



**Thailand's Economic and Monetary Conditions  
in 2008**

**Monetary Policy Group**

**March 2009**

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## Part 1: Economic Performance in 2008

### 1.1 Executive Summary

#### The Thai Economy in 2008

In 2008, the overall economy expanded 2.6 percent, decelerating from 4.9 percent in the previous year. This mainly followed a decline in net exports, particularly in the fourth quarter where global economic downturn and internal political unrest adversely affecting Thai export demand, manufacturing production as well as tourism prospects. Nonetheless, farm income still expanded well from higher major crop productions and prices compared to the previous year. On the domestic demand side, private consumption and investment declined notably in the last quarter, in tandem with import deceleration.

(%)	Growth rate		Contribution to Growth	
	2007	2008	2007	2008
Consumption	2.7	2.2	1.7	1.3
Private	1.6	2.5	0.9	1.3
Public	9.2	0.4	0.8	0.0
Gross fixed capital formation	1.3	1.1	0.3	0.3
Private	0.6	3.2	0.1	0.5
Public	3.4	-4.8	0.2	-0.3
Domestic demand	2.3	1.9	1.9	1.6
Change in inventories	5.0 <sup>1/</sup>	58.6 <sup>1/</sup>	-0.2	1.3
Net exports of goods and services	21.7	-1.1	3.0	-0.2
Exports of goods and services	7.1	5.5	4.9	3.9
Imports of goods and services	3.4	7.5	1.9	4.0
<b>Gross Domestic Product</b>	<b>4.9</b>	<b>2.6</b>	<b>4.9</b>	<b>2.6</b>

<sup>1/</sup> Billion baht

Source: NESDB

With regards to the **agricultural sector**, farm income from major crops rose in line with increases in major crop productions and prices from the previous year. Greater volatility in crop prices was also observed with a fast acceleration from the beginning of 2008 following crude oil prices and global supply shock, before tumbling down in the fourth quarter in tandem with the world's dampened demand. On **non-agricultural sector**, the **Manufacturing Production Index (MPI)** expanded 5.3 percent,

decelerating from the preceding year's rate of 8.2 percent. This was primarily attributed to the slowdown in export-oriented industries, particularly electronics and leather products. On the other hand, productions serving domestic market accelerated during the first half of the year, largely following passenger car and motorcycle production. Capacity utilization in 2008 was at 67.6 percent, dropping across the board, except for food and vehicle categories, from 72.6 percent in the previous year.

In the **service sector**, the number of foreign tourists totalled 14.3 millions, decreasing 1.3 percent. Despite a favourable growth of 13.3 percent year-on-year (yoy) during the first half of 2008, the number of foreign tourists contracted 14.7 percent (yoy) during the latter half as tourist sentiment was eroded by the prolonged political strife which led to a temporary closure of Suvarnabhumi and Donmueang airports.

As for private demand, **Private Consumption Index (PCI)** expanded 3.5 percent. During the first three quarters, most consumption indicators recorded favourable growth, particularly VAT at constant price, imports of consumer goods as well as passenger car sales which benefited from excise tax reduction on alternative-energy cars (E20) in effect since the beginning of the year. Meanwhile, Fuel Index decelerated as the retail oil prices escalated to record-high levels. Nonetheless, in the fourth quarter, private consumption decelerated in tandem with farm income as well as waning consumer confidence from rising concerns over internal political uncertainty and global financial crisis.

**Private Investment Index (PII)** increased 2.7 percent (yoy), from equipment and machinery category, particularly imports of capital goods at constant prices which recorded large expansion during the first three quarters, though notably decelerated in the fourth quarter in line with domestic demand. On the other hand, commercial car sale as well as indicators in the construction category exhibited a contraction mostly throughout the year. This corresponded to a decline in Business Sentiment Index (BSI) from rising costs, particularly from oil and construction material prices, in the first half of the year and growing concerns over economic slowdown and political uncertainty.

On the **external front**, the trade balance registered a surplus of 0.2 billion US dollars. Export and import rose 16.8 and 26.4 percent, respectively. Both export and import expanded well during the first three quarters, but in the fourth quarter export contracted in line with global economic slowdown while import also decelerated markedly in line with domestic demand and export condition. Services, income, and transfers account registered a deficit of 0.4 billion US dollars, owing to a reduction in tourist receipts and rising profit and dividend transfers. As a consequence, the current account was in a deficit of 0.2 billion US dollars. Net capital account was in a surplus of 12.8 billion US dollars, due primarily to net inflow from banks' foreign exchange forward transactions as well as FDI into non-bank sectors. On the other hand, net outflow was seen in both foreign and Thai securities investment. When taking into account errors and omissions, the balance of payments registered a surplus of 24.7 billion US dollars. International reserves at year-end stood at 111.0 billion US dollars,

with the BOT net forward position of 7.0 billion US dollars.

**Fiscal conditions** for fiscal year 2008. The government continued a deficit budget policy from the fiscal year 2007. The government's gross revenue collection was 1,839.6 billion baht, increasing 8.0 percent from the previous fiscal year, mostly from tax revenues. Regarding expenditures, even though the first half of the fiscal year saw disbursement rate accelerating, but as a result of political uncertainty and revisions of investment projects from volatile construction costs, the disbursement became low and delayed during the second half. The disbursement rate for the entire fiscal year 2008 was thus 92.3 percent of the budget, lower than the initial target of 94.0 percent and the previous fiscal year's rate of 93.9 percent. Overall cash balance recorded a 24.0 billion baht deficit, equal to 0.3 percent of GDP, with net domestic borrowing of 173.0 billion baht over net foreign loan repayment of 61.8 billion baht. Consequently, at the end of fiscal year 2008, the treasury cash balance increased 87.1 billion baht to 229.9 billion baht.

For fiscal year 2009, the government continued its budget deficit policy with a larger scale, through a 116.7 billion baht supplementary budget as the global economic slowdown took a greater toll on the Thai economy. In the first quarter of fiscal year 2009 (October-December 2008), the government's cash balance recorded a deficit of 147.6 billion baht, on top of net domestic and foreign loan repayments of 20.1 and 0.7 billion baht, respectively, requiring a total use of 168.5 billion baht of treasury cash. This brought the treasury cash balance down to 61.4 billion baht at the end of the quarter.

Concerning **monetary conditions**<sup>1/</sup>, deposits at depository corporations decelerated during the first half of the year, as depositors shifted towards other financial instruments which offered greater returns such as saving bonds and mutual funds. Nonetheless, during the second half, the deposits trended upward again due to investors' flight to quality which included the reverse flow of Thai securities investment abroad reaching maturity. As a consequence, broad money also trended upward during the second half of the year. Private credits tracked an increasing trend during the first three quarters, but slowed down in the fourth quarter in response to softened economic conditions.

Short term interest rates remained mostly stable during the first half of the year before adjusting downward in the second half in tandem with the policy rate. Consequently, the 1-day repurchase rate and the overnight interbank rate averaged at 3.38 and 3.35 percent per annum, declining from 2007's averages of 3.77 and 3.79 percent per annum, respectively.

For the year 2008, the baht averaged 33.38 baht per US dollar, appreciating 3.5 percent. During the first half of the year, the baht strengthened mostly from current account surpluses, before weakening in the second half due primarily to internal political conditions. For 2008 as a whole, the baht averaged 34.93 baht per US dollar, weakening 3.4 percent from the previous year. When weighted by trading partners currencies, however, the NEER depreciated only slightly by 0.4 percent.

Overall economic stability remained sound. External stability was upheld by high international reserves, while trade and current account were close to balance. Regarding internal stability, headline and core inflation rose 5.5 and 2.4 percent, respectively, accelerating marginally from the previous year. This was in line with higher oil and raw food prices which accelerated markedly during the first half of the year, resulting in a greater cost pass-through into the core inflation basket. Nonetheless, inflation rates declined continuously in the second half, again also following lower oil prices. Unemployment rate remained low but started to deteriorate in the fourth quarter, particularly in the non-agricultural sector affected by economic slowdown.

#### **Economic Outlook for 2009**

For 2009, the Monetary Policy Committee (MPC) assessed the economic contraction to be in the range of 1.5 – 3.5 percent<sup>2/</sup>, resulting mostly from a sharp slowdown in trading partners' economies. The contraction in exports would lead to softer private investment and consumption. The growth momentum would nevertheless be cushioned by more accommodative monetary and fiscal policies coupled with a rapid decline in the costs of production. On the other hand, inflation was expected to be low in 2009 as a result of softened domestic demand as well as government's measures to support cost of living. Nonetheless, negative risk to economic growth remained. The world economy could be in a more prolonged recessionary period and recovery prospects could be delayed. In addition, government instability could deter the ability to disburse the budget effectively.

Monetary Policy Group  
Bank of Thailand  
April 2009

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<sup>1/</sup> Since September 2008, BOT has extended the coverage of broad money, deposits and private credits to include data from the Thrift and Credit Cooperatives and Money Market Mutual Funds. The broad money series is also adjusted to include Bills of Exchange.

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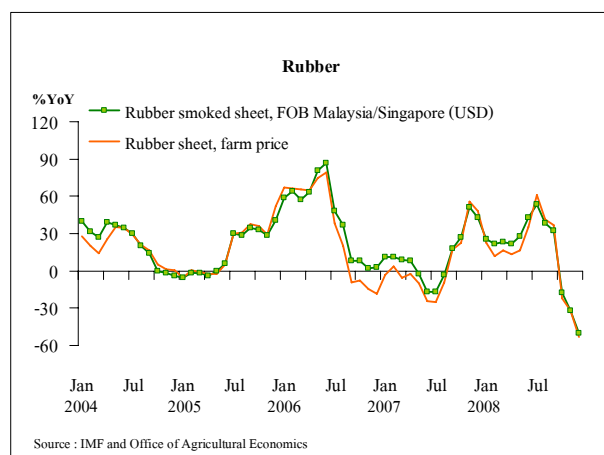
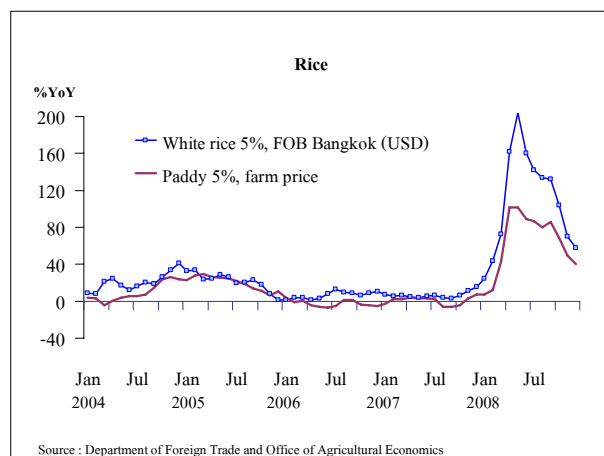
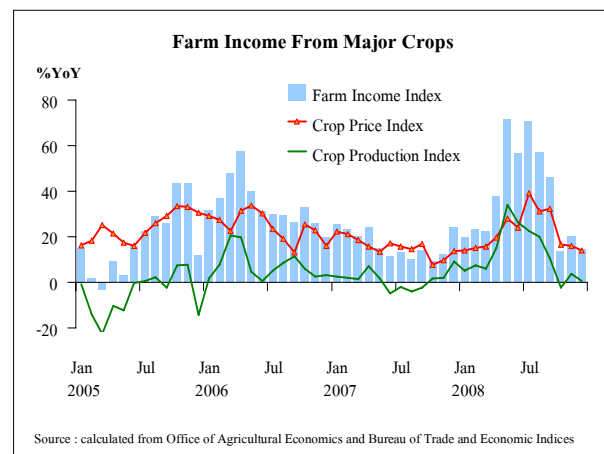
<sup>2/</sup> As of April 2009

## Section 2: Economic Conditions by Sector

### 2.1 Supply-side

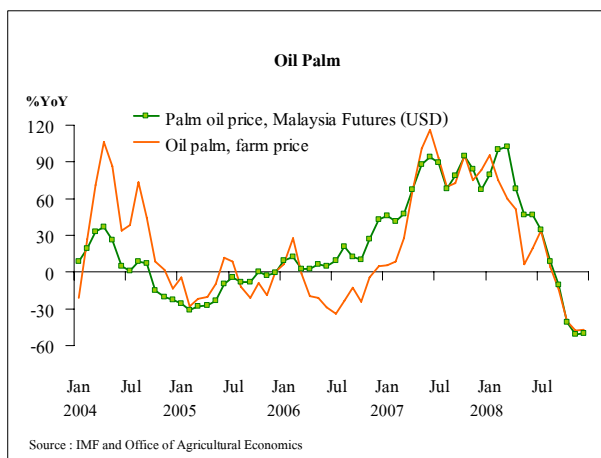
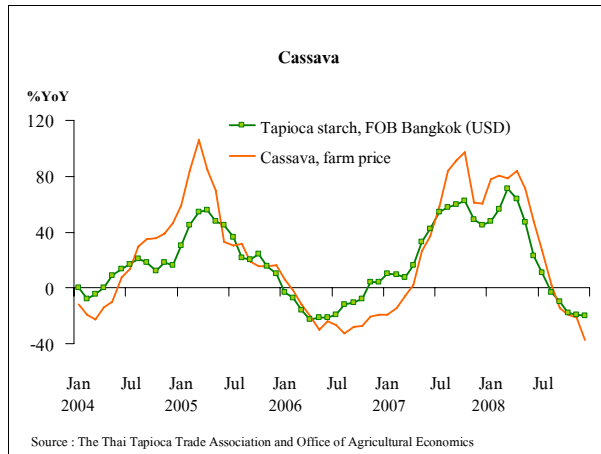
#### 2.1.1 Agricultural Sector

%YoY	2007	2008				
		Total	Q1	Q2	Q3	Q4
Farm income	17.1	34.7	21.0	44.8	61.2	22.2
Crop production	1.5	10.4	5.2	16.9	20.2	5.8
Crop price	15.3	22.0	15.0	23.9	34.2	15.5



According to the report by the National Economic and Social Development Board (NESDB), **agricultural production** (only Agriculture, Hunting, and Forestry category) in 2008 grew 6.4 percent, accelerating from 1.5 percent in the previous year. This corresponded to the acceleration in **crop production index**, which increased 10.4 percent due to: 1) favourable prices, especially in the second and third quarters, encouraging farmers to expand cultivation areas; 2) higher demand for food and energy crops; and 3) favourable climate for production. The major crops whose production increased considerably included second-crop paddy, oil palm and maize.

**Crop price index** increased 22.0 percent, accelerating from the preceding year from the rise in prices of Hom Mali paddy, other paddies, and rubber. In the first three quarters of 2008, major crops' prices rose continuously owing to: 1) supply disruption of world cereals as a result of unfavorable climate; 2) a substantial rise in crude oil prices which induced growing demand for energy crops as alternative energy sources; and 3) increasing demand for natural rubber to substitute for synthetic rubber. However, in the fourth quarter, the crop prices declined consistently, due partly to easing supply constraints. Besides, demand for agricultural raw materials such as rubber, oil palm as well as cassava also contracted as the adverse repercussions of global financial crisis became more apparent in the production sectors, both internationally and domestically. Overall, despite significant crop prices volatilities in 2008, farm income expanded 34.7 percent, accelerating from the preceding year.



**Price index of livestock** increased 16.0 percent, accelerating from the previous year. This was in line with accelerating prices of swine, fowl and eggs from higher feed costs, following a considerable price increase in feed crops, especially cereals in the first three quarters of 2008. **Price index of fishery** rose 7.2 percent, accelerating from the preceding year, particularly the prices of sea fish and cuttlefish. This was a result of oil price hike which led fishery businesses to slow down their operations and substantially increased feed costs.

**Thai agricultural price index** increased 19.3 percent, accelerating from the previous year across the board.

As for 2009, major crops production is expected to slowdown from lower production and consumption demand for agricultural products as a result of the global economic slowdown. Meanwhile, major crops prices, both food and energy crops, were expected to contract following a weaker demand from trading partner countries and the notably high base effect. Nonetheless, upward pressure on crop prices might occur if climate turns unfavorable.

As a result, farm income is expected to decline with the production slowdown and price contraction. On the other hand, softened outlook for oil prices should help lower costs of farming and somewhat offset for the reduction in agricultural prices.

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**Table : Thai Farm Prices**

(Unit: Baht/tonne)

	2007	2008				
		Total	Q1	Q2	Q3	Q4
<b>Farm Price Index</b>						
(1995 =100)	<b>225.4</b>	<b>268.9</b>	<b>247.2</b>	<b>285.9</b>	<b>278.4</b>	<b>264.0</b>
$\Delta\%$	10.4	19.3	13.5	21.2	28.3	14.2
<b>1. Crop Price Index<sup>1/</sup></b>	<b>275.2</b>	<b>335.8</b>	<b>304.6</b>	<b>362.3</b>	<b>348.7</b>	<b>327.7</b>
(1995 =100)						
$\Delta\%$	15.3	22.0	15.0	23.9	34.2	15.5
Hom Mali Paddy	8,772	13,700	11,684	16,661	13,708	12,747
$\Delta\%$	7.2	56.2	41.7	92.6	52.8	38.2
Paddy Class 1 (5%)	6,529	10,676	7,949	12,821	11,884	10,051
$\Delta\%$	0.5	63.5	20.7	97.3	84.4	52.5
Rubber	68,971	76,549	79,216	87,350	93,158	46,471
$\Delta\%$	1.2	11.0	16.8	21.7	46.3	-36.0
Maize	6,804	7,850	7,852	8,342	8,701	6,503
$\Delta\%$	31.7	15.4	14.1	22.2	38.8	-10.2
Cassava	1,460	1,808	2,096	2,121	1,741	1,273
$\Delta\%$	34.2	23.8	78.8	66.8	3.8	-26.0
<b>2. Livestock Price Index</b>	<b>130.4</b>	<b>151.2</b>	<b>147.1</b>	<b>156.2</b>	<b>152.3</b>	<b>149.4</b>
(1995 =100)						
$\Delta\%$	-4.8	16.0	21.3	21.6	11.1	10.9
<b>3. Fisher Price Index<sup>2/</sup></b>	<b>162.8</b>	<b>174.4</b>	<b>165.7</b>	<b>173.7</b>	<b>181.6</b>	<b>176.7</b>
(1995 =100)						
$\Delta\%$	0.1	7.2	0.3	5.8	12.8	9.9
<b>4. Forestry Price Index</b>	<b>122.8</b>	<b>126.8</b>	<b>126.8</b>	<b>126.8</b>	<b>126.8</b>	<b>126.8</b>
(1995 =100)						
$\Delta\%$	0.5	3.3	5.0	3.9	3.3	1.1

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

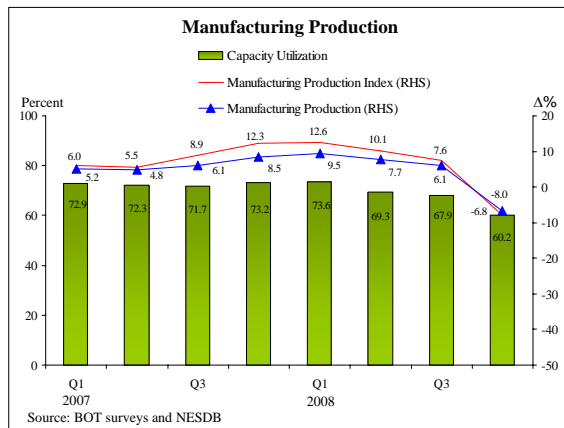
<sup>1/</sup> referred by the vegetable and fruit indices from Office of Agricultural Economics

<sup>2/</sup> adjusted weights between vannamei and black tiger shrimps since 2008

Source: The Farm Price Index is constructed from the data of the Fish Marketing Organization, Office of Agricultural Economics, and Bureau of Trade and Economic Indices



## 2.2 Manufacturing Sector



**Manufacturing Production Index\***  
(Year-on-year percentage change)

Industry	Weight 2000	2006	2007	2008 <sup>P</sup>		
				H1	H2	Year
Textiles	12.23	2.2	-2.5	-2.4	-1.9	-2.1
Electronics	10.31	23.8	25.3	28.9	4.2	14.9
Petroleum	9.48	2.4	1.2	7.1	-1.6	2.7
Vehicles and Equipment	6.85	4.8	4.0	24.8	6.0	14.8
Food	6.82	7.6	4.5	5.4	0.3	3.2
Beverages	5.11	14.1	3.3	3.8	2.1	3.0
Electrical Appliances	5.05	-8.1	6.0	16.0	-6.0	4.9
Leather and Leather products	2.79	-26.9	22.7	-75.7	-52.9	-68.9
Chemical Products	2.36	0.4	7.6	5.9	-16.4	-5.9
Iron and Steel Products	2.21	-3.4	-2.3	5.3	-25.2	-9.7
Construction Materials	1.84	5.6	-3.6	-4.8	-12.4	-8.6
Others	10.62	0.3	1.8	-3.1	-6.6	-4.9
<b>Total *</b>	<b>75.68</b>	<b>7.3</b>	<b>8.2</b>	<b>11.4</b>	<b>-0.4</b>	<b>5.3</b>

Note: \*Covering 76 products with 75.7 percent of the overall value added in the manufacturing sector  
P = Preliminary Data  
Source: BOT surveys

**Capacity Utilization\***  
(Unit: Percent)

Industry	Average 1995-1996	2006	2007	2008 <sup>P</sup>		
				H1	H2	Year
Electronics	77.1	76.1	76.5	70.8	64.7	67.5
Petroleum	88.6	84.1	83.5	84.5	78.9	81.7
Vehicles and Equipment	74.7	79.9	73.3	78.0	71.9	74.9
Beverages	69.0	77.1	73.2	75.9	72.7	74.3
Electrical Appliances	87.1	68.1	70.2	66.5	56.7	61.6
Food	40.4	59.5	58.2	72.1	49.0	60.6
Leather and Leathers Products	-	40.2	53.4	24.5	27.7	25.8
Chemical Products	91.4	93.8	95.9	94.2	83.4	88.8
Iron and Steel Products	58.1	58.8	55.5	59.3	41.8	50.6
Construction Materials	87.9	81.6	78.4	76.4	70.2	73.3
Pulp and Paper Products	77.6	91.0	90.8	89.7	72.6	81.0
Rubber and Rubber Products	73.1	64.6	61.0	63.0	58.6	60.8
Others	81.8	64.3	61.3	56.9	54.0	55.4
<b>Total *</b>	<b>76.7</b>	<b>73.5</b>	<b>72.6</b>	<b>71.4</b>	<b>64.0</b>	<b>67.6</b>

Note: \* Covering 69 products with 59.1 percent of the overall value added in the manufacturing sector  
P = Preliminary Data  
Source: BOT surveys

According to the NESDB, the manufacturing production in 2008 expanded 3.9 percent, moderating from 6.2 percent in the previous year. The Bank of Thailand's **Manufacturing Production Index (MPI)**<sup>1/</sup> also decelerated from the beginning of the year before contracting more sharply in the last quarter of 2008. As a result, the MPI increased only 5.3 percent, slowing down from 8.2 percent in the previous year. This was mainly in line with the export-oriented industries which were negatively affected by trading-partner economic downturn. On the other hand, the industries serving domestic market accelerated from favourable expansion in domestic demand during the first half of the year as the impacts of global economic slowdown remained less severe.

A slowdown from the previous year was observed in the production of electronics, food, electrical appliances, and beverage, while contractions were observed in the production of leather products, furniture, chemical products, pulp and paper, iron and steel, construction materials as well as tobacco. Meanwhile, only vehicles and petroleum production accelerated from the previous year.

**Capacity utilization rate** averaged at 67.6 percent, lower than 72.6 percent in the previous year. Industries that experienced a capacity expansion included electronics, electrical appliances, vehicles, petroleum, food, chemical products, iron and steel, pulp and paper, and cleaning preparation.

<sup>1/</sup> Covered 75.7 percent of the overall value added in the manufacturing sector

The details of manufacturing production and capacity utilization by sectors are as follows:

**Electronics** production continued to expand well in the first half of 2008 – particularly hard disk drive that was driven by favourable demand from foreign markets. However, production growth moderated in the second half of the year resulting from weak global demand. The capacity utilization rate stood at 67.5 percent, declining from 76.5 percent in the previous year.

**Food** production growth moderated slightly from the previous year. Frozen seafood production declined significantly due to its relatively high price. Since canned seafood is a cheaper substitution product of fresh seafood, the order of canned seafood increased during the economic downturn. The importers of canned seafood were mainly from the US. Overall, the capacity utilization rate stood at 60.6 percent, increased slightly from last year's 58.2 percent.

**Electrical appliances** production growth slightly moderated from the previous year, despite the strong growth in the first half of the year due to an expansion in production of televisions, refrigerators, air-conditioners, and washing machines. Nonetheless, production plummeted in the second half of the year, especially for television, following a shrinkage in external demand. The capacity utilization rate stood at 61.6 percent, a decrease from 70.2 percent in the previous year.

**Beverage** production growth moderated from the previous year when beer production declined as a result of a reduction in domestic consumers' purchasing power from the

economic slowdown. The capacity utilization rate, however, stood at 74.3 percent, close to last year's 73.2 percent.

**Leather and leather products** declined considerably from last year, especially in the first half of the year. This was mainly due to: 1) the high base effect from foreign special order in the previous year; 2) a contraction in trading-partners' demand as a result of economic crisis; and 3) the presence of high competition, particularly a price competition from China. The capacity utilization rate of the industry therefore declined from 53.4 percent in 2007 to 25.8 percent.

**Furniture** production continued to decline from last year since manufacturers still faced intensified price competition from China and Vietnam. In addition, trading-partner countries, especially the US, were facing an economic crisis. The capacity utilization rate of this industry thus stood at 30.1 percent, down from 52.5 percent in the previous year.

**Chemical** production decreased in all products, especially in the second half of the year due to a temporary shutdown for machinery maintenance and deteriorated domestic demand. The capacity utilization rate was down from 95.9 percent in the previous year to 88.8 percent this year.

**Pulp and paper** production, except for paper board, declined in all categories, following decreased demand from both foreign and domestic markets, while inventory of this industry remained at a high level. Thus, the capacity utilization rate decreased to 81.0 percent, down from 90.8 percent in the previous year.

**Iron and steel industry and construction materials** industry exhibited lower production from last year due to softened demand in the real estate sector, as well as the lack of large-scale investment projects. The capacity utilization rate of the industries stood at 50.6 and 73.3 percent, down from 55.5 and 78.4 percent, respectively.

**Tobacco** production decreased slightly, following a reduction in sales. This was due to economic slowdown especially in the second half of 2008, leading consumers to reduce their spendings. Moreover, the law that prohibited cigarette smoking in public areas was extended to include all market places, pubs and restaurants, both with and without air-conditioners. The capacity utilization rate was at 53.2 percent, close to 53.7 percent in the previous year.

**Vehicles and equipments** production considerably increased in the first half of the year, mainly from passenger car and commercial car production as both global and local demand still expanded well. In addition, sales of new model passenger cars, that are able to consume gasohol E20 fuel, were stimulated by a 5-percent cut in excise tax. Nevertheless, oil price hike in the first half of 2008, coupled with the US's financial crisis that spread to the global economy, diminished foreign and domestic demands. In particular, commercial car sales in the domestic market started to contract since the second quarter, whereas overall car exports contracted in the last quarter. However, on average, the capacity utilization rate stood at 74.9 percent, rising from 73.3 percent in the previous year owing to strong growth in the first half of the year.

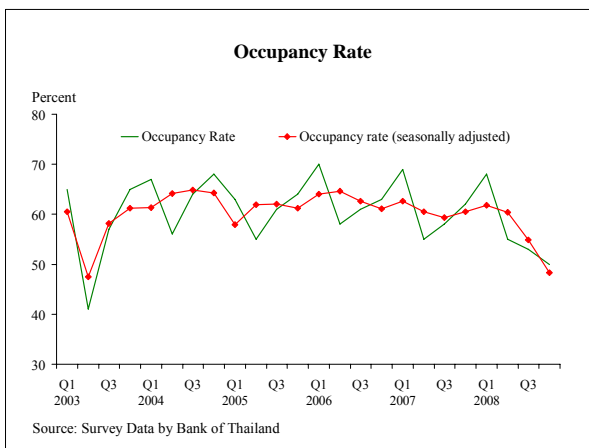
**Petroleum** production expanded from the previous year, especially in the first half of the year due to the low base effect as there were plants temporarily closed for maintenance and capacity expansion during the same period last year. The capacity expansion partly resulted in the lower capacity utilization rate of 81.7 percent, compared to last year's 83.5 percent.

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## 2.3 Services

### 2.3.1 Tourism and Hotel Industry



#### International Tourists Classified by Nationality (Jan-Nov)

Country	Δ (%)		Market Share (%)	
	Year	Jan-Nov	Year	Jan-Nov
	2550	2551	2550	2551
East asia	-0.1	1.6	52.6	52.9
- Malaysia	-3.2	17.6	10.7	12.1
- China	-4.4	-4.7	6.3	6.0
- Japan	-2.6	-8.8	8.8	8.1
- Korea	-0.8	-14.1	7.5	6.4
Europe	11.9	2.2	27.0	26.5
USA	-0.3	-0.3	6.4	6.2
Oceania	17.3	4.4	5.3	5.5
Middle East	11.1	2.4	3.0	3.1
Others	11.4	0.1	5.7	5.7

Source: Tourism Authority of Thailand

The tourism and hotel industry in the first half of 2008 continued to expand well from the last quarter of 2007. In the second half of the year, however, the industry was adversely affected by several negative factors, including seven bombing incidences in Songkhla province in early August as well as the political instability which intensified from late August onwards. The political conflicts led to the declaration of the state of emergency in Bangkok, the shutdown of airports and train services in the southern provinces in September, and eventually, the closure of the Suvarnabhumi and Donmueang airports during late November until early December 2008, which severely affected foreign tourists' confidence. In addition, economic slowdown in a number of countries, which were major sources of Thailand's tourists, resulted in a sharp drop in the number of foreign tourists in the second half of the year. Consequently, the number of foreign tourist arrivals in 2008 totalled 14.3 millions, contracting 1.3 percent from the previous year. Meanwhile, tourism revenue from foreign tourists amounted to 588 billion baht, increasing 5.9 percent.

As for the tourism in the southern region, despite adverse impacts from global economic slowdown and ongoing internal political unrest, overall number of foreign tourists travelling to the southern region continued to rise by 13.7 percent. This was a result of a number of positive developments, including an increase in direct and chartered flights to the southern coast as well as a continual increase in Malaysian tourists travelling across the southern border throughout the year.

In 2008, the composition of foreign tourists classified by nationality was similar to the previous year. Tourists from East Asia continued to account for the largest share at 52.9 percent of the total number of foreign tourists, followed by those from Europe, US and Oceania, respectively. During the first seven months of 2008, the number of tourists from major markets (i.e., Asia, Europe and US) continued to expand from the previous year, mainly from Malaysian visitors. However, the trend reversed towards the end of the year as the number of foreign tourists contracted significantly. Meanwhile, the number of tourists from new target markets (e.g., Oceania and Middle East) registered a decelerated growth, compared to the previous year.

The overall occupancy rate averaged 56.4 percent in 2008, dropping from 60.8 percent in the previous year. For the southern provinces,

the hotel occupancy rate stood at 52.9 percent, decreasing slightly from the previous year. The average hotel room rate (in baht terms) for the whole country in 2008 slightly rose by 5.0 percent from the previous year.

The Thai government has been working closely with private enterprises in the tourism sector to promote domestic tourism activities to partly compensate for the revenue loss from the sharp drop in the number of foreign tourists during the second half of the year. However, the domestic political turmoil and the economic slowdown in Thailand's major tourism markets shall remain key risk factors to the Thai tourism sector going forward. Therefore, the restoration of foreign tourists' confidence would be a critical factor in improving the outlook of Thailand's tourism in 2009.

**Tourism Indicators**

	2007	2008 <sup>P</sup>	2008			
			Q1 <sup>P</sup>	Q2 <sup>P</sup>	Q3 <sup>P</sup>	Q4 <sup>P</sup>
1. Number of foreign tourist (million persons)	14.5	14.3	4.3	3.5	3.1	3.3
%Δ	4.6	-1.3	12.9	13.6	-9.6	-19.0
2. Income from tourism (billion baht)	575.4	588.0	190.1	129.6	129.4	137.0
3. Occupancy rate (percent)	60.8	56.4	67.9	54.5	53.4	49.6
4. Room rates (baht)	1,447	1,520	1,679	1,393	1,415	1,593

Note: P = Preliminary data

%Δ represents percentage change from the same period last year

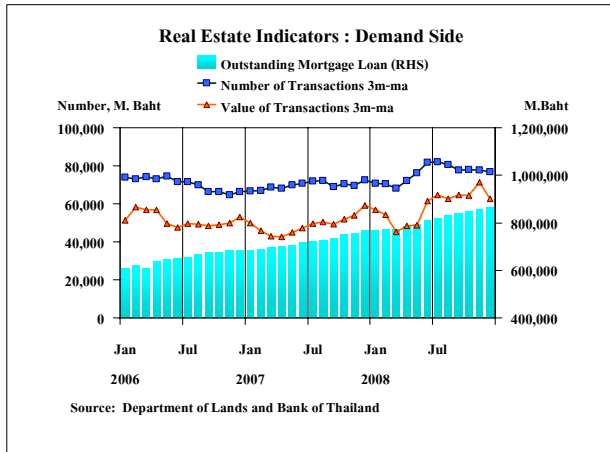
Sources: Tourism Authority of Thailand and Bank of Thailand

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## 2.3.2 Real Estate

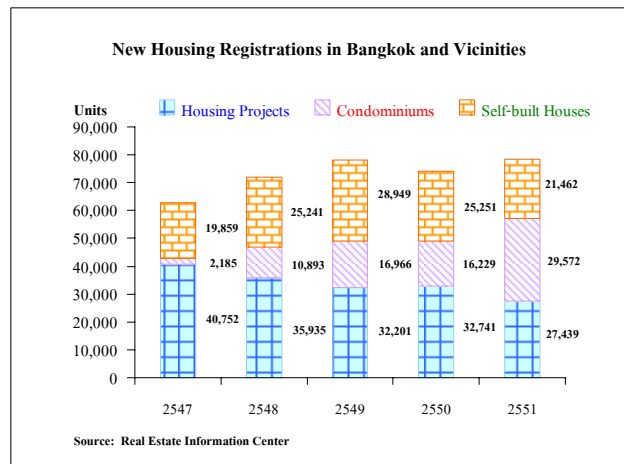
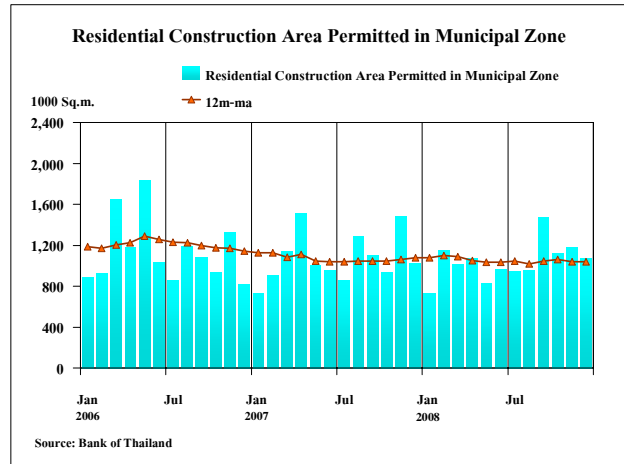
In 2008, overall real estate market expanded from 2007, due mainly to the government's economic stimulus packages to reduce property transfer and mortgage registration fees. Nevertheless, the real estate sector demand weakened considerably in the fourth quarter following low consumer and business confidences as the economy slowed down from the global financial crisis.



### Demand Side Indicators

Overall real estate demand in 2008 expanded from the previous year, reflecting in the number and value of real estate transactions which grew 8.4 and 18.0 percent, respectively. This corresponded to the outstanding mortgage loan growth. In the first quarter of 2008, real estate demand decelerated because consumers postponed their purchases awaiting the government's tax reduction measures on property transfer and mortgage registration fees, which scheduled to be effective on 29 March 2008. In the second and third quarters, real estate demand expanded substantially, reflecting in the number and value of real estate transactions which expanded 14.4 and 30.7 percent (yoy), respectively. However, in the last quarter, real estate demand considerably declined due to a low level of consumer confidence following the domestic economic slowdown from both political instability and the global financial crisis. In addition, consumers postponed decision-makings to have a clearer outlook of housing market prospects after the government launched real estate stimulus packages.

As for 2009, real estate demand was expected to decelerate in tandem with the economy. However, a number of positive factors should help shore up demand, namely, the government's economic stimulus packages, downward trend of interest rate, more stable political conditions, continuous decreases in construction costs, as well as price-cutting strategies of real estate developers to maintain their liquidity conditions.

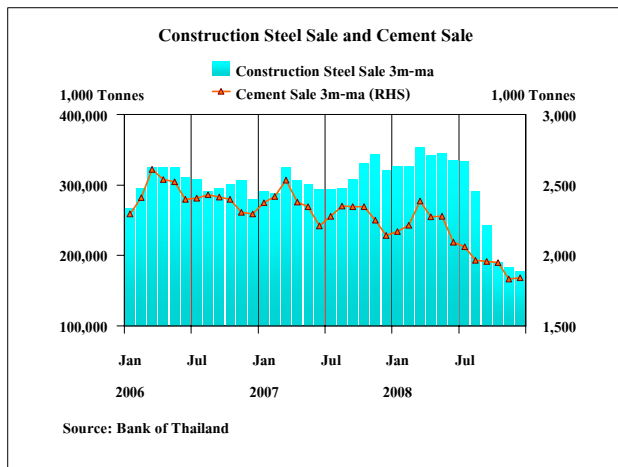


### Supply Side Indicators

In 2008, the supply side indicators slightly contracted, as reflected in the decrease in permitted residential construction areas and new housing registration (except condominium). This was in line with continued declines in the cement and construction steel sales, due mainly to a weak demand for housing, a low confidence of real estate developers, and financial institutions' tightened credit standards. Nonetheless, the supply of newly registered condominium in 2008 increased more

than 80 percent from last year, particularly those located near the mass rapid transportation routes which observed growing demand after the oil price hike during the year.

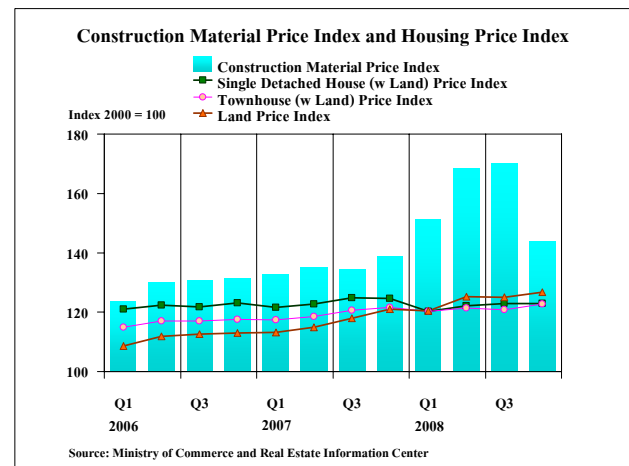
In 2009, the overall supply was expected to remain almost unchanged from the previous year. Although a large number of new projects were launched in 2008 and would be on sales in the first half of 2009, new supply in 2009 would be limited due to financial institutions' tightened credit standards, especially for the small and medium size real estate developers, as a result of higher risk perceptions.



### Price Indicators

In 2008, property prices declined from the previous year following the slowdown in demand. Single detached house price indices, with land and without land, contracted 1.1 and 13.9 percent, respectively. In the first three quarters of 2008, the construction costs significantly rose, reflecting in an acceleration of construction material price index. In particular, the construction steel price index increased sharply in line with the world market. In the last

quarter, the costs of construction were back to normal, close to those in 2007.



With regards to the 2009 outlook, property price is expected to remain mostly the same or slightly drop compared to 2008. The weakened demand in real estate sector was due to the economic slowdown which translated into unstable income, weak consumer confidence, less pressure on construction costs in line with a decline in construction material price index as well as financial institutions' tightened credit standards. Property prices, however, is not expected to decrease significantly as in the 1997 crisis as no sign of asset price bubble has been observed. Nevertheless, the property price in some locations such as planned urban development areas and along the mass transportation lines would continue to rise marginally.

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## Real Estate Indicators

	2007	2008	2008					
			H1	H2	Q1	Q2	Q3	Q4
<b>Demand Side Indicators</b>								
Value of Transactions <sup>1/</sup> ( M. Baht )	595,483	702,582 <sup>P</sup>	320,490	382,092 <sup>P</sup>	135,900	184,591	194,292	187,800 <sup>P</sup>
Δ%	-3.6	18.0	18.7	17.4	5.9	30.4	31.1	5.9
Total Juristic Act and Right Registration Fees (M. Baht)	11,121	8,276 <sup>P</sup>	4,670	3,607 <sup>P</sup>	2,693	1,977	1,840	1,766 <sup>P</sup>
Δ%	0.2	-25.6	-8.2	-40.2	9.7	-24.9	-33.7	-45.8
- 2% Fee <sup>2/</sup>	11,118	8,247 <sup>P</sup>	4,661	3,586 <sup>P</sup>	2,693	1,968	1,830	1,756 <sup>P</sup>
Δ%	0.2	-25.8	-8.3	-40.5	9.8	-25.2	-34.1	-46.1
- 0.01% Fee <sup>3/</sup>	4.0	29.0 <sup>P</sup>	89.0	20.0 <sup>P</sup>	0.1	8.6	10.3	10.0 <sup>P</sup>
Δ%	-40.3	670.6	537.0	747.3	-77.6	970.9	993.6	588.0
Number of Transactions (Unit)	842,680	913,482 <sup>P</sup>	449,620	463,862 <sup>P</sup>	204,031	245,589	233,377	230,485 <sup>P</sup>
Δ%	0.9	8.4	7.5	9.3	-1.1	15.8	12.9	5.9
Real Estate Personal Credit Outstanding <sup>4/</sup> (Billion Baht)	778	873	818	873	782	818	849	873
Δ%	12.3	12.3	12.7	12.3	10.8	12.7	13.9	12.3
- Mortgage Outstanding	767	864	808	864	772	808	839	864
Δ%	12.3	12.6	13.0	12.6	11.0	13.0	14.2	12.6
- Others	11	9	9	9	9	9	10	9
Δ%	11.3	-12.0	-6.9	-12.0	-6.5	-6.9	-8.8	-12.0
<b>Supply Side Indicators</b>								
Construction Area Permitted in Municipal Zone (1000 Sq.M.)	17,362	17,491 <sup>P</sup>	8,136	9,355 <sup>P</sup>	4,217	3,919	4,491	4,864 <sup>P</sup>
Δ%	-11.3	0.7	-4.7	6.0	14.7	-19.3	8.6	3.7
- Residential	12,917	12,494 <sup>P</sup>	5,743	6,751 <sup>P</sup>	2,892	2,851	3,381	3,370 <sup>P</sup>
Δ%	-5.7	-3.3	-8.0	1.2	4.4	-17.9	4.4	-1.8
- Commercial	2,444	2,908 <sup>P</sup>	1,535	1,374 <sup>P</sup>	870	665	565	809 <sup>P</sup>
Δ%	-29.8	19.0	34.5	5.4	89.4	-2.4	21.5	-3.5
- Industrial	54	90 <sup>P</sup>	26	64 <sup>P</sup>	18	7	15	49 <sup>P</sup>
Δ%	1.9	66.5	2.4	122.5	114.1	-55.4	13.1	214.3
- Services/Transportation	831	1,094 <sup>P</sup>	454	640 <sup>P</sup>	252	202	270	370 <sup>P</sup>
Δ%	-40.7	31.6	-4.6	79.9	50.5	-34.5	65.3	92.2
- Others	1,117	905 <sup>P</sup>	379	526 <sup>P</sup>	185	194	260	266 <sup>P</sup>
Δ%	18.9	-19.0	-41.8	13.0	-32.3	-48.7	2.9	25.0



## Real Estate Indicators (Cont.)

	2007	2008	2008					
			H1	H2	Q1	Q2	Q3	Q4
<b>New Housing Registrations in Bangkok and Vicinities (Unit)</b>	<b>74,221</b>	<b>78,473<sup>P</sup></b>	<b>30,938</b>	<b>47,535<sup>P</sup></b>	<b>14,868</b>	<b>16,070</b>	<b>25,449</b>	<b>22,086<sup>P</sup></b>
Δ%	-5.0	5.7	-3.9	13.1	-4.9	-3.0	16.3	9.6
- Housing Projects	32,741	27,439 <sup>P</sup>	11,605	15,834 <sup>P</sup>	5,306	6,299	7,400	8,434 <sup>P</sup>
- Condominiums	16,229	29,572 <sup>P</sup>	7,918	21,654 <sup>P</sup>	3,784	4,134	11,741	9,913 <sup>P</sup>
- Self-built Houses	25,251	21,462 <sup>P</sup>	11,415	10,047 <sup>P</sup>	5,778	5,637	6,308	3,739 <sup>P</sup>
<b>Cement Sales (1000 Tons)</b>	<b>27,690</b>	<b>24,834</b>	<b>13,434</b>	<b>11,400</b>	<b>7,155</b>	<b>6,280</b>	<b>5,872</b>	<b>5,528</b>
Δ%	-5.0	-10.3	-5.6	-15.3	-5.9	-5.3	-16.5	-13.9
<b>Construction Steel Sales (M. Tons)</b>	<b>3,740</b>	<b>3,323</b>	<b>2,062</b>	<b>1,261</b>	<b>1,057</b>	<b>1,005</b>	<b>727</b>	<b>534</b>
Δ%	3.0	-11.1	11.3	-33.2	8.6	14.3	-21.3	-44.6
<b>Real Estate Developer Credit Outstanding<sup>4/</sup> (Billion Baht)</b>	<b>341</b>	<b>417</b>	<b>389</b>	<b>417</b>	<b>337</b>	<b>389</b>	<b>394</b>	<b>417</b>
Δ%	8.8	22.1	21.8	22.1	7.7	21.8	21.6	22.1
- Residential	177	236	220	236	181	220	220	236
Δ%	-2.6	33.3	16.5	33.3	-0.4	16.5	20.4	33.3
- Others	164	181	169	181	156	169	174	181
Δ%	24.5	10.0	29.5	10.0	19.0	29.5	23.1	10.0
<b>Price Indicators</b>								
<b>Construction Material Price Index<sup>5/</sup></b>	<b>135.2</b>	<b>158.4</b>	<b>159.7</b>	<b>157.1</b>	<b>151.1</b>	<b>168.3</b>	<b>170.2</b>	<b>143.9</b>
Δ%	4.9	17.1	19.3	15.0	13.9	24.6	26.6	3.7
<b>Single Detached House (w Land) Price Index<sup>2/</sup></b>	<b>123.4</b>	<b>122.0</b>	<b>121.2</b>	<b>122.9</b>	<b>120.2</b>	<b>122.1</b>	<b>122.9</b>	<b>122.9</b>
Δ%	1.1	-1.1	-0.7	-1.4	-1.1	-0.4	-1.5	-1.3
<b>Townhouse (w Land) Price Index<sup>5/</sup></b>	<b>119.5</b>	<b>121.3</b>	<b>120.8</b>	<b>121.7</b>	<b>120.2</b>	<b>121.4</b>	<b>120.8</b>	<b>122.7</b>
Δ%	2.5	1.5	2.4	0.5	2.4	2.4	0.2	0.9
<b>Land Price Index<sup>5/</sup></b>	<b>116.7</b>	<b>124.4</b>	<b>122.8</b>	<b>125.9</b>	<b>120.4</b>	<b>125.2</b>	<b>125.1</b>	<b>126.8</b>
Δ%	4.6	6.5	7.8	5.4	6.5	9.0	6.0	4.8
<b>Average MLR of 4 largest banks at end period</b>	<b>6.87</b>	<b>6.75</b>	<b>7.25</b>	<b>6.75</b>	<b>6.87</b>	<b>7.25</b>	<b>7.25</b>	<b>6.75</b>

Note: Δ% represents the percentage change from the same period last year.

P = represents preliminary data

<sup>1/</sup> Derived from the amount of the Juristic Act and Right Registration Fee, separately classified into 2 percent and 0.01 percent categories

<sup>2/</sup> The Juristic Act and Right Registration Fee for immovable property is charged at a rate of 2 percent, in accordance with Ministerial Regulation No. 47 (BE 2541), which was issued under the Land Code Amendment Act B.E. 2497 article 2(7).

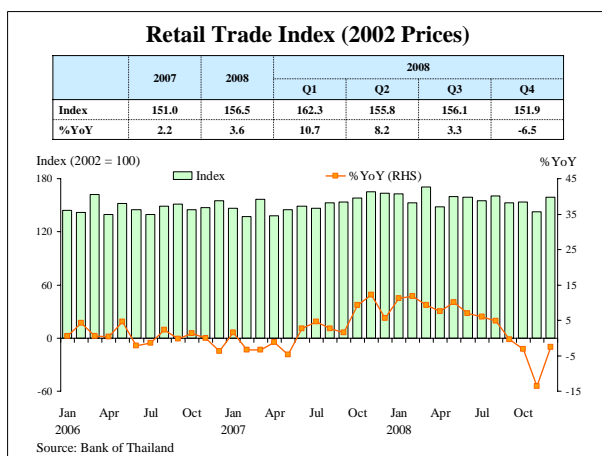
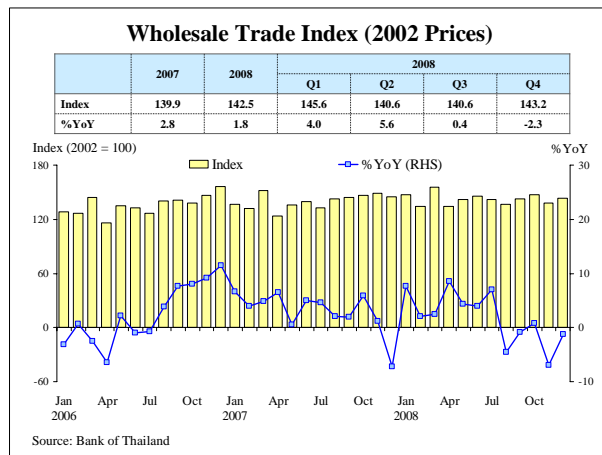
<sup>3/</sup> The Juristic Act and Right Registration Fee for immovable property is charged at a rate of 0.01 percent as specified by the Cabinet.

<sup>4/</sup> Credit extended by commercial banks (excluding foreign branches of Thai commercial banks) at end-period.

<sup>5/</sup> Year 2000 = 100

Source: Departments of Lands, Ministry of Commerce, and Bank of Thailand

### 2.3.3 Trade



**Overall trading activities in 2008** expanded slightly from the preceding year. Both wholesale and retail trade expanded favourably in the first half of 2008, but contracted in the latter half. This was due mainly to political uncertainties and global economic downturn, which caused consumers to be cautious with their spending. Moreover, consumer purchasing power was eroded by the price increases, particularly in the second and third quarters.

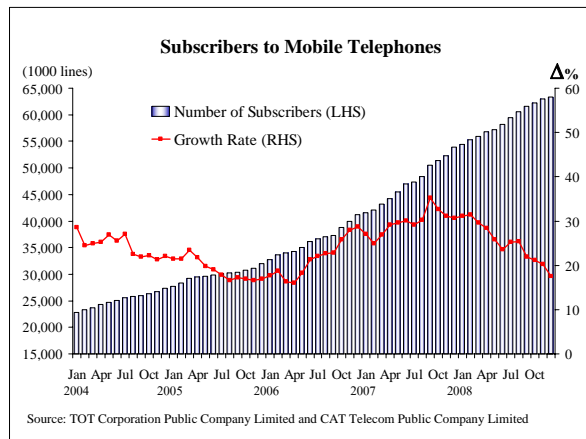
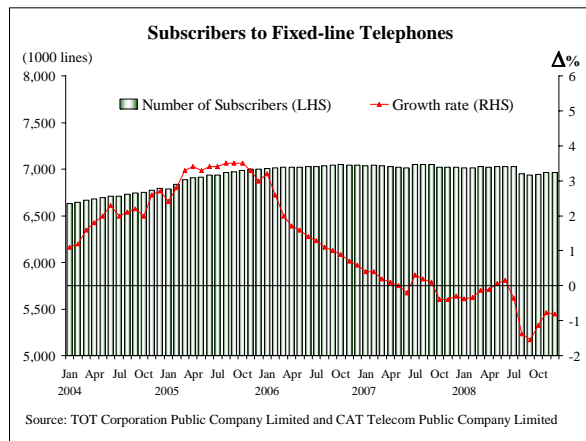
**Wholesale trade** expanded 1.8 percent, moderating from the preceding year in line with the weak domestic demand. A significant drop in sales was observed in durable goods such as electrical appliances, furniture and household goods. The sales of consumption goods continued to expand, particularly agricultural raw materials such as live stocks, foods and beverages. Additionally, gold and jewellery sales increased remarkably, due partly to their investment attribute as stored value goods.

**Retail trade** grew slightly by 3.6 percent. The sales of indispensable products rose notably, including fresh foods, vegetables and fruits. In addition, the sales from supermarkets and department stores still expanded satisfactorily. However, the sales of durable goods, such as electrical appliances, household goods, and clothes, contracted from last year.

The trading sector in 2009 was expected to continue to soften due to a more apparent adverse impact on the production sector from the world economic crisis. Nonetheless, the government's economic stimulus packages are expected to help shore up producer and consumer confidence as well as counteract large slowdown in trading businesses.

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### 2.3.4 Telecommunication



Telecommunication Services								
(Million Lines)	2007	2008	2008					
			Q1	Q2	Q3	Q4 <sup>E</sup>	Nov <sup>F</sup>	Dec <sup>F</sup>
Fixed-line Telephones <sup>1/</sup>	7.02	6.97	7.03	7.03	6.9	6.97	6.97	6.97
% $\Delta$	-0.3	-0.8	-0.1	0.2	-1.6	-0.8	-0.8	-0.8
Mobile Phones <sup>1/</sup>	53.9	63.3	56.0	58.2	61.6	63.3	62.9	63.3
% $\Delta$	30.7	17.5	28.6	23.6	21.9	17.5	20.3	17.5

Note: <sup>1/</sup> Data as of end-period  
<sup>E</sup> represents percentage change from the same period last year.  
<sup>F</sup> represents percentage change from the same period last year.  
Source: TOT Corporation Public Company Limited and CAT Telecom Public Company Limited

In 2008, overall telecommunication sector decelerated from the previous year, following a decline in fixed-line telephone services as well as a slowdown in mobile phone services. The number of fixed-line service subscribers decreased 0.8 percent from the previous year, mainly due to a drop in the Bangkok metropolitan area following the substitution from new communication technology and network. Meanwhile, the clients in provincial areas increased marginally among

the newly established small and medium enterprises (SMEs).

Mobile phone services continued to expand, increasing 17.5 percent from the previous year. The growth was largely attributed to subscribers in provincial area, especially where fixed-line services were poor or unavailable. This expansion mostly focused on prepaid service system which accounted for 90.2 percent of mobile phone market share at the end of 2008.

Overall, the revenue of mobile phone service providers continued to increase, even though the main revenue from voice services decelerated in line with the economic slowdown. Minutes of use (MOU) decreased from last year by 21.7 percent, while the average revenue per user (APRU) decreased by 15.8 percent or an average monthly decrease around 230 baht per number. Nonetheless, revenues from non-voice services picked up from the previous year from EDGE, GPRS, and SMS services.

The telecommunication sector is expected to moderate continuously in 2009. Fixed-line telephone services would continue to be substituted by the new technology, although they are likely to increase in the provincial area. Mobile phone services were expected to grow at a decelerating rate in tandem with the economic slowdown.

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## 2.4 Labour

### Employment

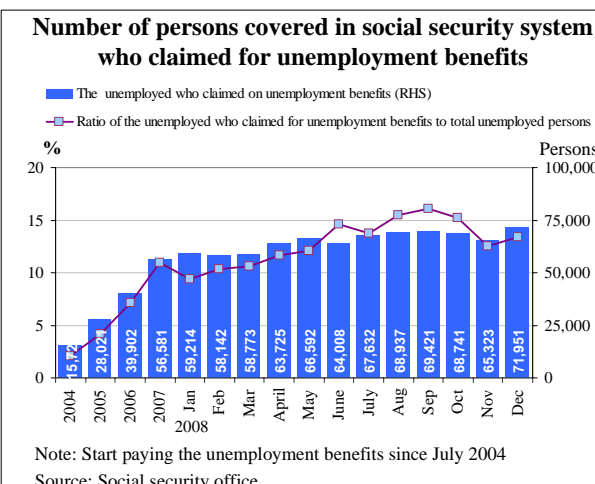
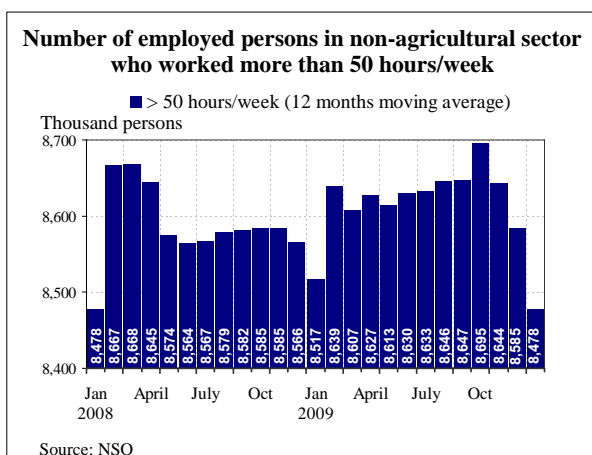
%YOY	2007	2008	2008			
			Q1	Q2	Q3	Q4
Employed persons	1.6	2.1	1.6	3.1	1.9	1.8
Agriculture	1.0	2.7	0.4	3.6	3.7	2.9
Non-agriculture	2.0	1.7	2.3	2.8	0.6	1.0
Manufacturing	2.1	-3.0	0.4	-2.2	-6.5	-3.8
Construction	-0.1	3.0	0.5	2.0	3.8	6.9
Trade	1.1	3.2	2.4	3.5	2.0	5.1
Service	3.1	2.7	4.4	6.2	3.9	0.8

Source: NSO

### Unemployment

	2007	2008	2008			
			Q1	Q2	Q3	Q4
Unemployed person (Thousand persons)	508.5	522.0	605.5	524.7	450.9	506.9
Unemployment rate (%)	1.4	1.4	1.7	1.4	1.2	1.3

Source: NSO



The overall labour market in 2008 continued to be tight as employment increased by 2.1 percent, accelerating from last year's 1.6 percent. This was mainly driven by employment growth in the agricultural sector, following a shift of labour from the manufacturing sector to the agricultural sector in response to high return on crop production during the second and third quarters. As for the fourth quarter, despite a moderation in crop prices, agricultural employment persistently expanded. However, employment in the manufacturing sector continued to contract as the global economic slowdown became more evident.

Although the Thai economy decelerated notably in 2008, unemployment rate remained low as in the previous year at 1.4 percent of labour force or approximately 522,000 persons. This represented a slight increase from 508,500 persons in the previous year. Moreover, 35 percent of the unemployment was new entry to the labour market, declining from last year's 40 percent. Meanwhile, more than half of the unemployed who had worked before, mostly in manufacturing, construction and trade sectors, could attain a job within 3 months. This reflected certain resilience of the Thai labour market.

Nevertheless, a softened condition in the labour market was observed in the last quarter. According to the Bank of Thailand's survey, businesses affected by the economic slowdown tended to reduce working hours, reflecting in a lower number of workers in non-agricultural sector who worked

more than 50 hours per week. However, the sign of job retrenchment was not clearly observed. In the fourth quarter, unemployment rate remained low at 1.3 percent as businesses chose to adapt by enhancing production efficiency and reducing costs of production, including some lay off of subcontract workers. Meanwhile, terminating skilled labour contracts remained businesses' last choice.

For retrenched workers, some were absorbed by the newly opened plants, which provided a greater number of vacancies than the closed ones<sup>1/</sup>. In addition, there was a proportion of labour mobilizing from the manufacturing sector to other sectors such as

agriculture, construction and trade. For the unemployed in the social security system, they were entitled to unemployment benefits<sup>2/</sup>. At the end of 2008, those entitled unemployed recorded 71,951 persons or approximately only 13.4 percent of the total unemployment. However, the rest of 86.6 percent of the unemployed persons had no access to the social safety net, reflecting their vulnerability to risk if the economy slows down further and more retrenchment occurs.

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<sup>1/</sup> The data of the Department of Industrial Work illustrated that in 2008 there were 2,128 plants closed, containing vacancies available for 61,983 workers. Meanwhile, there were a total of 4,216 newly opened plants, which contained 116,300 vacancies.

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<sup>2/</sup> Unemployment benefits will be paid to the unemployed who entitled with the social security at the amount of 50 percent the wage calculated on the basis of the maximum contributions of 15,000 baht per month. In general, the unemployed receives the benefits no longer than 180 days. However, for the unemployed who is laid-off during the period from 1 December 2008 to 31 December 2009, the duration of unemployment benefits covers longer to 240 days. In the case of voluntary resignation, the unemployed will earn the benefits accounting 30 percent of their wages for no more than 90 days.

## 2.5 Price Level

In 2008, the **headline consumer price index** (CPI) increased by 5.5 percent, accelerating from 2.3 percent in the previous year. This was a result of the acceleration in the prices of food and beverages as well as non-food items. **Core CPI** (excluding raw food and energy prices) increased by 2.4 percent, accelerating from 1.1 percent in the previous year and remaining within the policy target range of 0-3.5 percent.

Key factors contributing to the acceleration of inflation rates in 2008 are as follows:

(1) Domestic retail oil prices rose rapidly since the beginning of the year until July following the increase in global oil prices. However, domestic retail oil prices dropped sharply in the fourth quarter following the decline in global oil prices resulting from the global economic slowdown. The sharp decline was also attributed to the government's measure to alleviate the people's cost of living, namely the so-called "6 measures - 6 months" package.

(2) Prices of public transportation services increased during the first three quarters as a consequence of higher energy costs, before declining in line with oil prices and the government's measure to alleviate the people's cost of living, in particular third class trains and BMTA bus fares.

(3) Raw food prices, particularly rice, flour and cereal products, rose significantly during the first half of the year following prices in the global market. Meanwhile, prices of vegetables and fruits also accelerated as a result of unfavourable weather conditions.

(4) Prices of seasoning and condiments rose as a result of higher production costs during the first half of the year. Nonetheless, some prices in this category adjusted downwards slightly in the fourth quarter as a consequence of lower costs, especially that of vegetable oil.

(5) Prices of prepared food accelerated in line with price increases in raw food as well as seasoning and condiments during the first half of the year.

Although, the average rate of headline inflation in 2008 accelerated from the previous year, inflation pressure in the fourth quarter declined markedly following the sharp fall in the prices of oil and agricultural products used in the production of alternative energy, coupled with the government's measure to alleviate the people's cost of living.

### Consumer Price Index

(Percentage change from the same period last year)

	Weight (Percent)	2007	2008	2008			
				Q1	Q2	Q3	Q4
<b>Headline Consumer Price Index</b>	<b>100.0</b>	<b>2.3</b>	<b>5.5</b>	<b>5.0</b>	<b>7.5</b>	<b>7.3</b>	<b>2.1</b>
Food and beverages	36.1	4.0	11.6	6.8	11.0	13.9	14.4
Non-food and beverages	63.9	1.2	1.7	3.9	5.4	3.0	-5.4
Energy	9.1	2.4	8.0	17.2	23.0	14.9	-20.9
Raw food	15.0	6.5	15.3	10.3	14.5	17.5	18.5
<b>Core Consumer Price Index</b>	<b>75.9</b>	<b>1.1</b>	<b>2.4</b>	<b>1.5</b>	<b>2.8</b>	<b>2.9</b>	<b>2.1</b>

Source: Bureau of Trade and Economic Indices, Ministry of Commerce

The **producer price index (PPI)** increased by 12.4 percent in 2008, notably accelerating from 3.3 percent in the previous year. The acceleration was in line with the price of manufactured and agricultural products, which rose by 11.2 and 20.7 percent, respectively, accelerating from the previous year's rates of 1.7 and 13.7 percent, respectively. Meanwhile, the price of mining products contracted by 2.3 percent, compared to last year's contraction of 5.8 percent.

Prices of agricultural products rose markedly from the acceleration in rice prices during the first half of the year, following those in the global market. The increase in rice prices were due to the decline in the stock of rice and unfavourable weather conditions in major rice exporting countries which led to sharp declines in rice production such that export restrictions were imposed in some countries. Meanwhile, rubber and oil palm prices increased continuously during the first three quarters of the year, before falling significantly in the last

quarter, following the downward trend in oil prices. Prices of vegetables and fruits also increased as a result of unfavourable weather conditions.

Manufactured product prices accelerated considerably during the first three quarters of the year, before adjusting downwards in the fourth quarter in line with the trend of world commodity prices, particularly petroleum products, rubber and plastic products, as well as metal products.

Mining product prices declined. Although the prices of crude oil, natural gas and base metals increased during the first half of the year, these prices dropped sharply during the latter half, following the global economic slowdown.

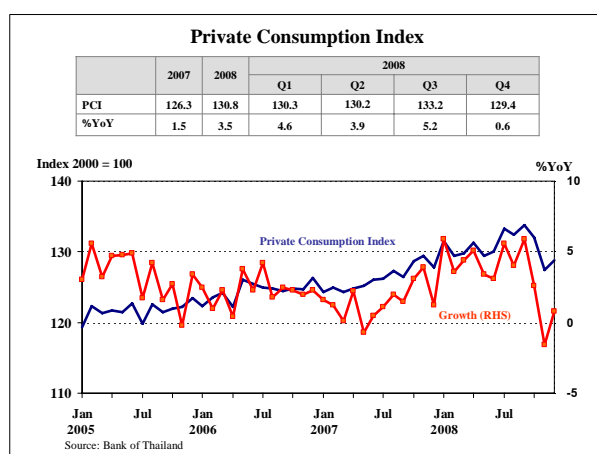
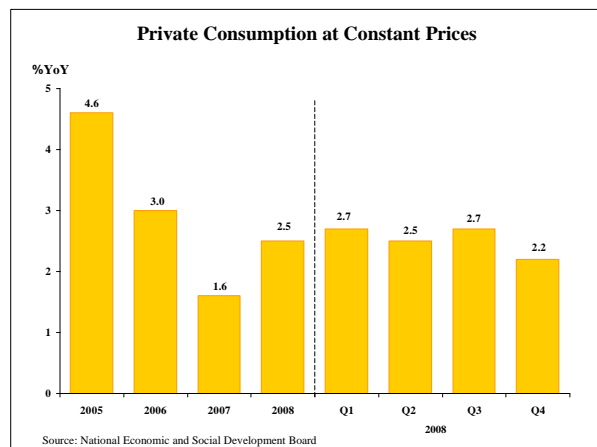
### Producer Price Index

(Percentage change from the same period last year)

	Weight (Per cent)	2007	2008	2008			
				Q1	Q2	Q3	Q4
<b>Producer Price Index</b>	<b>100.0</b>	<b>3.3</b>	<b>12.4</b>	<b>10.8</b>	<b>15.6</b>	<b>20.6</b>	<b>2.9</b>
Agricultural Products	9.5	13.7	20.7	16.3	14.0	35.2	18.1
Mining Products	2.4	-5.8	-2.3	0.9	3.1	2.3	-15.6
Manufactured Products	88.1	1.7	11.2	10.1	16.4	18.4	0.6

**Source:** Bureau of Trade and Economic Indices, Ministry of Commerce

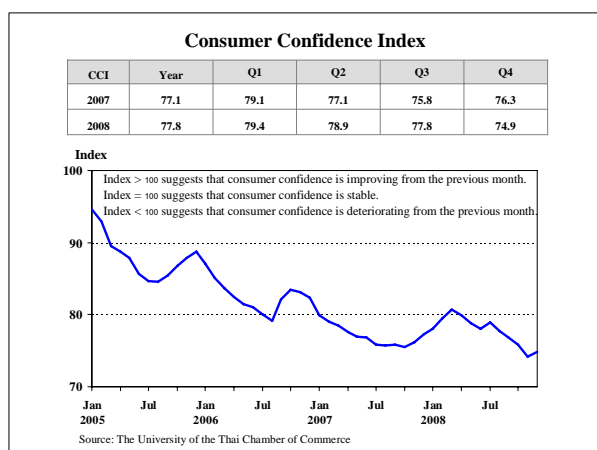
## 2.6 Private Consumption



**Private Consumption Indicators**

%YoY	2007	2008	2008			
			Q1	Q2	Q3	Q4
<b>Car Index (base year 2000)</b>	-12.4	15.4	21.5	15.8	11.4	13.7
- Passenger car	-11.4	33.1	39.8	25.0	22.5	47.9
- Motorcycle	-18.9	12.1	4.0	16.2	23.4	5.8
- Commercial car	-5.9	-15.9	7.5	-5.7	-25.9	-32.7
<b>Fuel Index (base year 2000)</b>	3.3	-0.5	1.7	-0.3	-5.5	1.8
- Benzene & Gasohol	1.7	-2.9	-1.9	-5.2	-7.3	2.7
- Diesel	1.8	-5.7	-0.4	-4.0	-14.3	-4.7
- LPG	12.7	18.0	12.5	19.0	26.0	14.5
- NGV	117.6	229.4	190.5	220.2	268.9	224.2
<b>Household Electricity</b>	3.9	2.6	6.0	0.9	3.0	0.9
<b>Imports of Consumer Goods (at 2000 Prices)</b>	9.6	21.1	30.8	26.1	29.7	1.6
<b>VAT (at 2000 Prices)</b>	3.3	9.0	9.9	9.4	16.3	0.8

Source: Bank of Thailand



**Private consumption expenditure** in 2008, according to the NESDB report, expanded 2.5 percent, accelerating from 1.6 percent in the previous year. Household spending expanded well during the first three quarters, despite the rising inflation from higher energy and raw food prices. This was partly in line with increases in farm income and minimum wages compared to the previous year, as well as the government's stimulus measures. Nevertheless, the household consumption decelerated in the last quarter of the year as political tension and global financial crisis weighed down consumer confidence.

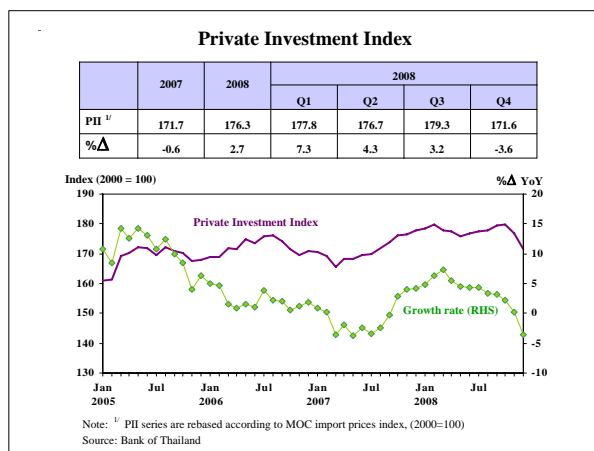
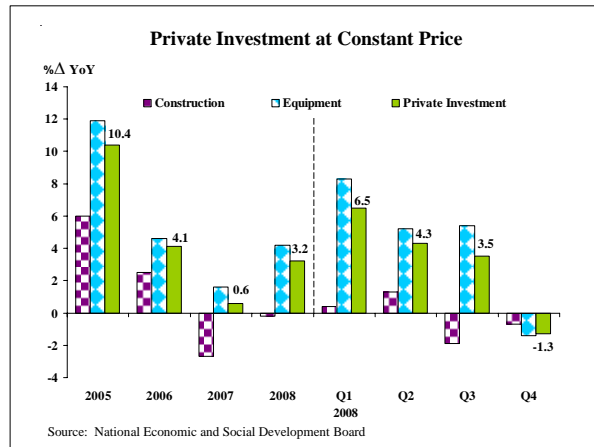
The Bank of Thailand's **Private Consumption Index (PCI)** also increased 3.5 percent, compared with 1.5 percent in 2007. The PCI expanded well during the first three quarters before notably slowing down in the last quarter mainly reflecting decelerations in VAT at constant prices and imports of consumer goods.

Car index expanded well throughout the year, particularly passenger car sales which benefited from excise tax reduction on alternative energy cars (E20), in effect since the beginning of 2008. Motorcycle sales also grew continually in the first three quarters before decelerating in the last quarter in line with a slowdown in farm income. Commercial car sales began contracting in the second quarter as the diesel price outpaced those of some types of benzene.

In the first three quarters, even though substitute energy such as LPG and NGV continued to increase, Fuel index trended downward, in tandem with a contraction in diesel and benzene sales following record high prices. Nonetheless, during the last quarter, Fuel index resumed an expansion as a result of lower oil price in the world market and the government's measures.



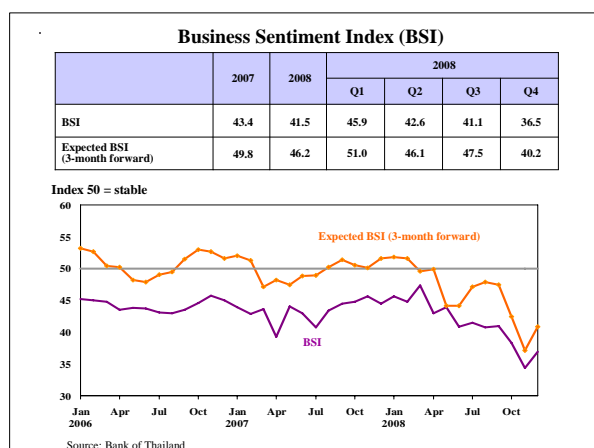
## 2.7 Private Investment



**Private Investment Indicators**

	2007	2008	2008			
			Q1	Q2	Q3	Q4
Construction Area Permitted in Municipal Zone (a 12-month backward moving average) (Unit: 1,000 square meters)	17,809 (-11.7%)	17,389 (-2.4%)	4,457 (-5.8%)	4,273 (-4.7%)	4,282 (-0.5%)	4,377 (2.0%)
Domestic Cement Sales (Unit: 1,000 tons)	27,690 (-5.0%)	24,834 (-10.3%)	7,155 (-5.9%)	6,280 (-13.3%)	5,872 (-6.5%)	5,528 (-5.9%)
Imports of Capital Goods at 2000 Prices (Unit: Billion Baht)	1,220.5 (4.7%)	1,387.0 (13.6%)	329.8 (20.0%)	344.0 (4.3%)	365.8 (6.1%)	347.4 (-4.9%)
Domestic Machinery Sales at 2000 Prices (Unit: Billion Baht)	608.4 (2.4%)	603.0 (-0.9%)	154.4 (2.1%)	156.1 (1.1%)	155.3 (-0.5%)	137.3 (-10.9%)
Domestic Commercial Car Sales (Unit: 1,000 units)	461.7 (-5.9%)	388.3 (-15.9%)	108.3 (7.5%)	102.5 (-5.7%)	83.9 (-25.9%)	93.6 (11.3%)

Note: Number in parenthesis is a year-on-year growth rate  
Source: Bank of Thailand

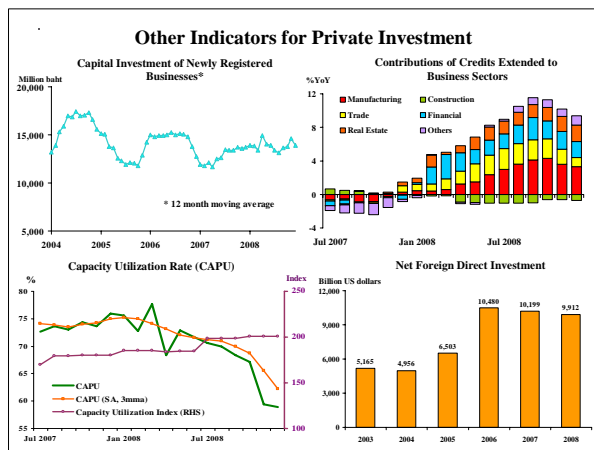


**Private investment** in 2008, according to the NESDB report, expanded 3.2 percent. In the first quarter of 2008, private investment continued to grow from the end of 2007, partly from improved political stability after the general election. However, since the second quarter onwards, private investment trended downward and contracted 1.3 percent (yoy) in the last quarter, mostly due to a slowdown in machinery and equipment category following deteriorating investors' confidence. Meanwhile, construction category remained at low level throughout the year. This was in line with the Bank of Thailand's **Private Investment Index (PII)** which increased only 2.7 percent (yoy).

As for private investment indicators, construction area permitted in municipal zone and domestic cement sales continued contraction trends throughout the year. Meanwhile, imports of capital goods at constant prices expanded well before decelerating in the last quarter. Domestic commercial car sales contracted from the previous year as a result of considerable increases in diesel price during mid-year, heightened political uncertainty leading to the airport closures in November, as well as global and domestic economic downturn during the second half of the year.

With these negative factors, both current and expected business sentiment indices (BSI) trended downward throughout the year and hit a record low in November. Although there were certain month-on-month improvements, BSI remained below the 50 point benchmark. This reflected businesses' concerns, particularly over rising oil prices and thus production costs in the first half of the year and over weakened domestic and external demands as well as economic uncertainty in the latter half.

With regards to other indicators, capital investment of newly-registered businesses of SET-listed firms remained stable throughout the year, while foreign direct investment (FDI) contracted from global economic problem. Likewise, commercial banks' credits extended to business sectors slowed down towards year-end. This was due to a somewhat lower demand for credits while commercial banks tightened their credit standards.

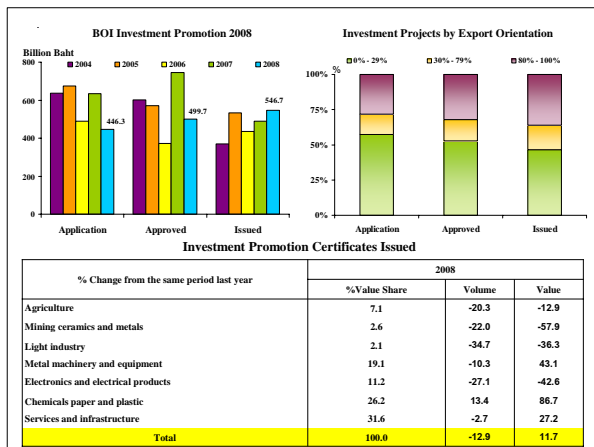


Although the investment value of projects receiving promotion certificates issued by the Board of Investment (BOI) in 2008 increased from the previous year, certain projects were subject to delay as a result of economic slowdown, particularly those highly affected industries including iron products, machinery, transport equipment, electronics, and electrical appliances. Furthermore, the low capacity utilization curtailed needs for additional investment, resulting in a decelerating outlook for private investment in 2009.

Nevertheless, positive factors which could help shore up private investment included business sentiment enhancing policy, public investment in Mega Projects, as well as low interest rates.

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## **2.8 External Sector**

### **2.8.1 World Economy**

In 2008, the world economy slowed sharply from the previous year as the US subprime problem escalated and led to the worldwide financial crisis. The International Monetary Fund (IMF)<sup>1/</sup> forecasted that the world economy would grow at 3.4 percent in 2008 compared to 5.2 percent in 2007.

During the first half of 2008, the main risk to world economic growth was the high prices of both oil and non-oil commodities, which caused inflation to accelerate markedly. Nonetheless, towards the end of the year, the world economy weakened faster than expected as the US financial crisis not only severely affected its own real sector, but also spread to several economies across the world.

Such widespread impacts brought about recessions in major economies such as the US, UK and Japan as well as several Asian economies namely Singapore, Hong Kong and Taiwan. More recently, the IMF revised down world economic growth for 2009 even further to 0.5 percent from the previous forecast of 2.2 percent in November 2008.

#### **The US Economy**

During the first half of 2008, despite the problems in the financial sectors, the US economic expansion was better than expected. This was partly a result of the government's stimulus measures introduced in the second quarter. Net exports also grew satisfactorily, although investment in the housing market continued to contract from the previous year.

However, from the third quarter onwards, the US economy signalled a sharp slowdown as the financial crisis worsened. In September, Lehman Brothers, one of the largest investment banks, filed for bankruptcy. Moreover, a number of large-scaled financial institutions also faced difficulty, including the Government Sponsored Enterprises (GSEs) Fannie Mae and Freddie Mac, which play important roles in the housing market. As a result, consumers began to lose confidence and thus trim down their spending. This, together with the tightening credit standards on both business and consumer loans, led to production cutbacks in several business sectors particularly the automotive industry which later were obliged to seek the government bailout. Moreover, the labor market weakened significantly, with the decline in Non-Farm Payrolls totalled 3 million persons in 2008. Meanwhile, the housing market, where the crisis originated, continued to deteriorate and showed no sign of bottoming out.

Early in 2008, the US authority announced the fiscal stimulus package and, in the fourth quarter, established Trouble Asset Relief Program (TARP) relating to which a financial package for the automotive industry was also later approved.

On 1 December 2008, the National Bureau of Economic Research (NBER) announced that the US economy has entered a recession since December 2007.

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<sup>1/</sup> As of January 2009

### **The Euro Area Economy**

The Euro area economy expanded 0.7 percent in 2008, decelerating from 2.6 percent in the previous year. Due to the high level of financial linkages with the US, losses incurred by financial institutions in the Euro area increased rapidly to a level comparable to those in the US. Furthermore, the risk to inflation accelerated sharply in the first half of 2008. Despite the fact that the Euro area economy, with the support from export expansion, grew at a higher-than-expected pace in the first quarter, it turned into a recession from the second quarter onwards. The severity of the recession became more apparent in the second half of the year as the weakened global economy and the appreciation of the Euro impacted the Euro area exports, while credit condition also tightened as the problems of financial institutions in the Euro area intensified.

### **The Japan Economy**

The Japan economy contracted 0.7 percent in 2008, compared with an expansion of 2.4 percent in the previous year. The economy began to contract in the second half of 2008, particularly in the fourth quarter where it shrank 4.6 percent (yoy). Similar to the Euro area, the Japan economy also entered a recession in the second quarter of 2008. Japan has been significantly affected by the US and EU economic slowdown as exports, which was the main engine of growth in the first half of the year, declined drastically. Additionally, the Japanese Yen also appreciated due to risk aversion. Domestic demand also weakened as producer and consumer confidence declined

from concerns over the US slowdown as well as rising food and oil prices which sharply increased production costs. Despite a significant decline of price levels, consumers remained unsure of the economic conditions and thus reduced their spending.

### **Asian Economies**

During the first half of 2008, the Asian economies grew satisfactorily on the back of export expansion and strong domestic demand. By the third quarter, however, Asian economic growth began to slow down (except for Taiwan and Singapore where growth rates became negative). As most economies also faced accelerating inflation rates, authorities introduced a number of supporting measures to maintain consumers' purchasing power. However, in the fourth quarter, particularly towards the end of the year, the Asian economies became unavoidably affected by the significant decline in exports due to substantial slowdown in external demand. Singapore, Taiwan, Korea and Thailand's economies contracted sharply in the fourth quarter. Meanwhile, China, which previously sustained a high growth rate, expanded only 6.8 percent (yoy), whereas countries with close financial linkages with major economies such as Hong Kong, Singapore and Taiwan entered a recession in the fourth quarter.

Several Asian economies announced further fiscal stimulus measures in the fourth quarter, including tax reductions, transfers and public investment spending in order to support the overall economic growth.

## **Inflation Rate**

During the first half of 2008, world inflationary pressure escalated due to: 1) prices of oil and non-oil commodities increased rapidly in line with increasing demand particularly from emerging economies such as China and India; 2) demand for substitute energy rose as oil became more costly; 3) More speculation on commodities that yielded higher returns compared to other assets during the time of low interest rates; and 4) supply was unable to adjust in tandem with the rapid increase in demand.

However, from mid July onwards, oil prices began to decline continually as demand from both developed and emerging economies weakened considerably. Moreover, recession in several economies further eased inflationary pressures across the world.

Inflation in the US for the first nine months averaged at 4.6 percent (yoy) in line with accelerating oil and non-oil commodities prices. However, inflation rate declined considerably in the fourth quarter, averaging at 1.6 percent (yoy) following the sharp economic contraction. Inflation in the Euro area also increased during the first nine months, averaging 3.6 percent (yoy) – higher than the target of 2 percent. However, EU inflation rate declined rapidly in the last two months of the year. In Japan, even though inflation for the first nine months remained at a low level of 1.5 percent (yoy), it was increased from an average of 0.05 percent (yoy) in the previous year. Likewise, inflation in Asia also picked up, following the rise of oil and food prices. Nonetheless, when oil prices began to drop,

inflation in Asia declined considerably albeit at a slower pace than those in developed economies. This was because foods, whose prices declined more slowly than those of oil, accounted for a larger share of Asian inflation baskets.

## **Monetary Policy**

During 2008, the US monetary policy was eased continuously from the previous year. The Federal Reserve (Fed) cut the Fed Funds rate six times (including the inter-meeting cooperative rate cut on 8 October with Bank of England (BOE), European Central Bank (ECB), Bank of Canada, Swiss National Bank and Riksbank (central bank of Sweden)), from 4.25 percent at the beginning of the year to 1.0 percent in the normal round of meeting in October. Apart from such aggressive rate cuts, the Fed also continuously implemented unconventional measures to increase liquidity and avert the credit market tightening in order to restore financial stability.

In December, the Fed announced a Fed Funds Target Range of 0-0.25 percent and ensured that, going forward, it would continue to provide support to restore normality in the financial market and stimulate economic activity by providing liquidity as well as increasing the purchase of debt securities.

Despite increasing inflationary pressures, the European Central Bank (ECB) held the policy rate constant in the beginning of the year as the economy faced significant risks from troubled financial institutions. However, the subsequent risk of higher-than-target inflation rate prompted the ECB to raise policy

rate in July. Later on, as risks to growth heightened due to the US slowdown, the ECB began the easing cycle starting from the October Inter-meeting, lowering its rate from 4.25 to 2.5 percent at the end of year.

The Bank of Japan (BOJ) cut its policy rate twice from 0.5 to 0.3 percent in October and once more in December to 0.1 percent as a result of increasing risks to growth.

Several Asian central banks such as Bank Indonesia, Bangko Sentral ng Pilipinas, the Central Bank of the Republic of China (Taiwan), the Bank of India and the Bank of Thailand raised their policy rates in the second quarter and the beginning of the third quarter in order to contain inflationary pressures arising from high oil and non-oil commodities

prices as well as to prevent second-round effects. Meanwhile, certain Asian central banks, namely the People's bank of China (PBOC), the Central Bank of the Republic of China (Taiwan) and the Bank of India also increased their commercial banks' Reserve Requirement Ratios (RRR).

Nonetheless, as risks to growth increased due to the contraction of the G3 economies and the deterioration of regional exports, together with receding inflationary pressures, regional central banks began to cut policy rates in the fourth quarter in order to help stimulate economic activities. These included policy rate cuts at the interim meetings in Korea and Taiwan.

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## 2.8.2 International Trade and the Balance of Payments

In 2008, export value continued to expand from the previous year, especially from export prices which increased substantially in line with record-high level of world commodity prices. However, the growth of export volume decelerated as a result of global economic slowdown. Meanwhile, import rose, both in terms of price and volume. An increase in import value was recorded across all major categories, including raw materials, consumer goods, capital goods as well as energy substitutes for oil in response to high crude oil prices. Nevertheless, towards the end of the year, the decrease in world demand as a result of the financial crises in the US, Euro area, and Asia has contributed to the contraction of Thailand's export value in November 2008 – the first contraction since March 2002. Sharp contractions were observed particularly in industries which have been the main drivers of export growth in recent years, namely, electronics and vehicle industries. At the same time, import value also moderated significantly in the fourth quarter as domestic demand softened due to domestic political instability. For the whole year, the trade balance registered a slight surplus. However, the current account recorded a small deficit due to a deficit in services, income and transfer account, which were mainly attributable to decline in tourism receipts. Nevertheless, a relatively large surplus in net capital movement caused the overall balance of payments to record a higher surplus, compared to the previous year.

### Export

**Export value** totalled 175.3 billion US dollars, expanding by 16.8 percent (or 12.8 percent in baht term). The increase in export value was mainly attributable to the 10.5 percent increase in price, accelerating from the previous year. Meanwhile, export volume also contributed to the rise in export value, albeit at a decelerating

pace, rising only by 5.8 percent. The export categories which recorded particularly high expansion rates were agricultural products and labour-intensive manufactured products. Even when gold exports, which rose markedly due to favourable price development, were excluded, export value still increased robustly by 15.7 percent.

Details of Thailand's major export items are as follows:

**Agricultural products.** Export value in this category expanded 35.0 percent, accelerating from the previous year. This was mainly as a result of the increase in prices in line with the rise of world commodity prices. On the other hand, export volume of agricultural products expanded at a more moderate pace, as the volume of both rubber and tapioca exports declined from the previous year. Meanwhile, rice exports continued to expand in terms of both price and volume, as bad weather conditions forced a number of export-competing countries such as Vietnam to impose export quotas. Nevertheless, the lift of export restrictions towards the end of the year, coupling with Vietnam's cheaper prices, have contributed to the significant decline in volume of Thai rice exports in the last few months of the year.

**Fishery products.** Export value in this category rose 6.8 percent, mainly as a result of an increase in export price, particularly the price of frozen shrimps which reflected higher production costs.

**Manufactured products.** Export value in this category grew 16.5 percent, decelerating from the previous year in line with the export growth of high-technology and resource-based products. Details of manufactured product exports classified by sectors are as follows:

**Labour-intensive products.** Export value in this category increased by 25.3 percent, accelerating from the previous year. This was mainly driven by the expansion of precious stone

and jewelry exports. Particularly, the export value of unwrought gold totalled 3.4 billion US dollars, owing to the record-high gold prices in the world market (export value of unwrought gold totalled 1.5 billion US dollars in the previous year).

**High-technology products.** Export value of high-technology products rose 13.5 percent, a deceleration from the previous year in line with the slowdown of global economy especially during the last quarter of the year. Key electronic products which saw declining exports were hard disk drives and integrated circuits which followed the world's semi-conductor business cycle. Overall export value of electrical appliances decelerated owing mainly to a moderation in air-conditioner exports as well as a contraction in television exports. Nevertheless, export value of vehicle and parts continued to grow, reflecting increased exports to ASEAN, Australia, and the Middle East. Moreover, the export value of petroleum products has also increased in line with the rising price of world commodities.

**Resource-based products.** Export value in this category increased 19.9 percent. This was a slight deceleration from the previous year, driven mainly by a decrease in sugar exports. Meanwhile, exports of other resource-based products continued to accelerate. For example, exports of canned fish expanded in terms of both volume and price in line with canned tuna exports. The price increase of canned fish corresponded to a decreased amount of fish caught as a result of global warming. Exports of prepared foods expanded in line with the increasing exports of prepared fowls to the ASEAN, EU, and Japanese markets. Moreover, export of rubber products increased in line with the export of radial tyres for usage in the vehicle and parts industry.

### Import

**Import value** recorded 175.1 billion US dollars in 2008, increasing by 26.4 percent (or 22.1 percent in baht terms). This represented an

acceleration from the previous year in both price and volume at 12.6 percent and 12.2 percent, respectively. This accelerated growth was in tandem with export and domestic demand expansions, especially during the first three quarters of the year. Excluding imports of gold, import value still increased 23.4 percent. Details of Thailand's major import items are as follows:

**Consumer goods.** Import value of consumer goods rose 25.1 percent, accelerating from the previous year. The increase was observed in imports of both non-durable goods such as food, watches, footwear, medicines and pharmaceutical products, as well as durable goods such as household and electrical appliances.

**Intermediate goods and raw materials.** Import value in this category increased 21.9 percent, accelerating from the previous year both in terms of price and volume. This was in tandem with the growth in imports of feedstuff, metal, and chemical products. The increase in the value of steel imports partly resulted from higher import price from China as the Chinese authority had reduced export subsidies for primary and intermediate steel products. Import value of integrated circuits and electronic parts declined in line with declining trend of electronics exports. Nevertheless, overall import value of raw materials showed a declining trend towards the end of the year in tandem with the contraction of exports. The exception was imports of feedstuff, which continued to expand in line with the increasing exports of prepared foods.

**Capital Goods.** Import value of capital goods increased 18.4 percent, accelerating from the previous year. This was in line with an import expansion in non-electrical and electrical machinery in major industries such as the automobile, construction, pulp and paper, metal, and energy. In addition, there were a number of special import items, including imports of one commercial airplane valued at 153 million US dollars and 23 train bogies, worth 107 million US



dollars, for the Airport Link project which connects Suvarnabhumi International Airport to urban areas.

**Vehicle and parts.** Import value of this category increased 24.4 percent, accelerating from the previous year, owing mainly to the expansion of imported vehicle parts in line with vehicle exports.

**Fuel and petroleum products.** Import value of this category rose 44.2 percent, accelerating from the previous year, mostly attributable to price increases. Import value of crude oil increased 48.5 percent due to the sustained increase in price of 45.6 percent from the previous year. According to the Customs Department, the average import price of crude oil was 102.6 US dollars per barrel, rising from 70.5 US dollars per barrel in the previous year. Import volume of crude oil increased 2.0 percent to 281.9 million barrels, accelerating from the previous year. Additionally, Thailand has also increased its imports of alternative energies such as natural gas, coal, and, especially liquid petroleum gas as demands continued to grow, outpacing domestic production.

Overall high expansion rate of imports in 2008 also reflected the import of the Theos Satellite, valued at 170.2 million US dollars and unwrought gold, valued at 6.1 billion US dollars (compared to imports of unwrought gold worth 1.6 billion US dollars in 2007).

### **Trade, Services, and Current Account Balances**

**Trade Account** recorded a surplus of 0.2 billion US dollars, mainly attributed to the trade surplus vis-à-vis major trading partners, including the US, EU, ASEAN, Australia, and Hong Kong. Meanwhile, Thailand still registered trade deficits vis-à-vis Japan, China, South Korea, Taiwan and especially Myanmar and Middle East countries due to the continued large imports of fuel.

**Services, Income, and Transfers Account** recorded a deficit of 0.4 billion US dollars in 2008, compared to a surplus of 2.5 billion US dollars in 2007. The deficit was mostly owing to the deceleration in tourism revenue and the increase in investment payment by the private sector. Tourism revenue increased 5.9 percent due to the slowdown in the economies which were Thailand's major sources of tourists. In 2008, foreign tourists totalled 14.5 million persons, an increase of only 0.5 percent. Meanwhile, investment income stood at 0.5 billion US dollars, a decrease of 6.5 percent from the previous year, mostly attributable to the decline in income by the private sector. Nevertheless, tourism expenditure by Thai residents travelling abroad expanded by only 1.6 percent, while the number of outbound tourists actually increased by 6.6 percent from the previous year. Investment payment was at 16.9 billion US dollars, an increase of 17.1 percent, mainly due to remittances of profits and dividends by the private sector. The deficit in the services, income, and transfers account led to an overall deficit in the current account of 0.2 billion US dollars, compared to a surplus of 14.0 billion US dollars in 2007.

### **Net Capital Movement**

In 2008, net capital movement recorded a surplus of 12.8 billions US dollars, reversing from a small deficit in 2007. This was due to net capital inflows both in the banking and non-banking sectors, mostly in the form of foreign direct investment.

Since March 2008, the Unremunerated Reserve Requirement measure had been lifted as capital flows had become more balanced. This was achieved partly as a result of the gradual relaxation of controls on outflows by local residents, resulting in significant increases in portfolio investment in foreign assets.

Details of Thailand's capital movement are as follows:

**Bank of Thailand.** Net capital movement of the BOT registered a surplus of 0.1 billion US dollars, due primarily to the purchases of the baht-denominated BOT bonds by foreign investors in the secondary market.

**Government sector.** Net capital movement of the government sector recorded a deficit of 0.5 billion US dollars. This was due mostly to the investment in securities abroad totaling 0.9 billion US dollars. Meanwhile, the inflows were contributed from purchases of baht bonds by foreign residents in the secondary market as well as the issuance of Samurai Bond for the amount of 0.5 billion US dollars to refinance due debts.

**Banking sector.** Net capital movement in the banking sector recorded a surplus of 8.1 billion US dollars, compared to a deficit of 1.1 billion US dollars in the previous year. The surplus was mainly attributed to the reduction of net foreign asset holdings by commercial banks. However, some outflows occurred as a result of the sales of bank shares in the stock market by foreign investors

**Other sectors.** Net capital movement in other sectors was 5.2 billion US dollars in surplus, mainly from capital inflows to the non-banking sector.

**Non-Banking sector.** Net capital movement in the non-banking sector registered a surplus of 6.1 billion US dollars, increasing from the surplus of 2.8 billion US dollars in the previous year. Foreign direct investment registered a surplus of 9.9 billion US dollars (including reinvested earnings valued at 6.6 billion US dollars) due to

the net inflow of equity investment mostly in wholesale, rubber, and vehicles industries. Meanwhile, net portfolio investment registered a deficit of 2.3 billion US dollars in line with non-residents' outflows following investors' risk aversion amidst the financial crisis, as well as continued portfolio investment abroad by Thai residents, most of which was invested in debt securities. Net flow of loans from non-affiliated companies registered a small deficit. Other investment flows exhibited a deficit due to domestic holding companies and wholesale fuel businesses extended loans to their subsidiaries abroad.

**State-enterprise sector.** Capital flows to this sector recorded a deficit of 1.0 billion US dollars. This was due to the redemptions of long-term debt securities and loan repayment by some state-enterprises.

### **Balance of Payments**

Despite a deficit of 0.2 billion US dollars in the current account, the large capital account surplus caused the balance of payments to register a surplus of 24.7 billion US dollars, increasing from the 17.1 billion US dollar surplus in the previous year. Meanwhile, international reserves rose from 87.5 billion US dollars as of end-2007 to 111.0 billion US dollars as of end-2008, with net outstanding forward obligations (net buy) of the BOT stood at 7.0 billion US dollars.

Net errors and omissions in 2008 recorded a small surplus similar to 2007, reflecting some unspecified inflows which would be allocated more appropriately later if and when more data become available from survey.

**Balance of Payments**

(Unit: Million of US\$)

	2007			2008 <sup>1/</sup>		
	H1	H2	Year	H1	H2	Year
<b>Exports, f.o.b.</b>	<b>69,350</b>	<b>80,698</b>	<b>150,048</b>	<b>87,670</b>	<b>87,627</b>	<b>175,297</b>
(%Δ)	16.7	17.8	17.3	26.4	8.6	16.8
<b>Imports, c.i.f.</b>	<b>65,235</b>	<b>73,241</b>	<b>138,476</b>	<b>85,888</b>	<b>89,172</b>	<b>175,060</b>
(%Δ)	6.2	11.8	9.1	31.7	21.8	26.4
<b>Trade balance</b>	<b>4,114</b>	<b>7,458</b>	<b>11,572</b>	<b>1,782</b>	<b>-1,545</b>	<b>237</b>
<b>Net services income &amp; transfers</b>	<b>980</b>	<b>1,497</b>	<b>2,477</b>	<b>1,357</b>	<b>-1,773</b>	<b>-416</b>
<b>Current account balance</b>	<b>5,094</b>	<b>8,955</b>	<b>14,049</b>	<b>3,139</b>	<b>-3,317</b>	<b>-178</b>
<b>Capital movements (net)</b>	<b>-1,612</b>	<b>-801</b>	<b>-2,413</b>	<b>10,036</b>	<b>2,773</b>	<b>12,809</b>
Monetary authorities	-766	147	-619	267	-206	61
Government	-1,810	-416	-2,226	157	-659	-501
Bank	-6,660	5,540	-1,121	5,520	2,573	8,093
Other sectors	7,625	-6,072	1,554	4,092	1,065	5,157
-Non-bank	7,245	-4,477	2,768	4,692	1,441	6,133
Foreign Direct Investment	5,549	4,650	10,199	5,063	4,850	9,912
Equity investment and reinvested earnings	5,017	5,200	10,217	4,780	4,680	9,460
Direct loan	532	-550	-18	282	170	452
Portfolio Investment	2,187	-7,913	-5,726	-260	-2,085	-2,345
Foreign	3,024	836	3,860	162	-1,037	-875
Equity sec.	2,919	675	3,593	-153	-851	-1,004
Debt sec.	105	162	267	315	-186	129
Thai	-837	-8,749	-9,586	-422	-1,048	-1,471
Other Loans	422	933	1,356	-834	810	-25
Nonresident Baht Account						
Others	-913	-2,148	-3,061	724	-2,133	-1,409
-State enterprises	380	-1,594	-1,214	-600	-376	-977
Errors and omissions	2,182	3,284	5,466	2,817	9,245	12,063
<b>Overall balance<sup>2/</sup></b>	<b>5,664</b>	<b>11,438</b>	<b>17,102</b>	<b>15,993</b>	<b>8,701</b>	<b>24,693</b>

Note : <sup>1/</sup> Preliminary<sup>2/</sup> Actual

%Δ represents percentage change from the same period last year

Source : 1. Customs Department

2. Bank of Thailand

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## 2.9 External Debt

**External debt** outstanding at end-2008 stood at 64.8 billion US dollars, increasing by 3.0 billion US dollars from end-2007. The increase of 2.0 billion US dollars arose from the revaluation of external debt in terms of US dollars, as Thai baht, Japanese yen, and the euro all appreciated against the US dollar, while the remaining 1.0 billion US dollars increase was due to the new borrowings by both banking and private non-banking sectors. The details can be summarized as follows:

External Debt Outstanding\*  
(Unit: Million US\$)

	2006	2007	2008	Dec-08 compared to Dec-07
<b>1. Public Sector</b>	<b>4,140</b>	<b>2,270</b>	<b>2,872</b>	<b>602</b>
Short-term	0	3	4	1
Long-term	4,140	2,267	2,868	601
<b>2. BOT</b>	<b>965</b>	<b>394</b>	<b>412</b>	<b>18</b>
Short-term	742	17	322	305
Long-term	223	377	90	-287
<b>3. Banks</b>	<b>6,729</b>	<b>6,361</b>	<b>7,218</b>	<b>857</b>
Short-term	3,156	3,960	4,486	665
Long-term	3,573	2,401	2,732	343
<b>4. Other sectors</b>	<b>47,809</b>	<b>52,713</b>	<b>54,291</b>	<b>1,578</b>
Short-term	14,656	17,660	19,794	2,134
Long-term	33,153	35,053	34,497	-556
<b>4.1 State Enterprises</b>	<b>8,987</b>	<b>9,380</b>	<b>9,681</b>	<b>301</b>
Short-term	63	23	38	15
Long-term	8,924	9,357	9,643	286
<b>4.2 Non-Banks</b>	<b>38,822</b>	<b>43,333</b>	<b>44,610</b>	<b>1,277</b>
Short-term	14,593	17,637	19,756	2,119
Long-term	24,229	25,696	24,854	-842
<b>Total Debt (1+2+3+4)</b>	<b>59,643</b>	<b>61,738</b>	<b>64,793</b>	<b>3,055</b>
<b>External Debt / GDP (%)</b>	<b>32.8</b>	<b>29.4</b>	<b>26.7</b>	
Short-term	18,554	21,640	24,606	2,966
Long-term	41,089	40,098	40,187	89
<b>Share (%)</b>	100.0	100.0	100.0	
Short-term	31.1	35.1	38.0	
Long-term	68.9	64.9	62.0	

Note: \* Including valuation change

Source: Bank of Thailand

**Government sector.** External debt of the general government sector stood at 2.9 billion US dollars, up by 0.6 billion US dollars from 2007. The increase in government external debt was due to non-resident investors' purchase of baht-denominated government securities in the secondary market as well as an issuance of the Samurai Bond, valued 0.5 billion US dollars, to refinance matured loans.

**Bank of Thailand.** External debt of the Bank of Thailand stood at 0.4 billion US dollars, increasing slightly from the previous year due mainly to foreign investors' purchase of baht-denominated BOT bonds in the secondary market.

**Banking sector.** External debt of the banking sector registered at 7.2 billion US dollars, increasing by 0.8 billion US dollars from end-2007. The increase was largely in line with the rise in short-term borrowings by foreign bank branches in Thailand, partly as liquidity cushion to prepare for potential impact from the global financial turmoil.

**Other sectors.** External debt of other sectors stood at 54.3 billion US dollars, increasing by 1.6 billion US dollars from end-2007 as a result of new debt inflow as well as the revaluation in US dollar terms. Net external borrowing in the non-banking sector increased by 1.2 billion US dollars in tandem with an increase in short-term loans of affiliated companies, including short-term trade credits especially in the form of open account. Meanwhile, outstanding long-term debt declined. As for the state-enterprise sector, despite the redemption of matured debt securities as well as repayment of external loans, external debt outstanding in this sector in terms of US dollar still rose from the previous year. This was due mainly to the appreciation of Japanese yen against the US dollar (as 57.5 percent of the state-enterprises' outstanding debt was denominated in Japanese yen).

### External Debt Structure

Short-term debt as of end-2008 accounted for 38.0 percent of total external debt, increasing from 35.1 percent at end-2007. This was due mainly to the increase in external loans and trade credits in the non-banking sector as well as the increase in short-term borrowings in the banking sector.

### External Debt and Vulnerability Indicators

External stability indicators in 2008 showed that overall external stability of the Thai economy continued to be strong. Regarding the liquidity aspect, despite the rise in the ratio of short-term debt to total external debt, overall external liquidity position remained resilient. The ratio of gross reserves to short-term external debt was 4.5 times, while the ratio of gross reserves to the value of monthly imports was at 7.6 times. As for the ability to pay external debt, the solvency indicators remained satisfactory. The ratio of

external debt to revenue from goods and services exports, as well as the debt service ratio, both improved from the previous year and remained better than the international benchmark. The debt to GDP ratio also declined from the previous year. The ratio of current account to GDP, however, turned from a surplus of 5.7 percent in 2007 to a deficit of 0.1 percent in 2008.

External Vulnerability Indicators

	2006	2007	2008	2007				2008			
				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Solvency Indicators</b>											
Current Account <sup>1/</sup> /GDP (%)	1.0	5.7	-0.1	7.3	1.3	4.5	9.3	4.3	0.2	-2.0	-3.1
Debt / GDP* (%)	32.8	29.4	26.7	31.9	30.4	30.2	29.4	30.6	29.0	27.4	26.7
Debt / XGS* <sup>1/</sup> (%)	44.7	39.7	35.5	43.5	41.2	41.0	39.7	41.1	38.8	36.4	35.5
Debt Service Ratio (%)	11.3	11.8	6.8	18.1	10.2	9.7	9.8	8.7	6.1	5.4	7.0
<b>Liquidity Indicators</b>											
Gross Reserves / ST Debt	3.6	4.0	4.5	3.6	3.6	3.8	4.0	4.3	4.1	4.1	4.5
Gross Reserves / Import	6.3	7.6	7.6	6.6	6.7	7.3	7.6	8.8	8.0	7.1	7.6
ST Debt / Total Debt (%)	31.1	35.1	38.0	33.0	34.7	35.2	35.1	38.1	38.6	38.8	38.0

Note: \* 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).

<sup>1/</sup> Since October 2006 reinvested earnings has been recorded as part of direct investment in financial account, and its contra entry recorded as "investment income" in current account. The series have been revised back to 2001.

Source: Bank of Thailand

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## 2.10 Fiscal Positions

In fiscal year 2008, the government continued a deficit budget in order to stimulate the economy from slowing economic conditions. The government expenditure budget for fiscal year 2008 was set at 1,660.0 billion baht, with the estimated net revenue of 1,495.0 billion baht and thus a deficit of 165.0 billion baht or 1.8 percent of GDP.

Nevertheless, the fiscal outturn in fiscal year 2008 registered a deficit less than specification in the budget document because revenue collection was higher than what was estimated earlier. The government cash balance recorded a deficit of 24.0 billion baht, equivalent to 0.3 percent of GDP. Meanwhile, government net domestic borrowing totalled 173.0 billion baht with net foreign loan repayment totalling 61.8 billion baht. This resulted in an increased treasury reserves from 142.8 billion baht at the end of fiscal year 2007, to 229.9 billion baht at the end of fiscal year 2008.

For fiscal year 2009, the government continued to set a deficit budget and increased its size as the adverse effect of global economy slowdown on the Thai economy became more apparent. The expenditure budget for fiscal year 2009 was set at 1,951.7 billion baht (including supplementary budget 116.7 billion baht), with the estimated net revenue 1,604.6 billion baht (including additional revenue increase of 19.1 billion baht expected to be generated from the supplementary budget). This resulted in the deficit budget set at 347.1 billion baht, or 3.7 percent of GDP.

In the first quarter of fiscal year 2009, fiscal position recorded a cash deficit of 147.6 billion baht. Together with domestic loan repayment of 20.1 billion baht and foreign loan repayment 0.7 billion baht, as well as the use of treasury reserves of 168.5 billion baht, the treasury reserves at the end of first quarter of fiscal year 2009 thus decreased from 229.9 billion baht at the end of previous fiscal year, to 61.4 billion baht.

### Treasury Cash Balance

(Unit: Billion baht)

Fiscal Year

	2007	2008	2008		2009 <sup>P</sup>			
			H1	H2	Q1 <sup>P</sup>	Oct <sup>P</sup>	Nov <sup>P</sup>	Dec <sup>P</sup>
Revenue	1,432.8	1,548.9	634.7	914.2	275.3	93.7	91.2	90.4
(Δ%)	(6.9)	(8.1)	(4.7)	(10.6)	(-16.6)	(-19.3)	(-22.2)	(-6.7)
Expenditure <sup>2/</sup>	1,520.5	1,582.6	790.2	792.4	404.0	97.1	161.4	145.4
(Δ%)	(11.8)	(4.1)	(10.4)	(-1.6)	(3.9)	(-37.4)	(27.1)	(36.4)
Disbursement rate (%)	92.8	91.2	44.4	46.8	20.6	5.0	8.3	7.3
Budget deficit (-) or Surplus (+)	-87.6	-33.7	-155.5	121.8	-128.6	-3.4	-70.2	-55.0
Non-Budgetary Deficit (-) or Surplus (+)	-6.5	9.7	-27.7	37.4	-19.0	-10.6	-15.9	7.5
<b>Cash Deficit (-) or Surplus (+)</b>	<b>-94.2</b>	<b>-24.0</b>	<b>-183.2</b>	<b>159.2</b>	<b>-147.6</b>	<b>-14.0</b>	<b>-86.1</b>	<b>-47.5</b>
(% of GDP)	(-1.1)	(-0.3)	(-4.0)	(3.5)	n.a.	n.a.	n.a.	n.a.
<b>Financing</b>								
Net Domestic Borrowing	158.4	173.0	102.7	70.3	-20.1	-35.1	-3.2	18.1
Net Foreign Borrowing	-60.0	-61.8	-7.7	-54.1	-0.7	-0.4	-0.2	-0.1
Use of Treasury Cash Balance	-4.3	-87.1	88.3	-175.4	168.5	49.4	89.5	29.5
Treasury Cash Balance (end-period)	142.8	229.9	54.5	229.9	61.4	180.5	91.0	61.4

Note <sup>1/</sup> Data on revenue remitted to the Treasury and expenditure are from Fiscal Policy Office, adjusted to cash basis

<sup>2/</sup> Expenditure and disbursement rate excluded both of loan principle repayment and use of treasury cash balance

P = Primary data

## Government Revenue

In fiscal year 2008, the government's revenue collection totalled 1,839.6 billion baht, up by 8.0 percent from the previous fiscal year. After excluding tax deducted items, the government net revenue was equal to 1,547.2 billion baht, up by 7.1 percent. This was higher than the initial estimate in the budget document (1,495 billion baht) by 52.2 billion baht, due mainly to higher tax income. In particular, corporate income tax increased from the previous fiscal year by 19.8 percent, following favourable business performance during the year 2007. In addition, there was a low base effect as profits of financial institutions in the previous year were low due to their reserve provisions in compliance with IAS39. VAT also increased by 15.9 percent, in line with increases in consumption as well as prices.

Non-tax revenue collection registered 185.6 billion baht, decreasing by 10.2 percent due to high non-tax revenue in the previous year because of the special income from dissolving the Exchange Rate Equalization Fund. If this special income was excluded, non-tax revenue collection increased by 9.1 percent from the previous year.

As for the first quarter of fiscal year 2009, the government's revenue collection registered 341.3 billion baht, decreasing from the previous year 9.2 percent. Tax income decreased by 6.5 percent due to: 1) Economic slowdown; 2) Excise tax cut for gasohol and diesel following the 6 measures - 6 months package; 3) Measures to reduce specific business tax and transfer fee for real estate transactions. Meanwhile, non-tax revenue decreased by 27.7 percent. This was because revenue remittance of some public enterprises were postponed.

### Government Revenue \*

(Unit: Billion baht)

Fiscal year

	2007 <sup>P</sup>	2008 <sup>P</sup>	2009 <sup>P</sup>			
			Q1	Oct 08	Nov 08	Dec 08
<b>Total Revenue</b>	<b>1,703.8</b>	<b>1,839.6</b>	<b>341.3</b>	<b>112.8</b>	<b>126.6</b>	<b>101.9</b>
(Δ%)	(7.7)	(8.0)	(-9.2)	(-15.2)	(-5.0)	(-7.1)
<b>Taxes</b>	<b>1,497.1</b>	<b>1,654.0</b>	<b>306.5</b>	<b>105.0</b>	<b>108.8</b>	<b>92.7</b>
(Δ%)	(4.9)	(10.5)	(-6.5)	(0.1)	(-8.7)	(-10.7)
<b>- Income base</b>	<b>643.1</b>	<b>739.5</b>	<b>104.6</b>	<b>33.2</b>	<b>44.4</b>	<b>27.0</b>
(Δ%)	(7.0)	(15.0)	(1.6)	(7.9)	(3.2)	(-7.3)
Personal income tax	192.8	204.8	42.1	15.3	13.5	13.3
(Δ%)	(13.4)	(6.3)	(-2.4)	(2.5)	(2.7)	(-11.8)
Corporate income tax	384.6	460.7	58.8	16.2	29.6	13.1
(Δ%)	(2.7)	(19.8)	(2.4)	(2.1)	(4.2)	(-0.9)
<b>- Consumption base</b>	<b>755.9</b>	<b>806.9</b>	<b>175.8</b>	<b>62.4</b>	<b>56.2</b>	<b>57.2</b>
(Δ%)	(4.6)	(6.7)	(-11.2)	(-4.0)	(-16.1)	(-13.3)
Value added tax	434.3	503.4	115.9	42.4	36.7	36.8
(Δ%)	(3.9)	(15.9)	(-1.5)	(9.2)	(-6.6)	(-6.9)
Excise tax	287.2	278.3	55.4	18.3	18.0	19.1
(Δ%)	(4.8)	(-3.1)	(-22.0)	(-20.9)	(-27.5)	(-17.1)
<b>- International trade base</b>	<b>88.5</b>	<b>97.4</b>	<b>23.7</b>	<b>8.6</b>	<b>7.5</b>	<b>7.7</b>
(Δ%)	(-5.8)	(10.1)	(-3.1)	(4.2)	(-11.7)	(-1.6)
<b>Other incomes</b>	<b>206.7</b>	<b>185.6</b>	<b>34.8</b>	<b>7.8</b>	<b>17.8</b>	<b>9.2</b>
(Δ%)	(34.2)	(-10.2)	(-27.7)	(-72.4)	(25.8)	(58.1)

Note : Δ% represents percentage change from the same period last year

Source : Fiscal Policy Office, Ministry of Finance

Data Management Department, Bank of Thailand

\* Revenue on a collection basis is defined differently from revenue on a cash basis shown in the treasury account position

Difference are from time-overlapping and the deduction from the collection basis set aside for tax rebates and export duties compensation.

## Expenditures

In fiscal year 2008, the government's budget expenditure (including foreign loan repayment and current expenditure plus carry-over expenditure) totalled 1,633.3 billion baht, up by 3.7 percent from the previous fiscal year. This was comprised of current expenditure 1,304.9 billion baht (increased by 5.2 percent) and capital expenditure 326.3 billion baht (decreased by 2.4 percent).

Despite acceleration in the government expenditure during the first half of fiscal year 2008, disbursement in the second half of the year was rather low with delays due to political uncertainty as well as the investment plans modification following volatilities in oil prices and cost of construction materials, taking time for new budget approval. This resulted in the total disbursement rate of 92.3 percent of total budget, less than the target of 94.0 percent and the disbursement rate of 93.9 percent in the previous fiscal year. Major expenditures were for education (352.5 billion baht), economic policy application (345.6 billion baht), and universal healthcare (154.9 billion baht).

For the first quarter of fiscal year 2009, the government's disbursement rate was 19.8 percent of total budget, lower than 21.6 percent during the same period last year and the target of 22.0 percent. This was because the announcement of the Budget Act was 14-day delayed whereas the announcement regarding decentralization to local administration was delayed until 19 January 2009. This resulted in capital transfer in first quarter of fiscal year 2009 significantly lower than the previous fiscal year.

Budget Expenditure Structure

Unit: Billion baht	Disbursement according to GFMS classification*			Disbursement Rate (Percent)		
	2007	2008	2009	2007	2008	2009
			Q1			Q1
<b>1. Current Year</b>	<b>1,470.9</b>	<b>1,532.4</b>	<b>363.7</b>	<b>93.9</b>	<b>92.3</b>	<b>19.8</b>
(Δ%)	15.7	4.2	1.6	0.5	-1.7	-8.1
Current Expenditure	1,208.1	1,264.9	335.5	99.5	97.7	23.2
(Δ%)	19.9	4.7	10.6	-3.2	-1.8	-1.0
Capital Expenditure	262.7	267.5	28.2	74.6	73.3	7.3
(Δ%)	-0.3	1.8	-48.4	0.1	0.0	-51.6
Miscellaneous items	0.1	-	-	-	-	0.0
(Δ%)	-	-	-	-	-	-
<b>2. Carry over</b>	<b>104.1</b>	<b>100.9</b>	<b>42.5</b>	<b>66.7</b>	<b>66.4</b>	<b>22.2</b>
(Δ%)	-16.8	-3.1	19.5	-0.1	0.0	-4.9
Current Expenditure	32.0	40.0	20.7	68.5	71.1	24.6
(Δ%)	-37.2	25.2	38.8	-12.6	3.8	-7.2
Capital Expenditure	71.5	58.8	21.6	66.1	63.5	20.5
(Δ%)	0.1	-17.8	7.8	-6.5	-3.9	-4.9
Miscellaneous items	0.7	2.2	0.2	52.4	66.0	10.8
(Δ%)	-76.8	224.2	-64.6	-33.3	26.0	-44.7
<b>3. Total Expenditures</b>	<b>1,575.0</b>	<b>1,633.3</b>	<b>406.2</b>	<b>91.4</b>	<b>90.1</b>	<b>20.0</b>
(Δ%)	12.8	3.7	3.2	0.2	(1.4)	-7.7
Current Expenditure	1,240.1	1,304.9	356.2	98.3	96.6	23.3
(Δ%)	17.2	5.2	11.9	-2.8	-1.8	-1.2
Capital Expenditure	334.2	326.3	49.8	72.6	71.3	10.1
(Δ%)	-0.2	-2.4	-33.4	4.2	-1.8	-38.3
Miscellaneous items	0.7	2.2	0.2	56.4	66.0	10.8
(Δ%)	-75.1	201.5	-64.6	-28.3	17.1	-44.7

Note: \* Government Fiscal Management Information System

Δ% represents percentage change from the same period last year

Source: The comptroller's General Department, Ministry of Finance



## State Enterprises

In fiscal year 2008, the retained income of state enterprises<sup>1/</sup> registered at 198.1 billion baht, up by 18.0 percent from the previous fiscal year. Meanwhile, state enterprises' capital expenditure totalled 220.3 billion baht, decreasing by 2.0 percent from the previous fiscal year. This was partly because state enterprises were still waiting for more explicit government policy. Other negative factors included: 1) The delay in delivering lands for the Eastern rail line

development project; and 2) The investment plan modification due to the increasing costs of construction materials; 3) The delay of mega project investment, in particular, the mass transit project where auctions were behind schedule. All these factors caused delays in investment plans as well as capital expenditure disbursement. Thus, state enterprises' balance recorded a deficit of only 22.2 billion baht, or 0.2 percent of GDP.

### State Enterprises' Balances

(Unit : Billion baht)

Fiscal Year

	2006 <sup>P/</sup>	2007 <sup>P/</sup>	2008 <sup>P/</sup>
Retained Income	156.1	167.8	198.1
(Δ%)	(9.0)	(7.5)	(18.0)
Capital Expenditure	172.6	224.8	220.3
(Δ%)	(-19.7)	(30.3)	(-2.0)
State Enterprises' Balances	-16.4	-57.0	-22.2
(% of GDP)	(-0.2)	(-0.7)	(-0.2)

Note: Δ% represents percentage change from the same period last year

Source : National Economic and Social Development Board (NESDB)

<sup>1/</sup> State enterprises' data from the NESDB's survey (not including some state enterprises such as PTT)

## Public Debt

At the end of fiscal year 2008, total public debt registered at 3,408.3 billion baht, equivalent to 36.9 percent of GDP. This was a decrease from 37.8 percent of GDP at the end of previous fiscal year. Public debt comprised of direct government borrowing 2,162.1 billion baht (23.4 percent of GDP), guaranteed and non-guaranteed non-financial public enterprise debt 572.6 billion baht (6.2 percent of GDP) and 415.9 billion baht (4.5 percent of GDP), respectively, debt outstanding for guaranteed financial public enterprise debt 102.3 billion baht (1.1 percent of GDP), Financial Institution Development Fund (FIDF) debt 138.2 billion baht (1.5 percent of GDP) and other government agency debt (village fund and oil fund) 17.1 billion baht (0.2 percent of GDP).

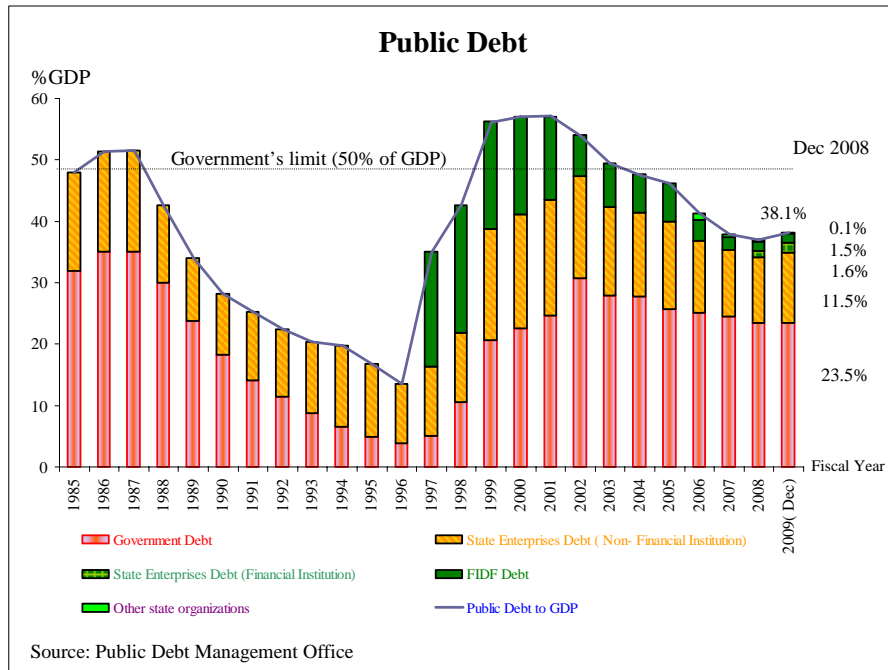
Overall fiscal position in fiscal year 2008 was stable and in line with fiscal sustainability framework, both in terms of public debt which registered at 36.9 percent of GDP (less than 50 percent of GDP) and debt service ratio to budget which registered at 10.4 percent (less than 15.0 percent of budget expenditure).

As of end-December 2008, public debt to GDP ratio recorded at 38.1 percent or 3,471.3 billion baht. This comprised of direct government borrowing 2,134.7 billion baht (23.5 percent of GDP), non-financial public enterprise debt 1,047.3 billion baht (11.5 percent of GDP), guaranteed financial public enterprise debt 143.9 billion baht (1.6 percent of GDP), FIDF debt 136.9 billion baht (1.5 percent of GDP), and other government agency (village fund and oil fund) 8.5 billion baht (0.1 percent of GDP).

<b>Public Debt</b>			
(Unit : Billion baht)			
Fiscal Year			
	2007 <sup>P/</sup>	2008 <sup>P/</sup>	2009 <sup>P/</sup>
			Q1
<b>1. Debt incurred from direct borrowing</b>	<b>2,051.4</b>	<b>2,162.1</b>	<b>2,134.7</b>
(% of GDP)	(24.4)	(23.4)	(23.5)
1.1 foreign debt	107.9	67.0	73.7
1.2 domestic debt	1,943.5	2,095.1	2,061.0
<b>2. Debt of non-financial state enterprises</b>	<b>906.4</b>	<b>988.5</b>	<b>1,047.3</b>
(% of GDP)	(10.8)	(10.7)	(11.5)
2.1 government - guaranteed debt	506.8	572.6	586.8
foreign debt	171.1	174.9	191.2
domestic debt	335.7	397.7	395.6
2.2 non-government - guaranteed debt	399.6	415.9	460.5
foreign debt	134.3	136.5	140.9
domestic debt	265.3	279.4	319.6
<b>3. Debt of financial state enterprises</b>	<b>n.a.</b>	<b>102.3</b>	<b>143.9</b>
(% of GDP)	n.a.	(1.1)	(1.6)
3.1 foreign debt	n.a.	9.0	9.8
3.2 domestic debt	n.a.	93.3	134.1
<b>4. Financial Institution Development Fund ( FIDF )</b>	<b>185.2</b>	<b>138.2</b>	<b>136.9</b>
(% of GDP)	(2.2)	(1.5)	(1.5)
4.1 government - guaranteed debt	0.0	73.8	73.8
4.2 non-government - guaranteed debt	185.2	64.4	63.1
<b>5. Other state organizations*</b>	<b>35.6</b>	<b>17.1</b>	<b>8.5</b>
(% of GDP)	(0.4)	(0.2)	(0.1)
5.1 government - guaranteed debt	18.0	8.3	8.5
5.2 non-government - guaranteed debt	17.6	8.8	0.0
<b>Total (1+2+3+4+5)</b>	<b>3,178.5</b>	<b>3,408.3</b>	<b>3,471.3</b>
(% of GDP)	(37.8)	(36.9)	(38.1)

Note : \* Public Debt Management Office has updated debt report since July 2006

Source : Public Debt Management Office, Ministry of Finance



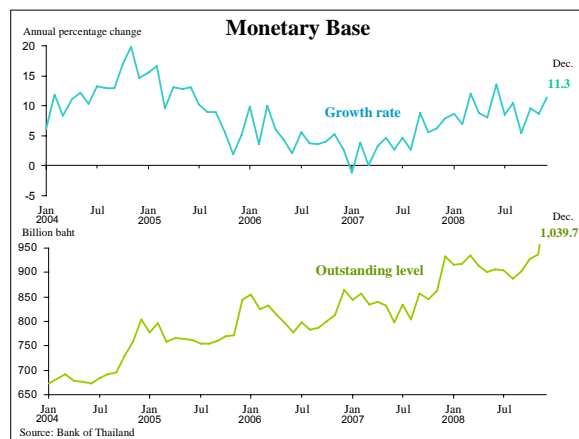
Public Finance Team  
Tel. 0-2283-5628

## 2.11 Monetary Conditions

### Monetary Base and Money Supply

At end-2008, **monetary base** stood at 1,039.7 billion baht, expanding by 11.3 percent from the previous year. This corresponded to the accelerating growth of the currency in circulation, especially at the end of the year as demand for cash was elevated for transactions during the five consecutive New Year holidays.

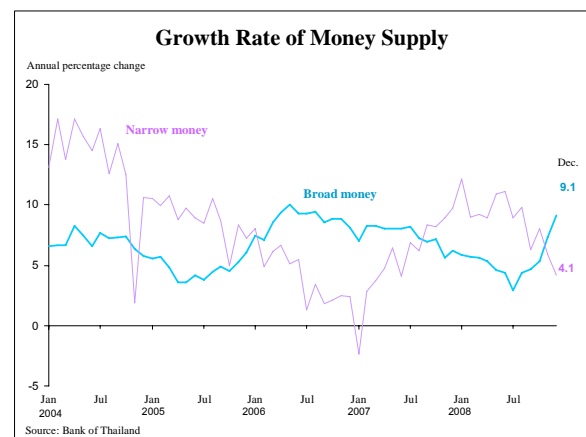
In 2008, important developments regarding the supply of the monetary base were: (1) a continued increase in net foreign assets held by the BOT; (2) a rise in the BOT's net claims on government from an increase in government bonds together with lower government deposits at the BOT; and (3) a decline in the BOT's net claims on financial institutions' investment as these financial institutions increased investment volume in repurchase market as well as their holdings of the BOT bonds.



**Broad money**, at end-2008, totalled 9,942.3 billion baht, an expansion of 9.1 percent which accelerated from the rate of 5.8 percent in 2007. During the first half of 2008, broad money slowed down following the decelerating trend of the deposit of other depository

corporations, given the downward trend of interest rates. This induced a shift from deposits toward assets with higher returns, especially government bonds. However, in the second half of 2008, the broad money growth accelerated as the elevated risk in the economy drove investors to redirect their funds towards deposits which bore a lower risk. In addition, the money growth was also attributed to portfolio investments in overseas securities reaching maturity which periodically returned into the banking system. It should be noted that the definition of broad money had been expanded to include bills of exchange, money market mutual funds as well as deposits at saving cooperatives. This change of definition was in line with international standards for compilation of financial statistics.

**Narrow money** expanded at a lower rate, especially in the second half of 2008, reflecting the moderation of economic activities during the period.



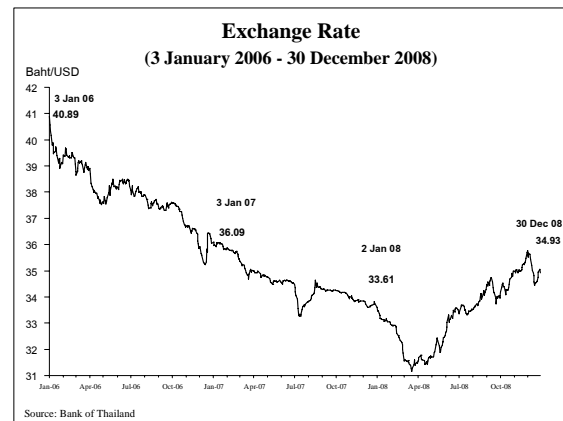
## Exchange Rate, Interest Rates, and Government Bond Yields

### 1) Exchange rate

The movement of the exchange rate, the baht against US dollar, was relatively volatile in 2008. The average level was at 33.38 baht per US dollar, appreciating from the average of 34.56 baht per US dollar in 2007. During the first quarter of the year, the baht appreciation was due partly to exporters' forward sales of their foreign currency income with the concerns over US economic recession as well as market expectation of the lifting of the Unremunerated Reserve Requirement measure. However, the baht exhibited a depreciating trend against the US dollar during the rest of the year due to: 1) deterioration of the current account in line with higher import value mainly driven by a surge in world oil prices; 2) lower confidence in the Thai baht and other emerging markets currencies relative to US dollar due to concerns over accelerating inflation which could adversely affect emerging market economic growth in the second quarter; and 3) a capital outflow from the stock market in response to concerns over political instability and the downward revision of Thailand's credit outlook. However, the fund outflows were considered relatively moderate compared to other regional peers. As a result, despite the weakening outlook of the baht against US dollar, the baht appreciated against the regional and other major currencies.

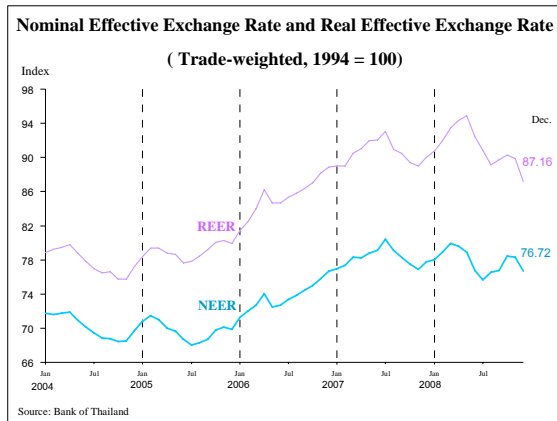
Despite a 3.5 percent appreciation of the baht against US dollar from the previous year, the Nominal Effective Exchange Rate (NEER), a weighted average of bilateral exchange rates between the baht and major trading partners' currencies, averaged at 77.90 – slightly lower from the average of

78.22 in 2007. This equaled 0.39 percent depreciation over the period, reflecting that the overall baht weakening against the US dollar remained well in line with trading partners' currencies.



The Real Effective Exchange Rate (REER), defined as NEER deflated by relative prices to reflect Thailand's price competitiveness, strengthened 0.78 percent from the average of 90.55 in 2007 to 91.25 in 2008. The REER appreciation coincided with the NEER depreciation that mirrored the deterioration of Thailand's price competitiveness in the first half of 2008 as a result of greater share of petrol in the Thai Consumer Price Index basket compared to those of trading partners. Nevertheless, the REER reverted towards a weakening trend in the second half, in line with a decline in NEER and the decelerating inflation from the continued plunge in oil prices.

In December 2008, the baht against US dollar depreciated by 3.8 percent from the same period last year, while the NEER and REER depreciated by 2.8 and 5.0 percent on average, respectively. In addition, the volatility of the baht in 2008 averaged at 5.10 percent which was considered lower than the majority of neighbouring countries.



**Exchange Rates in the Region**

As of Dec 2008	% change from Dec 07			Actual volatility (compared with US dollar) <sup>2</sup>
	NEER <sup>1/</sup>	REER <sup>1/</sup>	with USD <sup>2/</sup>	Jan - Dec 2008
PHP	-12.5	-7.6	-13.3	8.0
INR	-13.0	-10.0	-19.0	8.2
CNY	12.9	12.7	7.5	2.2
MYR	-3.8	-0.8	-5.9	6.3
SGD	1.8	4.5	-1.8	6.8
THB	-2.8 <sup>2/</sup>	-5.0 <sup>2/</sup>	-3.8	5.1
JPY	31.8	29.5	23.3	14.9
TWD	-1.3	-2.6	-2.2	4.8
HKD	4.9	5.2	0.37	0.6
KRW	-31.7	-30.6	-31.7	20.1
IDR	-15.4	-9.8	-17.9	9.1

Source: <sup>1/</sup> BIS calculation  
<sup>2/</sup> BOT calculation

## 2) Money market interest rates

The average short-term money market rates in 2008 declined from the previous year in tandem with the policy interest rate. The 1-day repurchase rate and interbank rate averaged at 3.38 and 3.35 percent per annum, lower than the previous year's averages of 3.77 and 3.79 percent per annum, respectively.

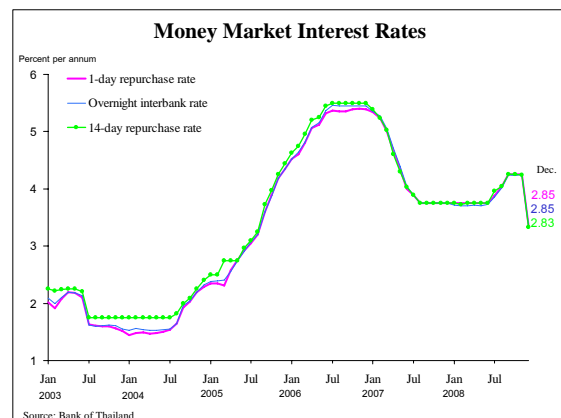
Although risk to inflation elevated from the world oil prices during the first half of 2008, risk to economic growth from the slowdown in the US economy via exports also increased. The Monetary Policy Committee (MPC), as a result, decided to maintain the policy interest rate at 3.5 percent per annum for 4 consecutive meetings.

In the second half of 2008, in the two meetings between July and August, the MPC raised the policy rate to 3.75 percent per annum. This followed the MPC's assessment that risk to inflation increased markedly and began to affect business confidence and private consumption. This might also be passed on to overall economic growth going forward and hence called for the tightening monetary policy to ensure economic stability.

However, in the last quarter of 2008, the balance of risks has changed substantially. Inflationary pressures significantly declined

from lower oil prices following weaker global economic conditions. In the mean time, global financial crisis began to spread impacts to the real sectors of major industrialized countries, which in turn adversely affected exports in the region, including Thailand. In addition, political conflicts, which led to the closure of two international airports during the end of November and early December, further weakening the fragile confidence of consumers and investors as well as entailing a marked decline in revenue of tourism industry.

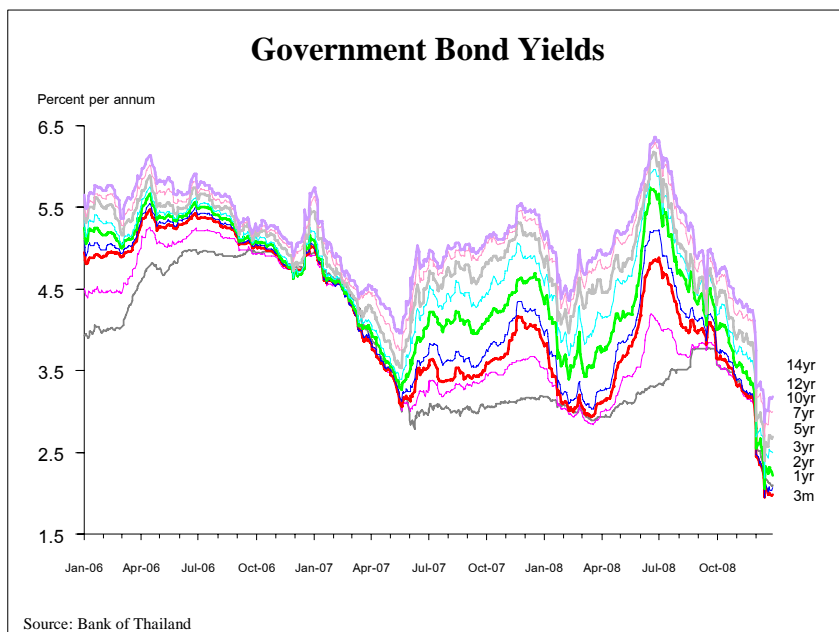
Given above economic outlook and the low inflationary pressure, the MPC viewed that monetary policy could be eased to support an economic recovery and therefore decided to lower the policy interest rate by 1.00 percent per annum, from 3.75 percent per annum to 2.75 percent per annum on 3 December 2008.



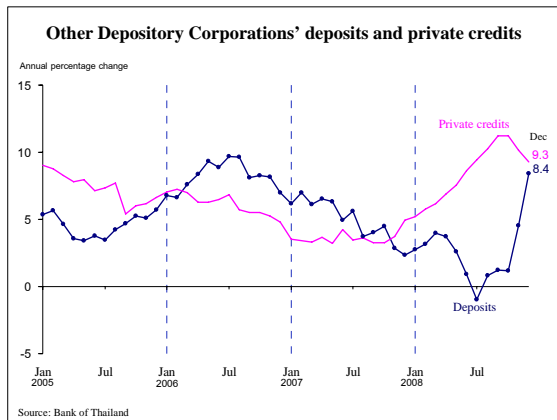
### 3) Government bond yields

In 2008, the government bond yields exhibited high volatility compared to the previous year. During the first half of the year, the bond yields trended upwards, following market expectation of a policy rate hike in response to rising concerns over inflation. This was accompanied by a reduction in short-term bond holdings by mutual funds in search for higher-return investment abroad through Foreign Investment Funds (FIF), such as South Korea.

In the second half, the government bond yields fell in tandem with investors' expectation of policy and inflation rates trending downwards from an economic slowdown as well as a continual decline in oil prices. Additionally, the global risk aversion prompted investors to divert their investment from equity market to bond market, which was more risk-resistant, also contributing to the decline in government bond yields.



## Other Depository Corporation<sup>1/</sup> Deposits and Claims

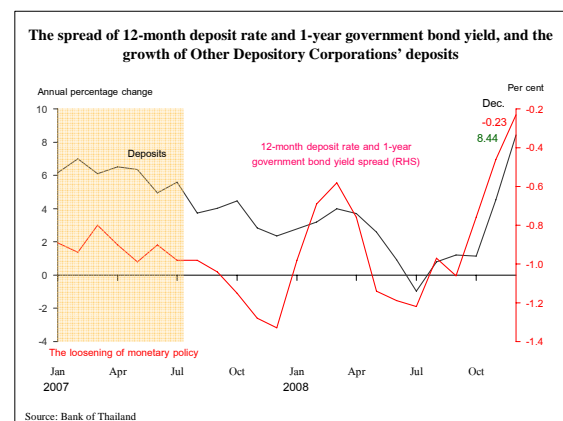


### 1) Other Depository Corporations' deposits

During the first half of 2008, deposits of Other Depository Corporations continually slowed down and subsequently contracted in the middle of the year as investors shifted their deposits to other alternatives with higher returns, such as government bonds, mutual funds, FIDF saving bonds, and foreign government bonds. Moreover, the slowdown in the bank deposits was also partly due to a switching of commercial bank funding from its traditional deposit-based to bills of exchange with higher returns.

During the second half of the year, the reallocation of investors' deposits to higher-

yielded investments was the main factor leading to a contraction of deposits in July. However, in the fourth quarter, the growth of deposits of Other Depository Corporations' expanded robustly due to attractive returns on deposits relative to other assets. This was reflected in the spread between 12-month deposit rate and 1-year government bond yield that rose from -1.33 percent per annum at end-2007 to -0.23 percent per annum at end-2008. In addition, the global financial crisis resulted in higher risks and volatility for investments in other assets compared to deposits. Lastly, there was also a return of Thai security investment abroad reaching maturity. As a result, the deposits of Other Depository Corporations at the end of 2008 expanded 8.4 percent, accelerating from 7.0 percent in 2007.



### 2) Other Depository Corporations' credits

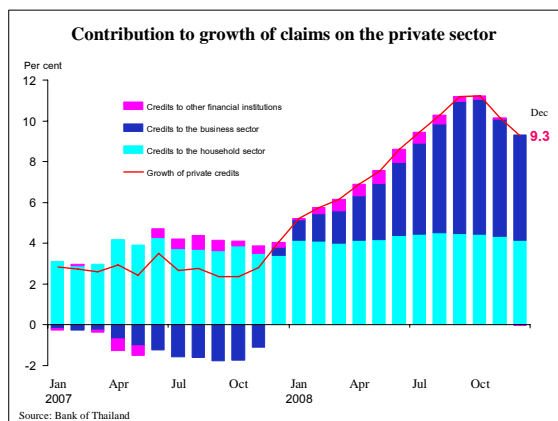
The private credit of Other Depository Corporations exhibited a continued expansion in the first three quarters of 2008. This was attributable mainly to acceleration in the credits extended to the corporate sector in response to improved investors' business sentiment and higher demand for working capital given the sharp rise in raw material costs.

In the last quarter of 2008, nevertheless, the US economic crisis widely affected the global financial sector and economy. Although

<sup>1/</sup> Other Depository Corporations comprise of domestically registered commercial banks, branches of foreign banks, international banking facilities, finance companies, Specialised Financial Institutions (including Government Savings Bank, Government Housing Banks, Bank for Agriculture and Agricultural Cooperatives, Export-Import Bank of Thailand, Small and Medium Enterprise Development Bank of Thailand, Islamic Bank of Thailand), saving cooperatives, and money market mutual funds



the direct impact on the Thai financial sector remained small, the risk to economic growth heightened as the demand for Thai exports started decelerating. In response, the depository corporations became more strict and cautious in their lendings. Consequently, the growth of private credit began to slow down in November, consistent with weakened economic outlook and declining pressure on costs of production. Nevertheless, growth rate of credits extended to household sector remained steady throughout the year, reflecting households' consumption demand. Overall, the growth of private credits at end-2008 stood at 9.3 percent, rising from 4.9 percent at end-2007.

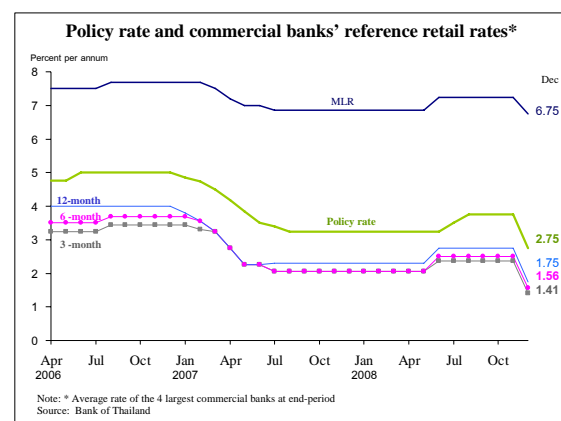


### 3) Commercial bank interest rates

During the first half of 2008, most commercial banks kept their reference interest rates, both deposits and loans, steady in line with the unchanged policy rate over the period. Concurrently, the inflation expectation increased from the end of 2007 in line with a continued rise in oil prices, putting greater pressure on the domestic price stability. As a result, most commercial banks began to adjust their reference deposit and lending rates upwards in June, in expectations of higher policy interest rate in the upcoming period. As a result, the 3-month and 12-month average time deposit rates of the 4 largest commercial

banks increased from 2.06 and 2.31 percent per annum to 2.37 and 2.75 percent per annum, respectively. The average MLR of the 4 largest commercial banks also increased from 6.87 to 7.25 percent per annum. However, the inflation surge in the middle of 2008 resulted in the negative real reference rates for both deposits and loans. In particular, the real MLR<sup>2/</sup> entered the negative territory for the first time in 28 years.

Following the elevated pressure on inflation, the MPC, in the third quarter of 2008, decided to raise the policy interest rate twice from 3.25 to 3.75 percent per annum. Despite the fact that commercial banks had not adjusted their reference deposit rate and MLR since the last adjustment in June, they continually launched special deposit products to support their liquidity management in an environment of tightening liquidity in the banking sector.

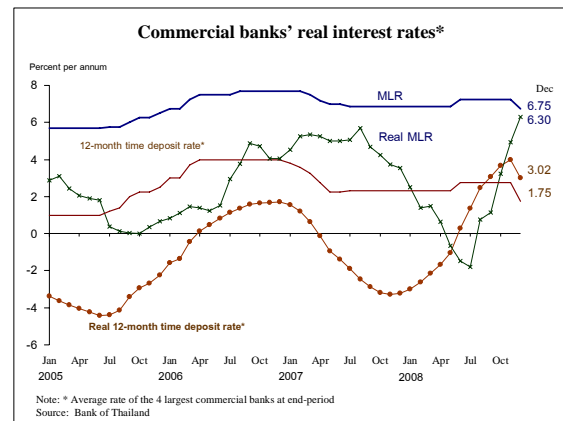


In the last quarter of 2008, an adverse impact of the global financial crisis started to affect the Thai economy, especially the export sector. As a result, risk to economic growth elevated while risk to inflation markedly declined. The MPC, therefore, decided to

<sup>2/</sup> Real MLR = MLR - contemporaneous headline inflation

lower the policy interest rate by 1.00 percent in December 2008, from 3.75 to 2.75 percent per annum, inducing most commercial banks to adjust their reference interest rates downward at around 1.00 percent per annum and 0.50 percent per annum, respectively for deposits and loans. In particular, the 3-month, 6-month and 12-month time deposit rates of the 4 largest commercial banks at the end of 2008 averaged at 1.41, 1.56, and 1.75 percent per annum, respectively, while the MLR of the 4 largest commercial banks averaged at 6.75 percent per annum.

The rapid drop of inflation in the second half of 2008, as well as the decelerated 12-month-forward forecasted inflation collectively brought about a continued rise in the real interest rate. At the end of 2008, the real 12-month time deposit rates<sup>3/</sup> and the real MLR increased from 3.02 and 6.30 percent per annum, despite the downward trend of interest rates.



<sup>3/</sup> Real 12-month deposit rate = 12-month deposit rate - average forecasted inflation 12 months ahead

## Performance of Commercial Banks

In 2008, the Thai banking system counted 34 commercial banks, comprising of 18 Thai registered commercial banks and 16 foreign bank branches.

The banking system performance in 2008 was satisfactory. **Interest income from loans** rose in line with credit expansion. In particular, during the first three quarters of the year, credits extended to the corporate sector notably accelerated. An increase in demand for working capital loans was in tandem with the surge in raw material and energy prices. Meanwhile, credits extended to households also continued to expand. Nonetheless, the average effective lending rate averaged 5.95 percent, declining from 6.25 percent in the previous year due to intense competition and the downward interest rate trend. Although interest income from loans increased, a decrease was observed in other interest receipts and dividends, such as lending in interbank and money markets as well as securities investment. As a result, **total interest income** fell slightly compared to that of 2007.

Meanwhile, **interest payment** fell sharply, contracting by 15.4 percent from the previous year. The decline was due to the maturity of some term deposits which earlier earned high interest rates. Furthermore, some savers relocated their deposits to other higher-yielding assets such as bonds and mutual funds. Meanwhile, the effective deposit rate averaged 1.94 percent, decreasing from 2.43 percent in 2007. Moreover, the increased shares of saving deposits, current deposits as well as bills of

exchange (B/E) in the deposit structure reduced commercial banks' financing costs. This considerable drop in interest payment increased the banks' **net interest income** by 7.5 percent from the previous year.

**Non-interest income** of commercial banks rose by 20.3 percent, owing to the low base last year with large losses from investments in subprime-related assets. Although the Thai banking system's balance sheet also showed some losses this year from the investments in the assets of foreign financial institutions affected by the global financial crisis, such as Lehman Brothers, those losses were limited and lower than those recorded in 2007. In addition, commercial banks registered higher income from fees and currency exchanges. Meanwhile, banks' **non-interest expense** increased modestly compared to the previous year, partly due to personnel expenses which increased in line with the cost of living.

Overall, commercial banks recorded **operating profits** of 196.3 billion baht in 2008, growing 25.7 percent from the previous year. After deducting taxes and provision expenses, which had declined considerably from the preceding year in which the International Accounting Standard (IAS 39) was implemented, commercial banks' **net profit** amounted to 99.1 billion baht, an increase of 76.7 billion baht from 2007.

Moreover, commercial banks' capital adequacy position remained sound, with the BIS ratio averaging 14.2 percent, comfortably above the minimum requirement of 8.5 percent.

### Performance of the Banking System

Billion baht	2007	2008 <sup>P</sup>	%Δ (YoY)
<b>1. Interest income</b>	<b>489.4</b>	<b>478.7</b>	<b>-2.2</b>
1.1 Credit	345.7	358.4	3.7
1.2 Inter bank and money market items	52.8	35.6	-32.6
1.3 Leasing and financial rent contract	20.2	24.4	20.8
1.4 Financial investments	67.4	60.2	-10.7
<b>2. Interest expense</b>	<b>206.3</b>	<b>174.6</b>	<b>-15.4</b>
2.1 Deposits	163.7	131.5	-19.7
2.2 Inter bank and money market items	15.9	10.6	-33.3
2.3 Borrowings	24.9	32.4	30.1
2.4 Fees and charges	0.0	0.0	-
<b>3. Net interest income</b>	<b>283.1</b>	<b>304.1</b>	<b>7.5</b>
(3) = (1) – (2)			
<b>4. Non-interest income</b>	<b>104.4</b>	<b>125.6</b>	<b>20.3</b>
<b>5. Operating expense</b>	<b>231.2</b>	<b>233.5</b>	<b>1.0</b>
<b>6. Operating profits</b>	<b>156.2</b>	<b>196.3</b>	<b>25.7</b>
(6) = (3) + (4) – (5)			
<b>7. Loan loss provision and debt</b>	<b>103.7</b>	<b>59.1</b>	<b>-43.0</b>
<b>8. Taxes and special items</b>	<b>30.2</b>	<b>38.0</b>	<b>25.8</b>
<b>9. Net profits</b>	<b>22.4</b>	<b>99.1</b>	<b>342.4</b>
(9) = (6) - (7) – (8)			

Note: P= Preliminary

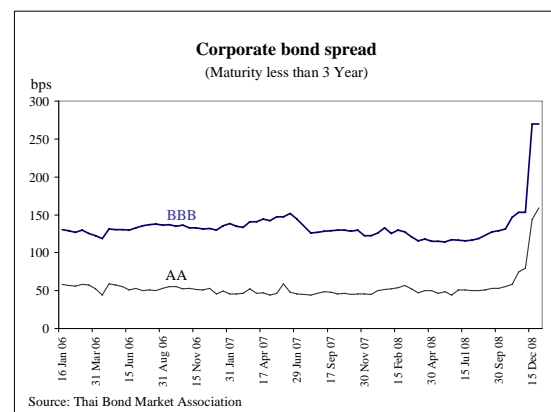
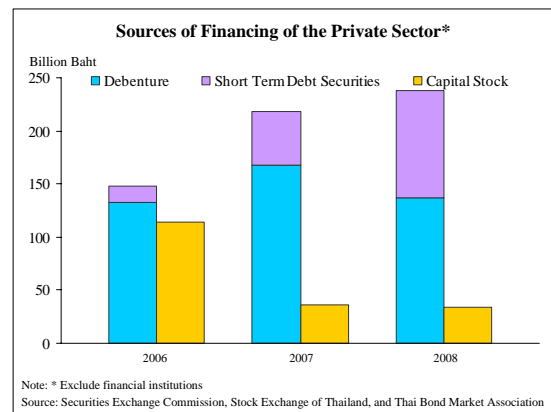
## 2.12 Capital Market

In 2008, the issuance of debt securities by the non-financial corporate sector amounted to 237.5 billion baht, increasing from 217.2 billion baht in the previous year. This was due primarily to a rise in short-term debt securities (commercial papers) for working capital, as their financing costs were relatively low compared to other sources of funding. However, long-term financing declined, as reflected by less issuance of long-term corporate bonds with maturity longer than 1 year. This was in line with lower demand for investment funds as a result of weak economic conditions and confidence. Certain bonds issued in 2008 were those of large corporations, such as the energy sector, which had previously tapped funds from abroad. With the intensification of global financial crisis and thus heightened borrowing costs overseas, these corporations turned to raise funds domestically.

Nevertheless, during the fourth quarter of 2008, the notable economic slowdown from both the global financial crisis and internal political uncertainty resulted in higher risks for the corporate sector. Consequently, costs of issuing domestic debt securities also increased in tandem with elevated risk premiums, reflecting in widening spreads between corporate and government bonds.

With regards to equity securities, the issuance also declined from the previous year. In 2008, the non-financial corporate sector raised 34 billion baht through the primary equity market, a slight decline from 35.7 billion baht in 2007. This was attributed to weakening economic conditions, both domestically and globally. Moreover, political uncertainty and the ongoing risk aversion

further undermined the atmosphere for new equity issuance. Nevertheless, businesses still had some financing needs as reflected through the number of initial public offerings (IPO) in the Stock Exchange of Thailand in 2008 which was close to that in the previous year. Firms which raised funds from the equity market were mostly in the energy, manufacturing and real estate sectors.



Macro Surveillance Team

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### Section 3: Important Monetary Policies and Measures

Measures	Parties Involved	Main Points	Effective Date	Source
<p><b>Interest Rate Policy</b></p> <p><b>1. Policy rate</b></p> <p>MPC decisions on the following dates:</p> <ul style="list-style-type: none"> <li>• 16 January 2008</li> <li>• 27 February 2008</li> <li>• 9 April 2008</li> <li>• 21 May 2008</li> </ul>		<p>The MPC decided to <u>keep</u> the policy interest rate (the 1-day repurchase rate) at 3.25 percent per annum for 4 consecutive meetings since the last meeting on 4 December 2007. The MPC assessed that both economic growth and inflation were at risk due to continued increase in oil prices, making it necessary for the MPC to closely monitor both issues. However, the MPC would stand ready to perform the appropriate monetary policy, should the inflation continued to accelerate.</p>	<ul style="list-style-type: none"> <li>• 16 January 2008</li> <li>• 27 February 2008</li> <li>• 9 April 2008</li> <li>• 21 May 2008</li> </ul>	<p>BOT News No.1/2551, 7/2551, 12/2551 and 18/2551, respectively</p>
<ul style="list-style-type: none"> <li>• 16 July 2008</li> <li>• 27 August 2008</li> </ul>		<p>The MPC decided to <u>raise</u> the policy interest rate by 0.25 percent per annum in each of the 2 consecutive meetings. The MPC was of the view that although the economic growth in the second quarter of 2008 tended to slow down, the risk to inflation has risen markedly from the elevated level of inflation as well as inflation expectations. Moreover, uncertainties in the oil prices should still remain in the periods ahead.</p>	<ul style="list-style-type: none"> <li>• 16 July 2008</li> <li>• 27 August 2008</li> </ul>	<p>BOT News No.27/2551, and 34/2551, respectively</p>
<ul style="list-style-type: none"> <li>• 8 October 2008</li> </ul>		<p>The MPC decided to <u>maintain</u> the policy interest rate at 3.75 percent per annum. The MPC deemed that risks to inflation declined significantly compared to the previous meeting from lower oil prices. Nonetheless, inflationary pressure still persisted from the continued pass-through of costs and the global adjustment of prices</p>	<p>8 October 2008</p>	<p>BOT News No.39/2551</p>

Measures	Parties Involved	Main Points	Effective Date	Source
<ul style="list-style-type: none"> <li>• 3 December 2008</li> </ul>		<p>under the authorities' price administration measures.</p> <p>The MPC decided to lower the policy interest rate by 1.00 percent per annum, from 3.75 to 2.75 percent per annum. The MPC assessed that monetary policy could be eased to help support economic recovery, particularly as the economy faced numerous adverse risks from both on domestic and external fronts.</p>	3 December 2008	BOT News No.44/2551
<p><b>2. Other interest rates</b></p> <p>2.1) Rates on bond repurchase agreements with financial institutions to maintain end-of-day liquidity</p>	<p>– All financial institutions (excluding securities companies and IBFs)</p>	<p>The BOT raised the bond repurchase rate from the policy rate <math>\pm</math> 0.25 percent per annum to the policy rate <math>\pm</math> 0.50 percent per annum, considering that financial institutions has already adjusted themselves well after the closure of the repurchase market.</p>	13 May 2008	BOT Circular No.FED (1 Kor) Wor. 4/2551 dated 13 May 2008
<p>2.2) Rates for Overnight Intraday Liquidity Facilities</p>	<p>– BAHTNET-member institutions</p>	<p>The BOT adjusted the compensation rate for overnight intraday liquidity facilities and for the case where financial institution's right to repurchase debt instruments from overnight intraday facilities expires, from the BOT policy rate plus 0.25 percent per annum to the policy rate plus 0.50 percent per annum, to be in tandem with the compensation rate for the end-of-day liquidity facilities.</p>	13 May 2008	BOT Circular No.PhoRoChor. (12) Wor. 41/2551 dated 16 May 2008
<p><b>Money Market Measures</b></p> <p><b>1. Repurchase market</b></p> <p>1.1) BOT's regulations on money market services in purchase and sale of bonds to Primary Dealers with repurchase agreement via</p>	<p>Counterparties in repurchase transactions in Bilateral Repo</p>	<p>The BOT amended regulations and related notifications on money market services in purchase and sale of bonds to Primary Dealers with repurchase agreement via electronic method (e-Bilateral Repo) to correspond with liquidity</p>	6 February 2008	BOT circular No. FRD (1Kor.) Wor. 1/2551 dated 6 February 2008

Measures	Parties Involved	Main Points	Effective Date	Source
electronic method (e-Bilateral Repo)		liquidity adjustment facilities after the closure of the BOT's repurchase market.		
1.2) BOT's regulations on purchase of BOT bonds with repurchase agreement and amendments of their rates of returns to maintain end-of-day liquidity	All financial institutions (except securities companies and IBFs)	To ensure efficiency of the BOT's monetary policy action and the liquidity management of the financial institutions, the BOT repealed Regulation on Repurchase Agreement B.E. 2549 and dispatched the Bank of Thailand Regulation on purchase of BOT bonds with repurchase agreement and amended the rate of returns on the sale or purchase of bonds for end-of-day liquidity adjustment.	13 February 2008	BOT circular No. FRD (1Kor.) Wor. 2/2551 dated 6 February 2008
1.3) Guideline for counting deposits at the BOT as reservable liquid assets.	<ul style="list-style-type: none"> <li>- Commercial banks</li> <li>- Finance companies</li> <li>- Credit foncier companies</li> </ul>	<p>Under the new BOT Act, the BOT will be able to take the interest-bearing time deposits from the financial institutions. Previously, financial institutions are only allowed to hold current account deposit, which earned no interest.</p> <p>Details of reservable assets required to be held by each commercial bank consists of</p> <ol style="list-style-type: none"> <li>1. A minimum 0.8 percent in non-remunerated current account deposits at the BOT or certain types of loans specified by BOT</li> <li>2. A time deposit at the BOT, which can be counted as BOT debt instrument.</li> </ol>	21 May 2008	BOT circular No. BOT.PPD (21) Wor. 768/2551, 769/2551,770/2551 dated 29 April 2008
1.4) Money market service related to the BOT bonds	– All financial institutions (except securities companies and IBFs)	Amendments on BOT regulation and guidelines on the transaction of the BOT bonds with repurchase agreement, for example, altering the telephone service by Electronic Financial Services (EFS) and changing time for the placement of purchase order.	1 December 2008	BOT circular No. BOT.FRD (1 Kor) 5/2551 dated 5 November 2008



Measures	Parties Involved	Main Points	Effective Date	Source
<p><b>2. Foreign Exchange Controls</b></p> <p>2.1) Further relaxation of Exchange Control Regulations</p>	<ul style="list-style-type: none"> <li>- Commercial banks</li> <li>- Specialized financial institutions</li> </ul>	<p>The BOT further relaxed exchange control regulations as follows;</p> <ul style="list-style-type: none"> <li>- Amend the period within which foreign currency proceeds from exports and other sources shall be acquired to 360 days (from 120 days).</li> <li>- Expand the scope for investment in and lending to affiliated business abroad.</li> <li>- Increase the limit for remittance of funds abroad for purchasing immovable properties.</li> <li>- Relax the regulations regarding foreign currency deposits.</li> </ul>	4 February 2008	BOT circular No. BOT.ECD (02) Wor. 28/2551 dated 4 February 2008
2.2) Outlining the foreign exchange limit, for carrying either in-bound or out-bound, that requires declaration	<ul style="list-style-type: none"> <li>- Commercial banks</li> <li>- Specialized financial institutions</li> </ul>	<p>The BOT sought cooperation from financial institutions in informing customers regarding the new regulation under the exchange control act stating that Thai nationals who take foreign currency, either inbound or outbound, in an amount exceeding 20,000 US dollars must report to the custom department. Failing to comply with the regulation will be subjected to confiscation and further investigation.</p>	24 February 2008	BOT circular No. BOT.ECD (02) Wor. 64/2551 dated 25 July 2008
2.3) Facility to purchase (back-to-back) foreign currency that SMEs sold forward to financial institutions	<ul style="list-style-type: none"> <li>- Commercial banks</li> <li>- Specialized financial institutions</li> </ul>	<p>The BOT provided facility to purchase (back-to-back) foreign currency that SMEs sold forward to financial institutions for a period of 6 months. This program will be terminated on 31 August 2008.</p>	3 March 2008	BOT circular No. BOT.FRD (1 Kor) Wor. 377/2551 dated 29 February 2008

Measures	Parties Involved	Main Points	Effective Date	Source
<p><b>3. Measures to prevent Thai baht speculation</b></p> <p>3.1) Seeking cooperation for compliance with measure to prevent Thai baht speculation</p>	<ul style="list-style-type: none"> <li>– Commercial banks</li> <li>– Finance companies</li> <li>– Securities companies</li> <li>– Specialized financial institutions</li> </ul>	<p>The measure was aimed to limit the Thai baht transactions between financial institutions and non-residents (NRs). The BOT revised its measure to curb capital inflows by reducing the limit that each financial institution can borrow the Thai baht or undertake transactions comparable to Thai baht borrowing from NRs without underlying trade or investment in Thailand to 10 million baht per group of NRs regardless of maturities. (Prior to this, a limit of 50 million baht was imposed on the aggregate outstanding balance of transactions undertaken by all financial institutions per group of NRs with maturities not exceeding 6 months.). In addition, the BOT revised its measures to limit Thai baht liquidity by extending the ceiling of total outstanding balance from 50 to 300 million baht per group of NRs</p>	<p>3 March 2008</p>	<p>BOT circular No. BOT.ECD (02) Wor. 371/2551 dated 29 February 2008</p>
<p>3.2) Lifting of the Unremunerated Reserve Requirement (URR) and amendment on rules and practices regarding Non-resident Baht Accounts</p>	<ul style="list-style-type: none"> <li>– Commercial banks</li> <li>– Specialized financial institutions</li> <li>– Securities companies</li> <li>– Derivative agent and derivative dealer</li> </ul>	<p>The BOT lifted the URR and amended the rules to segregate the non-resident baht accounts into 2 types, namely 1) Non-resident Baht Account for Securities (NRBS)- for investment in securities and other financial instruments, and 2) Non-resident Baht Account (NRBA)- for general purposes.</p>	<p>3 March 2008</p>	<p>BOT circular No. BOT.ECD (02) Wor. 373/2551 dated 29 February 2008</p>

Measures	Parties Involved	Main Points	Effective Date	Source
<p><b>Payment System Measures</b></p> <p><b>1. Multilateral Funds Transfer service</b></p>	<ul style="list-style-type: none"> <li>- Members of BAHTNET</li> <li>- Member bank of electronic clearing house</li> </ul>	<p>The BOT improved the Central Settlement System (CCS) by extending scope of services for settlement to support data transmission demand and the use of information in form of net clearing position of individual institution with its counterparties in order to increase the operational effectiveness of the funds management of BAHTNET service users. The CSS was launched on 10 November 2008.</p>	10 November 2008	<p>BOT circular No. BOT.PSD (12) Wor. 57/2551, 58/2551 dated 22 September 2008</p>
<p><b>Credit Measures</b></p> <p><b>1. The modification of regulations of credit card business</b></p>	<ul style="list-style-type: none"> <li>- Commercial banks</li> <li>- Financial institutions and non-deposit taking operators of credit card businesses</li> </ul>	<p>The BOT expanded the eligibility criteria of main credit-card holders (initially eligible credit cardholders must earn at least 15,000 baht per month). The modifications enabled the credit card operators to consider applications of those who have deposits at commercial banks more than 500,000 baht for a period of at least 6 months or those who have deposits or investments in corporate debentures, mutual funds or all, with a combined value of at least 1 million baht for a period of at least 6 months.</p>	19 April 2008	<p>BOT circular No. BOT.PPD (21) Wor. 714/2551, 715/2551 dated 22 April 2008</p>
<p><b>2. Cancel the limit on overdraft facility</b></p>	<ul style="list-style-type: none"> <li>- Commercial banks</li> </ul>	<p>The BOT allowed commercial banks to set the limit of overdraft facility for each client as they deem appropriate (initially the limit set at THB 30 Million). Commercial banks are still obliged to follow other regulations related to credit extension.</p>	21 April 2008	<p>BOT circular No. BOT.PPD (21) Wor. 712/2551, dated 21 April 2008</p>

Measures	Parties Involved	Main Points	Effective Date	Source
<b>Financial Institution Supervision and Development measures</b> <b>1. Permission to engage in the business of hire purchase and leasing</b>	- Commercial banks	The BOT allowed commercial banks to engage in the business of sale and lease-back with ordinary persons without any limitations on type of assets. Initially, commercial banks were allowed to engage in business only with juristic persons.	21 Mar 2008	BOT circular No. BOT.PPD (21) Wor. 47/2551, dated 25 Mar 2008
<b>2. Appointment of other commercial banks as a paying agent and permission granted to commercial banks to be a paying agent to perform such duties</b>	- Commercial banks	The BOT allowed commercial banks to appoint other commercial banks to be a paying agent to enhance benefits and conveniences of customers. In this connection, the BOT therefore expanded the scope of business that commercial banks could engage in to include being able to be a paying agents for other commercial banks	24 Mar 2008	BOT circular No. BOT.PPD (21) Wor. 514/2551 dated 24 Mar 2008
<b>3. Temporary exemption of regulations on related lending and single lending limits transactions</b>	- Financial Institutions	The BOT temporarily waived regulations on the major shareholders or related lending and rules on single lending limit transactions in order to solve practical problems during the transition period between the Financial Institution Business Act B.E. 2505 and the revised Financial Institution Business Act B.E. 2551.	4 August 2008	BOT circular No. BOT.FPG 85/2551, dated 4 September 2008
<b>4. Modification of Regulations related to Financial Institution Business Act B.E. 2551</b>	- Financial Institutions	The BOT modified regulations on permitting financial institutions to do business in compliance with the Financial Institutions Business Act B.E.2551 and compiled related regulations together.	4 August 2008	BOT.FPG 01/2551-27/2551, 28/2551-84/2551 dated 3 August 2008

Measures	Parties Involved	Main Points	Effective Date	Source
<p><b>Financial Assistance to Priority Economic Sectors</b></p> <p><b>1. Modification of the BOT's role in giving financial assistance to priority economic sectors.</b></p>	<ul style="list-style-type: none"> <li>- Commercial banks</li> <li>- Specialized financial institutions</li> </ul>	<p>In accordance with the objectives of the BOT Act (4th edition) B.E. 2551, BOT modified its role in giving financial assistance to priority economic sectors as follows:</p> <p>(1) Entrepreneurs, who already received and approval from BOT, continue to receive financial assistance according to the approved amount and terms</p> <p>(2) The BOT Regulation No. FOG 14/2551 regarding financial assistance extended to Small and Medium Enterprises (SMEs) was cancelled to increase their production efficiency dated 14 March 2008</p>	3 June 2008	BOT.ECD (22) Wor. 1000/2551 dated 3 June 2008

Remark: Specialized financial institutions include (1) Small and Medium Enterprise Development Bank of Thailand (SMEBank), (2) Export-Import Bank of Thailand (EXIM), (3) Bank for Agriculture and Agricultural Cooperatives(BAAC), (4) Islamic Bank of Thailand, and (5) Government Savings Bank (GSB)