailand and Bank of Thailand



Note: \*Using proportion of the number of international tourists of each country as weight  
Source: Bank of Thailand

<sup>1/</sup> For further details, see WE-MPG January 2009 vol.10, *Thailand's Tourism Industry after the Blockade of Airports*, available via [http://www.bot.or.th/Thai/Economic Conditions/Publication/Pages/WE\\_MPG.aspx](http://www.bot.or.th/Thai/Economic%20Conditions/Publication/Pages/WE_MPG.aspx) (Thai version only).

<sup>2/</sup> The estimation results are derived from input-output model using 2000 input-output table compiled by the Office of the National Economic and Social Development Board (NESDB). The shock to the model is a revenue loss of 140 million baht. This loss was disaggregated and imposed onto 4 sectors, namely, hotels, restaurants, ground transportation, and air transportation, by proportions of 30, 20, 10, and 40 per cent respectively.

<sup>3/</sup> Although the number of foreign tourist arrivals increased from the previous forecast, tourism revenue did not improve significantly due to lower spending by foreign tourists in line with the weakening world economy and the cheaper tourism packages offered by hotels and travel agents.

To compensate for losses incurred from the decline in foreign tourism revenue, the government set out to promote domestic tourism. In December 2008, the government in collaboration with the private sector, including hotel and airline operators, organized a Thai Travel Fair to promote domestic tourism during both peak and off-peak periods. The policy aimed to rescue the tourism sector and to shelter other related industries and employment. Although the price-cut strategy reduced the average daily expenditure of Thai tourists, it helped to increase the quantity and frequency of domestic travel. The price-cut strategy benefited the tourism industry, as reflected in higher hotel occupancy rates - especially in northern Thailand - during the New Year holidays. In addition, the low oil price environment was another contributing factor which supported domestic travel.

The same amount of spending in the domestic market by Thai tourists, however, did not yield the same impact as spending by foreign tourists, given the differences in structure of spending<sup>4/</sup>. Based on the direct purchase structure, foreign tourists, on average, spent a large proportion of their budget on accommodation and air transportation, whereas Thai tourists normally stayed at mid - to low-end hotels and traveled by ground transportation. The total impact, therefore, would depend on the direct purchases or shocks that are imposed, and the indirect impact which results from the industry's backward and forward linkages. To assess the sectoral and economy-wide impact of the stimulus from domestic tourism, the input-output model is employed. The total shock of 100 billion baht is divided based on the structure of the direct purchases by Thai tourists (information from the Tourism Authority of Thailand (TAT)). These shocks are then broken down and imposed on various sectors corresponding to the structure of the direct purchase. Such analysis found that domestic tourism spending generated a total revenue of 180 billion baht, which was lower than the total impact of 210 billion baht resulting from the same amount of foreign tourist spending. The service sector would gain the most benefit of 93 billion baht, followed by the transportation and the manufacturing sectors which would see their output increase by of 43 and 35 billion baht respectively.

To sum up, the gains from domestic tourism would not entirely offset the losses from foreign tourism, given the different patterns of spending. More importantly, encouraging Thai people to spend more on tourism would be a daunting task, given the current fragility of the domestic economy. Thailand's tourism industry still crucially relies on spending by foreign tourists to help boost the overall economy and support the current account. As a result, government policies to stimulate the tourism industry and restore foreign tourists' confidence are of importance and are especially crucial at this juncture.

**Table: The direct and indirect effect of foreign and domestic tourism**

	Foreign tourism revenue lost (Hundred billion baht)	Domestic tourism revenue (Hundred billion baht)
Direct effect	-1.00	+1.00
Direct and indirect effect	-2.11	+1.80
• Service sector	-0.91	+0.93
• Transportation sector	-0.68	+0.43
• Manufacturing sector	-0.42	+0.35
• Other sector	-0.10	+0.09

<sup>4/</sup> To boost Thai tourists' spending by 100 billion baht, domestic tourism revenue needs to grow by 25 per cent from the previous year, when the revenue base was 390 billion baht (the Tourism Authority of Thailand (TAT)). With the lower average spending of a Thai tourist relative to a foreign tourist, i.e. 4,600 baht per person trip for a Thai tourist compared to 38,000 baht per person trip for a foreign tourist, each missing foreign tourist must be replaced by eight Thai tourists so as to raise the equivalent amount of spending.

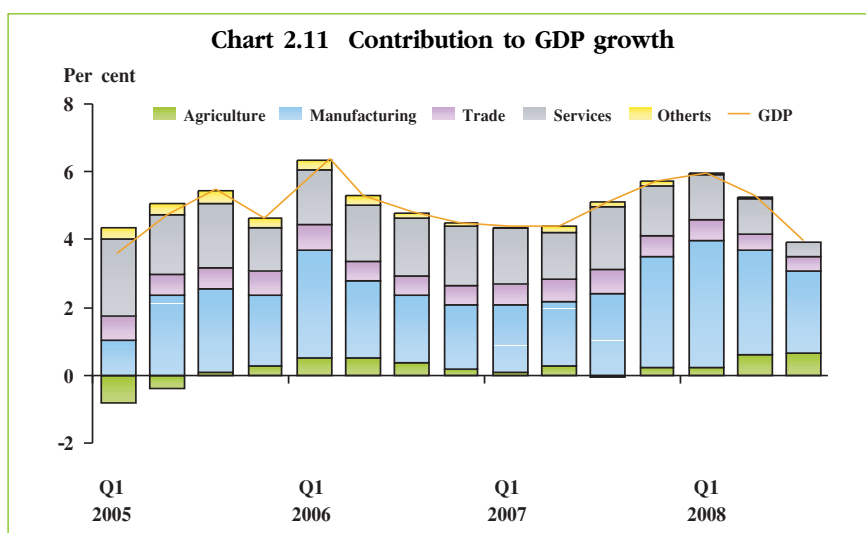
also likely to register a deficit, following diminishing income from tourism. As a result, the current account was expected to turn deficit for two quarters in a row, with a possibility that it would remain in deficit for some time, in line with the view that the Thai economy would need to rely on domestic demand and government expenditure as the main drivers of growth in the next period.

### *Production and supply in 2008 Q3*<sup>2/</sup>

In 2008 Q3, agricultural production expanded by slightly more than in the second quarter. However, the rates of growth of manufacturing production and services decelerated, as a result of the slowdown in the world economy and internal political unrest, which further hampered the domestic economy.

Agricultural output grew by 9.9 per cent from the same period last year, a decent acceleration from 8.6 per cent in the previous quarter. The growth was driven by high expansion in crop production, especially rice and energy crops such as cassava, oil palm, and corn, as high prices earlier in the year motivated farmers to increase their production.

*In 2008 Q3, the agricultural sector expanded well, while the manufacturing and services sector slowed down from the previous quarter.*



Source: National Economic and Social Development Board

<sup>2/</sup> Data used to analyze production and supply in 2008 Q3 were obtained mainly from the NESDB. Economic indicators used for analyzing 2008 Q3 and the outlook for 2008 Q4 were obtained from the BOT, while data on the number of tourists and occupancy rate was in part compiled by the Tourism Authority of Thailand. Data on the labor market was obtained from the NSO.

In addition, favorable climate conditions helped facilitate the rise in output. Nevertheless, agricultural prices began to decline towards the end of the quarter in response to declining demand as a result of the slowdown in the world economy. Declining crude oil prices in the world market also directly affected the prices of energy crops. Moreover, rising world supply also contributed to lower agricultural prices as agricultural products from several countries were released into the market during the period, especially rice from Vietnam and India which had abrogated their rice export restraints.

*Manufacturing production slowed down for both export-oriented and domestic-oriented industries.*

Manufacturing production in the third quarter grew by 6.1 per cent, down slightly from 7.7 per cent in the previous quarter. The slowdown was attributable to deceleration in electronic industries, passenger cars, construction materials, steel products and household electrical appliances, and shrinkage in the commercial car industry, following a slowdown in both domestic and external demand. Nevertheless, food industries for export, particularly sugar and canned seafood, still managed to expand well. Meanwhile, the beverages industry accelerated due to accumulation of inventories in advance of the rise in excise taxes. Additionally, motorcycle industries expanded well as a rise in farm income motivated consumers in rural areas to purchase motorcycles.

The services sector grew by 1.3 per cent from the same period last year, slowing down from 3.1 per cent in the previous quarter. The fall in the growth rate came mainly from the deceleration in air transport and hotel and restaurant services, in line with the falling number of foreign tourists which contracted by 1.7 per cent compared to the growth rate of 13.8 per cent in the second quarter. This was due mainly to the intensification of domestic political unrests, which drove the government to declare a state of emergency in Bangkok from 2 -14 September 2008. In addition, there was an incident of airport closure in the south, while bus and train services were temporary halted. Although the state of emergency was lifted in the following period, damage from prolonged political unrest had already been inflicted, sharply dampening confidence among foreign tourists. Together with the economic slowdown in their home countries, growth in the services sector in this quarter fell short of expectation.

Despite a slowdown in the overall economy, the unemployment rate remained low at 1.1 per cent at the end of the third quarter, down slightly from 1.2 per cent at the end of the previous quarter. This was in line with the overall employment rate which grew at 1.8 per cent from the same period last year, following an increase in employment in the services, trade, and construction sectors. Nevertheless, there was a sign of deceleration in employment in some manufacturing sectors. At the same time, employment in the agricultural sector contracted from the same period last year, reflecting limited ability of the agricultural sector in accommodating labourers from other sectors.

*The unemployment rate remained low at 1.1 per cent at the end of 2008 Q3.*

### ***Trend in production and supply in 2008 Q4***

During October and November 2008, major crop output grew on average by 0.8 per cent, a significant slowdown from the third quarter. This was the result of a contraction in the production of maize and oil palm, the output of which was unusually high in the previous period. Meanwhile, the output of rubber and cassava decelerated as cassava producers delayed their harvest in order to take advantage of the government's price guarantee scheme, after the government continued to raise the guaranteed price month after month.

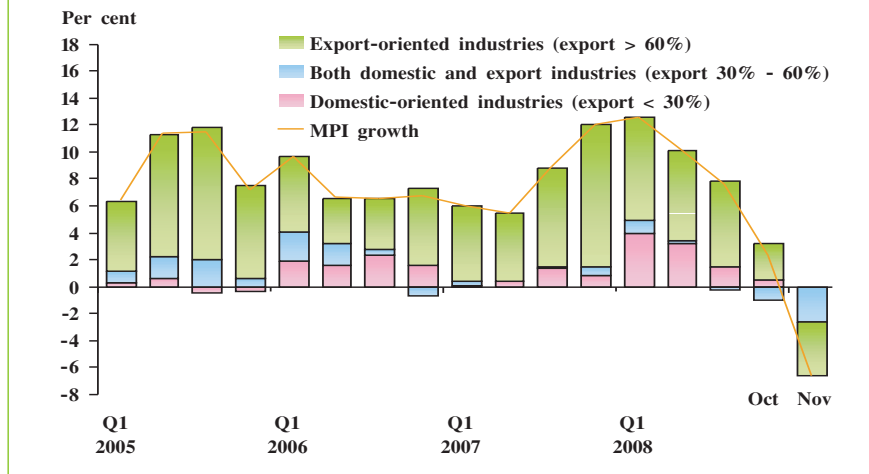
*Major crop output grew marginally, while the rise in agricultural prices slowed down significantly.*

During the October-November period, prices of major crops rose on average by 16.3 per cent from the same period last year, compared to 34.2 per cent in the previous quarter. The slowdown in crop prices reflected the declining trend sustained from the end of the third quarter. The MPC expected that the slowdown in agricultural prices would affect overall farm income, and subsequently affect private consumption via rural consumption in the next period.

Manufacturing production in 2008 Q4 showed a declining trend. This was reflected in the Manufacturing Production Index (MPI), which slowed down considerably in October and shrank from the same period last year in November, the first contraction in 7 years. Export oriented industries - particularly the production of hard disk drives - that expanded well during the previous period, began to contract for the first time in November. In addition, production of frozen and canned seafood also contracted, following the slowdown in external demand. Meanwhile, domestic-oriented industries decelerated in succession since the beginning

*Manufacturing production was likely to contract in line with the slowdown in export-oriented industries.*

**Chart 2.12 Contribution to manufacturing production index (MPI) growth**



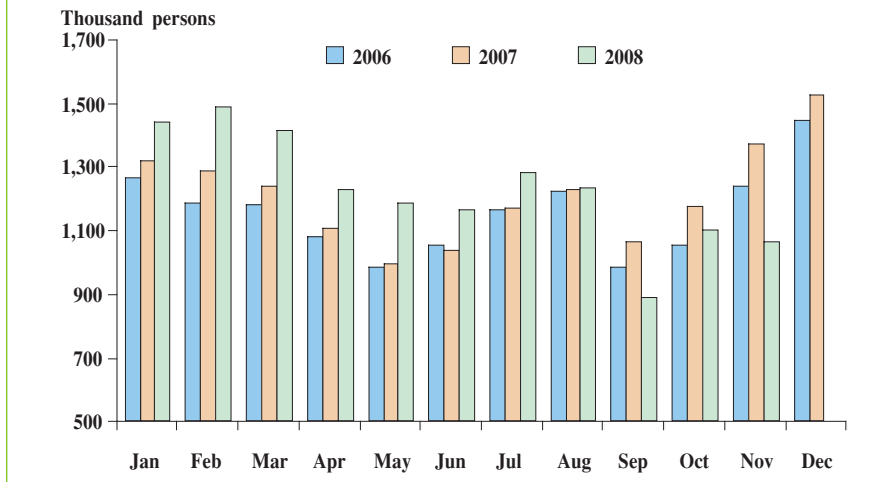
Source: Bank of Thailand

of 2008 and contracted slightly in November, following the marked slowdown in domestic demand.

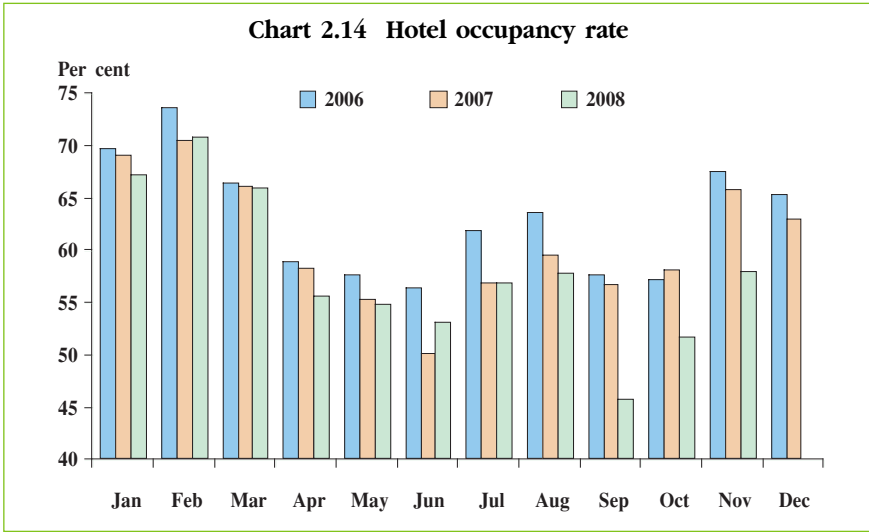
*Political unrest led to significant contraction in tourism in 2008 Q4.*

During the October-November period, tourism became sluggish, as reflected in the decline in foreign tourists that fell on average by 14.4 per cent from the same period last year. This resulted mainly from political unrest that intensified towards the end of November and culminated in the shutdown of Bangkok's international airports for a week. This particular incident obstructed international travel, dealing a blow to confidence of foreign tourists.

**Chart 2.13 Number of tourists**



Source: Tourism Authority of Thailand and Bank of Thailand

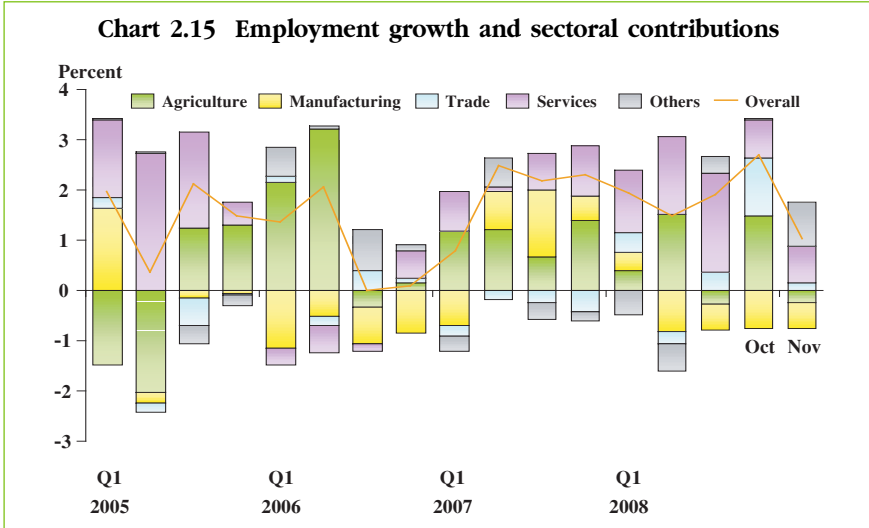


Source: Tourism Authority of Thailand and Bank of Thailand

Although the political situation had improved, the MPC assessed that a certain amount of time would be needed for the Thai tourism industry to recover and re-emerge as a robust engine of growth for the economy.

As for labour market condition, the unemployment rate increased from 1.1 per cent at the end of the third quarter to 1.4 per cent in November 2008, in line with the rate of employment which grew at a mere 0.7 per cent from the same period last year. This low expansion

*The unemployment rate was likely to increase in the following period.*



Source: National Statistical Office

was the result of contraction in employment in the agricultural and manufacturing sectors. Notably, the unusual rise in unemployment rate at year-end, when unemployment would ebb, coupled with a reduction in work hours in the manufacturing sector pointed to a trend of rising unemployment going forward.