



NESDB

ECONOMIC OUTLOOK

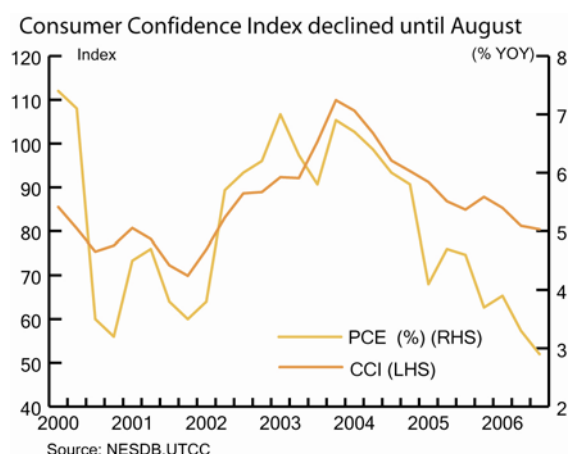
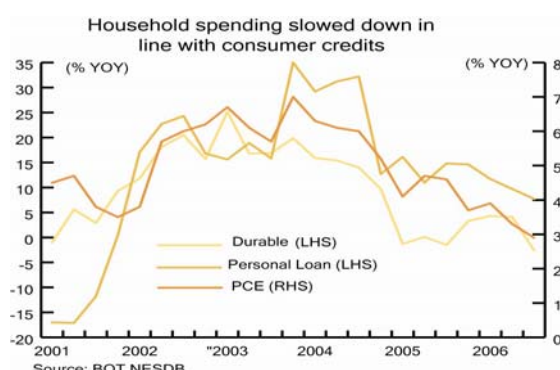
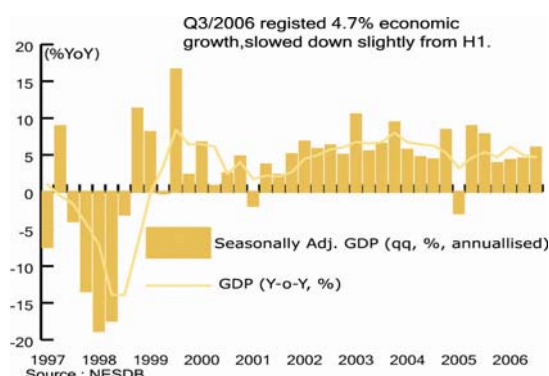
Economic Performance in Q3 and Outlook for 2006 - 2007

- **In the third quarter, Thai economy expanded by 4.7 percent**, slowed down from 6.1 percent and 5.0 percent in the first two respective quarters. Overall GDP in the first three quarters registered a satisfactory growth 5.3 percent, underpinned primarily by robust export of goods and services which helps compensate for the slowdown in domestic demand.
- **The economic stability has been maintained as the inflationary pressures subsided.** The headline inflation averaged at 3.6 percent in Q3, coming down from 5.9 percent in H1/2006. Unemployment rate was 1.4 percent in Q3 and 1.6 percent in the first three quarters. Current account registered a small deficit of 300 million USD in the first 9 months.
- **Rising interest rates have led to an increase in fixed deposit while private credit decelerated.** The deceleration has been evident in terms of consumer credit and credits extended to business sector. Financial liquidity in the financial institutions has remained high.
- **In the first 3 quarters, consumption of petroleum products declined by 2 percent from the same period of last year despite the economic growth of 5.3 percent.** Comparing with the increase in petroleum consumption of 9.7 percent and 0.4 percent in 2004 and 2005, respectively, this improvement implied a higher energy-efficiency.
- **GDP in 2006 is likely to record a 5 percent expansion** with an inflation of 4.6 percent and a small current account surplus of approximately 0.2 percent of GDP. The further economic slowdown is projected for Q4 as export started to slowdown, import accelerated and the rebound in investment is still uncertain.
- **The 2007 economy is forecast to grow by 4.0-5.0 percent** with an expected inflation rate of 3.0-3.5 percent, cooling down from 2006 thanks to the effects of rising interest rates during 2006, stronger baht, and oil price decline. Current account balance will be in surplus of approximately 0.1-0.5 percent of GDP. The economic constraints in 2007 will be primarily the limited potential for export growth while the recovery of investment will not be full-fledged. Unemployment rate will remain low throughout 2007

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1. Economic Performance in Q3/2006

1.1 The Thai economy in the third quarter of 2006 expanded by 4.7 percent, slowing down from the first half of the year. However, overall economic growth in the first nine months reached a favorable rate of 5.3 percent

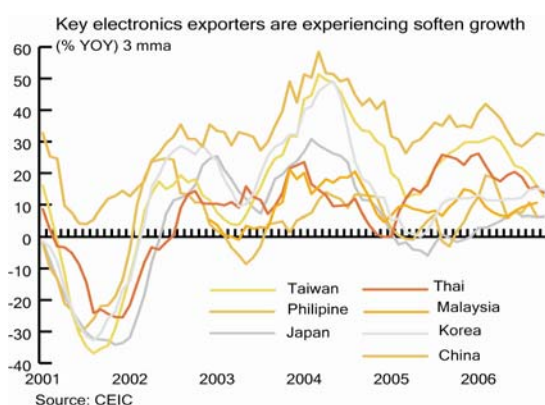
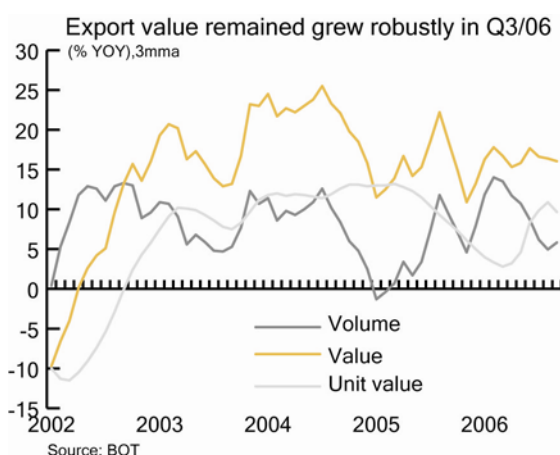
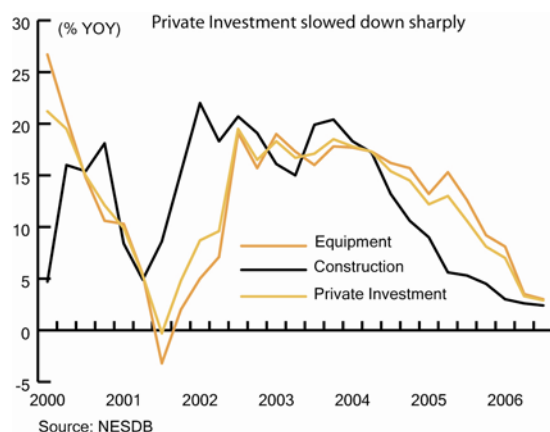


Key Themes

- Thai economy in the third quarter grew by 4.7 percent, slowing down from 5.0 percent in the second quarter and 6.1 percent in the first quarter. This was due to a significant slowdown in consumption and investment, both private and public sector. Exports also showed a softened path, while imports expansion was stronger. Stimulation of trade sector to the economy, thus, became moderate.

Production sector Agricultural sector grew by 5.2 percent, slowing down from 7.4 percent in the first half of the year due to unfavorable weather condition that affected some major crops such as maize and rubber. Moreover, chicken production slowed down as a result of the bird flu in July. Non-agricultural sector expanded by 4.7 percent. Manufacturing and almost all services sectors slowed down, except transportation and communication and electricity and water supply sectors. Significant slowdowns were apparent in textile and finished clothes, chemical and vehicles.

- Overall, the economy in the first three quarters of 2006 expanded by 5.3 percent, driven mainly by strong exports volume of 9.1 percent. This offset a slowdown in private consumption and investment of 3.4 and 4.4 percent respectively, the lower growth than last year, owing to higher oil price, inflation, interest rate and concerns over political situation. Hence, production and service sectors related to exports gained higher benefits from the economic expansion than those with current income or business that depended on the domestic economy.
- Domestic demand significantly slowed down. In the first nine months of the year, domestic demand rose by 4.0 percent, lower from 7.5 percent in the same period of 2005.
 - Private consumption expanded by 3.4 percent, slowing down from 4.5 percent in the same period of last year and from 3.6 percent in the first half of the year. This was a result of declined purchasing power in response to high oil price and commodities prices, high interest



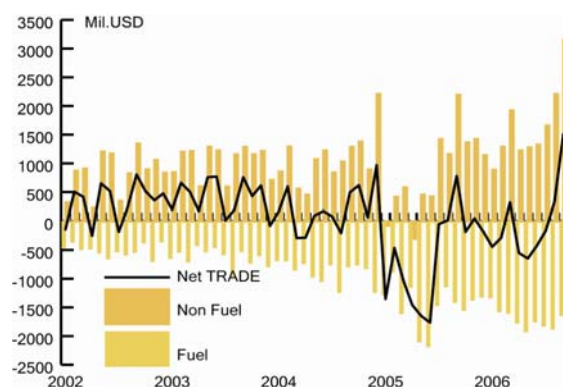
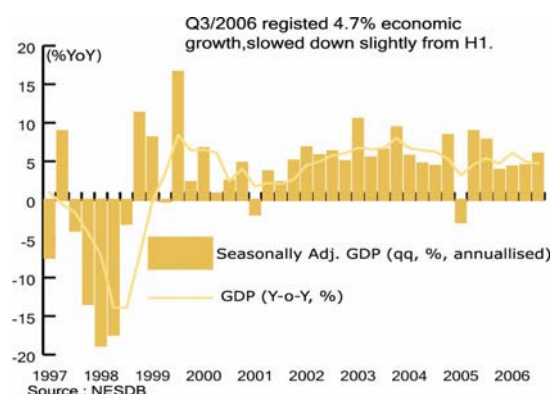
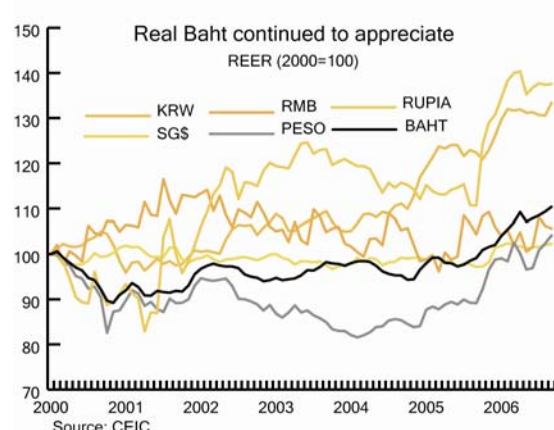
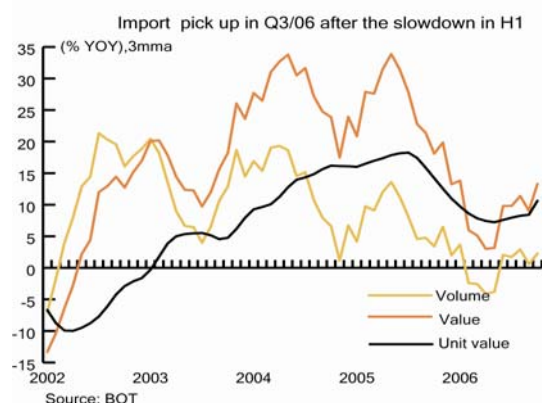
rates and deteriorated consumer confidence since the beginning of the year.

- Government expenditure slowed down. In the first nine months, government expenditure grew by 5.7 percent, lower than 14.7 percent in the same period of 2005.
- Private investment increased by 4.4 percent, slower than 12.0 percent in same period of last year. This slowdown was seen both in equipment and machinery and construction. Negative factors include (i) Soaring oil prices and high interest rates that put pressure on production cost. (ii) Political uncertainty that worsened business confidence and led to pending decision on investment. Government investment increased by 5.1 percent, down from 13.2 percent, partly due to delay disbursement of state enterprises.

- **Exports still served as key engine of growth in 2006**, especially exports of electronics that flourished from expansion of electronics cycle and exports of rubber in the light of increasing demand in China and India. Exports to major markets including the US, Japan, Asian and Europe expanded satisfactorily in tandem with those economic conditions. Meanwhile, exports to other markets like China, India, Middle East and Eastern Europe performed well as well.

Nevertheless, export volume continued to slowdown with a growth rate of 13.9 percent in the first quarter, down to 9.2 and 4.9 percent in the second and third quarter respectively. This was partly due to the fact that world electronics cycle has approached its downtrend since the second quarter and it was also due to high base effect as exports growth was buoyant in the third quarter of 2005.

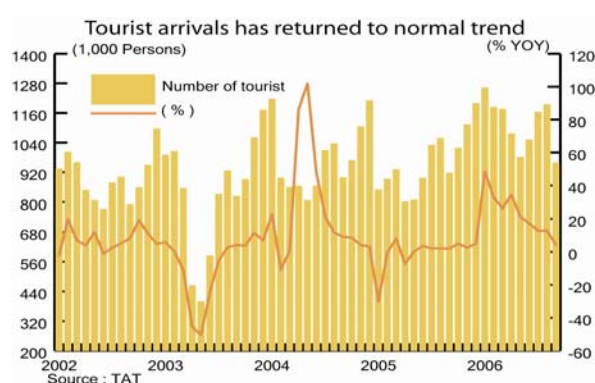
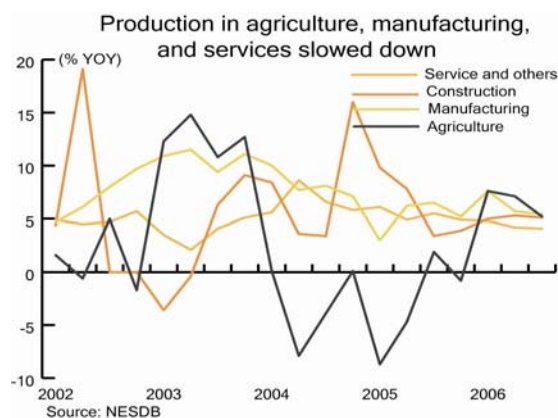
Furthermore, baht appreciated from 41.03 baht per US dollar in December of 2005, to 37.30 in October of 2009. There was, however, no clear evidence of its impacts. Exporters especially those who mainly rely on domestic raw materials and being labor-intensive, such as agro-industry products, textiles, clothes and shoes will suffer more than the technology intensive industries which depend on imported inputs. The reason is that labor-intensive industries can not fully adjust



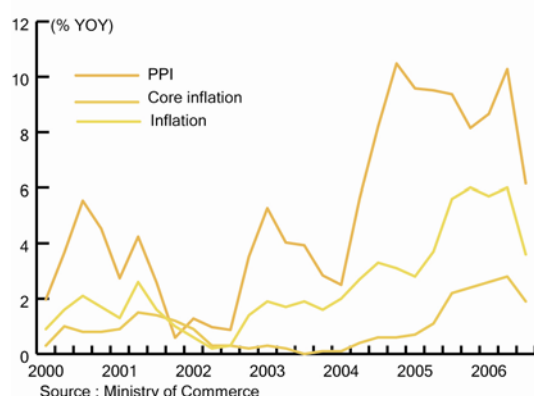
price (in term of US dollar), whereas there were increasing burden from higher wage, interest rates and oil price in baht term.

- **In the first nine months of 2006, imports showed a sharp slowdown.** However, it accelerated in the third quarter after a slowdown in the first half of the year. This was due to high imports of raw materials, namely iron and gold, than a normal trend, both for production and speculation in the first half of 2005. Oil imports also soared due partly to speculation that price would further increase. Moreover, the slowdown in private investment in the first nine months and the complete construction of Suvarnabhumi airport, led to a sharp slowdown in demand for import capital goods. Measures on import management of products with high volume and volatility, namely oil, iron and steel and gold also brought about a sharp decrease in import volume of iron and crude oil.
- **In the first nine months, trade account registered a deficit of 479 million US dollars and current account recorded a deficit of 342 million US dollars.** In the third quarter, trade account was in a surplus of 1.45 billion US dollars. Net trade account of oil and petroleum products was in deficit of 5.34 billion US dollars, while non-oil trade account recorded a surplus of 6.79 billion US dollars. Current account was in a surplus of 1.25 billion US dollars.

1 BOT has changed definition of 'Reinvested earnings' into a new definition. According to the IMF's Balance of Payments Manual: 5th Edition (BPM5), inclusion of non-residents' reinvested earnings shall result in an increase in the "Foreign Direct Investment" (FDI-inflow). In accounting practice, reinvested earnings are recognized as though the profits were actually repatriated to foreign investors before they were subsequently reinvested in the domestic economy. Therefore, reinvested earnings also need to be recorded as outflow under "Investment Income Payment" item, and as a result, worsening the Current Account by the exact amount which "Foreign Direct Investment Inflow" increased. The series have been revised back to 2001.



Inflation pressure stayed high but diminished in Q3/06



□ **Production side in the first nine months expanded well both in agricultural and non-agricultural sectors**

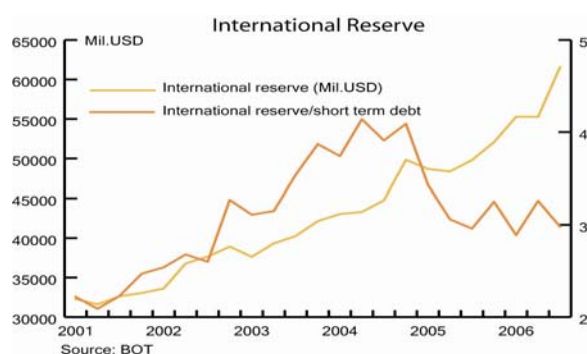
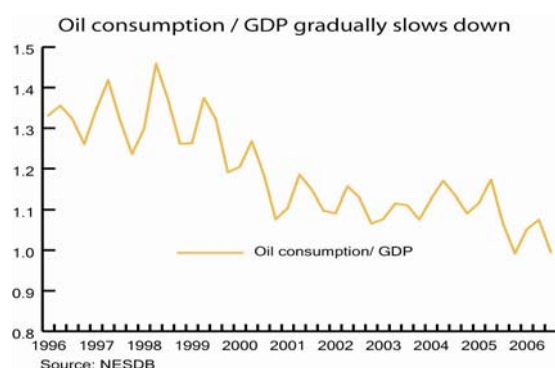
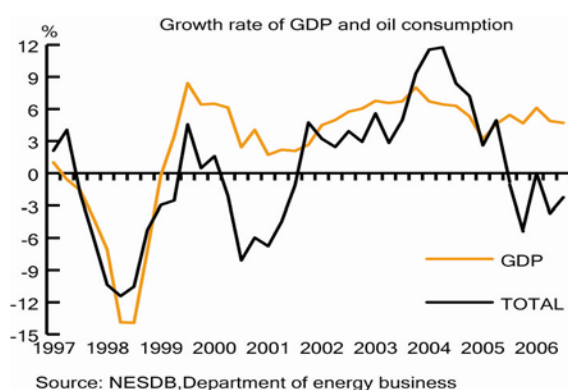
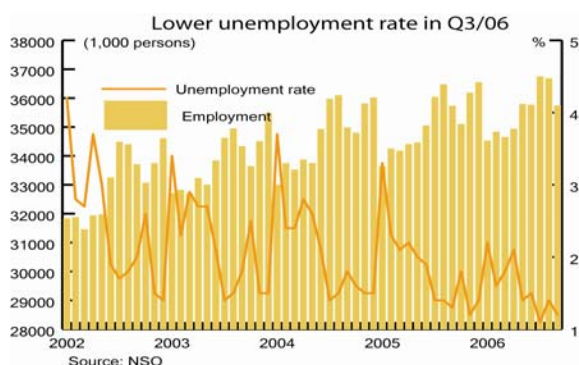
- Manufacturing production expanded by 6.2 percent, despite a slowdown since the beginning of the year. Significant increases in manufacturing production were in electronics, vehicles, construction and paper.

It is worth noting that although electronics production grew noticeably, capacity utilization rate has not significantly increased. This somewhat reflects that productions were running efficiently because the machine had been replaced or modified last year when imports of industrial machineries and electrical machineries rose sharply.

- Agriculture sector expanded by 6.7 percent compare to expansion of 4.4 percent in 2005, with major increasing products include paddy, cassava, sugar cane and oil palm. Agricultural products were, however, adversely affected by flood in the third quarter.
- Hotel and restaurant expanded by 11.3 percent, part of this expansion came from low base effect. The first half of 2005 was the recovery period from the result of tsunami disaster in December 2004 that have effect on tourism sector almost throughout 2005.

□ **Economic stability remained favorable, though facing with high inflationary pressure in the first half of the year, but diminishing in the third quarter. Current account also showed a smaller deficit.**

Inflationary pressure stayed high in the first half of the year but having less pressures on price in the third quarter. In the third quarter, the inflation rate was 3.6 percent which slowed down from the first half of the year. This is due to high price base in the same time last year, and decrease in oil price. The headline inflation continued to slow down in October to 2.8 percent with slightly increase in November to 3.5 percent, due to flood impacts on agricultural product prices. Core inflation in third quarter was 1.9 percent slowed down from the first and second quarter, which continue to slow down to 1.8 percent and 1.7 percent in October and November respectively.



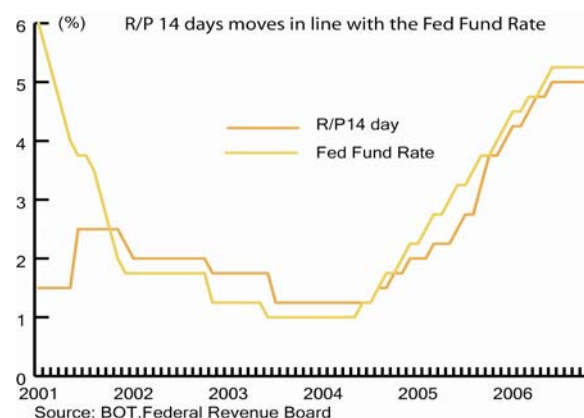
Average headline inflation during the first 11 months of 2006 was 4.0 percent and core inflation was 2.4 percent.

- **Employment rose and unemployment rate was equal to the same period of 2005.** The number of employed person in the third quarter were 36.68 million people, rose by 0.6 percent from 36.48 million people in the third quarter of 2005. The number of employment in agriculture sector declined by 1.6 percent compared with the same period last year due to flood in the northern province. While the number of employment in manufacturing sector increased by 2.2 percent from the same period last year. The employment in construction sector increased by 5.27 percent and a slight increase in manufacturing sector of 0.4 percent. Meanwhile, unemployment rate was 1.36 percent equal to that of the third quarter of 2005. The ratio of job offers to applicants slightly increases from 1.3 percent in the second quarter to 1.5 percent in the third quarter. This ratio indicated less tight labor market.
- **Petroleum consumption declined in the first nine months by 2.0 percent** despite high economic growth of 5.3 percent. This showed an improvement compared with 9.7 and 0.4 percent in 2004 and 2005 respectively.
- **Public debt:** At the end of August 2006, public debt was 3.23 trillion baht, approximately 41.28 percent of GDP, slowed down from 41.69 percent at the end of June 2006 and dropped from 46.4 percent at the end of December 2005.
- **Externality stability was favorable.** International reserves stood at 61.59 billion US dollars at the end of August 2006, and continued to increase to 62.30 billion US dollars on 17th of November respectively. International reserves accounted for 3 times of short-term external debts and equivalent to 5.88 months of import, which is considered to be stable level.

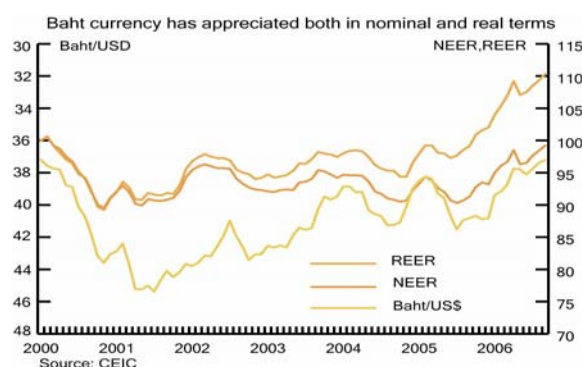
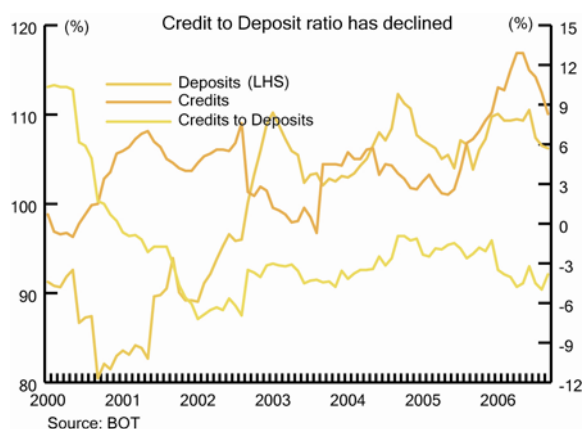
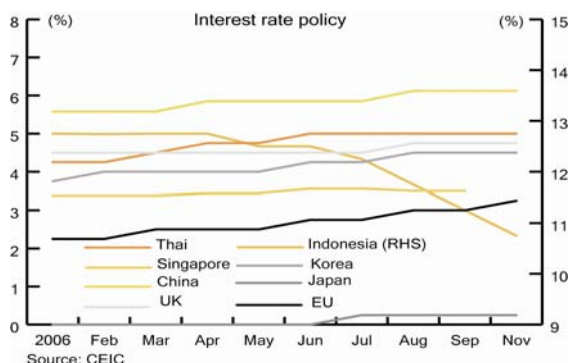
- **Fiscal cash balance recorded a surplus of 35.614 billion Baht in the fourth quarter of fiscal year 2006 (July-September 2006).** The fiscal position in the fourth quarter improved, as compared to a surplus of 16.099 billion Baht in the fourth quarter of fiscal year 2005, due to a surplus of 55.24 billion Baht in the off-budget balance. This was because the government issued T-Bill in order to increase its liquidity. However, fiscal balance in the fourth quarter of fiscal year 2006 recorded a deficit of 18.826 billion Baht due to a decrease in government revenue collection. More specifically, import duties and excise taxes (i.e., spirits and automobiles) decreased, and the total budget disbursement, especially current expenditures, significantly increased.
- **Financial Conditions:** In the third quarter, the authority hold the policy rate unchanged but commercial banks' interest rates continued to be on the rising trend. As a result, time deposit increased sharply and credit continued to slow down; thus liquidity in the financial system increased. Thai baht and real effective exchange rate continued an appreciating trend.

- **Policy rate was stable but commercial banks' interest rates increased slightly.** After the latest tightening in June, the Monetary Policy Committee decided to hold the policy rate at 5 percent throughout the third quarter and thereof in response to the slow down economy and lessened inflationary pressure. The Fed Fund Rate was also maintained at 5.25 percent. Meanwhile, policy rates in other industrial countries, in particular Japan, Euro and the UK, were on the rising trend.

Although the policy rate was stable but large commercial banks continued to raise their rates in August. Average MLR and 12-month time deposit rate of five large commercial banks slightly increased from 7.63 and 4.38 percent at the end of the second quarter to 7.75 and 4.5 percent per annum at the end of November, respectively. Increasing Interest rate and declining inflation have resulted in a positive real interest rates to be positive since August. The third quarter effective spread, however, was at 3.48 percent slightly decreased from previous quarter due to the increase of interest expenditure at a larger pace than interest revenue.



In fiscal year 2006 (October 2005-September 2006), the total net revenue was 1,339.4 billion Baht, or increased by 5.9 percent. Due to decreases in excise tax and custom duties, the total net revenue expansion decreased from 12.2 percent in fiscal year 2005. The collection of excise tax reduced because oil tax, automobile tax and tobacco tax decreased in tandem with the decline of consumption of those respective products as well as the scheme of a diesel tax reduction in the beginning of fiscal year 2006. The sales of automobiles also decreased. Moreover, the collection of tobacco tax reduced due to an increased tax rate of tobacco products. As far as custom duties are concerned, the collection of import duties declined because of a decreased rate of import duties in line with the international agreement of free trade and Thai Baht appreciation. As for the government expenditures, the total budget disbursement in the fourth quarter of fiscal year 2006 was 1,394.6 billion Baht, or increased by 12.1 percent. Such budget disbursement, around 93.4 percent of overall budget, was higher than that of fiscal year 2005, around 91.1 percent of overall budget. Because budget expenditures are higher than government revenues, fiscal balance registered a deficit of 55.2 billion Baht. Such fiscal deficit when combined with a surplus of off-budget balance, around 92.7 billion Baht and the government issued T-Bill around 80 billion Baht returned the fiscal cash balance to a surplus of 37.5 billion Baht.



➤ **The increase of commercial banks' interest rate has resulted in a continual increase of deposits and a slowdown of credits.**

Commercial banks' deposits, excluding those of new established banks, expanded by 5.6 percent from the same period of 2005, but slowed down from the 7.3 percent in the second quarter due to the high base effect in the latter half of 2005 when commercial banks started to raise deposit rates. Time deposit expanded continuously for three consecutive quarters by 31.6 percent, while saving deposit declined by 14.1 percent from the same period of 2005. Commercial banks and finance companies' credit grew by 2 percent, continuously slowed down for two consecutive quarters. Credit extended to manufacturing sector, which constituted the largest proportion of total credit expanded by only 0.6 percent, the lowest growth rate in three years. Personal consumption credit slowed down from 9.7 percent in the second quarter to 7.7 percent. Credit card spending continued to grow by 16.6 percent but a large number of Non-bank credit cards were terminated. This may belong to certain group of customers that used the card mainly for credit purpose and failed to repay.

➤ **Liquidity in banking system tended to increase** since the deposit grew faster than credit. The credit (including investment in private securities) to deposit ratio at the end of the third quarter stood at 92.1 percent declining from 94.4 percent in the same quarter of previous year. The ratio further declined to 91.6 percent in October. The excess liquidity, as a ratio of disposable liquidity, in the banking system continually increased to 750 billion baht in the third quarter or increased by 53.6 percent year-on-year.

➤ **Thai baht has been on appreciating trend** with the average of 37.64 baht per US dollar in the third quarter. The baht has rallied 8.8 percent from the third quarter of 2005 and the 9-month average was 38.35 baht per US dollar, appreciated by 4.1 percent. The baht continued to appreciate to an average of 37.3 and 36.5 baht per US dollar in October and November respectively. The appreciation of the baht at the

faster rate than major currencies and regional currencies caused the average nominal effective exchange rate (NEER) in the third quarter to appreciate by 8.1 percent and the real effective exchange rate (REER) appreciated by 9.4 percent year-on-year. The Bank of Thailand has managed to contain excessive volatility of exchange rate, resulting in the accumulation of international reserves from 58.1 billion US dollar at end of the second quarter to 62.3 billion US dollar on November 24th and 3.1 billion US dollar increase of net forward position.

- **Stock Market and Bond Market** The business sector shifted their financing from credit toward direct funding from the market, both stocks and debt securities. Non-financial sectors issued new securities worth 65.2 billion baht increasing by 42.5 percent from the third quarter of 2005. The stable interest rate stimulated rapid growth of debt securities issuance. On the stock market front, although average trading value dropped, but SET index slightly increased due to net buy of foreign investors. The stock market condition improved in the fourth quarter. SET Index closed at 739.06 at the end of November with market capitalization of 5.3 trillion baht. Daily trading in bond market was averaged 30.7 billion baht, doubled from the third quarter of 2005 and total return index has been adjusted upward.

1.2 World economic growth in the third quarter of 2006: grew at a decelerating rate led by the slowdown in US, China and Asian economies.

- ❑ **The world economy in the third quarter of 2007 continually slowed down** since the second quarter following the slowdown in major economies which include the US, China and Asian economies such as Singapore, South Korea, Malaysia and Philippines. This is in spite of the continued expansion of the Euro and Japan economies in the third quarter at the same rate as previous quarter and the speed-up of Hong Kong, Taiwan and Indonesia economies.
- ❑ **The US economy** continued to slow down, due mainly to a decline in private investment, in particular investment in residential construction caused by the slowdown in real estate sector and more tightening monetary policy. **The Chinese economy** softened after adopting measures to cool down the overheated economy such as raising interest rate, increasing the ratio of commercial banks' reserve requirement, controlling credits and new investment projects to prevent speculation in the real estate. This, as a consequence, led to a slowdown in investment in real estate and fixed asset. **The economy of Euro area** was on a slowdown trend owing to a slowdown in total investment following the strong growth in the second quarter and moderate export growth. **The Japanese economy** continued its recovery path as a result of higher net exports of goods and services and favorable investment in non-residential sector. However, private consumption remained fragile. The Asian economy slowed down as well. Despite the fact that exports of goods and services were key engines of growth, exports of electronics tends to slow down, particularly those of the NIEs economies. This followed a slowdown in electronics demand in the world market and demand in the Asian economy resulting from greater tightening monetary policy during recent periods. Total investment slowed down in Malaysia and showed a negative growth in Indonesia and Philippines. In addition, private consumption slowed down significantly in Taiwan due to credit cards' problem.
- ❑ **In the first nine months, the world economy performed well and the growth was broad-based** The US, Euro, Japan and Asian economies grew stronger than in 2005, driven by exports and investment. Exports of goods and services in the first nine months expanded robustly, in particular Asian economy (including Japan) which gained from increasing world demand. Investment in non-residential sector expanded satisfactorily in China, US, Japan and the EU.

- **Inflation in the first nine months was still high, particularly that in the US, the Euro and Asian economy**, in spite of reduced inflationary pressure in the third quarter following recent falling oil prices. As a result, several central banks lifted up policy rate in the

2. Economic Projection for 2006: GDP growth is projected at 5.0 percent with 4.6 percent inflation rate, current account surplus of 0.2 percent of GDP and 1.8 percent unemployment rate

In the first three quarters, Thai economy expanded by 5.3 percent, primarily helped supported by exports which grew robustly in the first half of 2006. Strong export could compensate slowdowns in private consumption and investment the growth of which were smaller than in 2005 owing to higher inflation, interest rate, and high oil price. In addition, consumer and business confidence weakened partly due to domestic political situation. However quarterly economic growth indicated continued economic slowdown as a result of slowdowns in private expenditure and investment. Nevertheless, exports of goods and services started to soften in the third quarter resulting from high base of exports in the second half of 2005 in line with a recovery of electronic cycle and electronic equipment. Meanwhile, imports in the second half of 2005 slowed down since government coordinated with the private sector to efficiently manage imports of steel, gold and oil. Overall, in the first three quarters, production and service sector related to exports gained higher benefits from the economy than those with current income and domestic economy.

Latest economic indicators in October 2006 showed that the economy continues its downtrend in the last quarter of 2006. Private consumption expenditure and investment slowed down despite improved confidence, falling inflation and clear interest rate policy. It is expected that investors will continue to suspend their decision on investment until the direction of the new constitution and next government are clear. In addition, there should also

first and the second quarter, while the interest rates in the third quarter were kept stable. For example, the US Federal Reserve and the central bank of Malaysia maintained the policy rate at 5.25 and 3.5 percent respectively. Central bank of Indonesia cut the rate continuously to 10.25 percent in November.

be a clear direction of investment on basic infrastructure and logistics. Some flood-affected group of people experienced several damage on crops and facing with higher food and crop prices which eventually affected income. Besides, rubber prices, one of key earning source of farmers slowed down rapidly in the first half of 2006. A positive factor for household spending in the last quarter of 2006 will be partly from expenditures in the Royal Flora Expo which somewhat compensate some impacts of flood. In the meantime, government expenditure and investment will soften since it is the period that the disbursement is still benchmarked to the 2006 fiscal year framework and government sector carefully manages cash during the interim period prior to the announcement of budget act of 2007.

On the export front, it is expected to slow down due to further world economic slowdown at the end of 2006. Overall, exports still expanded strongly. Imports, however, tend to accelerate following declining import volume of capital goods and raw materials in the first three quarters. Stock depletion and strong baht will also provide incentive to increase imports.

In all, NESDB expects that the economy in 2006 will expand by 5.0 percent, higher than 4.5 percent in 2005. This is an upward revision from previous projection of 4.2-4.7 percent released on the 4th September 2006. This upward adjustment is mainly due to a better-than-expected growth rate in the first three quarters of this year. The upward revisions are as follows:

1. Upward revision on the projection of government expenditures which can be disbursed earlier in

the first three quarters and will partly offset a slowdown in private consumption. Therefore, it is expected that government expenditures in real term in 2006 will expand by 4.0 percent, significantly exceeding previous expectation of 0.8 percent.

2. Upward revision on the projection of export value from 14.0 percent to 16.8 percent, as a result of slight upward revision of export volume from 8.8 percent to 9.1 percent due to the better-than-expected world growth during the first ten months. In terms of US dollar, export value and volume will grow by 17.1 and 9.9 percent respectively.
3. Slight downward revision on the projection of import value from 8.8 percent to 8.3 percent. Import volume is downwardly revised from 1.2 percent to 0.3 percent. During the first ten months, import volume declined by 0.7 percent, however, import value rose by 8.1 percent as a result of higher import prices following higher oil price and higher price of capital goods and raw materials.
4. The headline inflation in 2006 is estimated to be 4.6 percent, which lies in previous projected range of 4.5-4.7 percent. Over the first 11

months, the headline inflation was 4.8 percent while core inflation was 2.4 percent.

5. The current account will record a small surplus of 0.1 percent of GDP

Revision of key assumptions for 2007 projection:

1. Slight upward revision of world economic growth rate from 4.7 percent to 4.8 percent. The US economy is slightly revised downward from 3.4 percent to 3.3 percent in line with a slowdown in the third quarter, while there were some upward revisions of key economies such as the EU, China, Singapore, Taiwan, Indonesia and Malaysia since their growth rates in the first three quarters were better than expected.
2. Downward revision of Dubai oil price from previously expected at 65-68 US dollars per barrel to 61.30 US dollars per barrel in this forecast.
3. Upward revision of export prices from 5.2 percent to 7.7 percent while import prices were also revised upwardly from 7.6 percent to 8.0 percent according to the latest information of October which indicated that prices increased higher than expected.

3. Economic Projection for 2007

Thai economy in the first three quarters of 2006 showed a favorable growth. Concurrently, the fundamental of the economy was also sound and stable as observed in several key economic indicators such as low unemployment rate, declining public debt to GDP and lessened inflationary pressure as a result of upward interest rate adjustment in the earlier period and falling oil price since August. Moreover, interest rate started to be stable and confidence in the economic fundamental has been restored encouraging higher capital flows from abroad into the stock market. Consumer confidence has also improved since September. All of these positive factors will continue to support the economic growth in 2007. Nevertheless, there are still some downside risks associate with the economic outlook, from both external and internal factors including a global slowdown, the US twin deficits problem which could materialize and put depreciation pressures on the US dollar and possible rising and volatile oil price due to the production constraints of petroleum industry.

3.1 Economic Factors/Conditions in 2007

- (1) Average oil price is likely to be more stable in 2007:** In 2006, the Dubai oil price declined sharply since September. This was due to big sell-off of hedge fund in the future

oil market in order to speculate and the oil supply of OECD inventories were also built up. The declining oil price was also a seasonal adjustment. However, high oil price in the first eight months led to average oil price in the first eleven months of 61.70 USD per barrel up by 25.96 percent from 48.98

USD per barrel in the same period of 2005. At the same time, domestic retail prices of Benzene 95 dropped from 28.49 baht per litre on September 1, 2006 to 25.69 baht per litre on December 1, 2006. High speed diesel prices also declined from 27.54 to 23.84 baht per litre during the same period.

(2) Inflation tends to decline which will lead to higher purchasing power and consumer confidence.

Headline inflation declined from 5.9 percent in the first half of 2006 to 3.6 percent in the third quarter and continued its decline to 2.8 percent in October. However, the inflation increased to 3.5 percent in November due to flood which have led to rises in prices of fruits and vegetables. The downtrend was resulted from a decrease in oil prices and high commodity prices' base in the latter half of 2005. Core inflation also declines from 2.7 percent in the first half of 2006 to 1.9 percent in the third quarter. This declining trend was carried over to October and November as the core inflation decreased to 1.8 and 1.7 percent, respectively. It is, therefore, expected that inflationary pressure will be lessen in 2007 due to following factors (1) a decrease in oil price (2) a slow down in commodities prices especially in steel and agriculture product (3) an appreciation of Thai baht that resulted in decrease in import prices (4) an increase in interest rates during 2005-2006 which would caused higher real interest rate and increase caution of private spending. This was apparent in a continual slowdown in personal credit since the beginning of 2006. Personal credit growth were 11.7, 9.7 and 7.7 percent in first, second and third quarter of 2006, respectively comparing to growth rate of 16.1, 11.0 and 14.9 percent during the same period of 2005. Meanwhile, time deposits increased.

(3) Interest rates have been more stable and showed a clear trend which, will consequently encourage higher credit expansion, especially credit for real estate sector. Business sector will also be able to estimate their financing cost easier. In the first half of 2006, the Bank of Thailand raised the policy rate (R/P 14 days) four times,

shifting from 4 percent at the end of 2005 to 5 percent in June. It has been kept at the same rate since then. Subsequently, commercial banks have raised their interest rates such that the average of 12-month time deposit increased from 3 percent to 4.38 percent in the third quarter. The average MLR rate increased from 6.63 percent to 7.63 percent in the first half of 2006 and a slight increase to 7.75 percent in the third quarter. In 2007, it is expected that there will be no significant adjustment because the economic growth is somewhat near the potential output, without a sign of unemployment problem. Furthermore, a recovery of private investment, a smaller surplus in current account and fiscal deficit policy will reduce an excess liquidity in the financial sector in 2007. There will also be some downside risks of higher oil prices which would put more inflationary pressure. In all, interest rate tends to remain at the same level or only a slight downward adjustment.

(4) The consumer confidence has improved since September 2006, supporting the stabilizing adjustment of private consumption. The survey of consumer confidence, conducted by the University of the Thai Chamber of Commerce, showed that the consumer confidence has been on an upward trend since September. Consumer Confidence Index increased from 79.1 in July to 82.1 and 83.5 in September and October, respectively.

3.2 Risk factors

3.2.1 The world economy and other external factors which would put limitations on the economic growth and stability in 2007 are as follows:

A slowdown of the world economy in 2007 and its impact on exports and tourism. The world economy has continued its downward trend since the latter half of 2006. The US adopted the tightening monetary policy over the past 2 years by uplifting interest rates to help easing inflationary pressure and a current account deficit. Consequently, the household consumption has slowed down and investment in real estate sector declined in line with larger current account deficit. The Chinese economy

also showed a slowdown in 2006 as a result of rising interest rate and limited credit expansion to cool down overheated investment.

Trends of key economies in 2007 are as follows: The US economy will expand by 2.7 percent, down from 3.3 percent in 2006, due to the slowdown in real estate sector. The EU economy will increase by 1.9 percent, slowing down from 2.6 percent in the face of tightening monetary and fiscal policies aiming at reducing fiscal deficits as well as raising value-added tax in Germany by 0.3 percent in January 2007. The Japanese economy will grow by 2.3 percent, lower than 2.8 percent in 2006 in tandem with the slowdown of investment cycle and exports. The Chinese economy is expected to slowdown from 10.4 percent in 2006 to 9.6 percent in 2007 following a slowdown trend of exports which was affected by the US economic slowdown, the Chinese RMB appreciation, the scheme of export tax duties as well as the investment slowdown. The Asian economy (excluding Japan and China) tends to slowdown as a result of a downtrend of US, Japanese and Chinese economies which, in turn, lead to a slowdown in exports, especially electronics products. The slowdown was also caused by more stringent trade policies of the US and Europe. Nonetheless, among Asian economies, the Indonesian economy tends to slightly accelerate due to declines in interest rate as well as inflation. The Philippines economy is also likely to be on upward trend due to an improvement in fiscal balance and financial sector which will support an investment. In addition, remitted earnings of Philippines labors working abroad tend to increase and boost domestic consumption.

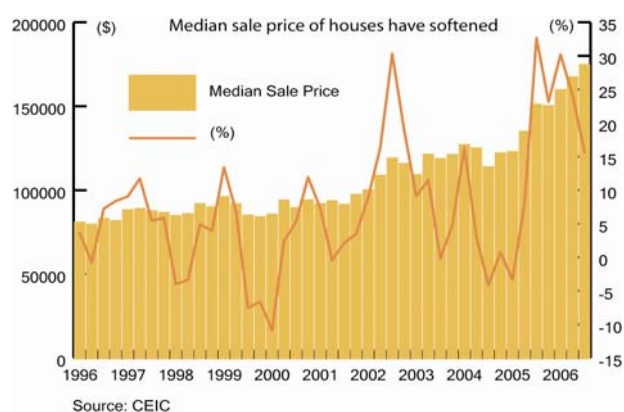
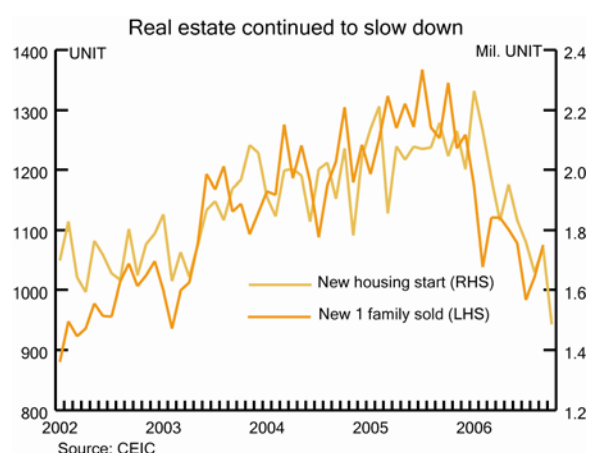
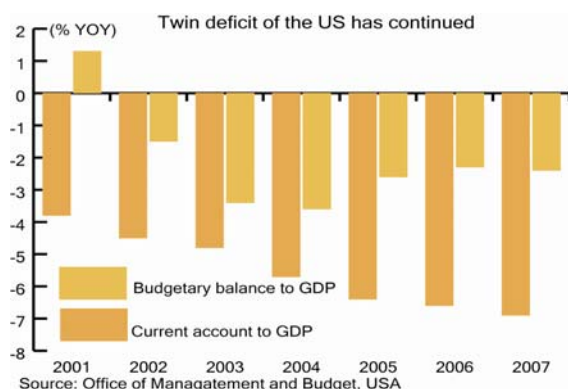
Some risk factors that could lead to hard landing of the world economy are as follows:

- Oil prices continue to be at high level and remain volatile due to rising world demand. On the supply side, the production capacity has been tight and there are possible risks from Hurricane season as well as geopolitical conflicts such as over North

Korea's nuclear program and Iran's nuclear program.

- Large US twin deficits (current account and fiscal account) continue to be a concern which exacerbated business confidence on the US dollar and, thus, deferred demand for dollar. This, as a result, put depreciation pressure on US dollar in the latter half of 2006². This become downside risks to countries owning large amount of US dollar denominated securities and equities and dollar deposits such as China, Japan and oil exporters (including Russia and Norway). Should these countries lose confidence in the US economy and US dollar currency, huge capital outflows from the US could be resulted or it will lead to big US dollar or dollar-denominated securities sell-off. The US dollar would, therefore, rapidly depreciate or the dollar crisis could be resulted for the worst case scenario. In the mean time, falling asset prices in US dollar

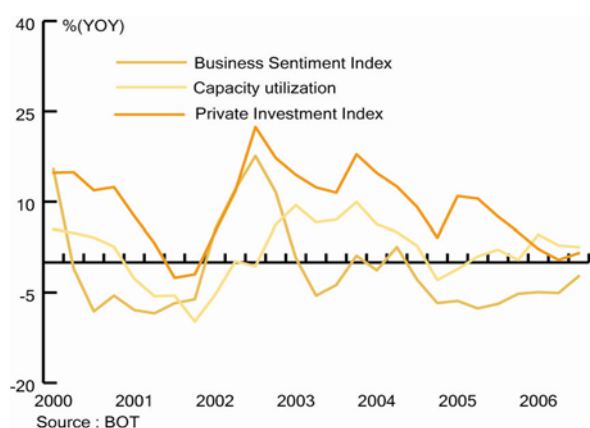
² George Magnus, UBS's Senior Economic Adviser analyzed that currently, capital outflows from Asian and oil exporter countries with large current account surplus to the US financial market in order to invest in securities in the US dollar was high, as well as those securities in US dollar currency issued in other markets. Thus, the US is still able to continue its current account deficit. In 2006, it is expected that net capital outflows from Asian and oil exporter countries totaled 650 billion USD. Capital outflows valued 760 billion USD with 260 billion USD from Asian-ex Japan (70 percent came from China) and about 500 billion USD from oil exporter countries (80 percent came from Middle East and Russia). This means that combining capital outflows from China, Middle East and Russia is accounted for 70 percent of total external capital to finance the US deficit. About 65 percent of total capital inflows to the US market were from Japan, China and oil exporter countries including Russia and Norway



will also affect wealth of those countries³ and will continue its effects on global financial market as well as those dollar holder countries. It is expected that in 2007, the dollar will depreciate against Euro and Japanese Yen (from 115 Yen per dollar in 2006 to 100 Yen per dollar in 2007 and from 1.27 dollar per 1 Euro to 1.30 dollar per Euro in 2007)

- A cooling down in US real estate sector might occur briskly due to interest rate upward adjustment over the past two years. This would affect demand for residential to slowdown severely and create additional excess housing stocks. Housing price could decline significantly which will lessen asset value and jeopardize wealth of household and consequently affect private consumption. Credit quality of financial institutions will deteriorate as a result of lower collateral asset value. There will also be continual effect on employment due to declining investment in real estate construction
- Other factors that would affect global economy to abruptly slow down are (i) the tighter fiscal policy implementation in the EU and Asian economies (ii) a slowdown in electronic cycle and products that will quickly pass on an effect to major exporting countries such as Japan, China, Singapore, Taiwan, South Korea, Malaysia, Philippines and Thailand (iii) an upward adjustment of policy rate in the EU and Japan as it is also possible that the central bank of EU, United Kingdom and Japan will raise the rate by 25 basis point in 2007 and (iv) the political uncertainty, especially in Taiwan as well as geopolitical conflicts such as conflicts between the US and North Korea

3 Francis E. Warnock estimated that 10 percent depreciation of US dollar and 10 percent devaluation of stocks and debt securities price will lessen the wealth of countries owned US currency and US dollar-denominated securities by 4 percent of GDP. Further information: "How Might a Disorderly Resolution of Global Imbalances Affect Global Wealth?", IMF Working Paper No. 06/170



Investment by BOI

Value (Billion Baht) (%)	2005	10 M (Jan –Oct)	
		2005	2006
BOI			
- Net Applications Submitted (%)	674.3 (5.8)	630.9 (34.6)	424.8 (-32.7)
- Applications Approved (%)	571.3 (-4.9)	486.3 (50.8)	272.9 (-43.8)

Source: Board of Investment

Growth on important agriculture products

	2005	2006			
		Q1	Q2	Q3	Oct
1. Agriculture price on sold					
- Rice Grade 1	19.5	1.2	-5.9	-1.4	-3.6
- Minor Rice	23.0	1.2	3.3	-2.0	-9.7
- Maize	-2.4	-4.3	11.0	1.3	n.a.
- Ribbedr	17.0	66.1	73.0	16.2	n.a.
- Tapioca	42.1	-3.3	-24.2	-29.2	-28.1
- Sugar Cane	34.4	33.7	25.4	n.a.	n.a.
- Oil Plam	-10.8	9.9	-23.5	-23.9	-23.9
2. Bangkok Wholesale Price					
- Rice 100% Grade2	21.2	5.0	0.9	0.5	-4.5
- Corn	-2.9	-1.4	16.4	10.8	14.7
-Ribbed Smoke Grade 3 (Hat-Yai Market)	19.0	73.5	77.1	24.0	-0.7
3. World Market Price					
-Rice 100% Grade 2	21.2	2.9	4.5	10.5	5.8
-Maize, Chicaco	-11.8	8.5	13.5	15.3	39.5
-Ribbed Smoke Grade (Singapore Market)	14.1	58.7	69.5	23.9	1.1

Source: BOT, Office of Agricultures Economic

3.2.2 Internal risk factors associated with the economic prospect are as follows:

- (1) A recovery of private investment is still uncertain. It is expected that some investors will postpone their decisions until after the next election. As for foreign investors, they will wait for the amendment of Alien Business Act to be completed, especially issues on foreign shareholders' voting rights and equity ownership as well as the opening up of some sectors which were previously under control for Thais only. In addition, production costs have also been rather high following a minimum wage raise, real interest rates uptrend and high oil price. These factors tend to discourage investment expansion given that market prospect are not bright.

Recent key investment indicators showed that investor confidence was still weak. Value of investment projects both net application and approval projects from the Board of Investment (BOI) declined by 32.7 and 43.8 percent in the first ten months of 2006 respectively. These are leading indicator of investment in 2007 that will not be able to fully recover. In addition, capacity utilization rate also slowed down.

- (2) Agricultural products' prices began to slow down and will adversely affect farmer's income, particularly prices of rubber, corn and paddy.
- (3) Adjustment of export-oriented production sector under more stringent trade measure namely (i) GSP termination since the beginning 2007, US will not resume the Generalized System of Preferences (GSP) for Thailand's export of jewelry and precious stone which will consequently lead to tax rate of 6.5 percent (ii) Moreover, the US will consider whether they will continue cutting the GSP privilege in 2007 on television's export because Thailand's potential on television's exports has increased resulting in higher export share. (iii) The EU countries arrange to announce regulation on Restriction on Hazardous Substances (RoHS) in electrical appliances and

electronic products. The SMEs entrepreneur will, thus, need to adjust themselves to handle higher cost. (iv) The European Commission plan to regulate exporters of food products and aquatic animal's food to acquire approval document for detecting dioxins prior to their exports to the EU countries which will cause higher cost of export

3.3 Key Assumptions for 2007 Projection: Global economic growth is estimated to be 4.2 percent. Dubai oil price is expected to be 60 US dollars per barrel.

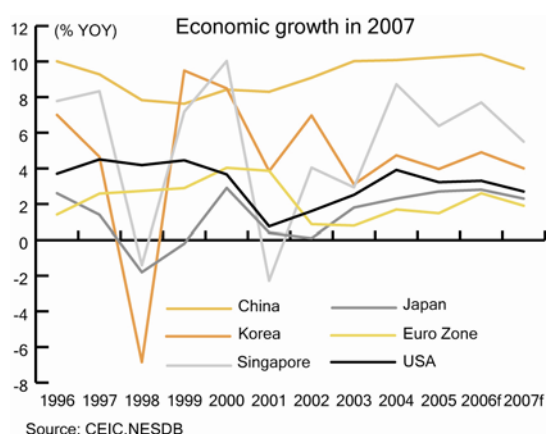
World Economic Growth

(Growth on the same period but different on last year %)

	2005	2005				2006				2006f	2007f
	ปี ๒๕๔๙	Q1	Q2	Q3	Q4	Q1	Q2	Q3	9M	At price	At Price
World	4.4									4.8	4.2
USA	3.2	3.3	3.1	3.4	3.1	3.7	3.5	3.0	3.4	3.3	2.7
Euro	1.5	1.2	1.3	1.7	1.8	2.2	2.7	2.6	2.5	2.6	1.9
Germany	0.9	-0.6	1.7	1.4	1.2	3.2	1.3	2.3	2.3	2.3	1.6
Japan	2.7	1.4	2.7	2.9	3.8	3.9	2.6	2.7	3.1	2.8	2.3
Hongkong	7.3	6.0	7.2	8.2	7.5	8.0	5.2	6.8	6.8	6.1	5.5
Singapore	6.4	3.4	5.7	7.6	8.7	10.7	8.2	7.2	8.6	7.7	5.5
South	4.0	2.7	3.2	4.5	5.3	6.1	5.3	4.6	5.3	4.9	4.0
Taiwan	4.0	2.5	3.0	4.4	6.4	4.9	4.6	5.0	4.8	4.3	3.7
Indonesia	5.6	6.3	5.6	5.6	4.9	4.8	5.1	5.5	5.1	5.3	5.5
Philippine	5.0	4.2	5.4	4.8	5.3	5.7	5.8	4.1	5.4	5.1	5.8
Malaysia	5.2	6.1	4.4	5.3	5.2	5.9	6.2	5.8	6.0	5.7	5.4
China	10.2	9.9	10.1	9.8	9.9	10.3	11.3	10.4	10.7	10.4	9.6

* World comprise of 18 trading partners

Source: CEIC, Government Agency and average value from others

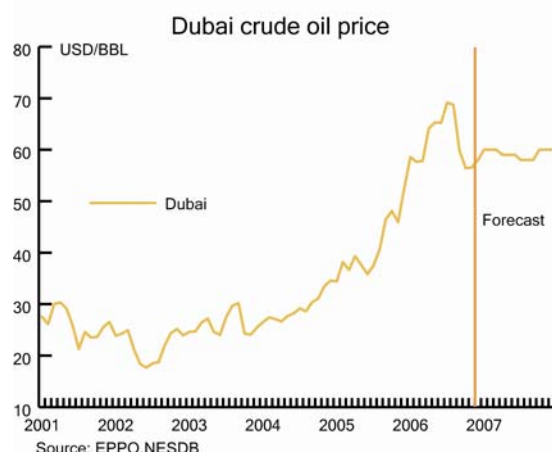


Source: CEIC, NESDB

(1) The world economy in 2007 is likely to grow by 4.2 percent, decreasing from 4.8 percent in 2006 and 4.4 percent in 2005. This projection is due to the downward economic growth of key economies such as USA, Euro area, China, Japan and Asia, and the tightening monetary and fiscal policies over the last two years. In addition, this downward growth is resulted from a decrease in private investment of electronics which rapidly expanded during 2004-2006, and the impact of high oil price lingering since 2004. Hence, international trade and investment in year 2007 is expected to decelerate and less likely to be an economic impulse than in 2005-2006.

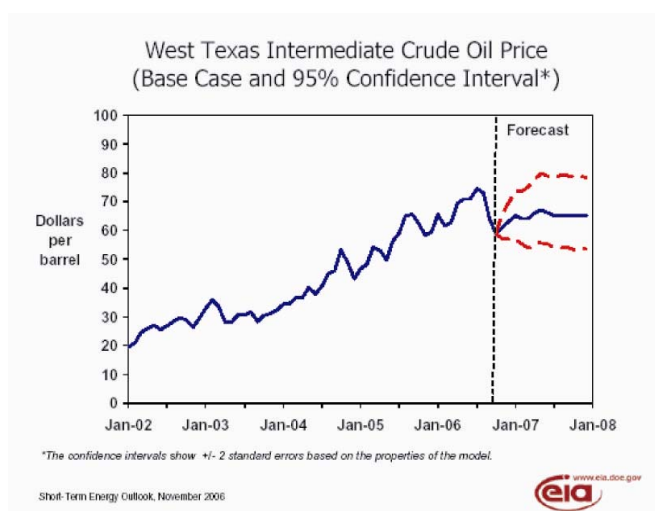
(2) Crude oil price is expected to be around 58-62 US dollars per barrel or the average price of 60 US dollars per barrel, decreasing by 2.3 percent from estimated prices of 61.30 US dollars per barrel in 2006. Oil price is likely to remain high. It is expected that the average price will be around 58-62 US dollars per barrel in 2007. The most likely price is 60 US dollars per barrel which is slightly lower than 61.30 US dollars per barrel in 2006, or decreased by 2.3 percent. It is expected that oil price will increase in the first quarter during the winter season. Thereafter, it will remain high due to the production cut of OPEC effective from 1 November, 2006⁴. As a

⁴The reduction in oil production is different from past records. Its target is to decrease the quantity of the actual oil production but not the quota of production. However, it is noted that OPEC did not announce the starting quantity of production of each country members, referring as the benchmark of reducing



result, oil spare capacity in Saudi Arabia will be around 1.3-1.8 million barrels per day. Although, such spare capacity slightly increases from last year, it is near 30-year low level. In November 2006, International Energy Agency (IEA) forecasted that world oil supply in 2007 will be 86.4 million barrels per day, slightly decrease from 86.6 million barrels per day in 2006. Meanwhile, the world oil demand will increase from 85 million barrels per day in 2006 to 86.5 million barrels per day. More than the half of such demand increase in the world market will be from an increased demand in US and China. The oil demand of oil exporters will also increase stimulated by rising income from oil exporters in the past 2-3 years. Moreover, it is expected that the stock of oil products in OECD will decrease in the end of 2007.

- On 7 November 2006, Energy Information Administration (EIA) forecasted West Texas Intermediate (WTI) in 2006 to be on average of 66 US dollars per barrel and slightly decline to 65 US dollars per barrel in 2007. WTI price is generally 3-5 US dollars per barrel higher than the Dubai price⁵.
- On 1 December 2006, referring to Global Weekly Economic Monitor by Lehman Brothers, the Brent future price of 2007 is about 72 US dollars per barrel, increasing from 66 US dollars per barrel in 2006. The gap between Brent and Dubai price increases to approximately 3-8 US dollars per barrel⁶.

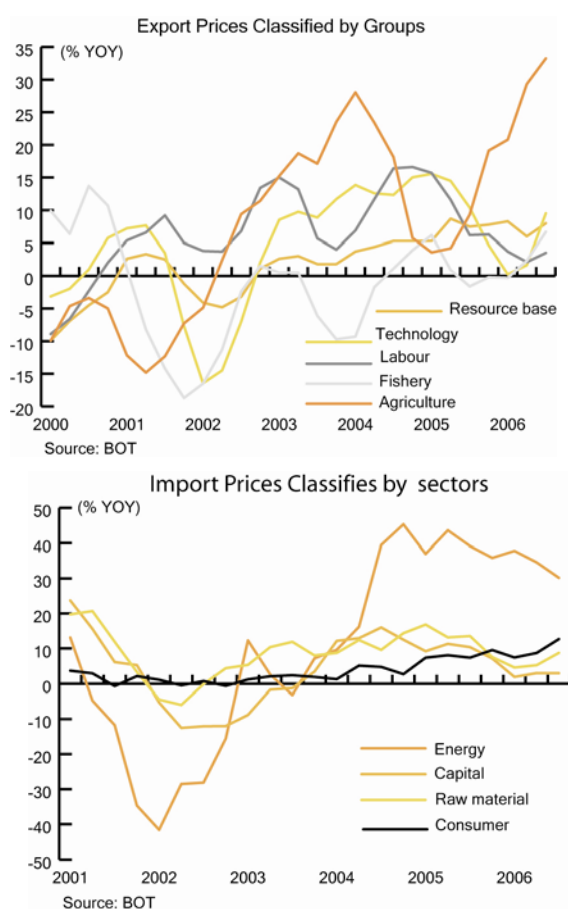


production, in each member country. This resulted in the uncertain quantity of production in each member country.

(3) Export and import prices. In 2007, it is expected that commodities' prices in the global market is still on uptrend, but with a decelerating rate, as a result of falling oil and raw materials prices. Although, the demand of commodities and raw materials remains high, the prices were already adjusted significantly in 2006. It can be seen that commodities prices, including steel and rubber and prices

5 Short-Term Energy Outlook, EIA, 7 November 2006

6 Global Weekly Economic Monitor, Lehman Brothers, 24 November 2006

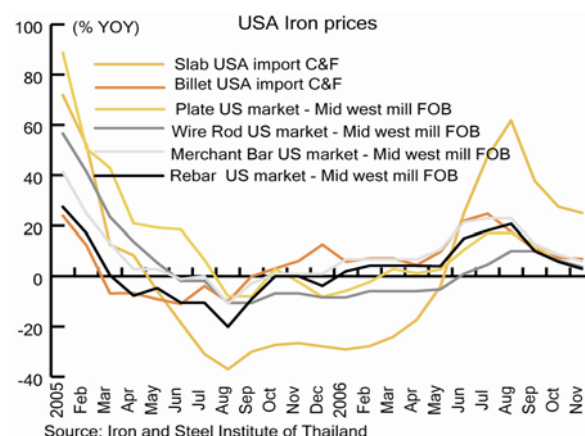


3.4 Economic projection for 2007: 4.0-5.0 percent GDP growth, 3-3.5 percent headline inflation, and 0.1-0.5 percent of current account surplus to GDP

In 2007, Thai economy is expected to expand by 4.0-5.0 percent (midpoint of 4.5 percent) slightly less than 5.0 percent in 2006 as a result of (1) Export slowdown due to a slowdown in world economy, appreciation of baht and tightened trade measures of trading partners countries (2) Private investment will not be fully recovered as some investment will be postponed until the next government is becoming more apparent. As for foreign investors, they will wait for the amendment of Alien Business Act to be completed. Government investment project is expected to be implemented and disbursed in the second half of the year. Nevertheless, the economic stability will remain with 1.8 percent unemployment rate, 3-3.5 headline inflation as a result of lower oil price,

of computer compartments were already at peak and start to decline in the end of 2006.

Average export price in US dollar term is assumed to increase by 4 percent, compared to an increase by 7.7 percent in 2006. Import price is expected to increase 5 percent in 2007, as compared to 8 percent increase in 2006. Hence, Thailand's term of trade will improve and generate positive income effect.



appreciation of baht, moderate consumer prices as well as stable private consumption. The current account⁷ is expected to record a slight surplus of 0.1-0.5 percent of GDP.

(1) The high case scenario of 5 percent economic growth

The economy in 2007 will achieve 5.0 percent growth under the following conditions: (i) Exports sector is competitive under increasing constraints and tourism income increase by 8-10 percent (ii) The disbursement of public budget will not be less than 85 percent of total government budget and state enterprise capital budget. Budget allocation should be prioritized to projects which support low-income people with career development

⁷ Under new definition, 'Reinvested earnings' has been recorded as part of FDI in Financial account, and its contra entry recorded as 'income on equity' in current account. The series have been revised back to 2001.

purpose, infrastructure development and social program (iii) higher business confidence which will support investment to expand. (iv) Stabilizing agricultural products to support farm income (v) Average Dubai oil price will not exceed 60 US dollars per barrel.

(2) The low case scenario of 4 percent economic growth

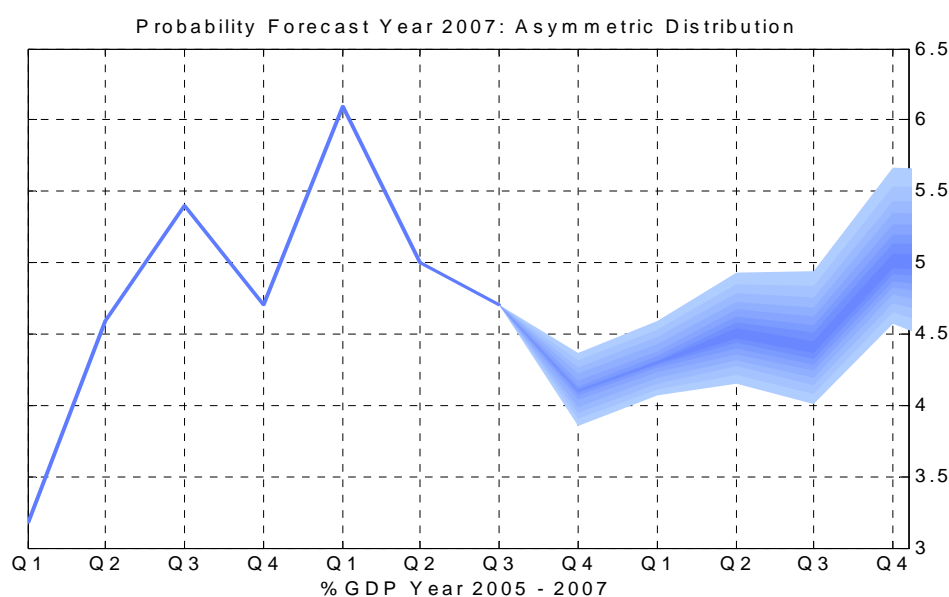
The economy in 2007 will expand according to the low case scenario if: (i) Investment recovers at slower pace (ii) Lower-than-expected growth of global economy will lead to slower growth of the Thai's exports and tourism sector (iii) The average Dubai oil price exceeds 60 US dollars per barrel

3.5 Probability Distribution of GDP Growth Forecast

The probability that the averaged Dubai oil price for the whole year of 2007 will be lower than 60 dollars per barrel is likely to be greater than otherwise. This is because the oil prices have already come down to below 60 dollar per barrel since September 2006. Although the oil prices are likely to pick up during winter but the slowing down

in the world economy and thus the world oil demand will help contain the pressure on the oil prices. Moreover, various countries have placed serious effort on the development of renewable energy and the efforts have already yielded some results in that demand for oil imports have slowed down. On the world economic front, there are some upside risks associated with the forecast of the world economic growth. The upside surprises could come from China and Japan, the growth of which could slow down more mildly than expected and this development could help compensate for the economic slowdown coming from the US side quite well and thus sustaining the Thai export better than projected. As a result, NESDB forecasts that the probability of the Thai economy expanding higher than the midpoint of 4.5 percent is greater than the probability of achieving the lower side of the forecast range. The probability of achieving the economic growth of 4.0-5.0 percent is approximately 85 percent of which the probability of growth forecast of 4.5-5.0 percent is higher than the probability of the growth forecast of 4.0-4.5 percent

Probability Forecast Year 2007: Symmetric Distribution



4. Economic Policy Management for 2007

The economic management in 2007 should give priorities to the maintenance of economic stability, productivity improvement and the assistance to people and business sector to adjust to political transition and the economic slowdown.

Measures to be implemented in 2007 are as follows:

- (1) Maintaining agricultural products' price and reviving flood-affected farmers as well as providing compensation for flood damages with fair and transparent procedure.
- (2) Closely monitoring and promoting exports which maybe affected by global economic downturn and baht appreciation.
- (3) Promoting tourism in particular the hi-end tourists from Europe, Japan and the US, together with retaining market share of Asian tourists which are the major group.
- (4) Implementing energy saving measures and developing alternative energy sources as well as continuing investment in infrastructures in order to enhance the efficiency of logistics system.
- (5) Accelerating government budget of FY 2007 from January to achieve no less than 85 percent of the disbursement rate of no less than 85 percent and prioritizing the investment budget allocation to infrastructure, health and social projects.

Economic Projection of 2006 - 2007 ^{1/}

	Preliminary			Projection		
	2003	2004	2005	๒ 2549	2550_f	
				4 Sep 06	4 Dec 06	4 Dec 06
GDP (at current prices: Bil.Bht)	5,917.4	6,489.8	7,087.7	7,761.0	7,810.6	8,474.6
GDP per capita (Bht per year)	93,186.9	101,016.4	109,319.0	118,777.4	119,536.7	128,792.6
GDP (at current prices: Bil.USD)	142.6	161.0	175.9	203.7	205.5	229.0
GDP per capita (USD per year)	2,245	2,507	2,713	3,118	3,146	3,481
GDP Growth (at constant prices, %)	7.1	6.3	4.5	4.5	5.0	4.5
Investment (at constant prices, %)	12.1	13.2	11.1	4.3	4.3	6.2
Private (at constant prices, %)	17.7	16.2	11.0	4.4	4.4	7.0
Public (at constant prices, %)	-0.6	5.0	11.4	4.0	4.0	4.0
Consumption (at constant prices, %)	5.9	6.2	5.5	3.3	3.6	3.8
Private (at constant prices, %)	6.5	6.2	4.3	3.8	3.5	3.8
Public (at constant prices, %)	2.5	5.6	13.7	0.8	4.0	4.0
Export volume of goods&services (,%)	7.1	9.6	4.4	8.7	9.3	5.4
Export value of goods (Bil.USD)	78.1	94.9	109.2	124.5	127.6	139.0
Growth rate (%)	18.2	21.6	15.0	14.0	16.8	9.0
Growth rate (Volume, %)	9.5	8.4	4.3	8.8	9.1	5.0
Import volume of goods&services (,%)	8.4	13.4	9.3	3.1	2.6	5.6
Import value of goods (Bil.USD)	74.3	93.5	117.8	128.2	127.6	139.8
Growth rate (%)	17.4	25.7	26.0	8.8	8.3	9.6
Growth rate (Volume, %)	10.6	12.2	8.8	1.2	0.3	4.6
Trade balance (Bil.USD)	3.8	1.5	-8.6	-3.7	0.0	-0.8
Current account balance (Bil.USD) ^{2/}	4.8	2.8	-7.9	-2.7	0.5	0.2
Current account to GDP (%)	3.3	1.7	-4.4	-1.3	0.2	0.1
Inflation (%)						
CPI	1.8	2.7	4.5	4.5-4.7	4.6	3.0-3.5
GDP Deflator	1.3	3.2	4.5	5.0	5.2	4.0
Unemployment rate (%)	2.0	2.0	1.7	1.8-2.0	1.8	1.8

Source: Office of the National Economic and Social Development Board. December 4, 2006

Note: 1/ Preliminary data 2006 - 2007 were adjusted since data from Office of the National Income Account (GDP) and the Bank of Thailand (Export/Import data) have been revised.

^{2/} Reinvested earnings has been recorded as part of FDI in Financial account, and its contra entry recorded as income on equity in current account.