Outline

I. **Economic and inflation conditions in 2008 Q3 and preliminary economic indicators for the first 2 months of 2008 Q4**

II. **Economic growth and inflation assessment for the next 8 quarters**
   - Major assumption changes
   - Risk factors

Economic and inflation conditions in 2008 Q3 and the first 2 months of 2008 Q4

- 2008 Q3: The Thai economy expanded by 4.0 per cent year-on-year, moderating from 2008 Q2 and lower than projected by the MPC.
  - Private domestic demand started to show clearer sign of weakness.
  - Net exports significantly decelerated as a consequence of surging imports, partly from overestimation of future raw material prices.
  - Government expenditure contracted from the same period of the previous year.
- The first 2 months of 2008 Q4: The economy weakened noticeably, as various adverse factors, both domestic and global, intensified.
  - Marked slip in global growth caused Thai exports to shrink from the same period of the previous year.
  - The shutdown of international airports, following heightened domestic political tension, directly affected tourism sector and worsened the already soft private sector confidence.

Economic growth in 2008 Q3

(%YoY)	2006	2007	2007				2008		
			Q1	Q2	Q3	Q4	Q1	Q2	Q3
GDP	5.2	4.9	4.4	4.4	5.1	5.7	6.0	5.3	4.0
Domestic Demand	3.2	2.3	1.4	1.8	2.9	3.0	3.1	1.7	1.4
Private Consumption	3.0	1.6	1.4	1.2	1.9	1.9	2.7	2.5	2.6
Private Investment	4.1	0.6	-2.4	-0.5	1.4	3.8	6.5	4.3	3.5
Public Consumption	2.4	9.2	8.4	10.5	8.9	9.0	-0.4	-3.7	-2.9
Public Investment	3.3	3.4	2.1	2.2	5.1	3.6	1.9	-5.2	-5.5
Net Exports									
Exports	9.1	7.1	8.4	7.1	3.8	9.1	8.2	9.1	8.2
Imports	3.3	3.4	2.1	2.8	2.7	6.0	9.4	6.9	10.5

Source: NESDB

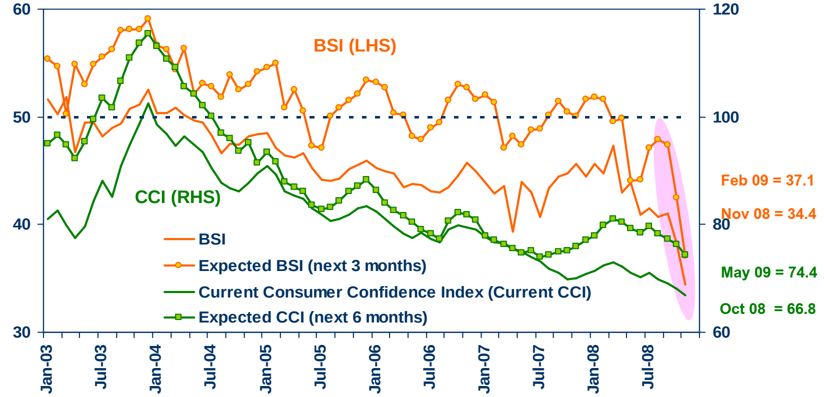
Economic indicators in the first 2 months of 2008 Q4

(%YoY)	2006	2007	2008 H1	2008 Q1	2008 Q2	2008 Q3	2008 Oct	2008 Nov
Private Consumption Index	2.3	1.5	4.3	4.7	4.0	5.2	2.8	-1.6
Private Investment Index	1.6	-0.6	5.7	7.2	4.2	3.3	2.2	1.2
Export of Goods (Value)[1/]	17.0	17.3	26.4	23.8	28.8	28.4	4.7	-17.7
Export of Goods (Volume)[1/]	11.2	11.0	13.7	12.7	14.5	11.6	-3.1	-20.9
Import of Goods (Value)[1/]	7.9	9.1	31.7	35.0	28.7	39.1	23.5	0.2
Import of Goods (Volume)[1/]	1.4	3.5	12.9	16.8	9.3	19.9	15.6	-1.6
Number of Tourists	20.0	4.6	13.4	12.9	13.4	-1.8	-6.3	-22.4

Note: [1/] According to Balance of Payments concept

Consumer and business confidence was at a low ebb in November 2008

	2007	2008 H1	2008 Q1	2008 Q2	2008 Q3	2008 Oct	2008 Nov
BSI	43.4	44.3	45.9	42.6	41.1	38.3	34.4
CCI (total)	77.1	79.2	79.4	78.9	77.8	75.8	74.2



Source : BSI is constructed by the Bank of Thailand

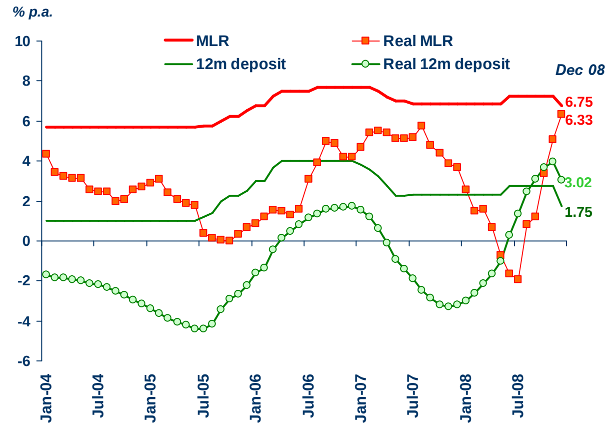
CCI is constructed by the University of the Thai Chamber of Commerce.

Monetary Condition

- *Monetary Condition* remained accommodative, though sharply lower inflation resulted in higher real interest rates.
- New loan contracts made by commercial banks and financing in the money and bond markets reflected higher risk premium.
- Private credits decelerated while deposits picked up helping ease banking sector liquidity.

Though the policy rate was lowered, real interest rates edged up as inflation decelerated sharply.

Deposit and Lending Interest Rates



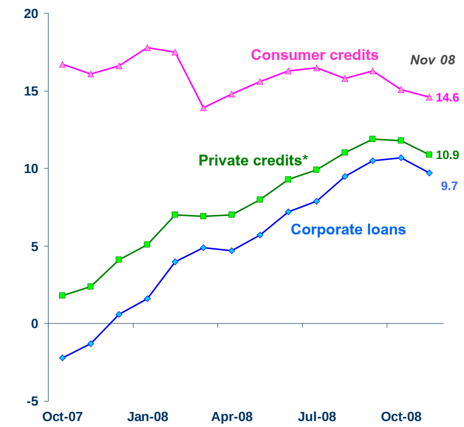
* Interest rates quoted by 4 largest Thai banks

** Real MLR is adjusted by contemporaneous headline inflation

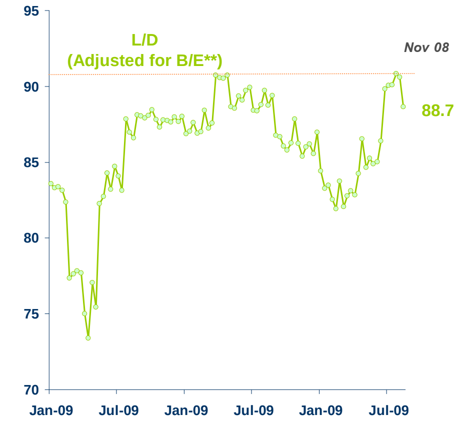
*** Real 12m deposit is adjusted by expected headline inflation 12 months ahead

Private credits softened while banking sector liquidity eased.

Private Credit Growth



Loan-to-Deposit Ratio in the Banking System



*Excluding loans to financial institutions, government, and international organizations

** Commercial banks were authorized to issue B/E since August 2006

Financial Stability

- *Financial Stability* remained sound, albeit with more overall vulnerability as global economic growth declined sharply.
  - *Non-financial corporate sector:* firm's profitability declined
  - *Household sector:* risks to earning and employment elevated
  - *Financial institutions:* rising delinquency rate reflected worsened quality of loans. However, liquidity was still adequate in the banking system.

Internal and External Stability

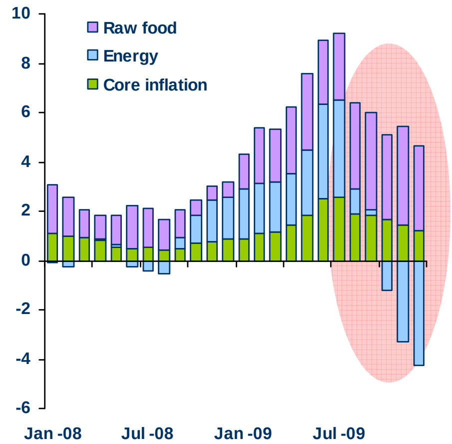
Internal Stability continued to remain sound.

- *Inflationary pressure* continued to subside in 2008 Q4 as world oil prices declined sharply. Moreover, softened domestic demand lowered the ability of producers to pass costs on to consumers.
- *Unemployment rate* continued to remain low, rising in the first 2 months of 2008 Q4.
  - Declining hours worked in manufacturing and shrinking employment in both agricultural and manufacturing sectors could indicate a higher unemployment rate going forward.

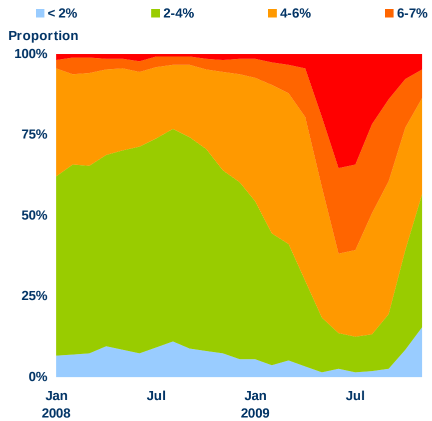
External Stability remained sound despite continued current account deficit from 2008 Q3, as international reserves position remained high.

Inflationary pressure continued to subside since the end of 2008 Q3, mainly from lower oil prices and inflation expectations.

Contribution to headline inflation



Higher proportion of entrepreneurs expected inflation to be less than 4% in the next 12 months



Source: BLP survey, BOT

External Stability

(unit : Bn. US dollars)	2007	2008						
		Q1	Q2	Q3	Q4	Oct	Nov	Dec
Trade Balance	11.6	0.2	1.5	-0.2	n.a.	-1.0	-0.9	n.a.
Services Account	2.5	2.8	-1.4	-1.2	n.a.	-0.2	-0.04	n.a.
Current Account	14.0	3.0	0.1	-1.3	n.a.	-1.1	-0.9	n.a.
International Reserves	87.5	110.0	105.7	102.4	111.0	103.2	106.3	111.0
Exchange Rate (Baht per US dollar)	34.6	32.4	32.3	33.9	34.9	34.4	35.1	35.0

Summary

- The Thai economy expanded by 4.0 per cent in 2008 Q3 with private domestic demand and inventory accumulation as major contributors to growth, while net exports substantially decelerated and government expenditure contracted.
- Economic indicators during the first 2 months of 2008 Q4 pointed to slightly negative GDP growth mainly due to shrinking exports as a consequence of marked slowdown in global growth. Moreover, softened private domestic demand also played an important role.
- Risks to inflation declined since the end of 2008 Q3, mainly due to diminished oil price pressure.
- In conclusion, since the end of 2008 Q3, risks to economic growth heightened while risks to inflation diminished.

Economic growth and inflation assessment for the next 8 quarters

Issues and assumptions considered by the MPC

1. Key changes in the assumptions from the last *Inflation Report*
2. Risk factors that could affect the economy and inflation going forward

Assumptions on trading partners' economies

- ***Base case*** The average growth rate of trading partners' economies was revised substantially downwards both in 2009 and 2010 to reflect the impact of the US financial crisis, which led to global economic downturn. Trading partners' economies would recover gradually in 2010.

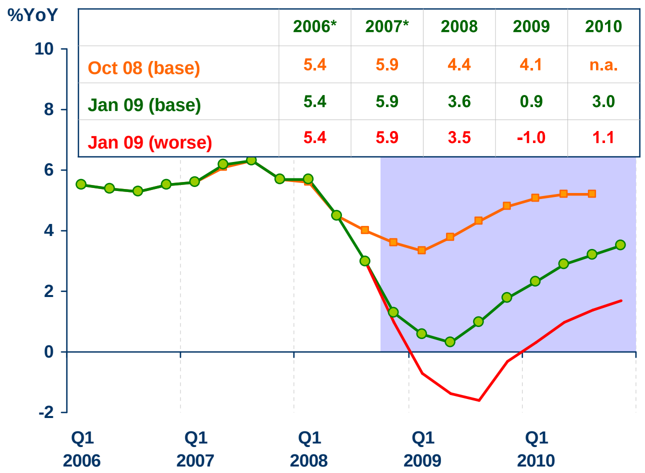
(% Y-o-Y)	2008		2009		2010
	Old (Oct 08)	New (Jan 09)	Old (Oct 08)	New (Jan 09)	New (Jan 09)
US	1.5	1.2	1.0	-1.6	0.1
EU-12	1.3	1.0	0.9	-1.5	-0.6
JP	0.8	0.2	0.8	-1.7	-0.3
Asia	6.6	5.4	6.1	2.6	4.9
Total	4.5	3.6	4.1	0.9	3.0

- ***Worse case*** Financial crisis in the US and Europe resulted in prolonged recessionary period and delayed recovery in the US, Europe, Japan, and Asia.

Trading partners' economies should recover gradually, and would not return to the usual growth pace in 2010.

Assumptions on trading partners' economies

	2006*	2007*	2008	2009	2010
Oct 08 (base)	5.4	5.9	4.4	4.1	n.a.
Jan 09 (base)	5.4	5.9	3.6	0.9	3.0
Jan 09 (worse)	5.4	5.9	3.5	-1.0	1.1



Note: * Actual data

Assumptions on regional and trading partners' currencies

- **Assumptions on regional and trading partners' currencies vis-à-vis the US dollar were in line with market expectations.**
- **Regional currencies* and the euro were assumed to weaken against the US dollar in 2008 and 2009, from capital outflows to the US to alleviate liquidity tightening in the US financial system as well as to reduce exposures to risky assets (risk aversion).**
- **The yen was assumed to strengthen against the US dollar in 2008 Q4 from unwinding of carry trades. In 2009, however, it was likely to weaken from continued sluggishness in the Japanese economy.**

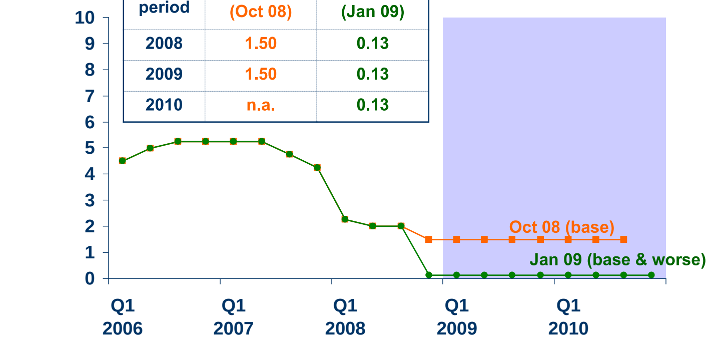
*Namely, the Chinese renminbi, Singapore dollar, Philippine peso, Indonesian rupiah, Korean won, Malaysian ringgit, and Taiwan dollar

Assumptions on the US Fed funds rate

- **The US Fed funds rate was lower than previously assumed in both the base and worse cases for the whole projection period, consistent with the assumption on US economic slowdown.**

US fed funds rate

End of period	Old (Oct 08)	New (Jan 09)
2008	1.50	0.13
2009	1.50	0.13
2010	n.a.	0.13

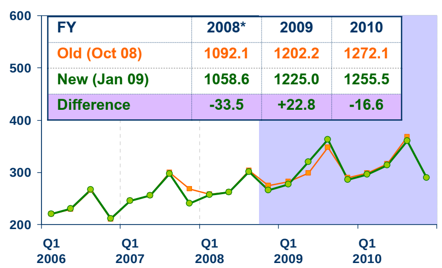


Assumptions on public spending

- **Public spending was higher than previously assumed in fiscal year 2009, given the supplementary budget of 115 billion baht, and was slightly lower in fiscal year 2010 from the reduction of nominal spending and lower disbursement rate on the part of state-owned enterprise.**

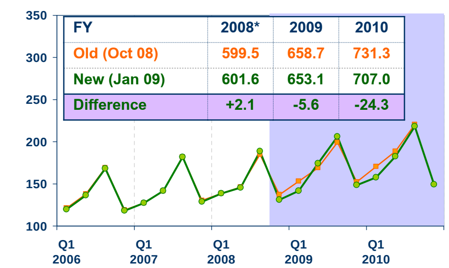
Government Consumption

FY	2008*	2009	2010
Old (Oct 08)	1092.1	1202.2	1272.1
New (Jan 09)	1058.6	1225.0	1255.5
Difference	-33.5	+22.8	-16.6



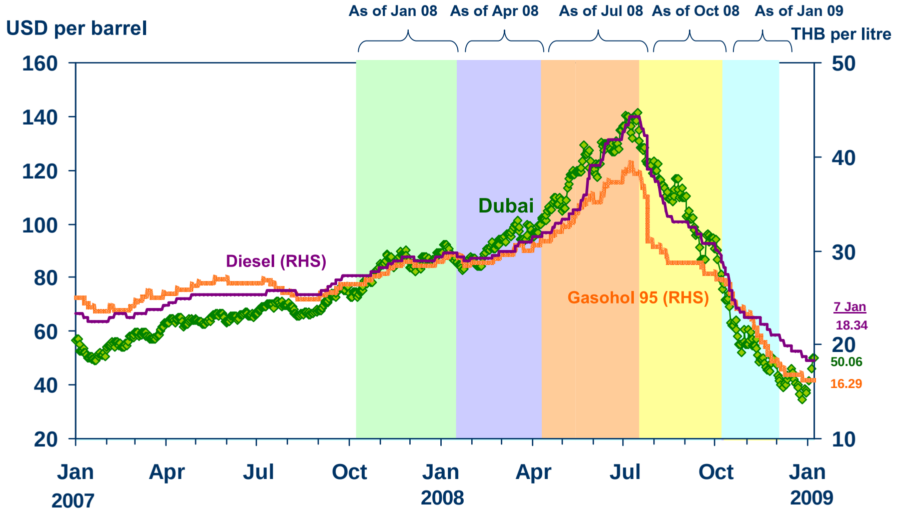
Public Investment

FY	2008*	2009	2010
Old (Oct 08)	599.5	658.7	731.3
New (Jan 09)	601.6	653.1	707.0
Difference	+2.1	-5.6	-24.3



Note: For fiscal years 2009 and 2010, the total disbursement rates of 93.3 and 94.0 per cent were assumed, respectively.

World and domestic retail oil prices declined rapidly



Source: Bloomberg, PTT

The assumption on Dubai oil price was revised downwards

- The MPC viewed that upside risks from supply constraints and geopolitical risk outweighed downside risks from softer-than-anticipated global economy.

Dubai crude oil price (base case and scenarios) Unit: USD/bbl

	2008		2008	2009F				2009F	2009F				2010F
	Q3	Q4		Q1	Q2	Q3	Q4		Q1	Q2	Q3	Q4	
Old (Oct 08)													
Dubai (base)	114*	95	104.1	95	95	95	95	95.0	95	95	95	n.a.	n.a.
New (Jan 09)													
Dubai (base)	113.6*	52.9*	93.6*	45	45	45	45	45.0	50	50	50	50	50.0
Dubai (high)	113.6*	52.9*	93.6*	53.0	58.4	64.9	67.3	61.0	72.5	74.1	75.4	76.5	75.0
Dubai (low)	113.6*	52.9*	93.6*	39.7	36.1	31.7	30.1	34.4	35.0	33.9	33.1	32.3	33.6

* Actual Data, F = Forecast data

Assumptions on farm and commodity prices

- Farm prices were revised upwards in 2009 to reflect the latest data on prices of various agricultural products, especially vegetables and fruits, and would taper off in 2010 mainly on the back of rice price deceleration.
- Non-fuel commodity prices was substantially lower than previously assumed in 2009 from the weakening prospect of global economy before turning slightly higher in 2010 in line with global economic recovery projection.

Farm and commodity prices

(% Y-o-Y)	2008		2009		2010
	Old (Oct 08)	New (Jan 09)	Old (Oct 08)	New (Jan 09)	New (Jan 09)
Farm prices*	19.7	25.8	8.6	11.5	7.6
Non-fuel commodity prices	15.7	10.9	0.9	-19.8	5.7

* Farm price index consists of 4 main categories of raw food in the CPI

Summary of the economic growth projection

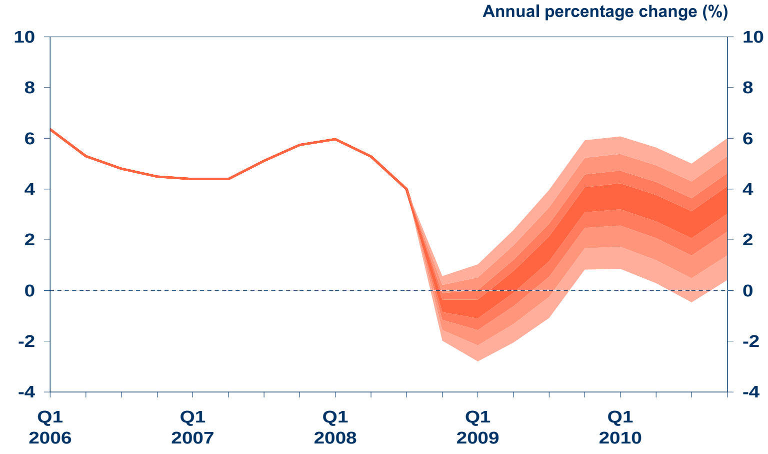
- *Economic growth* was expected to be significantly lower than the previous *Report*
  - Substantially softer-than-expected growth momentum from 2008 Q3 and 2008 Q4
  - Global economic downturn clearly had adverse effect on Thai exports, with repercussion on weakening private consumption and investment
    - The shutdown of international airports worsened investors and tourists' confidence, particularly in 2008 Q4 and 2009 Q1
  - Accommodative monetary and fiscal policies coupled with a rapid decline in cost of production would help cushion growth momentum to a certain extent

Downside risks to economic growth outweighed upside risks

1. It is increasingly likely that trading partners' economies would grow at slower-than-expected pace and would require longer period to recover
   - Declining oil and commodity prices and depreciating regional currencies could help cushion growth somewhat
2. Domestic political instability might affect public spending especially during the mid-year of 2009
   - It is possible that the local government could accelerate budget spending already on hand

Fan chart for GDP growth skews downwards for the whole projection period

GDP growth forecast



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

Probability distribution of the GDP growth forecast

(per cent)	Probability Old (Oct 08) 2008	Probability Old (Oct 08) 2009	
< 3.0	0.0	0.0	
3.0 – 3.25	0.0	0.0	
3.25 – 3.5	0.0	0.0	
3.5 – 3.75	0.0	8.0	
3.75 – 4.0	0.1	10.2	
4.0 – 4.25	2.8	15.4	
4.25 – 4.5	17.9	18.6	76.1
4.5 – 4.75	40.1	18.0	88.7
4.75 – 5.0	30.8	13.9	
5.0 – 5.25	7.8	8.6	
> 5.25	0.6	6.4	

(per cent)	Probability New (Jan 09) 2008	Probability New (Jan 09) 2009	Probability New (Jan 09) 2010	
< (-0.5)	0.0	1.0	0.0	
(-0.5) – 0.0	0.0	4.5	0.0	
0.0 – 0.5	0.0	13.4	0.2	
0.5 – 1.0	0.0	24.4	0.8	84.3
1.0 – 1.5	0.0	27.5	2.8	
1.5 – 2.0	0.0	19.0	7.5	
2.0 – 2.5	0.0	7.9	14.7	
2.5 – 3.0	0.0	1.9	21.4	75.9
3.0 – 3.5	15.9	0.3	22.7	
3.5 – 4.0	78.4	0.0	17.0	
4.0 – 4.5	5.7	0.0	8.9	
4.5 – 5.0	0.0	0.0	3.1	
5.0 – 5.5	0.0	0.0	0.7	
> 5.5	0.0	0.0	0.1	

Assumption on trading partners' economies compared to previous MPC meeting (Dec 08)

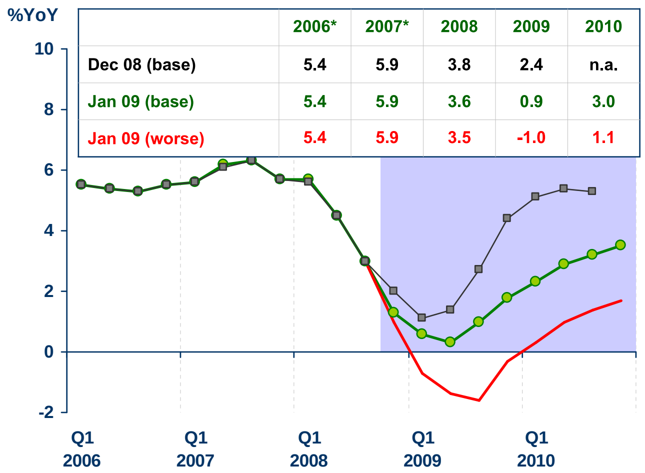
Assumptions on trading partners' economies

(% Y-o-Y)	2008 Old (Dec 08)	2008 New (Jan 09)	2009 Old (Dec 08)	2009 New (Jan 09)	2010 New (Jan 09)
US	1.4	1.2	-0.9	-1.6	0.1
EU-12	1.1	1.0	-0.4	-1.5	-0.6
JP	0.4	0.2	-0.3	-1.7	-0.3
Asia	5.6	5.4	4.4	2.6	4.9
Total	3.8	3.6	2.4	0.9	3.0

Assumption on trading partners' economies compared to previous MPC meeting (Dec 08)

Assumptions on trading partners' economies

	2006*	2007*	2008	2009	2010
Dec 08 (base)	5.4	5.9	3.8	2.4	n.a.
Jan 09 (base)	5.4	5.9	3.6	0.9	3.0
Jan 09 (worse)	5.4	5.9	3.5	-1.0	1.1



Note: * Actual data

Summary of the inflation projection

- ***Inflation*** **was revised downward from the previous projection**
  - Considerably softer-than-expected global economic growth
    - Sharp decline in oil prices
    - Weakening domestic demand led to subsiding pressure on resources and inflation expectations
  - Extension of government measures to ease consumers' living costs
    - Government authorized 6-month extension for 5 measures to relieve consumers' living cost until July 2009

For core inflation, downside risks outweighed upside risks, while upside risks dominated for headline inflation

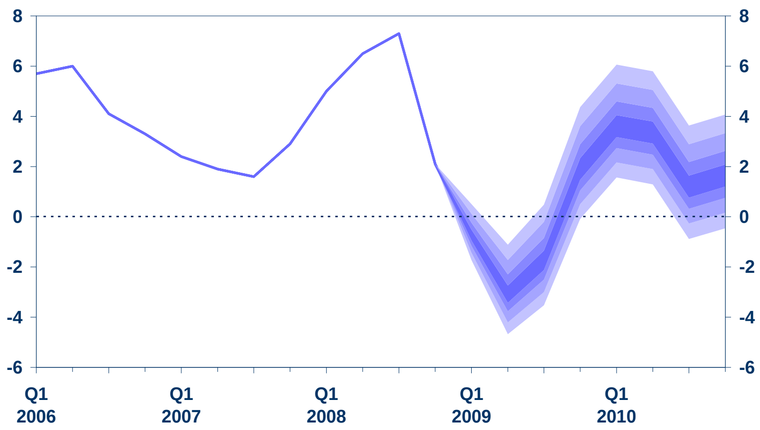
1. Softer-than-expected global economic slowdown, resulting in
   - Weakened domestic demand and lower pressure on resources
   - Drastic fall in oil and commodity prices and subsiding inflation expectations
2. It was unclear how government measures to ease consumers' cost of livings and education cost would register in CPI measurement.
3. However, data from oil futures trades indicated a certain degree of probability that oil prices would be higher than the base-case level
   - OPEC might reduce their production to sustain oil prices, and high-cost oil wells might have to shut down
   - Oil prices might have been undershooting lately
   - Geopolitical risk

Negative headline inflation might be observed in some months of 2009, but would not adversely affect the economy

- Negative headline inflation could occur in some months of 2009 mainly due to sharp decline in oil prices from the previous year.
- Deflation was unlikely to occur
  - Subsiding inflation or temporary disinflation was a consequence of supply side factor especially lower oil prices
  - The Thai economy was expected to recover following global economic upturn
  - Inflation expectations continued to be positive

Fan chart for headline inflation skews upwards for the whole projection period

Headline inflation forecast



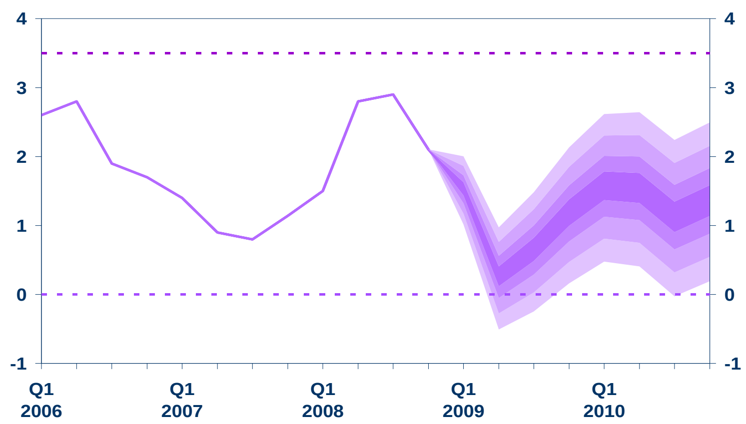
Remark: The fan chart covers 90 per cent of the probability distribution

Probability distribution of the headline inflation forecast

(per cent)	Probability					
	2009				2010	
	Old (Oct 08)		New (Jan 09)		New (Jan 09)	
> (-2.0)	0.0		0.7		0.0	
(-2.0)-(-1.5)	0.0		5.9		0.0	
(-1.5)-(-1.0)	0.0		20.6		0.0	
(-1.0)-(-0.5)	0.0		32.7	90.4	0.0	
(-0.5)-0.0	0.0		26.0		0.0	
0.0-0.5	0.0		11.1		0.1	
0.5-1.0	0.0		2.7		0.7	
1.0-1.5	0.0		0.4		3.7	
1.5-2.0	0.5		0.0		12.1	
2.0-2.5	3.9		0.0		23.2	82.4
2.5-3.0	14.5		0.0		27.2	
3.0-3.5	28.5	58.3	0.0		20.0	
3.5-4.0	29.9		0.0		9.5	
4.0-4.5	16.7		0.0		2.9	
> 4.5	5.9		0.0		0.7	

Fan chart for core inflation skews downwards for the whole projection period

Core inflation forecast



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

Probability distribution of the core inflation forecast

(per cent)	Probability					
	2009				2010	
	Old (Oct 08)		New (Jan 09)		New (Jan 09)	
< 0.0	0.0		0.0		0.0	
0.0 – 0.5	0.0		2.9		0.3	
0.5 – 1.0	0.0		55.7	95.9	9.5	
1.0 – 1.5	0.1		40.2		46.7	84.9
1.5 – 2.0	4.8		1.1		38.2	
2.0 – 2.5	42.1	90.0	0.0		5.2	
2.5 – 3.0	47.8		0.0		0.1	
3.0 – 3.5	5.1		0.0		0.0	
> 3.5	0.0		0.0		0.0	

Forecast Summary

	2007	2008	2009	2010
GDP Growth	4.9	~ 3.6	0.0 – 2.0	2.0 – 4.0
(old)			*(3.8 – 5.0)*	
Core Inflation	1.1	2.4	0.5 – 1.5	1.0 – 2.0
(old)			*(2.0 – 3.0)*	
Headline Inflation	2.3	5.5	(-1.5) – 0.5	1.5 – 3.5
(old)			*(3.0 – 4.0)*	

(   ) Forecasts as of October 2008

Summary of the Monetary Policy Committee's Decisions

3 December 2008

- The MPC decided to lower the policy interest rate by 1.00 per cent per annum from 3.75 per cent per annum to 2.75 per cent per annum to accommodate economic recovery and balance the higher risks to growth going forward as a consequence of the global financial crisis, heightened domestic political uncertainty, and delayed fiscal stimulus, while risks to inflation significantly declined from lower oil and commodity prices.

14 January 2009

- The MPC decided to lower the policy interest rate by 0.75 per cent per annum from 2.75 per cent per annum to 2.00 per cent per annum to help support economic recovery while both domestic and external downside risks to growth heightened. Moreover, the impact of fiscal stimulus would take some time to materialize, whereas inflation remained low as a result of significant decline in oil prices due to weaker global economic conditions and domestic demand.

Economic Assessment

(%YoY)	2007	2008^E	2009^E	2010^E
GDP Growth	4.9	~ 3.6	0.0 – 2.0	2.0 – 4.0
(Old)		(4.3 – 5.0)	(3.8 – 5.0)	
- Private consumption	1.6	2.0 – 3.0	1.5 – 2.5	3.5 – 4.5
(Old)		(2.5 – 3.5)	(3.5 – 4.5)	
- Private investment	0.6	2.5 – 4.5	(-2.0) – 0.0	8.0 – 10.0
(Old)		(4.0 – 5.0)	(5.0 – 6.0)	
- Public consumption	9.2	(-0.5) – 0.5	13.0 – 15.0	(-2.5) – (-0.5)
(Old)		(-1.5) – (-0.5)	(7.0 – 8.0)	
- Public investment	3.4	(-3.0) – (-1.0)	13.0 – 15.0	3.0 – 5.0
(Old)		(-3.0) – (-2.0)	(4.5 – 5.5)	
- Exports of goods and services	7.1	3.0 – 6.0	(-5.5) – (-2.5)	5.0 – 8.0
(Old)		(6.0 – 9.0)	(3.5 – 6.5)	
- Imports of goods and services	3.4	3.5 – 6.5	(-5.5) – (-2.5)	7.5 – 10.5
(Old)		(5.5 – 8.5)	(4.5 – 7.5)	

(   ) Forecasts as of Oct 08, E = Expected

Economic Assessment

(%YoY)	2007^R	2008^E	2009^E	2010^E
Value of exports (F.O.B.)	17.3	15.0 – 18.0	(-8.5) – (-5.5)	9.5 – 12.5
(Old)		(20.0– 23.0)	(7.0 – 10.0)	
Value of imports (C.I.F.)	9.1	25.0 – 28.0	(-10.0) – (-7.0)	12.0 – 15.0
(Old)		(28.0 – 31.0)	(8.0 – 11.0)	
Trade Balance (Billion USD)	11.6	~ In balance	0.5 – 3.5	(-2.0) – 1.0
(Old)		(1.0 – 3.0)	((-1.0) – 2.0)	
Current Account (Billion USD)	14.0	~ In balance	0.0 – 3.0	(-1.5) – 1.5
(Old)		(1.0 – 4.0)	(0.0 – 3.0)	

(   ) Forecasts as of Oct 08, E = Expected, R = Revised