



Thailand's Economic Condition in 2010

Monetary Policy Group
Bank of Thailand

The Year 2010 at a Glance

The Thai economy displayed a strong recovery despite facing several negative factors throughout the year, including uncertainties in the global economic recovery, domestic political unrest, exchange rate volatility and occurrences of natural disaster. Strong economic fundamentals, together with accommodative fiscal and monetary policies entailed an economic expansion of 7.8 percent, characterized by robust growth rates in export, tourism and domestic demand.

- **Political unrest during April to May had limited impacts on economic activities**, with an exception for the tourism sector being the most affected. Nevertheless, the number of foreign tourists in 2010 increased to a new historical record due to a rapid recovery after the incident subsided.
- **Farm income increased in line with crop prices due to damages of agricultural production caused by natural disasters**. This rising farm income supported domestic consumption.
- **The fiscal sector remained supportive** as indicated by the amount in the ordinary budget, additional finance under the Strong Thailand Project, as well as the living cost reduction measures such as subsidies in the energy and utility sectors.
- **Financial Institutions Policy Committee (FIPC)** imposed additional regulatory measures on housing loans to encourage financial institutions to be more prudent on granting housing loans as the housing market, especially the condominium sector, expanded buoyantly in 2010.
- **Inflation rates, from a negative territory last year, turned positive** as a result of the continued economic expansion and rising costs in both raw material and wages. This caused producers to gradually increase their prices.
- **The Monetary Policy Committee (MPC) began to reduce accommodative stance since July** to rebalance the economy as risks to inflation heightened while risks to growth became moderate. The MPC raised the policy rate 3 times in 2010, totaling 0.75 percentage points, to 2.00 percent per annum at the end of the year.
- **The Thai baht appreciated in line with the regional currencies** due to large capital inflows, as a result of different growth prospects between major industrialized countries, having weak economic conditions and accommodative monetary policies, while regional countries including Thailand having strong economic fundamentals. Despite exchange rate appreciation, Thailand's export values grew robustly by 28.5 percent, reflecting resiliency of the export sector.

The Thai Economy in 2010

Thai economy benefited from the global economic recovery.

The world economy recovered markedly from a contraction in 2009, leading by a strong economic growth in emerging market economies, especially Asia. For the major industrialized countries (G3), the U.S. economic recovery was on the back of fiscal stimulus while the EU and the Japanese recoveries were gradual.



Note: * calculated by using weighted average of GDP-PPP among 7 Asian countries including Hong Kong, Indonesia, Malaysia, Philippines, Singapore, South Korea and Taiwan

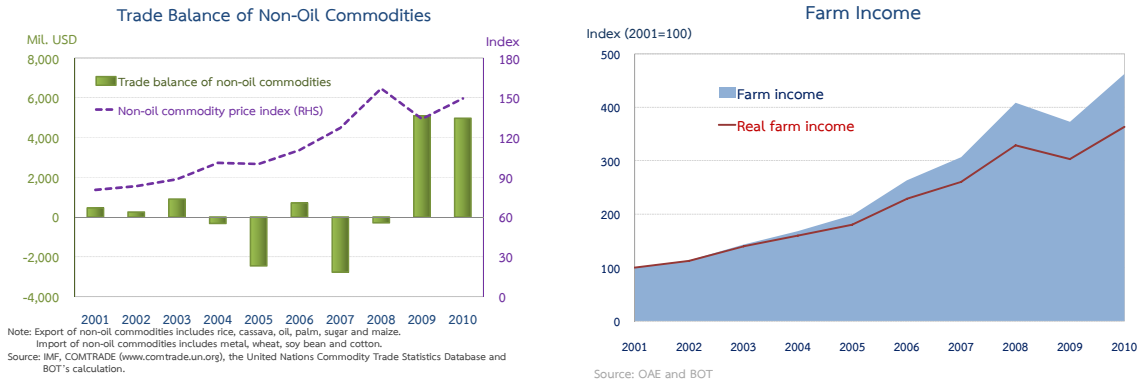
Source: Bureau of Economic Analysis, U.S. Department of Commerce, Eurostat, Cabinet Office of Japan, CEIC and BOT's calculation

This growth differential between G3 countries and emerging markets prompted a surge in capital flows to the emerging market economies, including Asia, causing regional currencies to appreciate. The Thai baht registered a 10.6 percent appreciation from the end of last year against the U.S. dollar.

Nevertheless, despite the baht appreciation, Thailand's export value continued to increase in tandem with the global economic recovery. Exports expanded by 28.5 percent, with higher share being contributed to the non-G3 countries. Meanwhile, the number of foreign tourists registered a new historical record of 16.0 million persons, mainly attributable to tourists from China, Russia, and South Korea. These developments reflected the resiliency of Thai businesses, as well as their abilities to reap benefits from the different pace of global economic recovery.

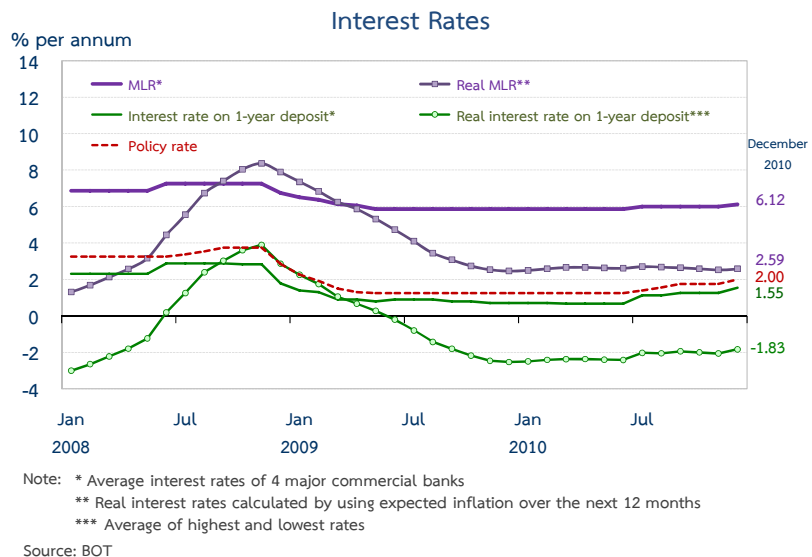
Agricultural prices were affected by increasing demand from the global economic recovery, rising demand for energy crops as well as supply disruption from occurrences of natural disasters in various countries, including Thailand. In particular,

prices of cassava and oil palm increased rapidly. Meanwhile, prices of commodities excluding fuel also surged by 21.4 percent on a yearly average basis. Since the Thai economy exhibited a net trade surplus in non-oil commodities, rising agricultural prices were beneficial to farmers. Thus, farm income registered a strong growth rate of 24.0 percent despite lower agricultural supply caused by occurrences of natural disaster.



Domestic economy was stimulated by accommodative stances from both fiscal and monetary policies.

Monetary policy was accommodative throughout the year despite the initiation of policy normalization since the second half of the year. Policy normalization was on the ground of lower risk on the world economic recovery and robust performance of the Thai economy. Nevertheless, real interest rate for 12-month deposit at the end of the year remained negative at 1.83 percent, which indicated a remaining accommodative policy environment.



Fiscal policy continued to be stimulative, as reflected by a budget deficit of 350 billion baht (3.5 percent of GDP), and additional finance of 219 billion baht under the Strong Thailand Project, as well as cost of living reduction measures such as subsidies on energy prices and utility costs. Furthermore, fiscal stance going forward continued to be accommodative as shown by the 420-billion-baht budget deficit (3.9 percent of GDP) for the 2011 fiscal year while another supplementary budget of 100 billion baht was also set.

Budget Balance

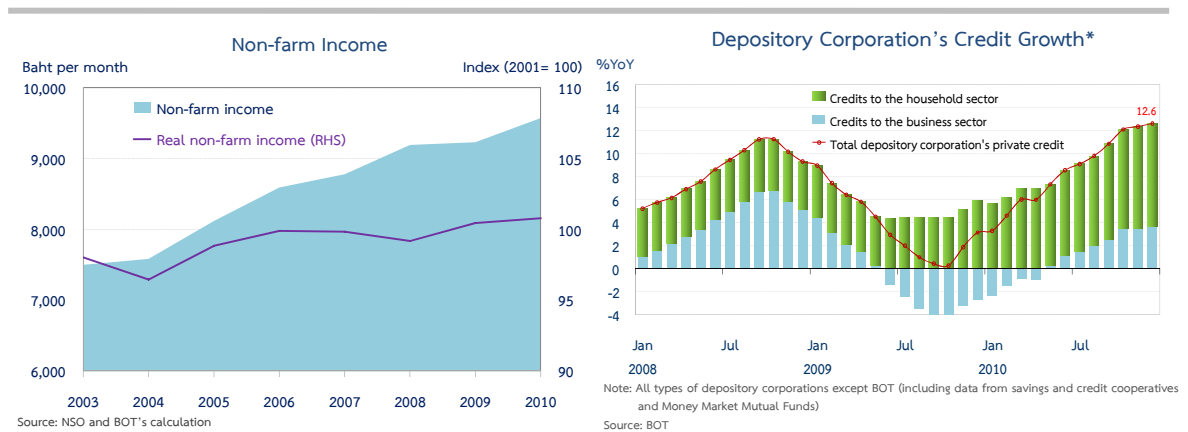
Fiscal Year (Unit: Thousand Baht)	2008	2009	2010	2011	2012
Budget balance	-165	-347	-350	-400*	-350
% to GDP	-1.8	-3.9	-3.5	-3.7	-3.0
Budget balance + Strong Thailand Project	-165	-362	-569	-473	-388
% to GDP	-1.8	-4.1	-5.7	-4.4	-3.4

Note:* The government initially set a budget deficit of 420 billion baht. However, the supplementary budget of 100 billion baht was also set due to higher than expected tax collections of 120 billion Baht. Thus, fiscal deficit turned out to 400 billion Baht.

Source: Budget Bureau and Bank of Thailand's calculation

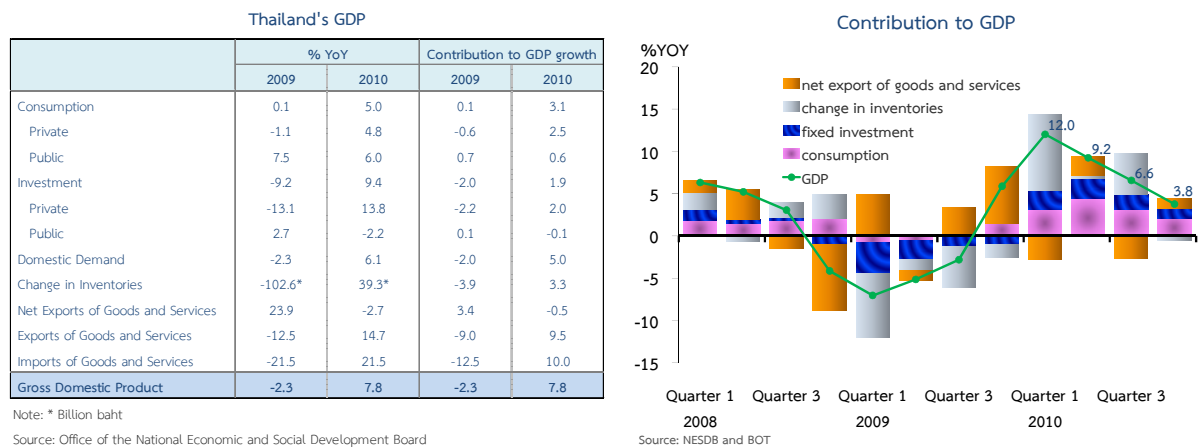
Global economic recovery, together with accommodative monetary and fiscal policies, has restored domestic spending, production, and investment to the normal levels.

The global economic recovery and accommodative public policies had positive impacts on restoring employment growth and working hours. In addition, higher farm income, together with a revival of consumer confidence, helped restore the domestic spending to 6.1 percent growth from 2.3 percent contraction last year. Strong domestic spending was mirrored by a robust depository corporations' private credits growth, which accelerated to 12.6 percent from a 3.1 percent growth last year.



Robust domestic spending and export growth had supported a strong rebound in manufacturing production which expanded from 6.1 percent contraction last year to 13.9 percent growth this year. As a result, capacity utilization picked up in various industries, especially in automobile, electronics, electrical appliances, food and other linkage industries, which reinforced private investment to expand by 13.8 percent from a sharp contraction of 13.1 percent last year.

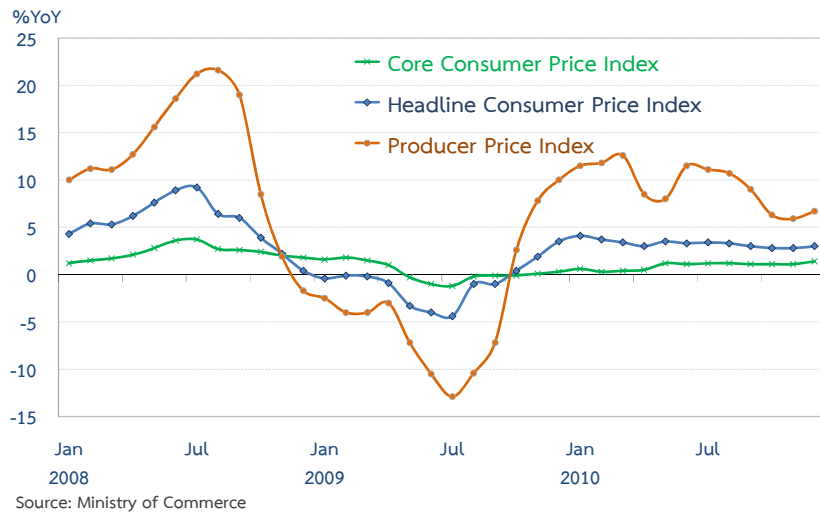
This improvement in economic activities from both demand and supply sides, supported by sound economic fundamentals, entailed a solid economic expansion for the Thai economy of 7.8 percent despite going through various negative factors. These included uncertainties in the world economic recovery, political unrest, exchange rate volatility and occurrences of natural disasters.



Inflationary pressure gradually increased in line with economic expansion and higher production costs.

Following the Thai and global economic recovery, resource utilization increased, thereby inducing an upward pressure on costs of raw material, fuel prices, and wages. The pass-through of higher production costs to consumer's prices became more apparent in spite of the government attempts, which called for businesses' cooperation to withhold their upward price adjustments throughout the year. Thus, headline inflation edged up from -0.9 percent last year to 3.3 percent.

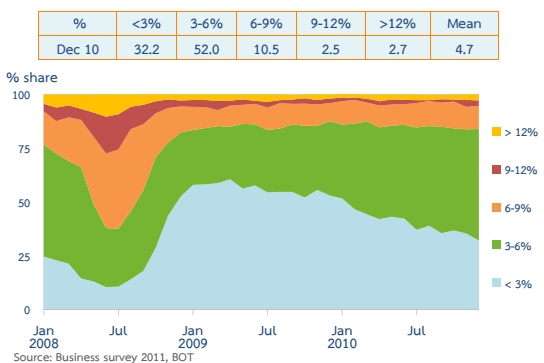
Price Indices



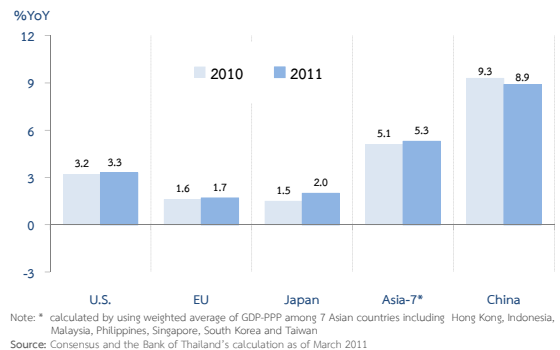
For 2011, the Thai economy is expected to expand continuously with increasing price pressure.

The Thai economy is expected to expand at a normal trend of 4.1^{1/} percent in 2011 given the outlook of global economic recovery, robust confidence and spending from strong income, as well as sound credit expansion. Meanwhile, price pressure is expected to gradually increase in line with higher production costs and the ongoing domestic spending. An upward price pressure was reflected by the continuous increase in businesses' expectation of higher costs and inflation. The MPC expected the core and headline inflations to be 2.3^{1/} and 3.9^{1/} percent, respectively.

Expected Costs of Goods and Services over the Next 12 Months



World GDP Forecast for 2011 and 2012



^{1/} Forecast as of April 2011

Stimulus from the public sector became less necessary for the Thai economy.

The need for accommodative policies became less imperative as the private sector regained strength and became a key driver of economic growth, characterized by a broad-based expansion across sectors. This recovery pattern was in contrast to the recovery of major industrialized countries, which still relied heavily on fiscal stimulus.

Going forward, stimuli from fiscal and monetary policies become less necessary. An appropriate policy mix would be to unwind the accommodative stance. However, fiscal policy maintains its strong supportive role to the Thai economy as opposed to fiscal stances in other regional countries which already removed their fiscal stimuli in 2011.



Note: * forecast for year 2011 by using 93% disbursement rate

Source: IMF Fiscal Monitor, November 2010 issue

Economic Conditions in 2009-2010

	2009	2010				
		Year	Quarter 1	Quarter 2	Quarter 3	Quarter 4
<i>(% from the same period of last year, unless specified otherwise)</i>						
Gross domestic product^{1/}	-2.3	7.8	12.0	9.2	6.6	3.8
Demand (Expenditures)						
Private consumption	-1.1	4.8	3.9	6.4	5.0	3.8
Government expenditure	7.5	6.0	11.0	8.4	3.7	1.8
Fixed investment	-9.2	9.4	12.1	11.3	7.9	6.4
- Private	-13.1	13.8	13.8	17.8	14.6	9.2
- Public	2.7	-2.2	6.9	-4.9	-5.4	-3.1
Exports of goods and services	-12.5	14.7	16.6	22.3	11.7	9.5
Imports of goods and services	-21.5	21.5	33.3	24.6	21.3	10.4
Supply (Production)						
Agriculture	1.3	-2.2	-2.2	1.5	-4.5	-3.3
Manufacturing	-6.1	13.9	22.9	17.6	11.6	4.8
Construction	0.4	6.8	7.9	8.0	5.2	6.6
Services and other	0.0	5.0	7.0	4.1	4.4	4.4
Domestic stability						
Headline consumer price index	-0.9	3.3	3.8	3.3	3.3	2.8
Core consumer price index	0.3	1.0	0.4	0.9	1.2	1.2
Unemployment rate (%)	1.5	1.0	1.1	1.3	0.9	0.8
Public debt (end of period, billions of baht)	3,967	4,282	4,125	4,202	4,231	4,282
% share of GDP (end of period)	43.8	42.4	40.8	41.6	41.9	42.4
External stability (billions of USD)						
Trade balance	19.4	14.0	2.0	4.6	3.3	4.1
Current account balance	21.9	14.8	5.5	1.7	2.0	5.5
Net capital flow	-2.8	15.9	3.8	1.1	8.0	3.1
Balance of payments	24.1	31.3	8.2	4.9	9.3	8.9
Official reserves	138.4	172.1	144.1	146.8	163.2	172.1
External Debt (end of period)	75.3	96.9	79.1	81.1	90.1	96.9
Official reserves (% of short-term debt)	4.2	3.7	4.0	4.0	3.9	3.7
External debt (% of GDP)	28.8	34.0	29.5	29.6	32.3	34.0
External debt (% of export earning)	39.3	46.7	40.4	40.6	44.2	46.7
Short-term debt (% of external debt)	44.0	48.2	45.1	45.8	46.7	48.2
Monetary statistics (end of period, billions of baht)						
Monetary base	1,103.3	1,243.3	1,097.4	1,072.0	1,118.1	1,243.3
(Δ %)	6.1	12.7	12.7	9.3	13.7	12.7
Narrow money	1,174.6	1,302.4	1,182.4	1,180.2	1,175.5	1,302.4
(Δ %)	12.8	10.9	14.5	15.1	11.7	10.9
Broad money	10,617.0	11,776.4	10,855.6	10,846.4	11,116.1	11,776.4
(Δ %)	6.8	10.9	6.1	7.0	9.9	10.9
Depository corporations deposits (including bills of exchange) ^{2/}	10,434.6	11,565.7	10,748.6	10,744.2	11,010.6	11,565.7
(Δ %)	6.6	10.8	5.7	6.3	9.9	10.8
Depository corporations private credits ^{2/}	8,832.7	9,947.0	8,967.8	9,196.7	9,432.7	9,947.0
(Δ %)	3.1	12.6	6.0	8.5	10.8	12.6
Interest rates (% p.a.)						
- Repurchase rate, 1 day (closing rate daily average)	1.42	1.48	1.25	1.25	1.57	1.83
- Overnight interbank rate (mode daily average)	1.34	1.36	1.15	1.15	1.44	1.71
- Fixed deposit rate (1 year) ^{3/} (end of month)	0.65-1.00	1.40-1.70	0.65-0.75	0.65-0.75	1.10-1.50	1.40-1.70
- Prime rate (MLR) ^{3/} (end of month)	5.85-6.25	6.12-6.50	5.85-6.25	5.85-6.25	6.00-6.38	6.12-6.50
Exchange rate (baht per U.S. dollar)						
	34.32	31.70	32.88	32.39	31.61	29.99

1/ At constant price

2/ Depository Corporations comprise all types of depository corporation except the Bank of Thailand

3/ As quoted by the 5 largest banks

Source: Office of the National Economic and Social Development Board, Ministry of Commerce, the National Statistical Office, Public Debt Management Office and Bank of Thailand



1. International Economies

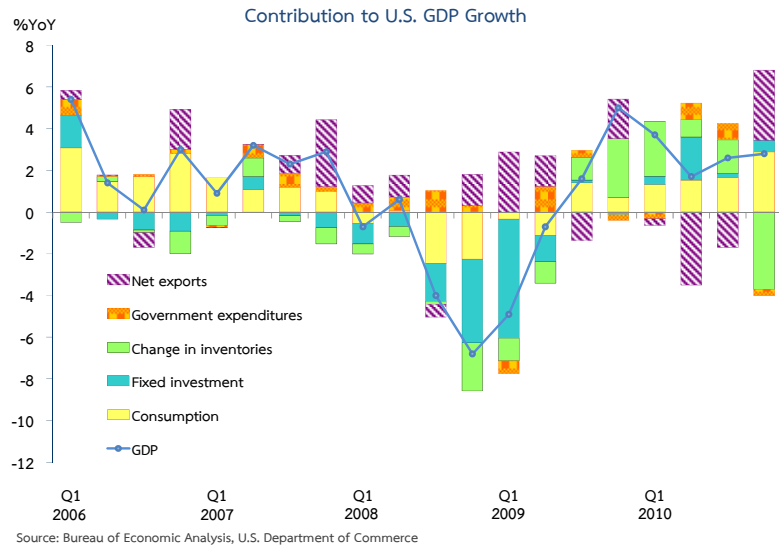
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Major Industrialized Countries (G3)

The U.S. economy displayed an apparent recovery mainly due to government stimulus packages.

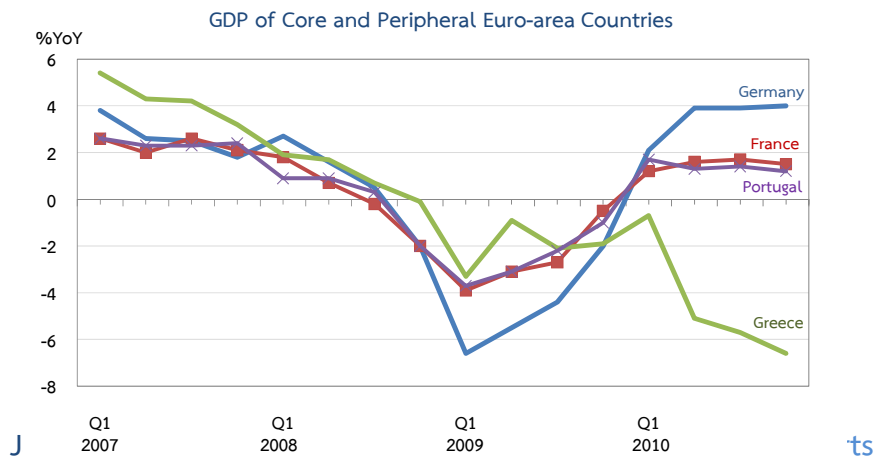
The U.S. economy expanded by 2.9 percent, recovering from a contraction of 2.6 percent last year as a result of various fiscal and monetary measures, including the Home Buyer Tax Credits, the Unemployment Benefits, as well as the Large-Scale Asset Purchases (LSAPs) carried out by the Federal Reserve in order to reduce the long-term cost of funding. These stimulus packages were the major drivers of the U.S. recovery which became more apparent toward the end of 2010.

The G3 economies recovered but problems of high unemployment and public debt remained.



The Euro Area gradually improved but remained constrained by sovereign debt problems.

The EU economy gradually recovered from 2009 with major industrialized countries such as Germany and France being the main economic drivers, owing to strong export abilities to emerging markets, especially to Asia. Meanwhile, Greece, Ireland, Portugal and Spain still suffered from problems associated with high public debts. Greece and Ireland eventually sought financial assistance from the European Union (EU) and International Monetary Fund (IMF). In addition, weak domestic demand, as well as high unemployment rates, yielded low economic growth performances among the EU countries.



and the implementation of government stimulus packages. However, the recovery became moderate in the second half of 2010 due to the yen appreciation and deflation problems.

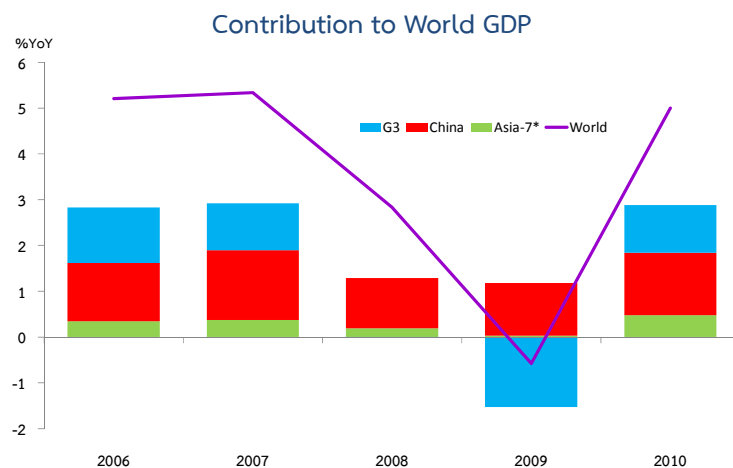
The Japanese economy recovered from strong exports and the improvement in private consumption as a result of the government stimulus packages such as subsidy programs in vehicles and electrical appliances (the Eco-car Subsidy Program and the Eco-point Program).

Nevertheless, the pace of economic recovery slowed down in the second half of 2010 due to weakening exports from decelerated external demand, the rapid yen appreciation, and the expiration of certain government stimulus packages. In addition, the Japanese economy continued to experience problems of deflation and high unemployment rate, which posed constraints for the economic expansion going forward.

Asian Economy became the main driver of global economic growth.

Asian economy recovered rapidly and continued to strengthen due to robust performances in both exports and domestic demand. Strong external demand which expanded in line with the global economic recovery led to a surge in Asian exports after a severe contraction in 2009. At the same time, domestic demand increased from an improvement in consumer confidence, continued fiscal stimulus, and accommodative monetary policies albeit normalization process, which already began in some countries.

The Asian economy improved robustly from both exports and domestic demands.

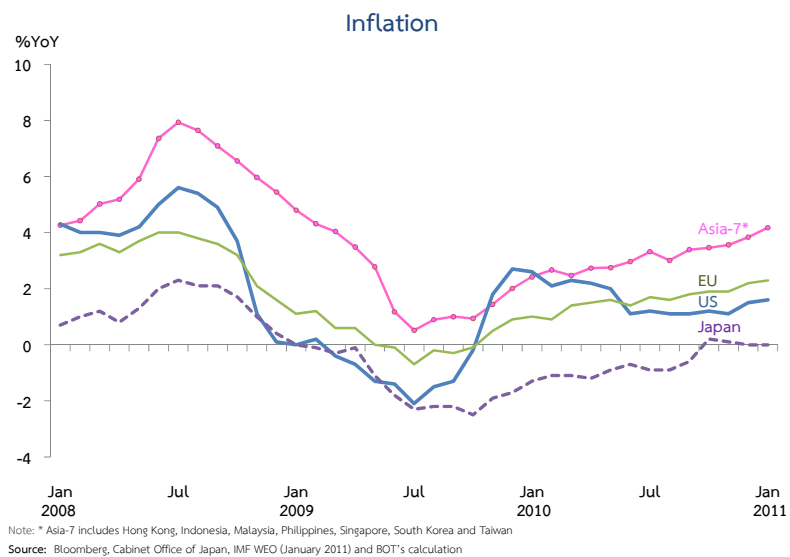


Note: * Asia-7 includes Hong Kong, Indonesia, Malaysia, Philippines, Singapore, South Korea and Taiwan
 Source: Bloomberg, Cabinet Office of Japan, IMF WEO (January 2011) and BOT's calculation

Inflation

Inflationary pressure in the G3 countries remained subdued while inflationary pressure for Asia continued to increase.

Inflationary pressure differed among the G3 and Asian economies. Inflation within the G3 economies remained subdued in line with fragile economic recovery whereas the Asian economies experienced higher inflationary pressure due to strong economic growth and rising prices of food and energy. For Asian economies, these commodities had a relatively larger share in the basket of consumer goods.



Monetary policy

Monetary policies in the G3 economies remained accommodative while the Asian countries gradually began their normalization processes.

The G3 economies gradually recovered with subdued inflation which caused the U.S. Federal Reserve to maintain its policy rate at 0-0.25 percent per annum throughout the year and engaged in large-scale asset purchases to stimulate the weak economy. Likewise, the European Central Bank (ECB) also maintained the policy rate at 1.00 percent per annum throughout 2010 and implemented liquidity measures for some troubled financial institutions. Meanwhile, the ongoing deflation problems in Japan prompted the Bank of Japan (BOJ) to hold the policy rate at a near-zero level.

For the Asian region, several Asian central banks gradually began their normalization processes in response to accelerating inflationary pressure. Most Asian monetary authorities also implemented macro-prudential measures to ensure economic stability and prevent imbalances in the financial system. These measures included restrictions on credit granted to the real-estate sector, as well as measures to limit transactions associated with capital flows.

Global Economic Indicators

(year-on-year growth)

Countries	GDP growth		Inflation	
	2009	2010	2009	2010
G3				
United States	-2.6	2.9	-0.4	1.6
Euro Zone	-4.0	1.7	0.3	1.6
Japan	-6.3	3.9	-1.4	-0.7
Asian Economies				
China	9.2	10.3	-0.7	3.3
India ^{1/}	6.8	8.6	2.1	9.6
Hong Kong	-2.8	6.8	0.5	2.4
South Korea	0.2	6.1 ^{2/}	2.8	3.0
Taiwan	-1.9	10.8	-0.9	1.0
Indonesia	4.6	6.1	4.8	5.1
Malaysia	-1.7	7.2	0.6	1.7
Philippines	1.1	7.3	3.2	3.8
Singapore	-0.8	14.5	0.6	2.8

Note: ^{1/} GDP growth based on the calendar year basis, inflation calculated using wholesale price index (WPI)

^{2/} Forecasted figure as of March 2011

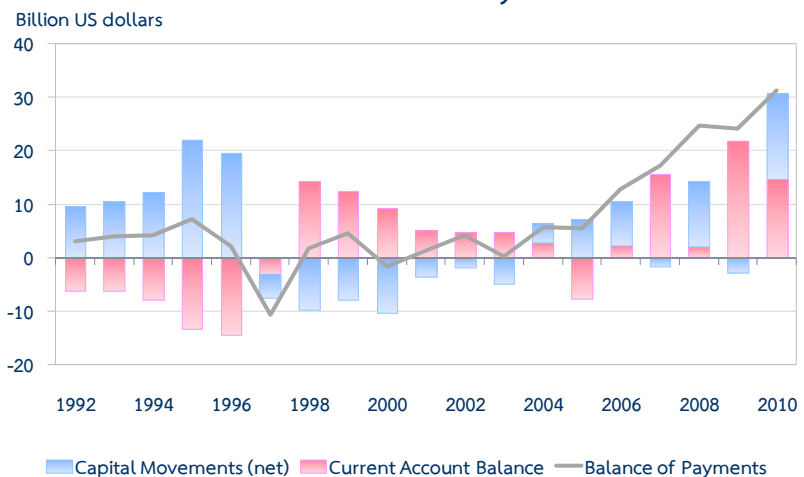
Source: Bloomberg, CEIC, Reuters and Official statistics



2. International Trade and the Balance of Payments

International trade, both exports and imports, achieved high growth this year in line with the global and Thai economic recovery. This improvement was reflected by a smaller surplus in the current account whereas the capital account experienced a larger surplus from inflows of capitals. As a result, these developments constituted the highest record of the balance of payment surplus in history.

Balance of Payments



Source: Bank of Thailand

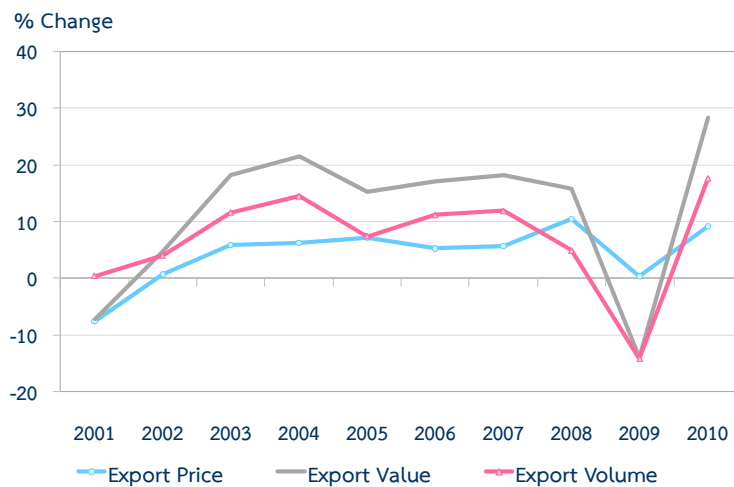
Exports

Exports expanded robustly in line with the economic recovery of Thailand's trading partners.

Exports achieved a remarkable growth, both in terms of price and quantity, in line with the economic recovery of Thailand's trading partners. Meanwhile, Thai exporters could raise their export prices in response to the baht appreciation.

Thailand's export values registered 28.5 percent growth from the previous year in response to the economic recovery of Thailand's major trading partners. In terms of quantity, Thai exports grew by 17.7 percent with a broad base expansion across all product categories except the agricultural products, which were affected by natural disasters, pest outbreaks and a loss in price competitiveness of rice exports to Vietnam. Export prices also displayed a remarkable growth rate of 9.1 percent, which exceeded the 7.6 percent of baht appreciation on a yearly average basis. This partly reflected the exporters' ability to adjust prices to compensate for the exchange rate appreciation.

Export Indices (U.S. dollars)



Source: Ministry of Commerce and Bank of Thailand

Agricultural and fishery exports benefited from China's rapid economic growth, as well as supply disruption in major competitors.

Export value of agricultural products expanded by 36.2 percent, mainly from robust growths in rubber and cassava. This was supported by increasing demand from China in several sectors including automobile, animal feeds and energy. Meanwhile, the value of fishery exports registered 18.5 percent growth owing to accelerated export growths of both fresh and

frozen shrimps. This was due to production problems of major competitors caused by epidemic, as well as the oil leakage crisis in the Gulf of Mexico.

Exports of high technology products continued to be the main driving force for Thailand's exports.

Export value of manufacturing products registered a 27.8 percent growth, leading by a 31.0 percent growth in high technology products, which displayed a robust expansion across all items. In particular, exports of automobile benefited from the production and exports of eco cars. Meanwhile, the electrical appliances category such as air conditioners, radios and refrigerators also reaped benefits from reallocations of production base to Thailand. Moreover, exports of electronics experienced a rapid growth due to stock accumulation during the first half of the year following a faster-than-expected recovery of global demand.

Value of labor-intensive manufacturing exports, on the other hand, registered a lower growth rate relative to other export categories due to several factors, including the higher reliance on the G3 markets, raw material shortages, rising minimum wages, and the exchange rate appreciation.

Imports

Imports accelerated in tandem with the economic recovery.

Rapid acceleration of imports reflected a strong and broad-based recovery of economic activities, particularly consumption, investment and production.

Imports values expanded by 36.8 percent with robust growth rates displayed across all product categories, including consumer goods, capital goods, intermediate products, as well as raw materials. These developments were well in line with the global and domestic economic recoveries.

Imports Classified by Economic Classification

	% Change	Contribution to Growth (%)
Consumer Goods	26.3	2.6
Non-Durable Goods	23.1	1.3
Durable Goods	30.5	1.3
Raw Materials and Intermediate Goods	41.7	16.4
Capital Goods	26.6	7.3
Other Imports	44.6	10.5
Vehicles and Parts	73.3	2.6
Fuel and Lubricant	26.6	5.0
Non-Monetary Gold	107.3	3.1
Total Imports	36.8	36.8

Source: Ministry of Commerce and Bank of Thailand

Large capital inflows were attributable to Thailand's rapid economic recovery.

Current account

Trade balance registered a lower surplus from 19.4 billion U.S. dollars last year to 14.0 billion U.S. dollars this year due to higher import growth relative to export. In addition, the service, income and transfer account also registered a smaller surplus as a result of higher repatriation of profits and dividends despite a rapid income growth from tourism revenue. Thus, the current account surplus reduced to 14.8 billion U.S. dollars this year.

Net Capital Movements

Net capital movement recorded a large surplus of 15.9 billion U.S. dollars from a deficit of 2.8 billion U.S. dollars last year. This was attributable to growth differentials among the major industrialized countries and emerging market economies, which resulted in more capital flows into Asia, including Thailand. Capital inflows to Thailand were mostly in the form of short-term loans in the banking sector, foreign portfolio investment and foreign direct investment.

Increases in short-term loans within the banking sector were part of the operation procedure to accommodate rising demand of foreign exchange hedging transactions by Thai exporters. Meanwhile, foreign portfolio investment, including purchases of government bonds and the Bank of Thailand bonds in the secondary market, were the result of higher returns of investment relative to major industrialized countries. In addition, Thailand still experienced a continuous inflow of foreign direct

investment despite the incident of political unrest during April and May.

Balance of Payments

The balance of payment surplus reached a historical record of 31.3 billion U.S. dollars compared to a surplus of 24.1 billion U.S. dollars in the previous year. Thus, international reserves rose from 138.4 billion U.S. dollars at the end of 2009 to 172.1 billion U.S. dollars at the end of 2010, with the Bank of Thailand's net forward position amounted to 19.6 billion U.S. dollars.

Balance of Payments

(Unit: Million U.S. dollars)

	2009			2010 ^{1/}		
	H1	H2	Year	H1	H2	Year
Exports, f.o.b.	67,251	83,493	150,743	92,092	101,571	193,663
Δ%	-23.3	-4.7	-14.0	36.9	21.7	28.5
Imports, c.i.f.	55,625	75,730	131,355	85,436	94,196	179,632
Δ%	-35.6	-15.2	-25.2	53.6	24.4	36.8
Trade balance	11,626	7,763	19,388	6,656	7,376	14,031
Net services income & transfers	1,481	997	2,478	573	180	753
Current account balance	13,106	8,760	21,866	7,229	7,555	14,784
Capital movements (net)	-6,099	3,322	-2,777	4,875	11,040	15,915
Monetary authorities	-206	1,687	1,481	575	2,087	2,662
Government	-198	787	590	1,138	2,141	3,279
Bank	-1,190	9,036	7,846	3,527	6,261	9,788
of which: Off-shore borrowing	-699	3,615	2,916	2,058	6,377	8,435
Other sectors	-4,505	-8,188	-12,694	-364	551	187
-Non-bank	-3,765	-6,316	-10,082	-847	-580	-1,427
Foreign direct investment	2,066	2,429	4,495	2,444	2,000	4,444
Equity investment and reinvested earnings	2,729	2,561	5,291	2,826	2,162	4,988
Direct loan	-663	-133	-796	-381	-163	-544
Portfolio Investment	-3,377	-4,323	-7,700	934	1,275	2,209
Foreign	262	575	837	-898	1,453	554
Equity securities	323	416	739	-570	2,530	1,960
Debt securities	-61	158	97	-328	-1,077	-1,405
Thai	-3,640	-4,898	-8,537	1,832	-177	1,655
Other loans (foreign)	-131	-1,141	-1,272	-104	611	507
Others	-2,323	-3,281	-5,604	-4,121	-4,467	-8,587
of which: Trade credits	-1,238	-1,723	-2,961	-3,310	-678	-3,989
-State enterprises	-740	-1,872	-2,612	483	1,131	1,614
Errors and omissions	1,695	3,343	5,038	1,044	-419	624
Overall balance^{2/}	8,702	15,425	24,127	13,148	18,176	31,324

Note : 1/ Preliminary data

2/ Actual data

Δ% represents percentage change from the same period last year

Source : 1. Customs Department

2. Bank of Thailand

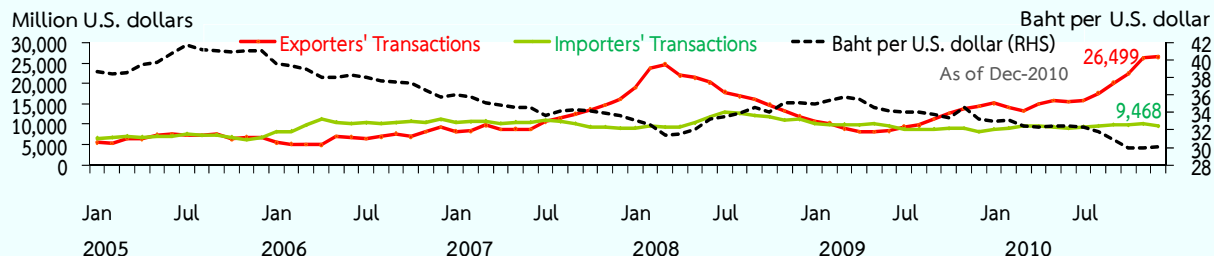
Exporters' Adaptability under Volatile Exchange Rate and Capital Flow

At the end of 2010, the Thai baht appreciated against the U.S. dollars by 10.6 percent from the previous year. This was mainly due to surpluses in the trade balance and large net capital inflows, which induced the highest surplus record of the balance of payment at 31.3 billion U.S. dollars.

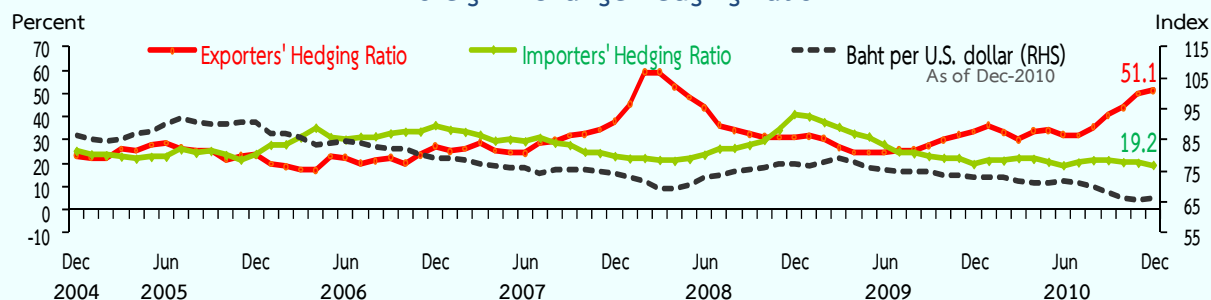
Nevertheless, export growth performed much better than anticipated, both in terms of price and quantity, which indicated a greater flexibility of exporters' adjustment on top of the economic recovery of Thailand's major trading partners. Adaptive strategies of the Thai exporters were as followed:

1. Hedging of exchange rate risks: The Bank of Thailand, together with commercial banks, put great efforts in providing tools and knowledge to exporters in order to promote the use of hedging instruments. As a result, the use of hedging instruments increased during the period of baht appreciation, as reflected by a continuous increase in the hedging ratio for transactions conducted between exporters and commercial banks, which led the export hedging ratio to stand at 51.1 percent by the end of the year.

Outstanding of Foreign Exchange Hedging by Thai Exporters and Importers



Foreign Exchange Hedging Ratio

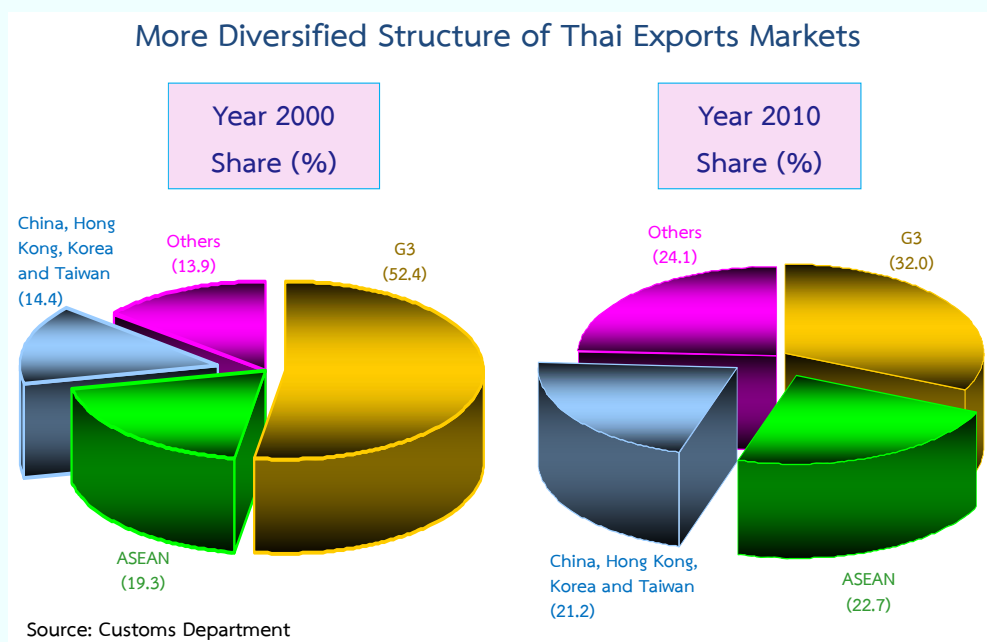


Source: Customs Department and Bank of Thailand

2. Costs reduction: Notwithstanding the difficulty of implementing cost reduction strategies, exporters attempted to reduce their costs in order to increase their competitiveness. Such strategies included cooperative exchanges of production among similar or related industrial groups, reduction in raw material storage cost, import of cheaper raw materials to

substitute for local contents, negotiation to fix raw material prices, as well as shortening the term of purchase in order to reduce the exchange rate risks.

3. Export market diversification: In recent years, Thai exporters constantly seek new export markets across the globe and became less dependent on the G3 markets. Exports became more diversified into ASEAN, China, Asian regions, as well as other new markets.



4. Price adjustment: Given intense competition, price adjustment remained the last option for exporters since it affected their competitiveness. In addition, an increase in the export price must occur along with quality enhancement and other cost reduction strategies in order to maintain a competitive edge against competitors. Such a strategy was observed in high-technology industries as prices were adjusted in line with the product quality. Furthermore, trades among affiliated companies allow for easier price negotiation and some payments to be carried out via “net settlement” contracts, which mitigated the exchange rate risk. Meanwhile, prices of agricultural exports increased in line with the price trend of commodity prices. However, several export sectors including fishery, labor-intensive or resource-based industries were likely to be constrained from price adjustment due to lower bargaining power, as well as intense competition among competitors.

The remarkable export growth reflected the Thai exporters' ability to adjust to new circumstances. Nevertheless, small and medium-sized exporters still faced various constraints regarding the ability to adjust their prices, as well as their accessibility to hedging instruments. Thus, the authorities must continue to provide knowledge and know-how to small-sized exporters to facilitate their adjustment and usage of the hedging instruments.



3. Domestic Demand

3.1 Private Consumption

Sound household's financial position and fiscal stimulus facilitated the recovery of private consumption, which became one of the main driving forces for the economy.

Purchasing power increased on the back of improving income and employment condition.

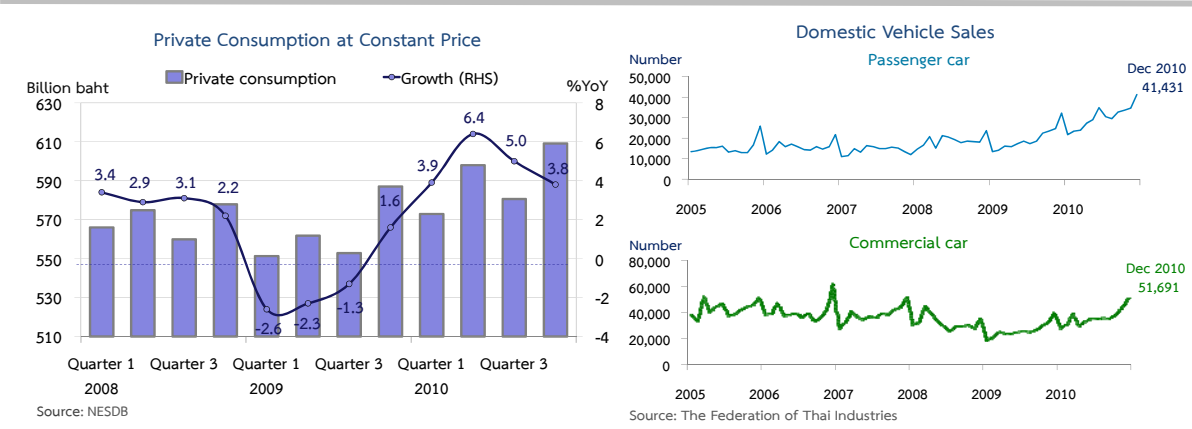
Private consumption, which was one of the main economic drivers, recovered rapidly with a robust growth rate of 4.8 percent after withstanding the global economic crisis which dampened consumer's confidence and purchasing power in 2009. On top of the economic recovery, strong economic fundamentals and fiscal stimulus played an important role in facilitating the consumer confidence and spending.

- Household's financial position improved as a result of higher income in both agricultural and non-agricultural sectors. Farm income increased in line with the global agricultural prices while non-agricultural income rose in tandem with improving employment condition and higher working hours.

- Ample liquidity and low interest rates facilitated the purchase of durable goods, especially automobiles, which registered a new historical record.
- Extension of the government's subsidies for energy prices and utility costs helped postpone the cost of living from rising, which helped stabilize the real purchasing power of consumers.

Going forward, private consumption is expected to grow continuously.

The ongoing growth momentum from 2010, as well as strong economic fundamentals, would enable a continuous expansion of private consumption, which is expected to be an important growth driver in 2011. In addition to the same underlying factors that facilitated consumption in 2010, increases in wages and salaries of the civil servants bode well for consumption outlook. Nevertheless, an upward trend of inflation and interest rate can undermine consumers' purchasing power going forward.

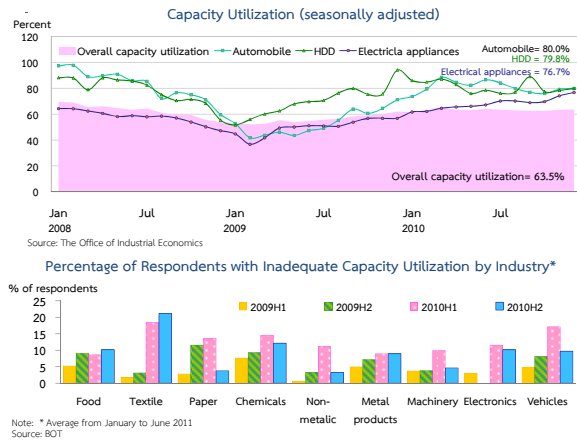
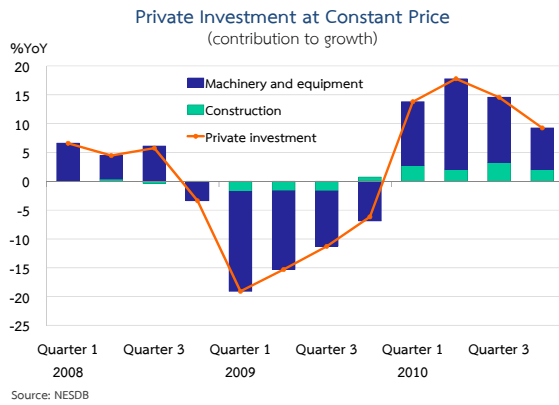


3.2 Private Investment

Private investment resumed its role as an economic driver.

Investment displayed a strong rebound in both machinery and construction investments.

Private investment recovered continuously with a remarkable growth rate of 13.8 percent after contracting by 13.1 percent in the previous year. Private investment contributed for a quarter of GDP growth in 2010 despite having encountered various negative factors including political unrest and problems in the Mab Ta Phut area, which prompted investors to postpone their investments while assessing the overall impact.

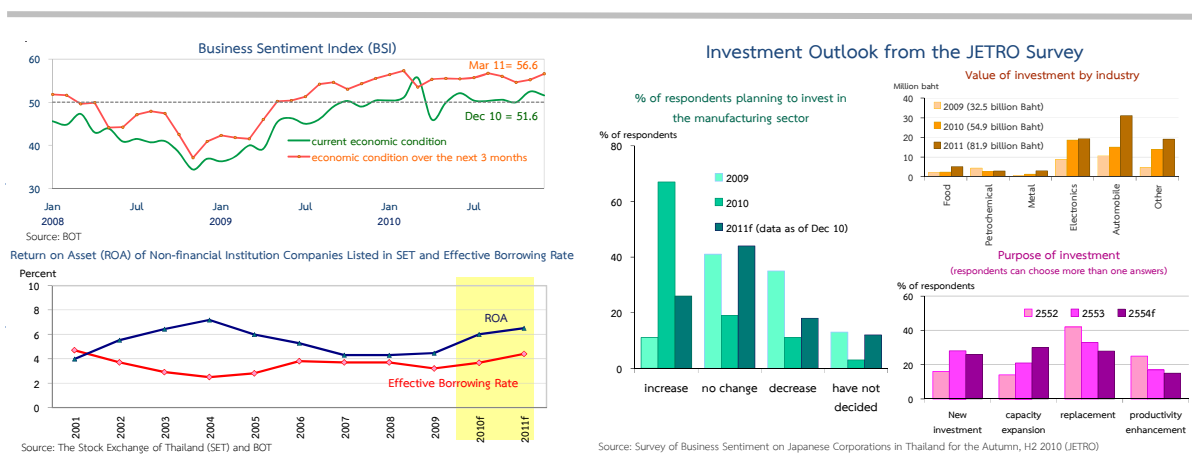


Machinery investment rebounded from a contraction of 15.3 percent in the previous year to an expansion of 14.7 percent across investment components; both in terms of new investment and replacement investment. Economic fundamentals that supported investment were as followed:

- Expansions of both domestic and external demands resulted in an increase in the capacity utilization rate in several industries, which might become inadequate for serving future demand especially in electronics, automobile and electrical appliances industries.
- Ample liquidity, low interest rates, and a high rate of investment returns, provided favorable investment incentives.
- Investor confidence remained satisfactory. Business Sentiment Index (BSI) surveyed by the Bank of Thailand continued to improve, both in the current and the three-month-expected indices. This agreed with the finding in the survey from Japan External Trade Organization (JETRO), undertaken during 25 May - 25 June 2010, that more than 60 percent of investors expected an improvement in business condition in the latter half of 2010.
- Appreciations of the Thai baht were favorable to imports of machinery and equipment, which enhanced productivity.

Meanwhile, construction investment benefited from the government's stimulus measures in the real-estate sector and public infrastructure investment, in addition to a favorable financial environment. Thus, private construction investment

expanded markedly by 10.6 percent from a contraction rate of 5.1 percent in the previous year.



In 2011, an upward investment trend is expected to continue.

Private investment is expected to expand following the private sector's investment plan to accommodate the economic expansion. Supportive factors for investment from 2010 continued to persist throughout 2011. This includes favorable investment environment, low interest rates, and adequate liquidity in the financial institution system. Moreover, tight labor market and rising wages provide incentives for firms to increase their machinery investment as a substitute for labor. Furthermore, public investment in basic infrastructure is expected to continue, which will boost investor confidence and provide favorable investment climate for the future. Nevertheless, private investment could face several downside risks going forward, which include higher production costs, an increasing difficulty of the pass-through of production costs into consumer prices, as well as political instability.

3.3 Fiscal Sector

The fiscal sector remained supportive.

The government continuously stimulated the economy throughout the fiscal year 2010. Going forward, the fiscal policy remains expansionary despite a lesser need of fiscal stimulus.

For the fiscal year 2010, the government continued to stimulate the economy by setting a budget deficit of 350 billion

baht (3.5 percent of GDP) and incurring additional non-budgetary borrowing for the Strong Thailand Project in the fiscal year 2010 amounted to 219 billion baht.

With a continuous increase in expenses on social welfares and public policy including subsidies in energy prices, utility costs, as well as the farm income guarantee scheme, the government's budget recorded a disbursement of 1,712 billion baht which translated into a 95.8^{2/} percent of the total budget. This was higher than the targeted disbursement rate of 94.0 percent. Moreover, adding the expenditures from the Strong Thailand Project of 219 billion baht would increase the overall expenditure to 1,931 billion baht, equivalent to a 6.2 percent increase from the previous fiscal year.

Government Revenue*

(Unit: Billion baht)

Fiscal year

	2007	2008	2009	2010 ^P
Total revenue	1,703.8	1,837.6	1,684.3	1,995.0
(% yoy)	(7.7)	(7.9)	(-8.3)	(18.4)
Taxes	1,497.1	1,654.0	1,510.1	1,767.6
(% yoy)	(4.9)	(10.5)	(-8.7)	(17.1)
- Income base	643.1	739.5	681.0	730.5
(% yoy)	(7.0)	(15.0)	(-7.9)	(7.3)
Personal income tax	192.8	204.8	198.1	208.4
(% yoy)	(13.4)	(6.3)	(-3.3)	(5.2)
Corporate income tax	384.6	460.7	392.2	454.6
(% yoy)	(2.7)	(19.8)	(-14.9)	(15.9)
- Consumption base	755.9	806.9	741.1	930.9
(% yoy)	(4.6)	(6.7)	(-8.2)	(25.6)
Value added tax	434.3	503.4	431.8	502.2
(% yoy)	(3.9)	(15.9)	(-14.2)	(16.3)
Specific business tax	287.2	25.1	18.1	22.9
(% yoy)	(4.8)	(-27.0)	(-28.0)	(26.5)
Excise tax	287.2	278.3	291.2	405.9
(% yoy)	(4.8)	(-3.1)	(4.6)	(39.4)
- International trade base	88.5	97.4	77.6	93.7
(% yoy)	(-5.8)	(10.1)	(-20.4)	(20.7)
Other incomes (non-tax incomes)	206.7	183.7	174.2	227.4
(% yoy)	(34.2)	(-11.2)	(-5.1)	(30.5)

Remarks: * Due to incompleteness of Government Fiscal Management Information System (GFMS), used since 2005, revenue in this table is on a collection basis received from Fiscal Policy Office since December 2004, not on a cash basis received from the Comptroller General's Department.

P = Preliminary data

Source : Fiscal Policy Office, Ministry of Finance
Data Management Department, Bank of Thailand

^{2/} Including the disbursement of the expenditures for replenishment of treasury account balance and principal repayment.

Nevertheless, the government incurred a cash deficit of 200.5 billion baht (2.0 percent of GDP), which was lower than anticipated due to higher than expected revenue collection, especially from income tax and consumption tax following a strong economic recovery. Thus, the government borrowing was moderated to 232.6 billion baht. With the inclusion of the non-budgetary borrowing from the Strong Thailand Project, the amount rose to 345.2 billion baht.

Fiscal Position *

(Unit: Billion baht)

Fiscal Year

	2007	2008	2009	2010 ^P
Revenue	1,432.8	1,545.8	1,409.7	1,683.6
(% yoy)	(6.9)	(7.9)	(-8.8)	(19.4)
Expenditure	1,520.5	1,582.6	1,803.0	1,712.0
(% yoy)	(11.8)	(4.1)	(13.9)	(-5.0)
Disbursement rate (%) (excluded principal repayment)	92.8	91.1	92.9	93.7
Budgetary balance	-87.6	-36.7	-393.3	-28.4
Non-budgetary balance	-7.2	12.7	-27.0	-172.1
Strong Thailand Project 2012			-14.9	-218.8
Cash balance	-94.8	-24.0	-420.3	-200.5
(% of GDP)	(-1.1)	(-0.3)	(-4.7)	(-2.0)
Financing				
Net domestic borrowing	158.4	145.5	496.9	347.7
Net foreign borrowing	-59.3	-34.3	-11.9	-2.5
Use of treasury cash balance	-4.3	-87.1	-64.7	-144.7
Treasury cash balance (end-period)	142.8	229.9	294.6	439.3

Remarks: *Different from the previous table, revenue in this table is on a cash basis received from Fiscal Policy Office since October 2005.

P = Preliminary data

Source: Fiscal Policy Office, Ministry of Finance
Data Management Department, Bank of Thailand

The government's borrowing caused the public debt to rise to 4,230.7 billion baht (42.3 percent of GDP) at the end of the fiscal year 2010. Although the public debt to GDP ratio was well below the 60 percent ceiling under the fiscal sustainability framework, the persistence of structural fiscal imbalances between spending and revenue remained the critical risk for fiscal sustainability going forward.

Going forward, fiscal policy remains expansionary despite a lesser need of fiscal stimulus.

For the fiscal year 2011, the government set an initial budget deficit of 420 billion baht (4.0 percent of GDP), followed by a supplementary budget of 100 billion baht in response to a higher than expected revenue collection. Thus, the total budget expenditure rose to 2,170 billion baht. The government also has expenditure burdens from the extension of various subsidy measures in the energy and utility sectors. As for the fiscal year 2012, the government planned to conduct a budget deficit of 350 billion baht (3.0 percent of GDP). These developments indicated that fiscal stimulus will continue even though the economy has already resumed its normal growth trend.



4.1 Agricultural Sector

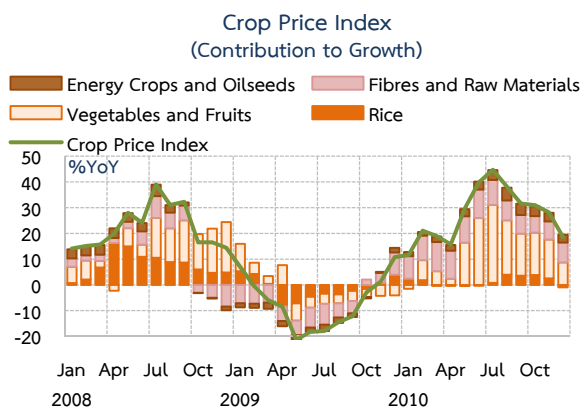
Prices of agricultural products surged to a new record in response to buoyant global demand. In particular, demand for energy crops rose following a continual rise in crude oil prices. Meanwhile, the global and domestic supplies of agricultural products were adversely affected by unfavorable weather conditions. Farm income, therefore, rose substantially.

%YoY	2009	2010				
		Year	Q1	Q2	Q3	Q4
Farm income	-8.7	24.0	16.2	33.3	30.1	19.4
Crop production	-1.3	-2.4 ^e	-0.8 ^e	4.2 ^e	-5.9 ^e	-5.0 ^e
Crop price	-7.5	27.1	17.1	28.0	38.2	25.7

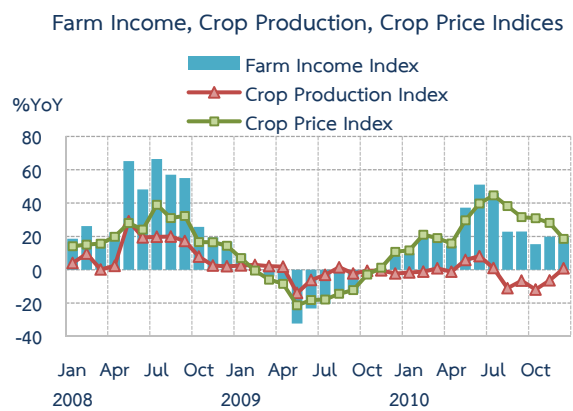
Note: e = estimation

Source: Office of Agricultural Economics and Bank of Thailand

The domestic prices of agricultural products, especially rubber and energy crops, accelerated in line with the global prices. This was due to strong external demand, particularly from China, as well as rising demand for energy crops. In addition, the global and domestic agricultural productions were disrupted by undesirable weather conditions, including droughts and flooding, as well as pest outbreaks. As a result, the domestic crop production contracted by 2.4 percent, mainly from a decline in maize, cassava, coconut and oil palm production.



Source: Office of Agricultural Economics and Bank of Thailand



Source: Office of Agricultural Economics and Bank of Thailand

Farm income increased mainly from a favorable price condition.

Despite a new record of agricultural prices, farm income merely grew by 24.0 percent, partly due to a decline in rice prices, which accounted for a quarter of farm income. As a result, rice farmers were the only group deserted from the benefit of rising global agricultural prices. Nevertheless, the government's farm income guarantee scheme, which secured an income of 10,000 baht per ton of rice, provided partial supports to the rice farmers.

Livestock prices increased by 7.4 percent following scarce supplies of swine, fowl and egg, which were affected by hot climate during the midyear, as well as the swine disease epidemic. In addition, the costs of animal feeds in 2010 rose in response to rising maize and soybean residue prices.

Fishery prices grew by 2.7 percent, mainly from increasing shrimp prices as the global supplies of shrimp were disrupted by a severe epidemic in Indonesia's shrimp farms and flooding in the Southeast Asian region. In addition, the leakage of crude oil in the

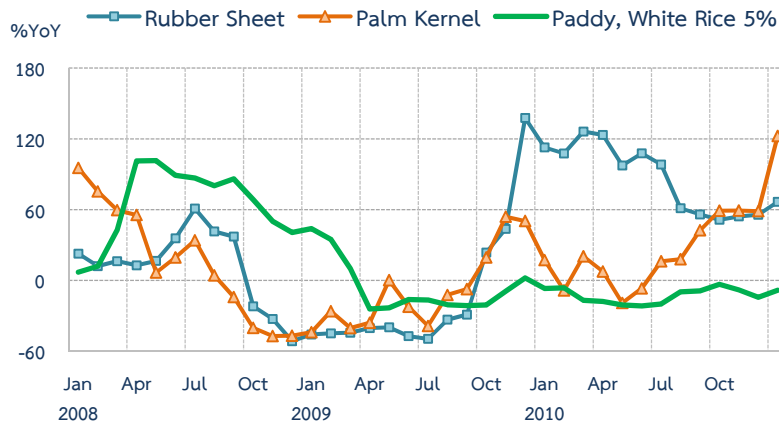
Gulf of Mexico prompted the United States to resort to shrimp orders from the Asian region.

Outlook in 2011

Crop price and production in 2011 tends to expand.

Agricultural prices are expected to increase on the back of global economic expansion and rising demand for energy crops. Meanwhile, less severe climate conditions expected in 2011 should result in higher domestic production compared with the previous year. However, the global supply of agricultural production is likely to remain tight, which reinforces improvement in farm income going forward.

Major Crop Prices



Source: Office of Agricultural Economics

Thai Agricultural Prices

(Unit: Baht per ton)

	2009	2010				
		Year	Q1	Q2	Q3	Q4
Agricultural Price Index (1995 =100)	255.1	310.0	284.1	305.2	321.2	329.4
$\Delta\%$	-5.2	21.5	13.4	22.2	29.7	20.9
1. Crop Price Index (1995 =100)	310.8	395.1	356.8	389.0	409.8	424.9
$\Delta\%$	-7.5	27.1	17.1	28.0	38.2	25.7
Hom Mali Paddy	13,513	13,552	14,130	13,196	13,516	13,364
$\Delta\%$	-1.4	0.3	11.2	0.5	-3.0	-6.5
Paddy Class 1 (5%)	9,717	8,441	9,121	8,053	8,316	8,276
$\Delta\%$	-9.0	-13.1	-10.1	-20.1	-13.1	-8.8
Rubber	56,358	102,700	93,954	104,599	98,640	113,609
$\Delta\%$	-26.4	82.2	115.6	109.2	70.0	53.9
Maize	6,139	7,971	7,238	8,316	8,389	7,941
$\Delta\%$	-21.8	29.8	12.9	26.9	50.6	31.7
Cassava	1,252	2,329	1,861	2,181	2,708	2,566
$\Delta\%$	-30.7	86.0	58.9	93.9	122.1	71.7
2. Livestock Price Index (1995 =100)	156.6	168.2	166.5	170.0	171.8	164.2
$\Delta\%$	3.6	7.4	12.0	6.5	7.4	3.9
3. Fishery Price Index^{1/} (1995 =100)	177.3	182.1	171.4	175.0	189.9	192.1
$\Delta\%$	1.7	2.7	-5.1	3.8	5.4	6.9
4. Forestry Price Index^{2/} (1995 =100)	153.5	166.3	155.3	165.9	171.1	173.0
$\Delta\%$	21.0	8.4	1.1	8.1	11.6	12.8

Note: $\Delta\%$ represents percentage change from the same period last year

1/ adjusted weights between vannamei and black tiger shrimps since 2008 and referred to Samutsakorn's vannamei price since 2010

2/ the data since Jan 2009 sourced from Bureau of Trade and Economic Indices

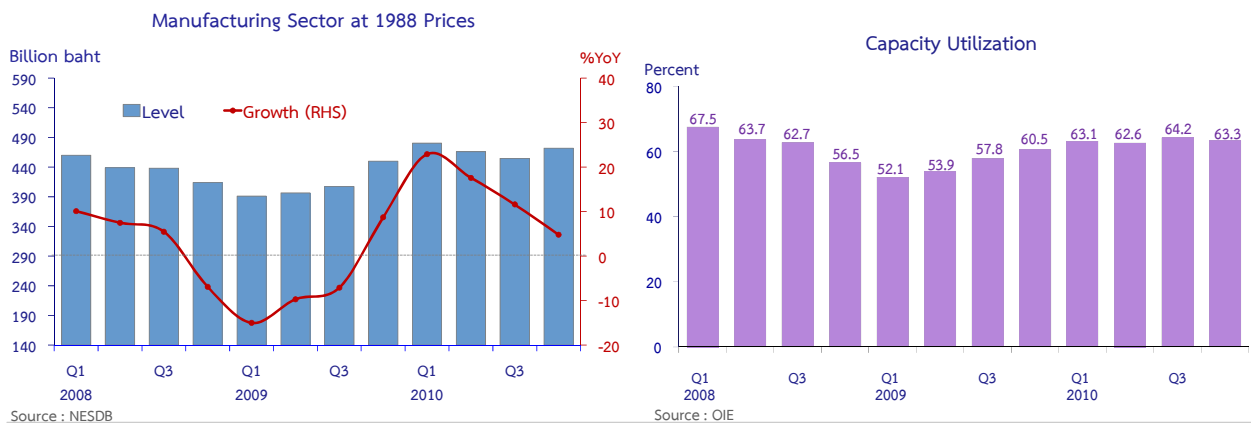
Source: Office of Agricultural Economic, Bureau of Trade and Economic Indices, Fish Marketing Organization, and Department of Fisheries

4.2 Manufacturing Sector

Production in the manufacturing sector exhibited a remarkable expansion in tandem with the global and domestic economic recovery. In addition, many industries received benefits from the ASEAN free trade agreement.

Production increased in tandem with economic recovery.

Manufacturing production expanded by 13.9 percent in response to improving external and domestic demands, as well as the positive effects from tax exemption under the ASEAN free trade agreement, which resulted in an expansion of production capacity in various industries. Meanwhile, the capacity utilization continued to increase from 56.1 percent last year to 63.3 percent this year.



Industries which expanded particularly well were vehicles, electronic tubes, hard disk drives, and electrical appliances, which were supported by several contributing factors in addition to the global and domestic economic recovery as followed:

- Strong growth performances in the automobile industry were due to continuous introduction of new models, the increase in preference for small-sized cars, as well as benefits gained from the ASEAN free trade agreement.
- Electronics industry, including electronic tubes and hard disk drives, continued to produce new products to stimulate customer demand.
- Electrical appliances industry, particularly air-conditioners, refrigerators and compressors benefited from numerous factors, including a warmer global climate, a shift in

consumer's taste toward quality, energy efficient and environmentally friendly products. In addition, the industry also received benefits from the exemption of an excise tax on air-conditioners and the ASEAN free trade agreement.

Robust growth in the aforementioned industries had favorable impacts on the production of linkage industries including metal, rubber, plastic pallet, and petroleum industries, which led to a broad-base recovery within the manufacturing sector.

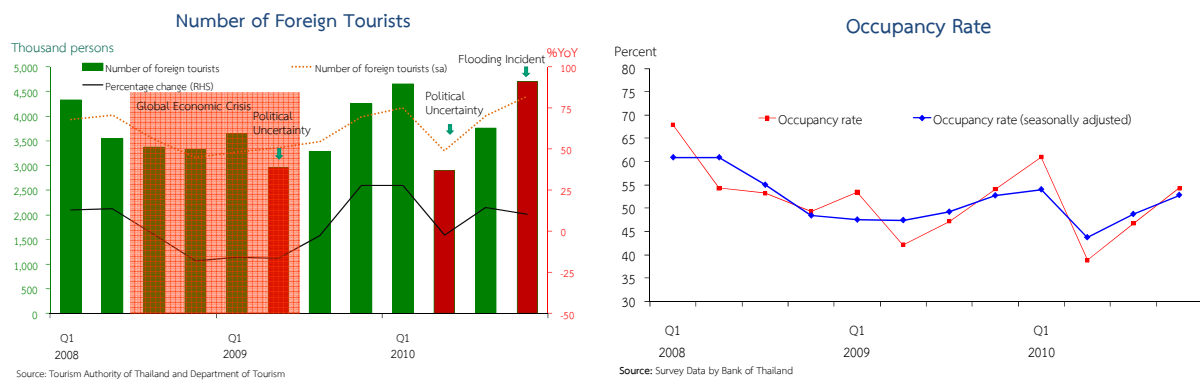
4.3 Tourism and Hotel Industry

The number of foreign tourists registered a new historical record despite the domestic political unrests, which indicated robustness of Thailand's tourism sector.

The tourism sector recovered rapidly after the political unrests subsided.

The number of foreign tourists reached a new historical record of 16.0 million persons in 2010. Although the inbound tourists during the second quarter was adversely affected by the domestic political unrest, the tourism sector displayed a remarkable recovery in its aftermath, owing to the improvement of the global economic conditions, led by emerging market economies, especially within the Asian region. As a result, the number of foreign tourists from East Asia, which accounted for the largest share, together with tourists from Russia, Middle East, and South Asia, increased markedly. Meanwhile, the share of foreign tourists from the G3 countries dropped slightly, indicating a slow economic recovery within the area.

The structural shift in foreign inbound tourists toward the Asian region, which had lower average spending per person and shorter length of stay relative to tourists from the G3 countries resulted in a reduction in the tourist income per person. Nevertheless, a significant increase in the number of tourists entailed an expansion of tourism revenues of 16.0 percent from the previous year.



Political unrests induced more scattered foreign tourist occupancy in regional areas other than Bangkok.

Foreign tourists became more dispersed into regional areas due to several factors which included the political unrest in the central region, continuous tourist promotions across regional areas, as well as an increase in the number of direct flights to regional areas, especially in the southern region. As a result, the occupancy rates in the regional areas including the southern, northeastern, and northern regions increased from the previous year.

For 2011, the tourism sector is projected to expand continuously given a strong economic outlook in Asia and the recovery of the G3 countries. Nevertheless, domestic political uncertainties, along with higher costs, are the downside risks to growth in the tourism sector.

Tourism Indicators

	2009	2010 ^P				
		Year 2010	Q1	Q2	Q3	Q4
1. Number of foreign tourist (million persons)	14.1	16.0	4.7	2.9	3.8	4.6
% YoY	-3.0	12.6	27.8	-2.2	14.5	8.4
2. Income from tourism (billion baht)	535.8	621.7	195.4	98.0	142.4	185.8
% YoY	-11.2	16.0	36.2	-1.2	12.5	11.6
3. Occupancy rate (percent)	49.2	50.2	61.0	38.8	46.7	54.3
• North	38.0	40.3	48.7	29.4	34.8	47.9
• Northeast	45.3	48.4	49.8	45.0	49.5	48.8
• Central	52.5	50.1	62.8	35.2	46.7	55.9
• South	48.9	56.1	66.6	49.9	52.3	55.8

Note: P = Preliminary data

%YoY represents percentage change from the same period last year

Sources: Tourism Authority of Thailand, Department of Tourism, and Bank of Thailand

International Tourists Classified by Nationality

Country	Change (%)		Market Share (%)	
	Year	Year	Year	Year
	2009	2010	2009	2010
East Asia	-6.9	14.1	50.0	51.0
- Malaysia	-2.6	11.7	12.4	12.4
- China	-5.9	45.1	5.5	7.1
- Japan	-12.9	-2.0	7.1	6.2
- Korea	-30.5	32.0	4.4	5.2
- Laos	5.4	5.3	4.6	4.4
- Singapore	-1.1	2.8	4.0	3.7
Europe	1.9	6.9	28.7	27.4
- Russia	4.0	81.3	2.4	3.9
The Americas	-5.9	0.3	6.0	5.4
South Asia	16.2	25.0	5.8	6.5
Oceania	-7.4	10.1	5.2	5.1
Middle East	4.2	23.0	3.4	3.8
Africa	-5.5	13.0	0.8	0.8

Note: Region classification is corresponding to Tourism Authority of Thailand's criteria

Source: Tourism Authority of Thailand and Department of Tourism

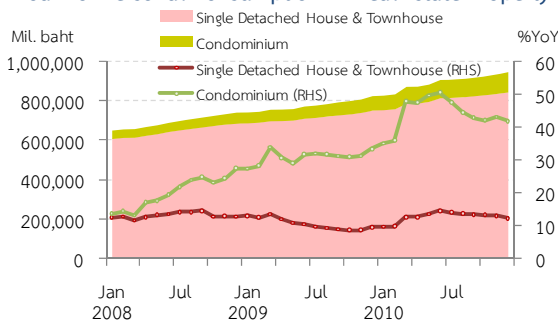
4.4 Real Estate Sector

Real estate sector expanded following the economic recovery and the government's stimulus measures.

Real estate market experienced a broad-base expansion in response to the government's stimulus measures, low interest rates, and an intense competition among the financial institutions in granting housing loans. These environments prompted consumers to hasten their purchasing decisions on residential properties during the first half of the year. In particular, condominium sales showed a buoyant growth rate as a result of changes in consumers' preferences and lifestyle in urban areas.

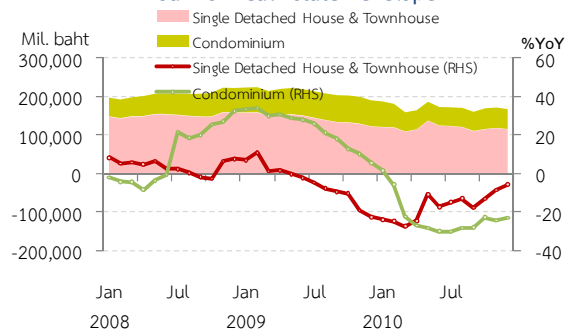
Despite a slowdown in demand as the government's stimulus measures expired in June 2010, housing demand started to gradually improve on the back of strong economic fundamentals. As a result, the registration of transferred residential properties in Bangkok and its vicinity grew by 10.5 percent from the previous year.

Loan for Personal Consumption in Real Estate Property



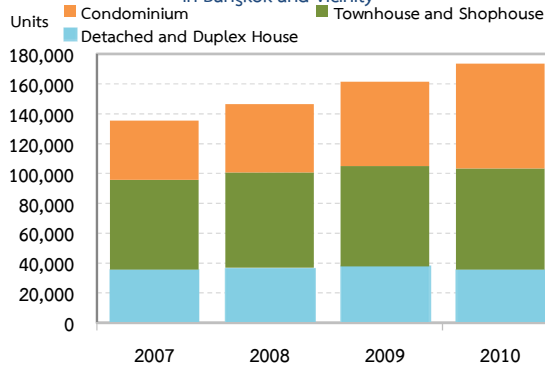
Source: Bank of Thailand

Loan for Real Estate Developer



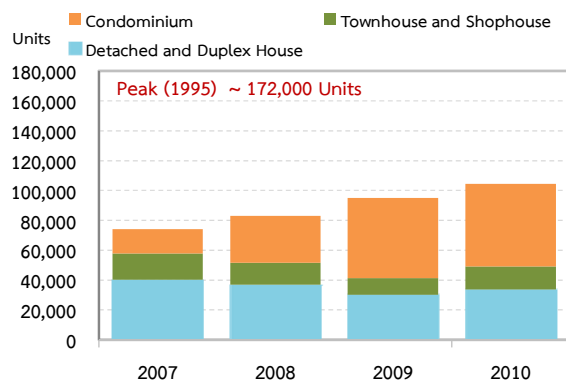
Source: Bank of Thailand

Demand: Registration of Transferred Residential Properties in Bangkok and Vicinity



Source: Real Estate information Center (REIC)

Supply: New Housing Registrations in Bangkok and Vicinity

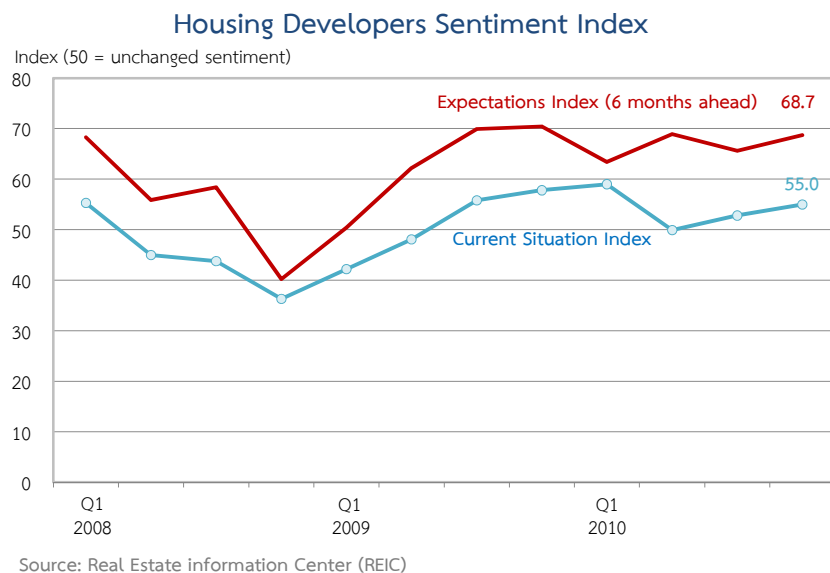


Source: Real Estate information Center (REIC)

As housing demand increased, developers launched several new residential projects and accelerated the construction of many existing projects in order to complete the projects within the year. As a result, new housing registrations grew by 13.6 percent, reaching the highest level after the economic crisis in 1997, with condominium accounting for half of the new registrations. These developments were mirrored by a broader source of finance as more developers increased their reliance on debt securities, which led to a historical record of 99,040 million baht in debt securities issued by the real estate sector.

Given quick responses from the supply side, the average price of residential properties with approved loans from commercial banks in 2010 increased slightly by 2.4 percent from the previous year.

Going forward, the real estate sector is expected to expand continuously in 2011 as large developers plan to launch several new residential projects due to their confidences in the economic condition despite an increasing trend of construction costs and interest rates.



Real Estate Indicators

	2008	2009	2010	2010	
				H1	H2
1. Demand Side Indicators					
1.1 Registration of transferred residential properties in Bangkok and its vicinity (units, REIC)	146,451 (8.2)	161,240 ^R (10.1)	178,128 (10.5)	109,183 (50.0)	68,945 (-22.0)
- Single detached house and duplex house (units)	36,948	37,845 ^R	36,436	21,749	14,687
- Townhouse and shophouse (units)	63,688	67,281 ^R	68,779	41,832	26,947
- Condominium (units)	45,815	56,114 ^R	72,913	45,602	27,311
1.2 Outstanding loan for personal consumption in real estate property ^{1/} (million baht, BOT)	873,012 (12.3)	961,796 (10.2)	1,092,407 (13.6)	1,051,102 (16.2)	1,092,407 (13.6)
- Low-rise residence (million baht)	691,575 (12.8)	757,551 (9.5)	850,328 (12.3)	820,351 (14.6)	850,328 (12.3)
- Condominium (million baht)	54,231 (27.4)	72,316 (33.4)	102,548 (41.8)	91,654 (50.4)	102,548 (41.8)
2. Supply Side Indicators					
2.1 New housing registrations in Bangkok and its vicinity (units, REIC)	85,579 ^R (13.3)	94,977 ^R (14.3)	107,904 ^E (13.6)	48,876 ^R (15.5)	59,028 ^E (12.1)
- Single detached house and duplex house (units)	36,914 ^R	30,136 ^R	33,322 ^E	15,337 ^R	17,985 ^E
- Townhouse and shophouse (units)	14,616 ^R	11,116 ^R	14,663 ^E	7,532 ^R	7,131 ^E
- Condominium (units)	34,049 ^R	53,725 ^R	59,919 ^E	26,007 ^R	33,912 ^E
2.2 Outstanding loan for real estate developer ^{1/} (million baht, BOT)	416,977 (22.1)	380,161 (-8.8)	360,860 (-5.1)	372,282 (-10.8)	360,860 (-5.1)
2.3 New issuance of private debt securities by real estate sector (million baht, BOT)	65,926 (10.8)	70,368 (6.7)	99,040 ^P (40.7)	39,036 (11.2)	60,004 ^P (70.2)
2.4 Net flow of foreign direct investment in real estate sector (million baht, BOT)	33,957 (-18.5)	24,974 (-26.5)	19,326 ^P (-22.6)	14,460 ^P (19.9)	4,866 ^P (-62.3)

Note: ^{1/} Outstanding credit extended by commercial banks (excluding foreign branches of Thai commercial banks) at end-period

^{2/} Numbers in () are year-on-year growth rates

P = Preliminary data

R = Revised data

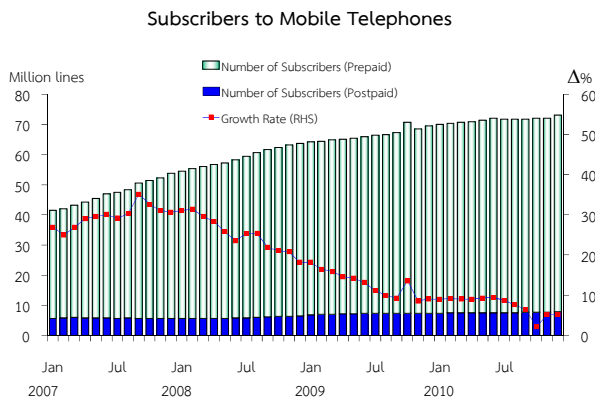
E = Estimated data

Sources: Real Estate Information Center (REIC) and Bank of Thailand (BOT)

4.5 Telecommunication Sector

Although telecommunication business continued to expand in 2010, its future growth may rely on other additional services which require the use of 3G technology.

Telecommunication usage increased from the previous year in response to a robust economic expansion, together with lower fees in both telephone and other additional services due to a more competitive environment. However, the future development of this sector cannot merely rely on an increase in the number of subscribers due to its saturated market condition. This is evidenced by a fall in the number of subscribers of fixed-line telephone, as well as a decline in the growth rate of subscribers for mobile phone from 9.1 percent last year to 3.8 percent this year. Nevertheless, growth opportunity exists for other additional services, which are expected to expand steadily. These services include internet service through the GPRS, short message service (SMS), and the participation of a social network such as Twitter and Facebook. Moreover, the unavailable 3G network service will hinder the industry’s growth prospect going forward.



Source: TOT Corporation Public Company and CAT Telecom Public Company Limited

(Million lines)	2009	2010	2010					
			Q1	Q2	Q3	Q4	Nov ^f	Dec ^e
Fixed-line telephones								
Bangkok metropolitan area	3.38	3.35	3.40	3.40	3.37	3.35	3.36	3.35
Provincial area	3.46	3.30	3.44	3.42	3.35	3.30	3.31	3.30
Total fixed-line telephones	6.85	6.65	6.84	6.81	6.72	6.65	6.68	6.65
Δ%	-1.7	-2.8	-1.7	-1.6	-2.5	-2.8	-2.9	-2.8
Mobile phones								
Postpaid	7.42	7.84	7.53	7.55	7.69	7.84	7.76	7.84
Prepaid	62.08	65.24	63.24	64.49	63.98	65.24	64.41	65.24
Mobile phones	69.50	73.08	70.78	72.04	71.67	73.08	72.17	73.08
Δ%	9.1	5.2	9.1	9.4	6.5	5.2	5.2	5.2

Note: ^{1/} Data as of end-period

Δ% represents percentage change from the same period last year

Source: TOT Corporation Public Company and CAT Telecom Public Company Limited

Summary of the Economic/Business Information Exchange Program between the Bank of Thailand and the Business Sector in 2010

Overall economic/business conditions in 2010

According to the Economic/Business Information Exchange Program between the Bank of Thailand and 828 firms nationwide in 2010, overall business conditions continued to expand despite facing several negative economic shocks including drought, political instability, flooding, and a continuous appreciation of the Thai baht. Robust business performance was supported by strong economic fundamentals, as well as the stimulus measures from the government. However, businesses are expected to encounter various risks and hindrances going forward including difficulties in price adjustments, higher production costs, labor shortages, uncertainty in the global economy, and the political instability.

Private consumption: In 2010, consumption expanded favorably on the back of robust economic growth, higher farm income, more aggressive businesses' marketing strategies, as well as eased credit standards from financial institutions. Meanwhile, the political unrest during April-May and the flooding during October-November merely resulted in a temporary slowdown in consumption.

Private investment: Thailand's investment in 2010 registered a robust expansion, especially in automobile, electronics and electrical appliances industries. In addition, investment demand for production of high technology products, as well as for substituting labor input, increased in several sectors such as automotive parts and agro-industries. For the wholesale and retail sectors, more branches and warehouses are expected to be opened throughout 2011.

Production and exports: In 2010, the production and exports of automobile, air-conditioners, electronics, agricultural products, and food processing products expanded particularly well. Political instability moderately affected the transportation of goods and raw materials in the short run. Meanwhile, the appreciation of the Thai baht in the fourth quarter led to producers' adjustments by improving productivity, shortening advance booking of orders, seeking new markets, using hedging instruments, and increasing prices of products. However, an upward price adjustment was limited due to intense competition, and also depended on each business' negotiating power.

Credits in the banking system: Credits granted to both large corporations and SMEs expanded well, especially in the last quarter of the year. For large corporations, loans for fixed investment accelerated relatively faster than loans for working capital due to the continued demand for capacity expansion in 2011. Meanwhile, the credit standards for corporate loans remained approximately stable throughout 2010. For consumer loans, housing loans rose significantly prior to the expiration of stimulus measures in the real estate sector while leasing loans also increased in response to solid performance of car sales throughout the year. In terms of credit quality, the non-performing loan ratio and delinquency rate remained low.

Real estate: The sector expanded from the previous year on the back of strong demand for residential properties owing to the government's stimulus measures, low interest rate environment and the restoration of consumer confidence. The improvement enhanced developers' confidences, which led to the launching of new residential projects. In particular, the condominium sector recorded highest expansion in history due to strong demand for accommodation in the inner city.

Employment: Many industries faced labor shortage problems as a result of the skill mismatch and seasonal labor moving to the agricultural sector. This caused businesses to adjust by extending over-time working hours, making use of outsourced labor, employing more migrant workers, and increasing wages, which raised difficulties for SMEs to compete against wages of large corporations.

Production costs and prices: An upward cost pressure persisted throughout the year due to rising demand for raw materials, as well as an upward trend in oil and other commodity prices. Nevertheless, businesses adjusted by enhancing their productivity instead of raising prices due to intense competitions.

Business constraints and risks: During the first half of the year, political instability became the top hindrance for business constraint. However, after political tensions subsided, businesses perceived difficulties in price adjustment as the most constraining factor. This was due to intense competition and price control measures imposed by the government while businesses faced rising cost pressure from rising oil and raw material prices, as well as higher wages.

Real Estate Boom: Risk of Price Bubble?

The year 2010 was the golden year for real estate businesses. At the same time, the sector's high growth rate raised concerns regarding risks to accumulation of asset price bubble as experienced during the 1997 crisis.

A real estate price bubble is characterized by a sharp and continuous increase in real estate prices which induce circles of speculations, mirrored by expansion in housing loans. Therefore, proper indicators of asset price bubble includes (1) a sharp and continuous increase in asset prices and (2) a considerable and continuous increase in housing loans granted to developers and consumers. These two signs were observed in the US market where the house price index rose by 10 percent, on an average, per year over ten consecutive years, with the housing loan growth expanding by more than 10 percent per year for 8 consecutive years. For Thailand, no such signs were observed in housing loans for real estate sector.

Nevertheless, favorable economic conditions, as well as a sustained and low interest rate environment can be the recipe for excessive risk taking behavior which facilitated the buildup of asset price bubble or financial imbalances. Thus, although the current indicators showed no sign of asset price bubble, past experiences from several countries showed that bubbles were often observed only when close to or after bursting. The authority must therefore be vigilant against such developments and monitor the situation closely from all dimensions.

In 2010, risk taking behavior started to become more apparent as launches of new residential projects increased significantly, half of which accounted for condominium projects. Meanwhile, housing demand became moderate after the expiration of the government's stimulus measures in the real estate sector by mid 2010. In response to decelerated demand, developers introduced aggressive marketing strategies such as allowing home buyers to have a first year move in privilege free of charge before paying the first installment as well as granting loans equal to collateral value, and paying installments with 0-percent interest rate in early periods. These strategies attracted more home buyers with insufficient purchasing power or subprime customers. At the same time, financial institutions tended to grant more housing loans with loan-to-value ratio (LTV) of more than 90 percent owing to intense competition. These loans were mostly for residential properties with price below 10 million baht. Moreover, although the number of non-performing loans (NPL) of the aforementioned segment was low, it tended to increase over time. These approvals of loans with higher LTV ratio resembled the situation observed at the nascent stage of real estate price bubble in the U.S. where the observed LTV increased from the normal ratio of 70-80 percent to 120 percent.

Given the aforementioned risk taking behavior under favorable economic environment, replenished confidence and accommodative interest rate, the timing was proper for the Bank of Thailand to impose preventive macro prudential measures^{1/} in order to reduce such risks going forward. As a result, BOT launched the new measure on housing loans with property price below 10 million baht, which will be effective in January 2011 and January 2012 for condominiums and low-rise housing, respectively. The new measure will employ variable risk-weight (RW) instead of the previously set risk-weight of 35 percent. Loans with high LTV ratio for this group would be subject to high risk-weight. This measure aimed to increase financial institutions' cost of funding on such loans but did not confine financial institutions from granting loans at any LTV ratio. Financial institutions would have to manage their risks accordingly for loans with higher than the assigned LTV ratio. Overall, the measure acted as a signal to all market participants, which encouraged them to become more prudent and ultimately helped maintain economic stability.

Year	Supervision measures for housing loans by commercial banks	
	Selling price below 10 million baht	Selling price from 10 million baht and above
2009	<ul style="list-style-type: none"> • Set Risk Weight (RW) unchanged - LTV ≤ 100%, set RW 35% - LTV > 100%, set RW 75, 100% 	<ul style="list-style-type: none"> • Cancel old rule of LTV not more than 70% • Set new RW - LTV ≤ 80%, set RW 35% - LTV 80 - 100%, set RW 75% - LTV > 100%, set RW 75, 100%
2010	<ul style="list-style-type: none"> • Set new RW - For condominium: <ul style="list-style-type: none"> LTV ≤ 90%, set RW 35% LTV 90-100%, set RW 75% LTV > 100%, set RW 75, 100% (Effective on preliminary contract from 1 January 2011) - For low-rise housing: <ul style="list-style-type: none"> LTV ≤ 95%, set RW 35% LTV 95-100, set RW 75% LTV > 100%, set RW 75, 100% (Effective on preliminary contract from 1 January 2012) 	<ul style="list-style-type: none"> • Set RW unchanged - LTV ≤ 80%, set RW 35% - LTV 80 - 100%, set RW 75% - LTV > 100%, set RW 75, 100%

Source: Bank of Thailand

^{1/} The Notification of the Bank of Thailand No. FIGP. 10/ 2553. Re: Regulation on Calculation of Credit Risk-Weighted Assets for Commercial Banks under the Standardised Approach (SA) (No. 3).



5. Monetary Conditions

5.1 Monetary Conditions and the Exchange Rates

Monetary conditions remained accommodative to economic growth.

Sustained credit growth and low interest rates continued to accommodate the pace of economic expansion. Meanwhile, the short-term money market rates rose in line with the policy rate hike.

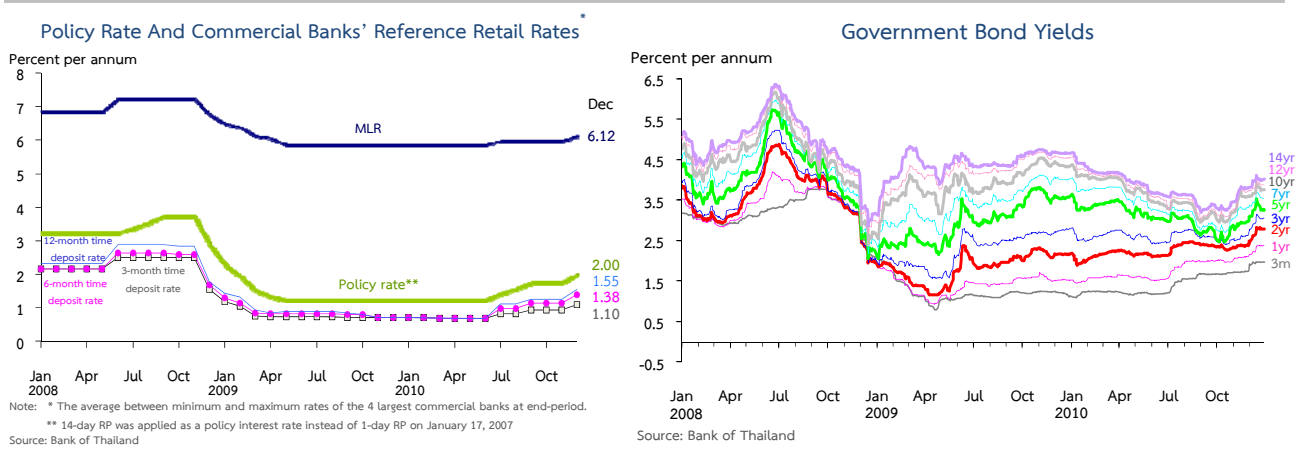
During the first half of the year, concerns over risks to global economic growth and the domestic political instability were major factors for the MPC to maintain the policy interest rate at 1.25 percent per annum. Nonetheless, in the latter half, risks to global growth declined and the Thai economy continued to expand robustly. As a result, inflationary pressure started to rise with some possibilities of breaching the upper band of the target range in the future periods. The MPC therefore decided to gradually raise the policy interest rate 3 times, totaling 0.75 percent per annum, from 1.25 to 2.00 percent per annum by the end of 2010.

At the end of 2010, the 1-day repurchase rate and the overnight interbank rate (quarterly averaged) increased from the

previous year to 1.48 and 1.36 percent per annum, respectively, in line with the policy interest rate.

Commercial banks' reference retail rates^{3/} increased in tandem with the policy interest rate.

Commercial banks' reference retail deposit and lending rates started to adjust upward in the second half of the year, following the policy rate increase. The minimum lending rate (MLR) and the 12-month deposit rate of the four largest commercial banks increased by 0.26 and 0.87 percent to 6.12 and 1.55 percent per annum, respectively, at the end of the year.



Short-term government bond yield increased in line with the MPC's signal of policy normalization.

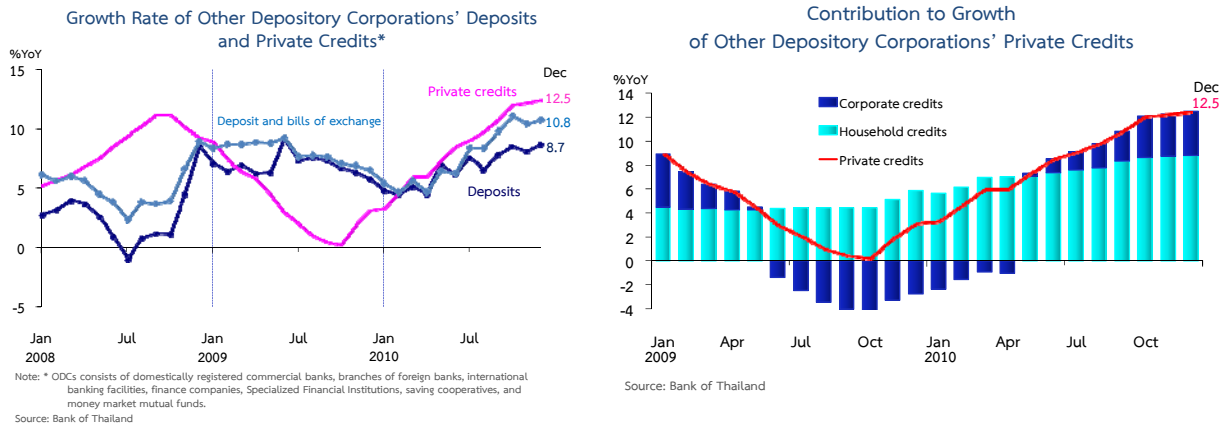
Short-term government bond yield gradually rose during the second half of 2010 as expectation of interest rate outlook rose in tandem with the MPC's policy signal. This was despite the decline in medium and long-term yields of government bonds since the beginning of the year due to an increase in investors' demand, especially from the insurance companies, as well as the expectations of lower supply of government bonds as a result of higher than expected fiscal revenues. Nevertheless, in the last quarter, both medium and long-term yields of government bonds started to adjust upward in line with the policy interest rate.

Private credits accelerated following the economic expansion.

Credits to household accelerated in line with robust private consumption growth. In particular, auto leasing loans

^{3/} Average rate of the 4 largest commercial banks.

accelerated rapidly following the new historical record of car sales. Meanwhile, housing loans continued to grow partly due to stimulus measures in the property sector. Loans extended to the business sector grew at a more moderated pace, partly a result of businesses' diversification of funding through debt and security issuance.



Commercial banks and SFIs accelerated deposits and bills of exchange accumulation to accommodate higher credit demand.

Deposits and bills of exchange of commercial banks and specialized financial institutions expanded by 10.8 percent from the previous year, partly due to the return of funds from matured foreign investment funds (FIFs), as well as the acceleration in deposit accumulation by financial institutions. These developments led to ample liquidity, which was adequate to accommodate the credit demand going forward.

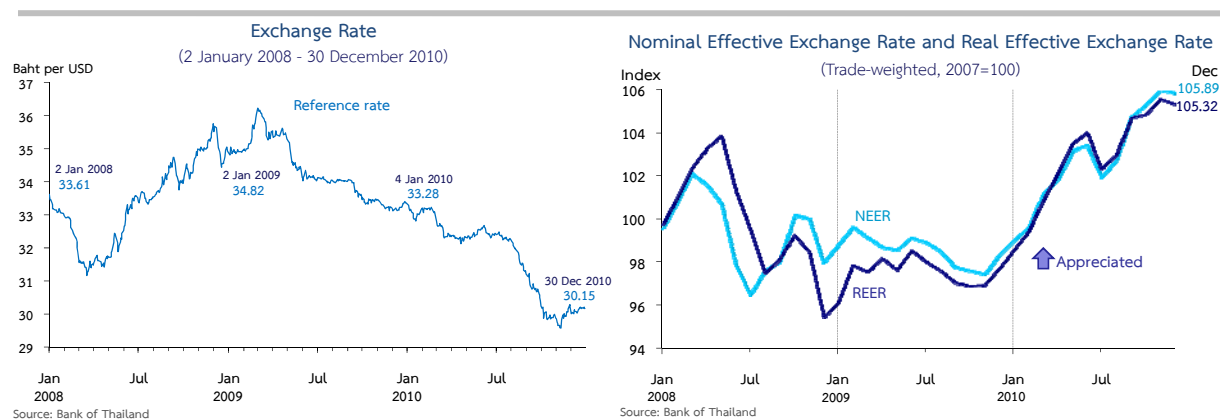
Monetary base and broad money expanded in line with increasing economic activities.

Rapid expansions of the monetary base in the first half of 2010 resulted from an increase in precautionary demand for cash during the domestic political instability. Nevertheless, such demand decreased after the incident subsided, which resulted in an overall expansion of the monetary base by 12.7 percent at the end of the year in line with the pace of economic expansion.

Broad money expanded by 10.9 percent from the previous year in tandem with the expansion of the monetary base.

The Thai baht appreciated against the U.S. dollar due to inflows of capital and surpluses in the current account.

At the end of 2010, the Thai baht stood at 30.15 baht per U.S. dollar, appreciating against the U.S. dollar by 10.6 percent from the end of 2009 due to surpluses in the current account and inflows of the foreign capital into equity and bond markets. This was due to the economic growth differentials between the emerging market economies and the major industrialized countries which induced a surge in capital inflow into the region, including Thailand. Nevertheless, the Thai baht appreciation became moderate toward the end of the year due to several factors, including investors' concerns on the public debt problem in Ireland, tighter monetary condition to curb inflation in China, tension within Korean peninsula, as well as investors' optimistic view on the U.S. economic recovery.



The Nominal Effective Exchange Rate^{4/} (NEER) appreciated by 4.5 percent from the previous year on a yearly average basis as a result of the weakening of the U.S. dollar, euro, and pound sterling. In particular, the U.S. dollar depreciated following concerns regarding uncertainties in the economic recovery. Meanwhile, the euro and pound sterling depreciated from concerns over the capability of fiscal deficit reduction to alleviate the public debt problem in Portugal, Ireland, Greece, and Spain. In addition, the expected accommodative stance of the Bank of England also exerted a depreciation pressure on the pound sterling.

^{4/} The Bank of Thailand released the new series of Nominal Effective Exchange Rate (NEER) and Real Effective Exchange Rate (REER) indices, with the updated trade weight and base year (in 2007). The first dissemination was scheduled in February 2011 onward.

The Real Effective Exchange rate (REER), which takes into account the effect of inflation to reflect the country's price competitiveness, appreciated by 5.5 percent, in line with the NEER appreciation. Meanwhile, the movement of Thailand's price index was in line with the regional countries.

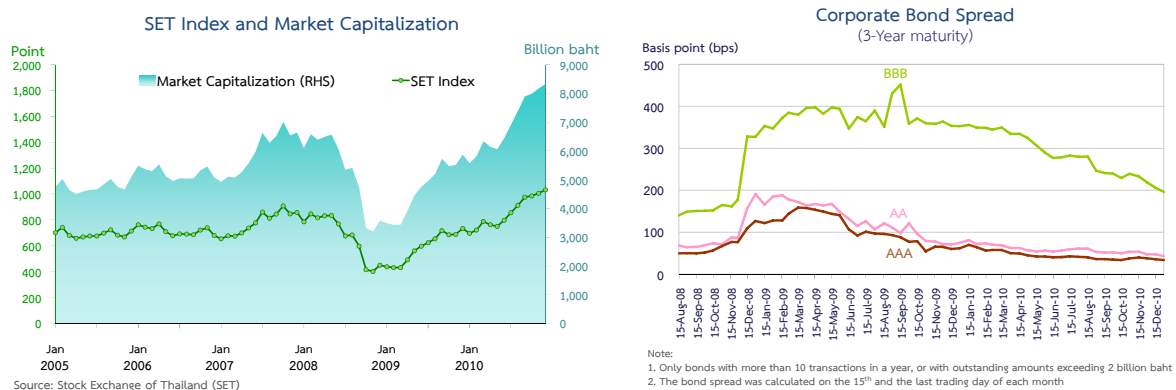
5.2 Equity and Bond Markets

Large capital inflows provided opportunity for the private sector to raise funds from the equity and bond markets.

The private sector increasingly raised fund from the equity and bond markets.

The difference in the pace of economic recovery between the Asian and the major industrialized countries resulted in greater foreign investments into bond and equity markets in developing countries including Thailand. As a result, the Stock Exchange of Thailand (SET) index rebounded sharply by 40.6 percent from the end of 2009, representing the third largest increase in the world and the second largest increase in Asia after Indonesia. The year-end market capitalization therefore grew by 41.9 percent from 2009, reaching 8.33 trillion baht or 82.5 percent of GDP, the highest record since the establishment of the SET.

Non-financial corporate sectors, especially in the transportation, manufacturing, and real estate sectors, increasingly raised funds through the equity channel. Thus, the newly-issued equities for the whole year were amounted to 87.5 billion baht, increasing by four times compared to the previous year.



In addition, the private sector also raised funds through the bond market which resulted in 1.3 trillion baht of corporate bond outstanding by the end of the year, exceeding last year's amount by 54 billion baht.

Meanwhile, the outstanding amount of government bonds at the end of the year rose to 5.6 trillion baht from 779.6 billion baht in 2009. The large government bond issuance was attributable to the government financing for the Strong Thailand Projects, as well as the Bank of Thailand's bonds as part of the sterilization process.

The improved economic conditions and financial positions of the corporate sector led to a reduction in the risk premiums as reflected by a continuous decline in corporate bond spread.

Nevertheless, the uncertainties regarding the U.S. economic recovery and the sovereign debt problem in the European countries, vis-à-vis the robust economic growth in the emerging market economies, led to differences in economic growth, inflationary pressure and monetary policy between the major industrialized countries and the emerging economies. Therefore, capital flows going forward are expected to remain highly volatile.

5.3 Banking System Performance

Financial position of the commercial banks remained strong.

Profits of the commercial banking system increased from the previous year in line with expansions of credits and deposits. Overall, the financial position of the commercial banks remained strong.

The banking system registered a total operating profit of 213.3 billion baht, increasing by 15.1 percent from the previous year. In particular, the Net Interest Margin (NIM) stood at 2.8 percent, close to the previous year. In addition, after deducting taxes and provision expenses from total operating profit, the banking system recorded a net profit of 123.0 billion baht, which translated into a 34.5 percent growth from the previous year. As a result, return on assets (ROA) increased from 0.9 percent to 1.1 percent.

Net interest income also increased from the previous year. This was due to the greater reduction in the deposit rates than the lending rates, resulting in a larger decline in the effective deposit rates relative to the effective lending rates.

Non-interest income of the banking system also improved from the previous year, edging up by 16.0 percent, mainly as a result of higher income from fees and services in response to the adjusted banking strategies. In addition, profits were also derived from investments in securities and foreign exchanges while non-interest expenses grew by 7.8 percent, partly due to higher personnel expenses.

The overall financial position of the banking system remained resilient. The banking system’s capital base strengthened as a result of profit and capital increase, and thereby, the ratios of capital to risk-weighted assets (BIS ratio) in 2010 rose to 16.2 percent, with the ratio of Tier-1 capital of 12.5 percent, exceeding the international standards by a substantial amount.

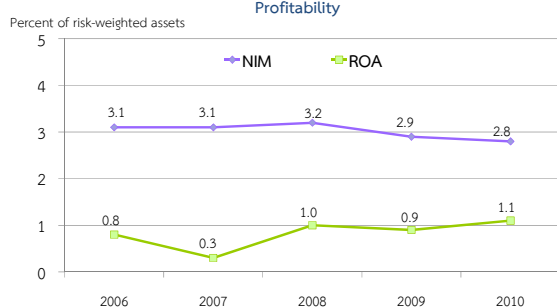
The ratios of gross non-performing loans (gross NPLs) to total loans of the banking system declined to 3.6 percent at the end of 2010. In particular, the gross NPLs amounted to 312.6 billion baht, decreasing by 63.5 billion baht from 2009. This was due to a reduction in NPLs of both corporate and consumer loans. Moreover, the delinquency ratio (overdue loans between one to three months) also declined despite a robust credit growth on the back of economic expansion. These improvements would contribute to the stability of the banking system going forward.

Performance and Important Financial Indicators of the Banking System

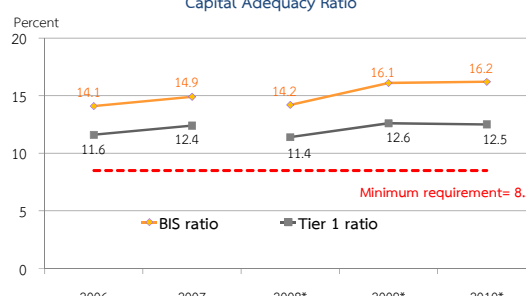
Profits



Profitability



Capital Adequacy Ratio



Source: Bank of Thailand

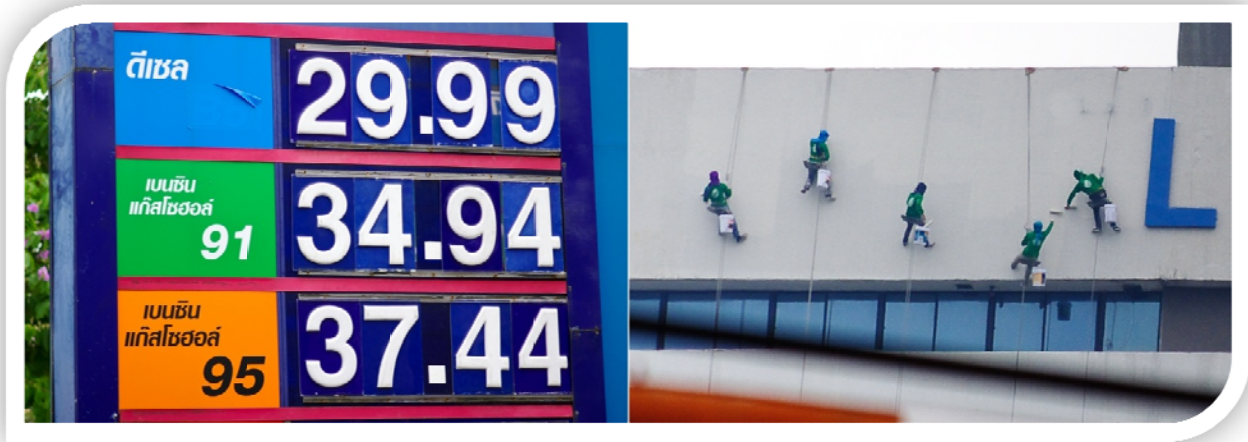
* In line with Basel II

Performance of the Banking System

Billion baht	2009	2010 ^P	%YoY
1. Interest income	404.3	415.1	2.6
1.1 Credit	311.1	307.0	-1.3
1.2 Interbank and money market items	20.8	26.0	24.9
1.3 Leasing and financial rent contract	26.7	29.2	9.5
1.4 Financial investments	45.7	52.8	15.6
2. Interest expense	114.2	99.8	-12.6
2.1 Deposit	78.2	58.3	-25.4
2.2 Interbank and money market items	7.9	12.8	63.1
2.3 Borrowings	28.2	28.7	1.7
2.4 Fees and charges	0.0	0.0	1,300.0
3. Net interest income (3) = (1) – (2)	290.1	315.2	8.6
4. Non-interest income	135.0	156.6	16.0
5. Operating expense	239.7	258.5	7.8
6. Operating profits (6) = (3) + (4) – (5)	185.4	213.3	15.1
7. Loss debt, doubtful of loss debt and loss from debt restructuring	56.4	44.1	-21.9
8. Taxes and special items	36.8	46.2	25.7
9. Net profits (9) = (6) – (7) – (8)	92.2	123.0	34.5

Note: The banking system comprises of 32 commercial banks, including 17 local banks and 15 foreign bank branches

Source: Bank of Thailand



Thailand's economic and financial stability remained satisfactory. Nevertheless, a rising trend in production costs and tightened labor market would constitute inflationary pressure going forward.

6.1 Internal Stability

6.1.1 Price Stability and Inflationary Pressure

An increase in production costs and robust economic growth resulted in accelerated inflation from the previous year. Going forward, these factors are expected to remain contributing to inflationary pressure.

Inflationary pressure continued to buildup markedly.

Headline and core inflation accelerated from the previous year by 3.3 and 1.0 percent, respectively. This was attributed to rising energy prices in line with the global oil price. In addition, reduced domestic and global supply of agricultural products from unusual weather conditions, together with rising domestic demand on the back of the economic recovery, all resulted in an increase in prices of agricultural products and raw foods.

Although recent growth developments led to an increase in demand pressure, the pass-through of higher production costs to prices of goods and services remained limited due to political uncertainties, flood, as well as the government's request for producers to withhold price increases in order to maintain consumers' purchasing power. As a result, the pass-through of higher production costs into core inflation was only partial.

The acceleration of inflation was also a result of additional factors including the termination of the government's subsidy on water charges in April 2010, which increased the cost in water expenditures as well as the disappearing deflationary effects of the 15-year free education program after 1-year implementation.

Going forward, a more pronounced inflationary pressure is expected from the gradual pass-through of production costs to prices withheld from the previous year and a higher cost pressure from rising commodity prices following the global economic expansion. Furthermore, robust economic growth from strong fundamentals within the country would facilitate a higher pass-through of production costs to prices in the period ahead.

Price Indices

(Percentage change from the same period last year)

	Weight (percent)	2009	2010				
			Year	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Headline Consumer Price Index	100.0	-0.9	3.3	3.8	3.3	3.3	2.8
- Core Consumer Price Index	75.5	0.3	1.0	0.4	0.9	1.2	1.2
- Raw food	14.6	5.6	10.3	8.2	9.2	13.8	10.2
- Energy	9.9	-13.1	9.7	26.3	10.9	1.5	3.2
Producer Price Index	100.0	-3.8	9.4	12.0	9.3	10.3	6.3
- Agricultural products	9.5	5.8	22.1	21.8	16.4	38.7	14.2
- Mining products	2.4	-10.9	3.0	11.3	3.1	-1.8	-0.2
- Manufactured products	88.1	-5.6	6.5	9.7	7.6	4.4	4.5

Source: Trade and Economic Indices Bureau, Ministry of Commerce

6.1.2 Labor Market Stability

Labor market continued to experience a tight labor supply.

Labor market tightened due to a robust employment growth following the strong economic condition. Thus, firms experienced higher difficulty in recruiting new workers, which put an upward pressure on wages.

Employment expanded by 0.9 percent in response to a strong economic condition, characterized by a more competitive environment for labor recruitment across economic sectors. Employment in trade and service sectors registered a growth rate of 3.1 percent and 2.9 percent, respectively. However, employment in the manufacturing sector contracted despite a strong production growth in the export-oriented sectors such as electronics and vehicles. This was partly due to a shift in labor from the manufacturing sector to trade, service, and agricultural sectors, as well as more labor becoming self-employed.

Employment Conditions

%YoY	2009	2010	2010					
			H1	H2	Q1	Q2	Q3	Q4
Employment	1.9	0.9	1.0	0.8	2.6	-0.5	0.8	0.7
Agriculture	0.0	-1.0	-3.1	0.8	1.8	-7.4	-1.2	2.9
Non-agriculture	3.1	2.1	3.4	0.7	3.0	3.8	2.3	-0.8
Manufacturing	-1.5	-0.5	0.7	-1.6	-0.4	1.7	-2.2	-1.1
Construction	4.0	2.3	5.3	-1.3	0.7	9.9	1.9	-4.4
Trade	5.1	3.1	4.0	2.3	2.9	5.1	4.1	0.5
Service	4.7	2.9	4.3	1.6	5.8	2.8	4.0	-0.8

Source: National Statistic Office

Various Indicators of labor market conditions pointed to labor shortage problems.

Tight labor market condition worsened in 2010, reflected by a rise in the ratio of vacancy to unemployment rate from 5.7 percent in 2009 to 10.5 percent in 2010. Unemployment rate dropped to 0.9 percent since the third quarter of 2010. Moreover, the long-term unemployment rate reduced from 1.1 percent in 2009 to 0.08 percent in 2010, indicating a shorter search time for

the majority of unemployed persons. The BOT's business survey^{5/} also found a larger number of firms experiencing difficulty in recruitment, reflected by the level of recruitment difficulty index, which was lower than 50 throughout 2010.

Labor Market Indicators

Major indicators	2009	2010	2010					
			H1	H2	Q1	Q2	Q3	Q4
Unemployment (Thousand persons)	572.3	402.2	468.9	335.5	431.7	506.1	341.0	329.9
Unemployment rate	1.5	1.0	1.2	0.9	1.1	1.3	0.9	0.8
Underemployed persons (Thousand persons)	604.9	520.8	560	481.7	547.9	572.1	516.5	446.8
Underemployment rate (%)	1.6	1.3	1.5	1.2	1.4	1.5	1.3	1.1
Long-run unemployment* (Thousand persons)	42.7	29.8	39.6	19.9	44.5	34.7	20.4	19.4
Long-run unemployment rate (%)	1.11	0.08	0.10	0.1	0.12	0.09	0.05	0.05
Vacancy/Unemployment rate (%)	5.7	10.5	9.1	12.0	11.1	7.1	11.9	12.0
Recruitment difficulty Index	55.6	42.4	43.7	41.0	44.4	43.1	41.5	40.5

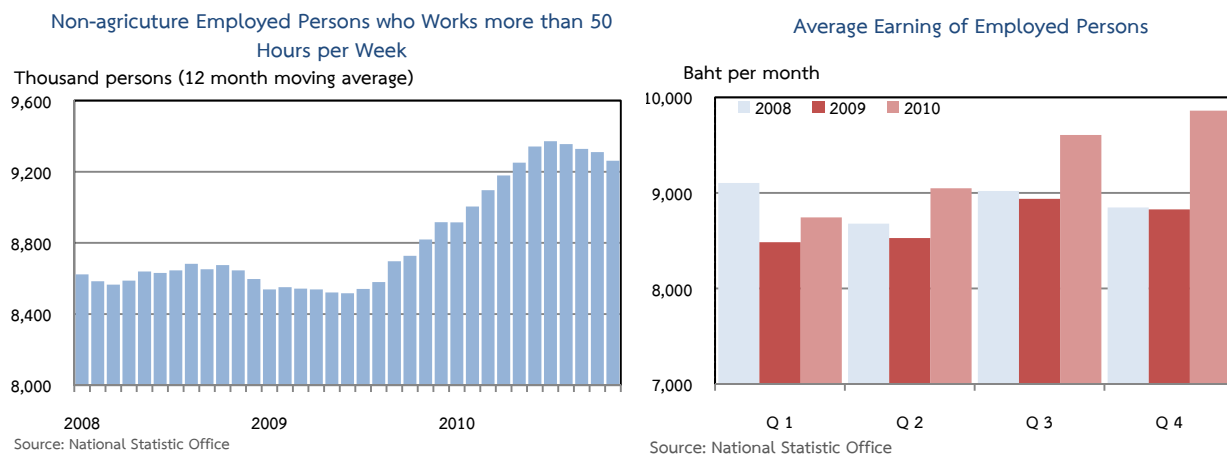
*Long-run unemployment refers to person being unemployed for more than 1 year

Source: National Statistic Office

Scarce labor led to higher working hours and wages.

Labor shortage problems prompted firms to extend working hours, as indicated by a continuous increase in the number of non-agricultural labor with working hours more than 50 hours per week throughout 2010 and the number of labor within this group stood much higher than the pre-crisis period. This led to an increase in wages on both agricultural and non-agricultural sectors. Thus, the overall average earnings in 2010 rose by 6.5 percent to 9,262.2 baht per month per person.

^{5/} Business Sentiment Index surveyed by the Bank of Thailand



6.1.3 Stability of Other Sectors

Overall, there were no signs indicating an accumulation of financial imbalances in the Thai economic and financial system.

Apart from price stability, stability of other sectors such as corporate, household, and financial markets are also deemed crucial in assessing the overall balance of the economy.

Corporate sector stability (non-financial institution)

The performance of non-financial institution companies listed on the Stock Exchange of Thailand continued to improve since the latter half of 2009. By the third quarter in 2010, the operating profit margins (OPM) and the interest coverage ratios (ICR) rose to 9.0 percent and 6.9 times, respectively, close to the average levels during the pre-crisis period in 2008.

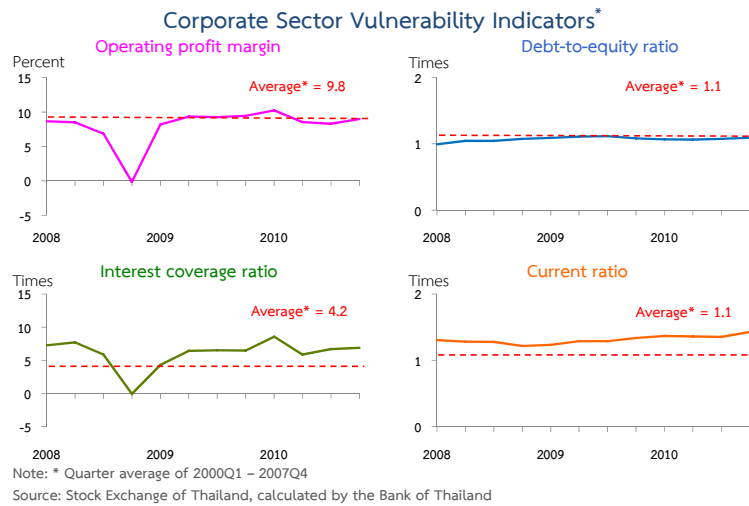
The appreciation of the baht had limited impact on the performance of the export-oriented sectors due to their continuous business adjustments. Meanwhile, other business sectors benefited from a robust expansion of domestic demand. As a result, financial positions of the corporate sector remained strong.

Risk factors to non-financial corporate stability going forward include:

- Uncertainties regarding the economic recovery of the major industrialized countries.

Financial positions of the corporate sector remained strong.

- Higher cost of production, from both raw materials and wages.
- Political uncertainties that could undermine consumer and business sentiments.
- Fluctuation of the capital flows that may affect volatility of the Thai baht.



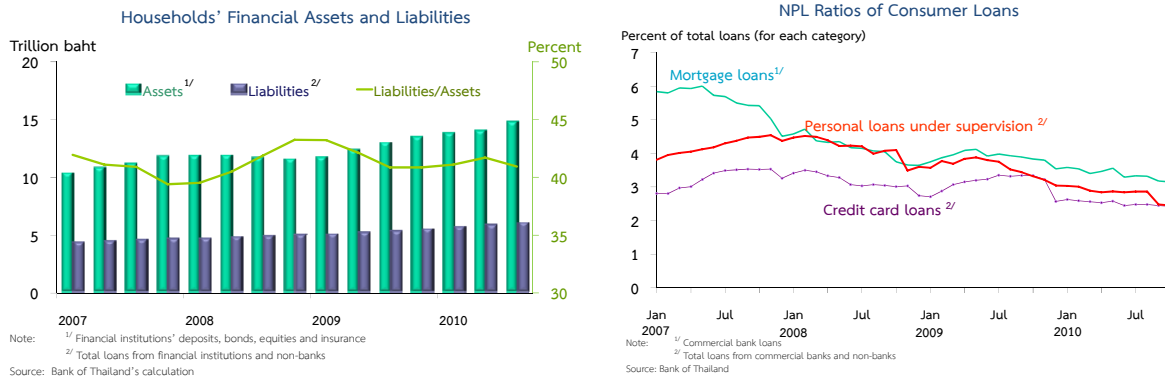
Household Sector Stability

Households' income increased in line with economic recovery.

Risks to households' income and employment remained low from continuous economic recovery, which led to higher demand for labor and rising wages. In turn, greater household income helped improve their debt servicing ability, reflected by a low NPL ratio of consumer loans. Nevertheless, interest rates which remained at a low level induced households to accumulate more debts as reflected by a robust expansion in personal loans, especially auto leasing and mortgages.

Looking ahead, ample liquidity and eased credit standards from the previous periods could lead to excessive indebtedness that may affect households' financial positions and debt servicing ability.

Household Sector Vulnerability Indicators



Government Sector Stability

Public debt remained below the threshold for debt sustainability.

Government sector stability remained satisfactory but risks going forward have increased. Even though the public debt to GDP at the end of December 2010 stood at 42.4 percent, well below the threshold for debt sustainability of 60.0 percent, an disproportionate rise in current expenditures and long-term contingent liabilities with regard to government revenue could lead to an increase in public debt and affect the government's financing ability.

Real Estate Sector Stability

There are no apparent signs of asset price bubble.

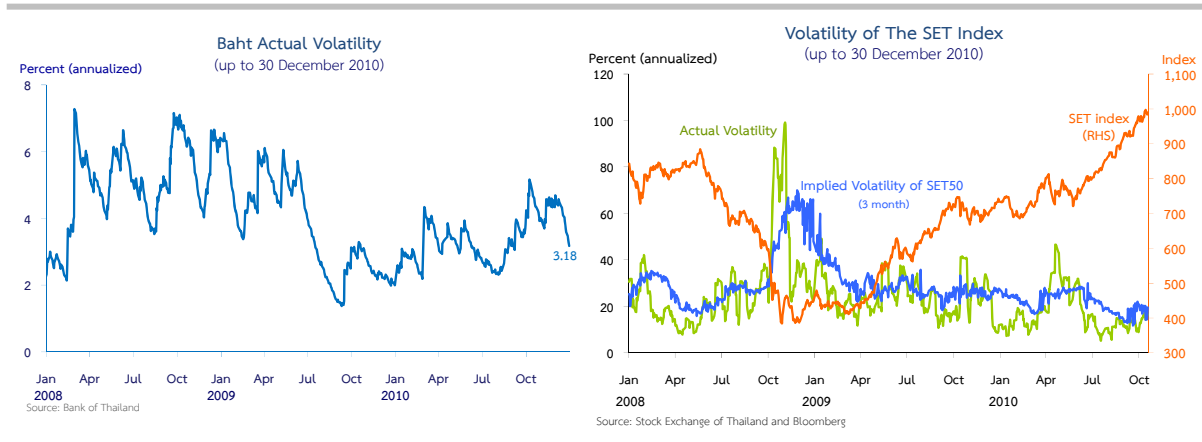
At present, there are no apparent signs of accumulated imbalances in the real estate sector. Adjustments of demand and supply were coherent, resulting in a modest increase in overall prices. Nevertheless, competition in mortgage lending became more intense, reflected by a rising proportion of mortgage lending with loan to value (LTV) ratio higher than 90 percent. As a result, the Financial Institutions Policy Committee (FIPC) announced a measure to discourage high LTV mortgage lending by increasing the associated risk-weighted assets applied to loans of property prices below 10 million baht. The measure took effect from 1 January 2011 onward for condominiums and will be applied from 1 January 2012 onward for low-rise housing.

Financial Market Stability

Volatility of the financial market in 2010 decreased on average.

Financial market stability improved from the previous year, both in the money and equity markets, reflected by lower volatilities of the baht-to-U.S. dollar exchange rate as well

as the lower average volatility of the SET index compared with 2009. Nevertheless, volatility in such indicators increased during the last quarter of the year, in line with greater foreign inflows to the bond and equity markets.



Banking System Stability

Loan quality improved, resulting in banking system stability.

Banking system stability remained sound due to improvement in income and debt servicing ability of the business and household sectors which resulted in an improvement in loan quality. As a result, gross NPL and delinquent loans (loans with one to three month overdue) to total loans at the end of 2010 decreased from the end of the previous year to 3.6 and 2.6 percent, respectively.

Looking ahead, risks to asset quality and overall banking system stability include:

- Uncertainties regarding the recovery of the major industrialized economies, which may affect exports and the quality of loans extended to exporters.
- An upward trend of interest rates that would result in a higher cost of funding for commercial banks, as well as a decline in debt servicing ability of borrowers, particularly retail customers.
- Compliance of new standards, especially the Basel III and the International Financial Reporting Standards (IFRS), which may increase the cost of doing business for financial institutions.

6.2 External Stability

External stability remained satisfactory.

External stability of the Thai economy remained strong, reflected by a continued surplus of the current account and a high level of international reserves. Although the ratio of short-term external debt to total external debt increased, most of the external debt was low-risk in nature, such as the short-term borrowings by banks to cover higher corporate hedging activities during the period of baht appreciation, and granted of trade credits to support economic activities.

Other indicators, including the solvency indicators and liquidity indicators, pointed to a strong external stability. Even though the ratio of external debt to GDP and the ratio of outstanding external debt to export earnings somewhat increased, these ratios remained low compared to international benchmarks. Meanwhile, the ratio of international reserves to import value and to short-term debt remained high.

External Stability Indicators

	2008	2009	2010	2010 ^P			
				Q1	Q2	Q3	Q4
Indicators of debt servicing ability							
Current account ^{1/} / GDP (%)	0.7	8.3	4.6	7.1	2.2	2.5	6.4
Debt / GDP ^{2/} (%)	31.4	28.8	33.8	29.5	29.6	32.3	34.0
Debt / XGS ^{1/2/} (%)	41.8	39.3	46.7	40.4	40.6	44.1	46.7
Debt service ratio (%)	8.2	7.5	4.6	5.6	4.9	4.0	3.5
Indicators of liquidity							
Gross reserves / ST debt	3.3	4.2	3.7	4.0	4.0	3.9	3.7
Gross reserves / Import	7.6	12.6	11.5	11.7	10.9	11.4	11.5
ST debt / Total debt (%)	44.2	44.0	48.2	45.1	45.8	46.7	48.2

Note: ^{1/} Since October 2006, "Reinvested Earnings" has been recorded as part of direct investment in the financial account and its contra entry recorded as "Investment Income" in the current account. The series have been revised back to 2001.

^{2/} The new series of the external debt to GDP was revised by adopting the World Bank's approach: using the averaged quarterly GDP for the last 3 years starting from the GDP of the quarter in question (while the previous approach was calculated by dividing the external debt outstanding of the quarter in question by the average GDP of the same year and the previous 2 years)

P = Preliminary data

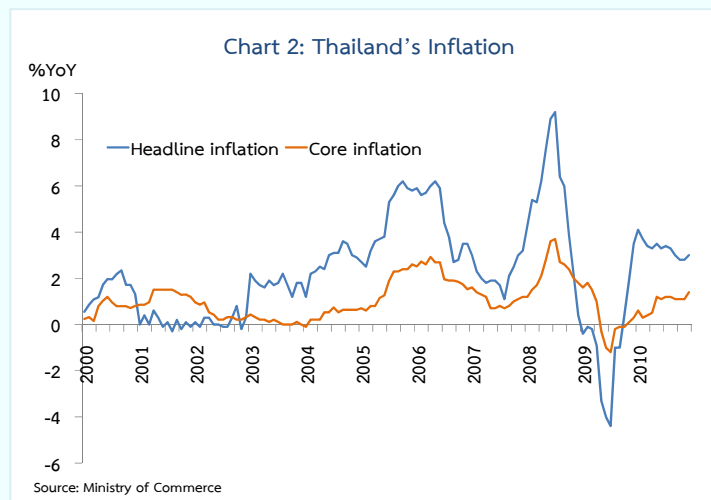
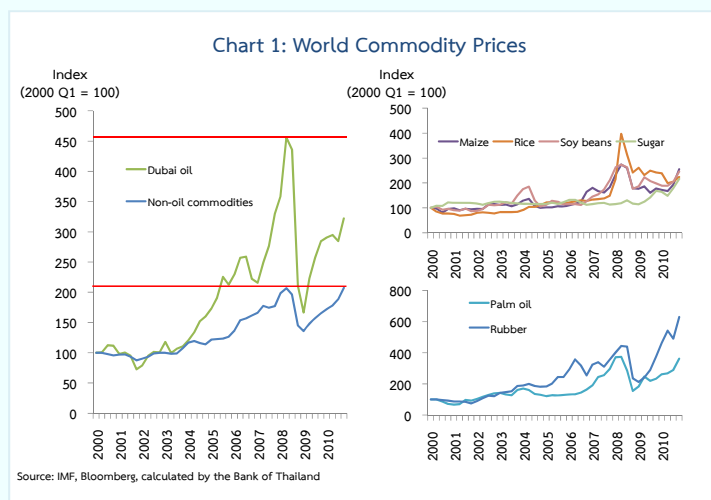
Source: Bank of Thailand

Risk of a Commodity Crisis and Implication to Inflation

Since the global economy began to recover from the latest financial crisis, commodity prices began to rise, especially for oil and agricultural prices, which represented a large share in the consumer price index baskets among developing countries.^{1/} This development poses important threats to inflation and the recovery momentum for both the global and Thai economies in 2010 – 2011, and raises a question whether the economy can withstand strong surges in commodity prices as experienced during the 2007 – 2008 period.

What happened before the financial crisis?

Since the year 2000, the Asian economies, particularly China and India, grew and exerted greater influences on international trade, which contributed much benefit to the global economic growth and inflation as a result of lower production costs. However, their continued economic expansions led to several changes in the economic structure; higher national income led to stronger consumption demand for economic resources such as oil and agricultural products. Demands for agricultural products were affected directly by growing population as well as indirectly by higher demand for energy crops. In addition, investors began to use commodity as an asset class for portfolio diversification. These demand pressures, together with other factors such as supply constraints, risks from



occurrences of natural disasters and political conflicts in oil producing countries, all exacerbated the volatility in commodity prices. This situation tended to persist unless the structure of demand and supply became more balanced.

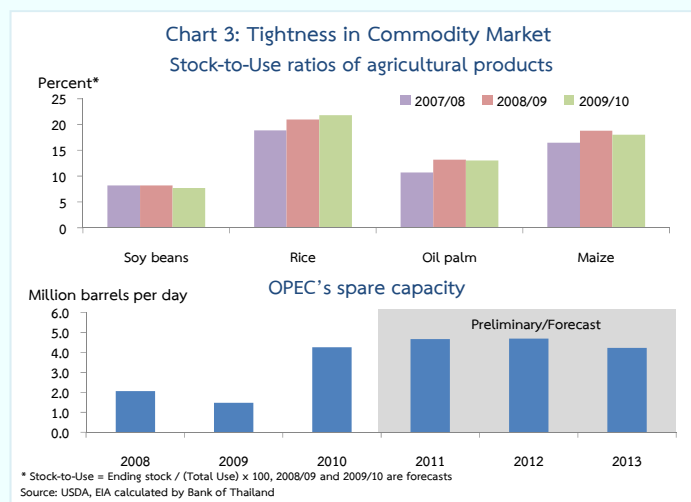
As an outcome of aforementioned development, the commodity prices accelerated substantially during 2007 – 2008, with the Dubai oil price reaching the highest record of 141.88

^{1/} Prices of other commodities such as metal also accelerated. However, these prices have little impact on inflation due to their relatively smaller share in the consumer price index basket. In addition, the indirect impact from the pass-through of production costs into goods prices in the basket was minimal.

U.S. dollars per barrel on 15 July 2008. Meanwhile, the International Monetary Fund (IMF)'s non-fuel commodity price index also rose significantly with prices of rubber, oil palm, soy bean, rice, maize and sugar being the main drivers. (Chart 1) The global inflation therefore increased markedly, especially for developing countries^{2/} where inflation increased from 6.5 percent in 2007 to 9.2 percent in 2008. For Thailand, the headline inflation accelerated from 2.3 to 5.5 percent during the same period, with the highest level registering at 9.2 percent in July 2008. This surge in the headline inflation also passed through to core inflation, which increased by 3.7 percent in the same month. (Chart 2)

Current condition and outlook for commodity prices

Improvements in the global economic prospect, particularly the Asian economies, have once again called for a close monitoring of commodity prices given the similar situation to the one in 2008. The difference was that recoveries in advanced economies have not fully recovered while the Chinese economy began to show signs of financial vulnerabilities. Thus, the risk to global economic growth remained, which



slightly lowered demand pressure on commodities, especially on oil. Nevertheless, the aforementioned supply constraints and the return of investors into commodity markets, as well as occurrences of flood in farming areas in many countries, all caused agricultural prices to rise markedly. However, tightness in supplies of both oil and agricultural products was considered to be lower than the pre-crisis period, as reflected by relatively higher stock-to-use ratios of agricultural products and OPEC spare capacity. (Chart 3) As a result, the overall pressure toward a wide-spread commodity price crisis is expected to be limited. Nonetheless, this issue requires a close monitoring especially as the global economic recovery begins to strengthen.

Implication to Thailand's inflation

Going forward, Thailand's inflation is expected to accelerate from both oil and agricultural prices, with a higher pass-through of prices into other goods and services in the core consumer price index basket. Given producers having been bearing these cost burdens for some time while Thailand's economic fundamentals remaining strong, the monetary policy has an important role to prevent rising inflation expectation that could lead to a wage-price spiral scenario, as persistently high inflation rates would undermine long-term economic stability.

^{2/} Inflation of 150 emerging and developing countries from the IMF

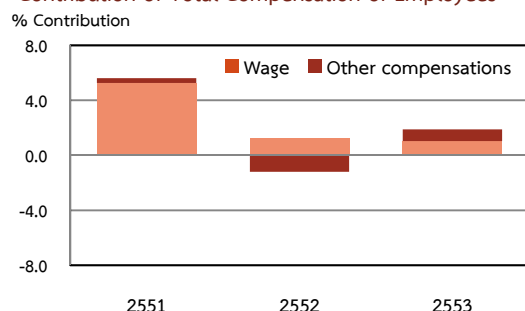
Employment Conditions under the Economic Recovery and the Increase in Minimum Wages

Strong economic recovery in 2010 resulted in higher demand for labor which reduced the unemployment rate to a low level. Throughout the year 2010, producers in various sectors faced with labor shortages due to various reasons as followed:

- A structural demographic problem resulted in insufficient expansions of labor supply relative to increasing demand for labor. This was attributed to a declining population growth rate from 0.8 percent in 2005 to 0.6 percent in 2010. Going forwards, labor shortage problems are likely to become more severe as the country is moving towards an aging society, with a continuous decline in the labor force participation rate.
- A qualification mismatch between the current available labor force and market demand still existed. While the manufacturing sector required production operators and skilled labor, Thai education still put emphasis on tertiary level or university education more than vocational education. As a result, the unemployment rate of the university graduated group was higher than the other groups.
- A change in labors' behavior resulted from disemployment during the economic crisis in 2008. As a result, some workers became self-employed while others entered the workforce in the agricultural sector, where real wage increased rapidly over the past several years from a surge in agricultural prices and the government's crop price and income guarantee scheme.

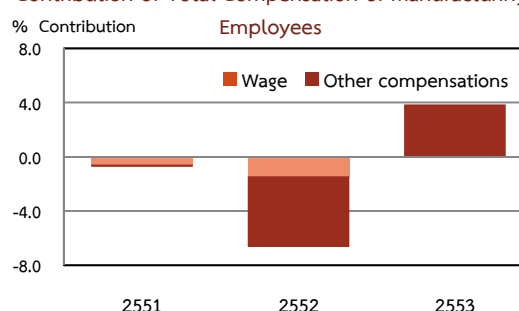
Labor shortage condition under the ongoing economic recovery was one of the factors contributing to the rise in labor income. Problems of labor shortages were reflected by a decrease in the share of underemployed person from 1.6 percent in 2009 to 1.1 percent in the last quarter of 2010 and an increase in overtime working hours per day from 1.3 hours in 2009 to 1.7 hours in 2010. In addition, firms especially in capital-intensive and export-oriented industries such as vehicles, electronics, and electrical appliances increased wages and other welfares such as OT and provision of accommodation in order to increase labor's working incentives. These developments led to a widespread increase in labor income in the manufacturing sector, reflected by a 3.9 percentage increase in the contribution of employee's compensation in manufacturing sector in 2010.

Contribution of Total Compensation of Employees



Note: Other compensation composed of the overtime, the bonus, the other incomes which are both in-cash and in-kind.
Source: National Statistic Office

Contribution of Total Compensation of Manufacturing Employees



Note: Other compensation composed of the overtime, the bonus, the other incomes which are both in-cash and in-kind.
Source: National Statistic Office

Meanwhile, **wages of unskilled labor also increased** following the wage-setting committee decision to raise minimum wages across the country by a range of 8 to 17 baht per day, varying across provinces, which translated into an average growth rate of 6.4 percent from the previous year. These increases in minimum wages were higher than the past adjustment which mainly based on inflation.

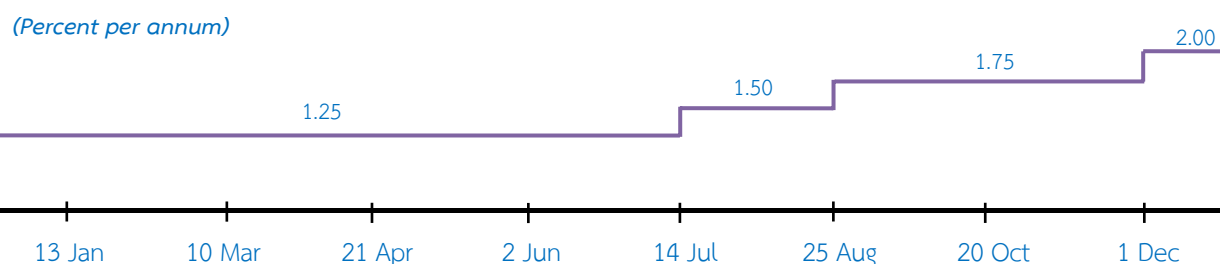
Minimum Wage Increase in 2011

Increasing wage from previous year	Provinces
8 baht	7 Provinces: Phayao, Si Sa Ket, Amnat Charoen, Nakhon Sawan, Phetchabun, Uthai Thani, Prachuap Khiri Khan
9 baht	24 Provinces: Nan, Surin, Tak, Maha SaraKham, Nakhon Phanom, Lampang, Chaiyaphum, Nong Bua Lam Phu, Chiang Rai, Buri Ram, Yasothon, Roi Et, Sakon Nakhon, Chai Nat, Suphan Buri, Lamphun, Trat, Samut Songkham, Ang Thong, Chiang Mai, Phra Nakhon Si Ayutthaya, Saraburi, Bangkok, Samut Prakan
10 baht	16 Provinces: Mae Hong Son, Uttaradit, Phitsanulok, Mukdahan, Kalasin, Khon Kaen, Kamphaeng Phet, Nong Khai, Nakhon Nayok, Loei, Sa Kaeo, Nakhon Ratchasima, Pathum Thani, Nakhon Pathom, Nonthaburi, Samut Sakhon
11 baht	6 Provinces: Pattani, Ubon Ratchathani, Narathiwat, Sing Buri, Phetchaburi, Rayong
12 baht	10 Provinces: Phrae, Phichit, Sukhothai, Udon Thani, Yala, Chanthaburi, Kanchanaburi, Lop Buri, Ranong, Chon Buri
13 baht	7 Provinces: Surat Thani, Chumphon, Trang, Ratchaburi, Prachin Buri, Phangnga, Chachoengsao
14 baht	3 Provinces: Phatthalung, Satun, Krabi
15 baht	2 Provinces: Nakhon Si Thammarat, Songkhla
17 baht	1 Province: Phuket

Source: Notification of the wage on the minimum wage (No. 5) On December 13, 2010

7. Important Policies and Financial Measures

Interest Rate Policy



Monetary Policy Committee (MPC) Meeting 2010

Source: BOT News No. 2/2010, 9/2010, 16/2010, 22/2010, 28/2010, 34/2010, 48/2010 and 58/2010

- In the first 4 MPC meetings of 2010, the MPC maintained the policy interest rate at 1.25 per cent per annum. The MPC judged that despite the rising trend of inflation and a continuous expansion of the Thai economy due to an improvement in the global recovery, uncertainties regarding the continuity of global economic recovery and domestic political unrest remained risks to the Thai economic growth.

- In the second half of the year, the MPC decided to gradually raise the policy interest rate by 3 times, totaling 0.75 percent per annum. The MPC noted that risks to global economic growth declined while the Asian economies expanded robustly. Moreover, the Thai economy continued to grow on the back of expansions in domestic and external demands. At the same time, inflation expectation rose following the surge in oil and commodity prices and pent-up pressure from delayed price adjustments of businesses.

Money Market Measures

1. Transactions in Money Market

Measures	Main Points	Effective Date
Modification of BOT Financial Services - Repeal existing regulations on transaction of the BOT debt securities and end-of-day liquidity management, including related notifications - Dispatch new regulations regarding the end-of-day deposit facility and regulations on the BOT debt security	To reduce the complexity of monetary policy tools and to foster the development of liquidity management among market participants.	16 June 2010

Source: BOT circular No. FRD. (1Kor) Wor.3/2553 dated 13 May 2010

2. Foreign Exchange Controls

Measures	Main Points	Effective Date
1) Relaxation on foreign currency hedging transactions	To allow the participants with foreign currency hedging transactions, in baht or related monetary indices and with underlying trade and services, to cancel or not to extend the contracts with the same legal counterparts without the need to seek approval from competent officers.	2 February 2010
2) Relaxation of regulations on foreign exchange transactions	<p>To increase the flexibility of Thai businesses in managing their foreign exchange risks and help reduce transaction costs.</p> <p>1. Allow Thai companies, which have export earnings in foreign currency, to transfer funds from their foreign currency deposit accounts to counterparties in Thailand for payments of goods or services.</p> <p>2. Relax submission requirement of foreign exchange transaction form for foreign exchange transaction below 50,000 U.S. dollars and reduce the supporting documents required for the aforementioned transaction to only a document regarding the purpose of transaction.</p>	5 October 2010

Source: 1) BOT Circular No. ECD. (23) Wor.4/2553 dated 1 February 2010

2) BOT News No. 45/2010

3. Credit Measures

Measures	Main Points	Effective Date
1) Justification for credit disapproval in written documents	The BOT seeks cooperation from financial institutions to justify to credit applicants in written document regarding the reasons for credit disapproval in order to establish the standard practice across the financial institutions system.	1 April 2010

Measures	Main Points	Effective Date
2) Seeking cooperation to assist businesses adversely affected by the political unrest	<p>The BOT seeks cooperation from financial institutions and credit card providers in assisting businesses that were adversely affected by the political unrest in the following matters:</p> <ol style="list-style-type: none"> 1. Provide assistance and support to affected debtors as necessary 2. Enable credit card operators to decrease the minimum payment rate for affected businesses to less than 10 percent of the outstanding amount as the operators deem necessary, until December 31, 2010. <p>However, businesses receiving such support must be located in the area of Ratchaprasong junction and Phan Fah Lee Las bridge. In addition, the credit card usage must be for business transaction only.</p>	
3) Supervision on the Loan-to-Value ratio of commercial banks	<p>Specify the Loan to Value (LTV) ratio for mortgage loans with market price less than 10 million baht and assign the Risk Weight (RW) for the calculation of regulatory required capital of commercial banks as follows:</p> <ol style="list-style-type: none"> 1. High-rise residence (e.g. condominium) <ul style="list-style-type: none"> • LTV < 90 per cent, assigned RW = 35 percent • LTV > 90 per cent, assigned RW = 75 percent 2. Low-rise residence (e.g. single detached house, duplex house and townhouse) <ul style="list-style-type: none"> • LTV < 95 per cent, assigned RW = 35 percent • LTV > 95 per cent, assigned RW = 75 percent <p><u>Exemption:</u> Borrowers who are civil servants or state enterprise officers.</p>	<p>1 January 2011 for high-rise residence and 1 January 2012 for low-rise residence</p>

Source: 1) BOT Circular No. PPD. (21) Wor. 71/2553 dated 20 January 2010
2) BOT Circular No. PPD. (21) Wor. 692/2553 dated 13 May 2010
3) BOT News No. 55/2010