

NESDB *Economic Outlook*

THAI ECONOMIC PERFORMANCE IN Q4/2004 AND OUTLOOK FOR 2005

- ❑ In the fourth quarter of 2004, the Thai economy grew by 5.1 percent, slower than the average expansion rate of 6.4 in the first three quarters. The slowdown was due to the oil price rises, the drought, higher interest rate and a decrease in inventories. For the year 2004, economic growth is 6.1 percent.
- ❑ Higher pressure on prices—reflecting in 3.1 and 2.7 percent inflation rates in the fourth quarter and for the year 2004, respectively. Major increase in consumer prices are from the rising food price and transportation cost. However, other indicators show that the economic stability remains resilient both in the domestic and external aspects.
- ❑ In 2005, the Thai economy is expected to grow in the range of 5.5-6.5 percents. The potential growth is constrained by the world economic slow down, the high average price of crude oil, the gradual reduction of the diesel price subsidy, and the prolong bird flu epidemic. However, the Tsunami and drought impact were less severe than previously expected. In addition, there are additional stimulus measures such as increase in public investment budget and acceleration of infrastructure investments.

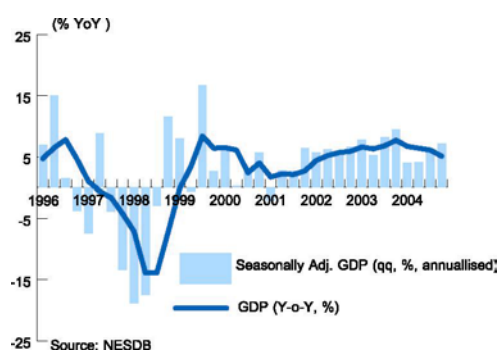
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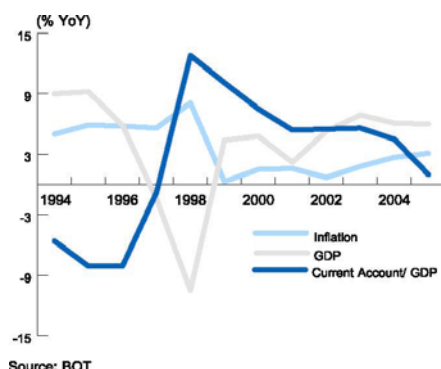
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OVERVIEW

Thai economy expanded by 5.1 percent in Q4/2004 and 6.1 percent in 2004.



In 2005, economic growth is projected to be in a range of 5.5-6.5 percent.



Summary

In the last quarter of 2004, the Thai economy grew by 5.1 percent, slower than 6.4 percent in the first three quarters of the year. Agriculture contracted further, but the high price of agricultural products helps sustaining farmers' income. The manufacturing growth retained in the last quarter of 2004 continuing from previous quarter. For the year this sector expanded by 8.3 percent, less than the 10.4 percent in 2003. The financial sector grew at 15.7 percent, higher than the third quarter expansion, by several factors: increasing private credit and decreasing non-performing loans of the commercial banks, for instance. For the whole year, this sector grew impressively at 14.2 percent. On the demand side, consumption and private investment continued to expand albeit at a slower pace than in 2003 owing to the impact of higher oil price, the drought, and increasing interest rate.

Higher prices of agriculture product and oil put more pressure on inflation, resulting in a 3.1 percent inflation rate in the fourth quarter. The surge was contributed primarily on both prices of food and non-food items. For the annual rate, the inflation was at 2.7 percent, up quite significantly from 1.8 percent in 2003. However, other aspects of stability were maintained including current account surplus, increasing foreign reserve, stable exchange rate and declining public debt as a share to GDP.

In 2005, the world major economies—the US, Japan, and China point to a slowing trend of economic growth, continuing from the latter half of 2004. Domestic limitations for the Thai economy are: the upward trend of interest rate need to be kept in line with foreign interest rates, higher inflation, and gradual removing of the subsidy provided for retail prices of diesel amidst of high and volatile crude oil prices. On the other hand, however, there are some positive factors to help smoothing domestic demand expansion. They include more generous tax scheme, higher base of wages and salaries in 2005 as compared to that in 2004, and increasing in public investment expenditure. In addition, the government continues

to seriously emphasize her support to promote the exports to the major trading partners and new markets. Altogether, positive and negative factors, the Thai economy is expected to grow at the rate

of 5.5-6.5 percent with the inflation rate around 3.0-3.2 percent, the average unemployment rate is at 2.0 percent (708,000 unemployed)

1. THAI ECONOMY IN THE YEAR 2004

| World Economy (Y-O-Y growth rate, %) | | | | | | | | |
|---|------|------|------|------|-----|------|------|---------|
| | 2002 | 2003 | 2004 | | | | 2004 | 2005 |
| | | | Q1 | Q2 | Q3 | Q4 | Year | Year |
| World | 3.0 | 3.9 | | | | | 4.6 | 3.8 |
| US | 1.9 | 3.0 | 5.0 | 4.8 | 4.0 | 3.9 | 4.4 | 3.8 |
| EU-15 | 1.0 | 0.7 | 1.8 | 2.4 | 2.1 | 1.9 | 2.2 | 1.5 |
| EU-25 ^{1/} | 1.1 | 1.0 | 1.9 | 2.6 | 2.2 | 1.9 | 2.2 | 2.3* |
| Euro Zone | 0.8 | 0.5 | 1.6 | 2.2 | 1.9 | 1.6 | 2.0 | 1.9 |
| Germany | 0.1 | -0.1 | 1.6 | 1.9 | 1.2 | 1.5 | 1.6 | 1.5* |
| Japan | -0.3 | 1.4 | 4.4 | 3.1 | 2.6 | 0.6 | 2.6 | 1.0 |
| Hong Kong | 2.3 | 3.3 | 7.0 | 12.1 | 7.2 | n.a. | 7.7 | 4.0 |
| Singapore | 3.2 | 1.4 | 7.9 | 12.3 | 7.2 | 6.5 | 8.4 | 4.4 |
| South Korea | 7.0 | 3.1 | 5.3 | 5.5 | 4.6 | n.a. | 4.6 | 4.0 |
| Taiwan | 3.6 | 3.3 | 6.7 | 7.9 | 5.3 | 3.3 | 5.7 | 4.1 |
| Indonesia | 4.4 | 4.9 | 4.4 | 4.4 | 5.1 | 6.7 | 5.1 | 5.0 |
| Philippines | 4.4 | 4.5 | 6.5 | 6.6 | 6.3 | 5.4 | 6.1 | 4.2 |
| Malaysia | 4.1 | 5.2 | 7.8 | 8.2 | 6.7 | 5.6 | 7.1 | 6.3 |
| Thai | 5.4 | 6.9 | 6.7 | 6.4 | 6.1 | 5.1 | 6.1 | 5.5-6.5 |
| China | 8.3 | 9.3 | 9.8 | 9.6 | 9.1 | 9.5 | 9.5 | 8.0-8.5 |

Source: Government agencies, WEO (September 2004) and average from several sources.

1/ EU25 started 1 May 2004

EU, Japan, China and other Asian countries. This owed to rising oil prices, increased interests rates and tightening fiscal policy in order to mitigate pressures on prices and to maintain stable economic environment. In 2004, the world economy grew impressively 4.6 percent, higher 3.9 percent in 2003, led by stronger growth in the US, Japan, EU, Malaysia, Singapore and Hong Kong.

The US economy: grew by 4.4 percent, up from 3.0 percent in 2003. This is attributable to consequence of low interest rate policy implemented since 2002 which helped spur private consumption and investment. Private investment continued to expand well, boosted by strong business sentiments, low interest rate, strong pickup in electronics cycle in the US. Buoyant residential investment was driven by higher demand for housing under the low interest rate environment.. However, upward pressure on inflation and rising household debts induced Federal Reserves Bank to raise Feb fund rate for 5 times in 2004 resulting in an increase of the rate to be 2.25 percent. A rising interest rate has so far cooled down household spending and residential investment. Inflation rate in 2004 was 2.7 percent, increasing from 2.3 percent in 2003. Trade account deficits increased as well as government budget deficits. Unemployment rate marginally declined from 6.0 percent in 2003 to 5.5 percent in 2004.

The Japanese economy: expanded by 2.6 percent, higher than 1.4 percent in 2003. However quarter to quarter comparison show a contraction of economic growth for three consecutive quarters indicating clear slowing down trend. The slow down was seen in private consumption, while private investment remain solid with increasing corporate profits. Inflation rate of 0.5 percent in the fourth quarter

1.1 World Economy in 2004:

World Economic Outlook for 2004: the world economy showed strong growth in the first half of the year, but slowed down in the latter half, notably in major advanced economies including the US, the

was the positive rate for the first time since the beginning of 1999. A rising in overall price level was underpinned by higher prices of raw foods due to effects from several typhoons. Meanwhile, inflation excluding raw food prices still showed a negative rate of 0.2.. Nevertheless, deflationary pressures are likely to ease further judging by the declining GDP deflator by 0.3 percent in the forth quarter, compared with a declining by 1.3 and 1.7 percent in the previous two quarters. As a result of low inflation and economic slack, though employment condition is getting better, the Bank of Japan have maintained the policy rate at 0.0 percent.

The EU economy: grew by 1.9 percent in 2004, while Euro Zone economy grew by 1.6 percent. The EU economy showed a satisfactory growth rate in the first half of the year but slowed down in the second half due primarily to appreciation of currency that dampen net exports in the latter half. Private consumption and investment remained fragile. In addition, government of these countries become more conservative on their expenditures. Under this vulnerable economic environment, the European central bank, therefore, kept policy rate at 2.0 percent.

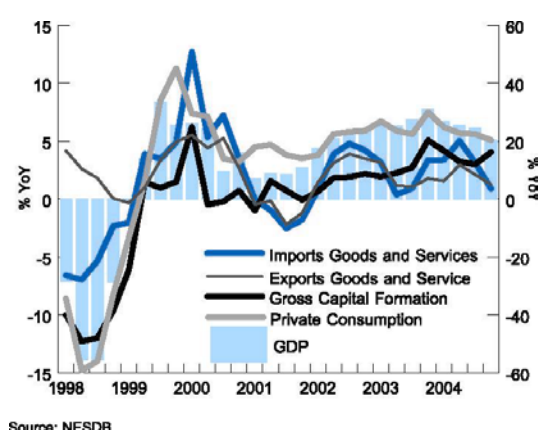
The Chinese economy: expanded by 9.5 percent. Though overall economic performance may not signal a slowdown in 2004, demand component of growth suggested that the economy, to a certain extent, cooled down. There was evidence in a slowdown of gross fixed capital formation growing by 13.5 percent compared with 27.7 percent in 2003. The slowdown was apparent particularly in iron, automobiles industries and construction which Chinese government considered as target industries to cool down the overheating investment. Investment, however, remained a key contribution to economic growth. Due to increasing pressure on inflation, the central bank raised interest rate for the first time in the past nine years.

In the Asian countries, overall economic growth in 2004 expanded well, fueled mainly by robust domestic demand, and increasingly, strong export growth.

However, the growth momentum apparently slowed down in the second half of the year almost in all countries. High economic expansion in the first half, therefore, contributed to rising overall growth rate in several countries, namely South Korea, Singapore, Hong Kong, Philippines, Indonesia and Malaysia. Nevertheless, many countries experienced upward pressure on inflation resulting from rising oil prices, higher health care cost and higher transportation cost, whereas demand for goods and services remain high. Consequently, these countries started to raise interest rate.

1.2 Thai Economy in 2004

The performance of Thai economy: the economy expanded by 6.1 percent, slowing down from 6.9 percent growth rate in the previous year. Thai economy expanded well compared with Asian economies. However, the growth rate was at a relatively low level than those of China, Malaysia, Singapore, and Hong Kong, which were at 9.5, 7.1, 8.1, and 7.7 percent respectively. This was the result of negative factors such as the bird flu outbreak in the beginning of the year, the investigation of anti-dumping duties on Thai shrimp export to the US during the first half of 2004, and the drought during the last quarter of the year.



Domestic demand:

Both consumption and investment expenditures slowed down as a result of upward pressures of oil price especially since May 2004, rising domestic price in line with cost of production, and increasing interest rates.

Private consumption in 2004 increased by 5.6 percent, at a lower rate than that of 6.4 percent in 2003. The deceleration in private consumption growth was mainly driven by a significant slow down in durable good consumption, partly due to the increase in all types of market interest rates in the fourth quarter, consistent with the increase in policy rate which was adjusted in August, September, and December.

Private investment also exhibited a similar trend, expanding by 15.3 percent in 2004 compared with 17.5 percent in 2003. The growth of investment in construction showed a faster rate of deceleration than that of investment in machinery and equipment. This is the result of the slow down in residential construction as the higher-end housing and condominium markets are being saturated while the interest rates are rising. However, the overall private investment still expanded at a considerably high rate since 2002, supporting the continued growth of Thai economy following the growth in private consumption.

On the external side, export value expanded well in line with a higher export price. The value of export in 2004 was 96.1 billion dollar or 3,868.6 billion baht. The export value in dollar term and in baht term increased by 23 and 19.7 percent respectively. The average export price in term of baht increased by 11.8 percent. Even though the world economy expanded at a faster rate than last year, the volume of export expanded by 7 percent at a slower rate than the previous year because of the decline in the frozen chicken and shrimp exports and the substantial deceleration in the growth of export in electrical appliances. The slow down in the export of electrical appliances was due to 1) the downward trend in electronics cycle 2) the high value of export in the base year 2003 and 3) the high value of export value to China in the base year 2003, as a result of the FTA implementation.

In 2004, the volume of import grew by 12.1 percent, accelerated at the faster rate than the exports. The high import volume was due to the high demand for capital goods (to expand investment), intermediate and raw materials (to produce capital goods) and consumption goods (to serve domestic and international market). In the first half of the year, the import price in term of baht increased by 4.6 percent whereas that in term of dollar increased substantially by 15.7 percent due to the baht appreciation. In the second half the Oman crude oil price was averaged at 37.02 dollar per barrel, expanding by 34.7 percent from the same period last year. However, the average import price of 2004 increased at a comparable rate with the average export price. The term of trade increased slightly. In 2004, the value of import was 94.4 billion dollar (expanding by 26.9 percent) or equivalent to 3,800.9 billion baht (expanding by 23.5 percent).

Structure of Thai economy: According to the structure of Thai economy in 2004, the share of import to GDP increased from 42.7 percent in 2003 to 45.2 percent in 2004. The share of import to GDP grew at the faster rate than that of other components in domestic demand. The share of export to GDP increased slightly from 53.1 percent to 53.6 percent to GDP. Regarding to the domestic demand component, the private consumption accounted for a lower proportion to GDP whereas the public and private investment accounted for a higher proportion to GDP (from 20.8 percent of GDP in 2003 to 22.4 percent in 2004).

The data on quarterly GDP showed a slowdown in the economy in the latter half of the year. The GDP in quarter 1, 2, 3, and 4 expanded by 6.7, 6.4, 6.1, and 5.1 percent respectively. The final sale of the country in 2004 increased by 5.6 percent, a lower rate than 6.7 percent in 2003. The change in inventories increased from 45,436 million baht in 2003 to 65,064 million baht in 2004. The data exhibited that the economy was slowing down. Thai economy will expand by 6-6.5 percent under the condition that the well macroeconomic management led to higher level of economic stability, the problem of bird flu and the unrest in the south of Thailand are restored, and the utilization of energy is more economically. In addition, the higher contribution of growth from the private investment is the necessary condition for

total factor and labor productivity. **Price levels :**

However, the limitation is the acceleration of import, reflecting a high dependency of import.

Production side:

Manufacturing continued to expand at a satisfactory pace but agriculture sector continued to contract.

Agriculture sector contract by 4.4 percent and registered negative growth for four consecutive quarters of 2004 with a significant decline in livestock as a result of the bird flu in the first half and latter half of the year). The fishery growth declined in line with the production of shrimp export. The crop was also affected by drought in the last quarter of 2004.

Manufacturing sector expanded by 8.3 percent at the slower rate as last year's growth of 10.4 percent because food production slowed down whereas other manufacturing goods continued to expand. The slowdown in the food production was partly due to the reduction in sugar production (because of the restriction in sugar-cane cultivated areas and drought) and frozen poultry production. For production of vehicles and equipments, commercial car production increased whereas commercial car production grew at a slower rate. Financial, construction, telecommunication and transportation and tourism sectors also expand rigidly.

Employment conditions have improved.

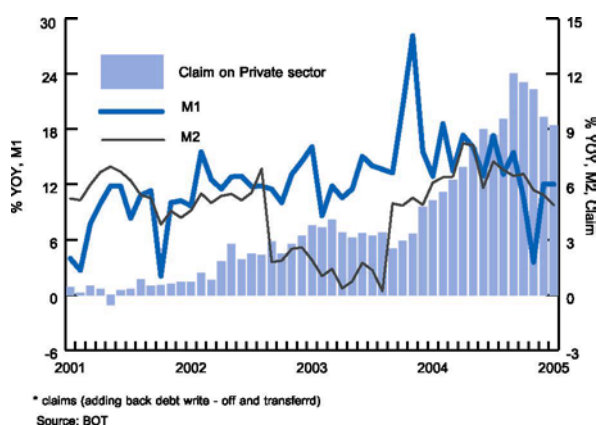
In 2004, the number of employed workers increased by 3.1 percent from 33.815 million in 2003 to 34.850 million in 2004. Employment in non-agriculture expanded by 5.1 percent with a favorable expansion in construction sector. On the other hand, the employment in agriculture sector was contracted by 0.01 percent. The unemployment rate was slightly declined from 2.02 percent in 2003 to 1.98 percent in 2004.

Higher pressure on inflation : The consumer price index (CPI) rose by 2.7 percent, higher than the rate of 1.8 percent in 2003. The increase in CPI owed mainly to the 4.5 percent increase in food prices in line with rising prices in vegetable fruit, rice, lean pork, fish and seafood, and eggs and milk products. In addition, the high oil price caused non-food prices increased by 1.7 percent, mainly in electricity, gas for cooking, fuel, and public transportation fare. Core CPI grew at 0.4 percent, higher than the rate of 0.2 percent in 2003.

The production price index (PPI) rose by 6.7 percent in 2003. The rise in PPI was due to higher prices in all categories, namely agricultural, mining, and manufactured products. The manufactured PPI prices were mainly rose by the increases in the price of petroleum, chemical, and metal products. According to the PPI categorized by the stage of processing, the PPI in the raw material sector grew at the faster rate than that in the final goods sector.

Financial situation:

Credit continued to boost and NPLs declined .



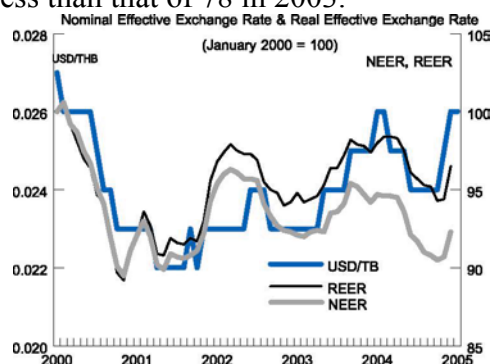
At the end of 2004, the outstanding amount of private credits¹ was 6,318.9 billion baht, rose by 9.6 percent compared to the same period of last year. As the commercial bank credit expanded at the faster rate (in particular in the second half of 2004) than the deposit, reducing the excess liquidity of commercial banks of 191.1 billion baht. The ratio of credits to deposits at the end of 2004 was 96.1 percent higher than 92.5 percent at the

¹ adding back debt write-offs and loans transferred to AMC's but excluding loans extend to AMC's

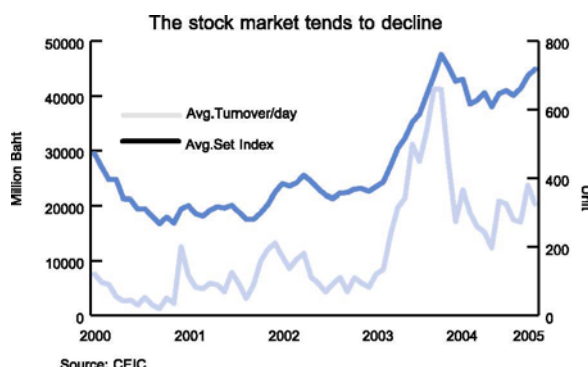
end of 2003, indicating a decline in market liquidity NPLs in the financial system, excluding BIBFs and credit foncier companies at the end of 2004 accounted for 598.3 billion baht, or accounted for 11.4 percent of total credits.

Interest rate. Bank of Thailand raised 14-day repurchase rate three times, in August, October, and December from 1.25 percent to 2 percent per annum. Consequently, a types of interest rates in the money market increased in the fourth quarter in line with the increase in policy rate. However, both the deposit and loan interest rates of five large commercial banks were kept unchanged from the previous quarter, partly because excess liquidity remained high.

Exchange Rate. Thai baht was appreciated from an average of 41.48 baht per dollar in 2003 to an average of 40.22 baht per dollar in 2004. The appreciation of the baht was underlined by the substantial depreciation of the dollar, a consistent movement of Asian currencies with the Yen, the expectation of the change in China's exchange rate regime, the strong fundamental of Thai economy which led to a higher amount of capital flows, the current account surplus, and the increase in 14-day repurchased rate. Even though the baht was more appreciated than the dollar, the baht was more depreciated than the trading-partner currencies. The Real effective Exchange Rate (REER) was slightly weaker than the nominal rate. The REER index in 2004 was 77.7, slightly less than that of 78 in 2003.



Stock market. The Stock Exchange of Thailand (SET) index registered at 668.1 points at the end 2004, declined by 13.5 percent from the previous year. The market value of total capitalization in 2004 was declined by 5.6 percent from 2003. Net buy from foreign investors amounted to 5.7 billion baht in 2004 compared with net sale of 24.5 billion baht in 2003. Average daily trading value in the stocked market increased by 8.4 percent from 18.9 billion baht in 2003 to 20.5 billion baht in 2004.



Credit rating: In 2004, the credit rating agencies upgraded the Thai's financial sector to positive outlook. Fitch raised the long-term sovereign credit rating from "BBB" to "BBB⁺". At the same time, S&P raised the rating from "BBB-" to "BBB⁺".

Fiscal position:

For the fiscal stance at first 11 month of 2004, the budgetary balance registered a deficit of 27,482 million baht and the non-budgetary balance was in deficit of 95,471 million baht. As a result, the fiscal position recorded a cash deficit of 69,655 million baht. However, government financed its deficit by issuing treasury bill and bonds amounted to 90,000 million baht. Therefore, cash balance after borrowing registered a deficit of 5,471 million baht, compared with the surplus of 14,156 million baht from the same period last year.

Public Debt: At the end of 2004, public debt stood at 3.121 trillion baht, increased from 2.902 trillion baht at the end of 2003. As GDP continued to expand at a faster rate, the public debt accounted for 47.8 percent of GDP, slightly increased from 45.42 percent of GDP at the end of the second quarter 2004. The increase in public debt was a result of government borrowing to finance its deficit and bond issuing for FIDF.

External debt and international reserves: external debt from 8,033 million dollar to 7,961 million dollar. However, those in terms of baht increased from 328,452 million baht to 331,191 million baht due to the baht depreciation.



International reserves at the end of 2004 was 49.83 billion dollar, equivalent to 4.4 times short-term external debts.

2. ECONOMIC FACTORS AND CONDITIONS IN 2005

2.1 World Economy in 2005 slows down

World economic prospect in 2005: The world economy is likely to expand at a slower pace in 2005 than in 2004. This is due to some continuing risk factors namely: the high and volatile price of oil, rising inflation, some political problems in the Middle East, and the weakening US dollar due to the US Twin deficits. Many countries gradually increase their interest rates and pursued more balanced budget policies. The slower world economic growth in 2005, which continued from the end of 2004, is expected to be 3.8 percent. Main factors are the slowing down of major economies: the US, Japan, China, and ASEAN. First, **the US economy** tends to expand at the rate of 3.8 percent, comparing to 4.4 percent in 2004. Contributing factors are a higher rate of inflation and further tightening of monetary policy. The cooling down of investment and construction in housing sector are due to the higher rate of interest, and increasing household debt. Household expenditure expands at slower pace, while the investment in the machinery and equipments are expanding

at a favorable rate. Second, **the Japanese economy** is projected to have a very slower growth rate comparing to other countries. This is the result of more stringent fiscal policy, the slow growth rate in private consumption expenditure, and the slow rate of the private investment especially in housing construction. This slower growth rate of domestic demand is partly resulting from the expected slower rate of export growth which follows the downturn of electronic cycle. Also, the economic growth base in 2004, in part underlies a slower growth in 2005, the so-called high-base effect. Third, **the EU economy** clearly signals an economic downturn since the latter half of 2004, except for few economies such as Spain, France and the Great Britain who experience a higher economic growth. Among the EU members, Germany, Italy and Netherlands are the major economies confronting a contraction in their economic growth vis-à-vis the previous quarter. Main problems are that the net exports are lower due to the impact of stronger Euro. The domestic demand recovery is still fragile and the employment situation is not yet improved. Especially, an increasing unemployment in Germany which has reached the historically recorded rate--10 percentage of the total labor force, despite many attempts in stimulating unemployed persons back to the labor market. Fourth, **the Chinese economy in 2005** still has a high rate of economic expansion though slower than in 2004. The 2005 growth rate is expected to be 8.5 percent, compared to 9.5 percent in 2004. Major slower down is expected in private

investment and the public expenditure. The export growth is also expected to be lower, in line with the slower growth of major Chinese exporting markets.

The lower growth rate of major economies and China is one of the main limitations hindering the export growth of developing countries especially the Asian economy from reaching the rate achieved during 2003-2004, when the economy is at the peak. However, the present economic fundamentals of the Asian economies are considered favorable, by the economic restructuring efforts both in monetary and in production sectors, more efficient usage of production factors, as well as by successive development of the human resource. The monetary and fiscal policies to counter an overheating situation are carefully implemented, with selective and well-targeted measures. A good example is China where the credit measures specific to each economic sector has softened the heating up of construction sector, iron industry, and the basic metals industry. Overall, good economic fundamentals, the domestic stimulation measures, and the regional export promotion are conditions for favorable economic expansion of the Asian region.

In 2005, despite a slower growth rate of most commodity prices, the developing countries are still expected to obtain higher income and purchasing power. Some commodities' prices are expected to be higher. As a result of the higher demand especially for steel, iron ore and aluminum, as well as for the agriculture products where the outputs in many countries are limited by a drought.

Given those conditions, most institutions predict that a slower economic growth in 2005 will not be that severe, with approximately 3.8 percent rate of growth, 2.1 and 5.5 percent rate of inflation for advanced economies and other countries, respectively. The world trade volume increases approximately by 8.0 percent, the Fed fund rate increases to 3.5 percent

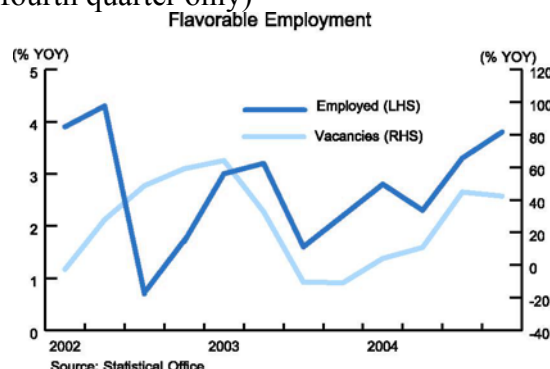
by the end of 2005. The reference rate of interest in the EU and Japan will be sustained at the rate of 2.0 and 0, respectively. Asian economies which are expected to increase the short-term interest rate are China, Hong Kong, Malaysia, the Philippines, Taiwan, and South Korea.

2.2 Supporting factors to the Thai economy in 2005

Several supporting factors in 2005 are those continued from 2004, however, they start to become weaker and less supportive to the economic growth, comparing to 2004. They are:

- (1) World economy continues to expand but at a lower rate than in 2003-2004. This economic expansion will help bringing about a higher value of Thai export, but at a slower rate than the previous year.
- (2) Supportive factors to higher household consumption expenditure are consisted of the remaining low rate of interest, comparing to the faster increase in general prices² and household earnings which are on the upward trend and grow faster than the commodity prices. Thus, the real income will increase and lead to more spendings. The factors causing higher real income are:

- An increase in employment rate including more job recruitment and placement. In 2004, employment increased, on average, by 3.1 percent and job vacancies increased by 23.7 percent. (with 42.3 percent increase in the fourth quarter only)



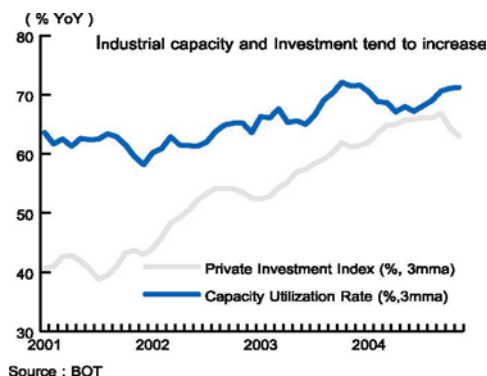
- A raise in government and state enterprise salaries in the latter half of 2004 caused average salary base of 2005 to be higher than the base in 2004. The government-support

² This indicates that the real interest rate is continuing to be low.

scheme for permanent and temporary government employees valued 3,700 million baht per year, was approved by the cabinet on 5 October, 2004. Private sectors also gradually raised their wages and salaries. The minimum wage rate was adjusted and effective from 1 January 2005 on. These factors cause average wages and salaries in 2005 to be higher than in 2004.

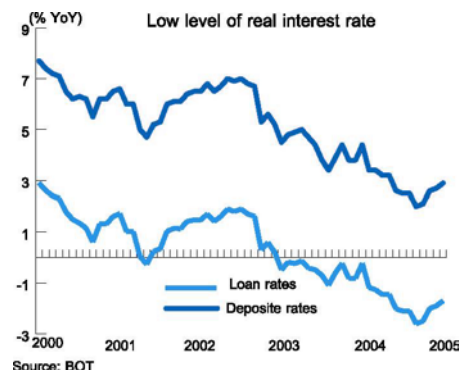
- Tax measure which aimed at supporting social sector and people with low-to-middle income will reduce tax burden and increase people's purchasing power starting from the end of year 2004. Approved by the cabinet on 26 October 2004, it raises net income that will be exempted from personal income tax from the first 80,000 baht to the first 100,000 baht.

(3) Supportive investment climate remains. These supporting factors to the private investment in 2005 are:



- Capacity utilization rate is likely to increase further and stay at the high level. In 2004, capacity utilization rate equaled 69.2 percent, slightly higher than 67.5 percent in 2003. The small increases may be due to the new investments which had added new capacity to the system and, hence, underestimated the rate of capacity utilization should only previously existing capacity is used in the calculation. Manufacturing sectors which recorded capacity utilization rate higher than 80 percents are motorcycle, zinc, tyre,

commercial car, batteries, compressor, semiconductor and petro-chemical products. Since those sectors require large amount of investment, they are expected to be major driving forces of private investment.



- Real cost of borrowing remains at a low level since nominal interest rate is relatively low compared to rising commodity prices.
- Corporate profits continuously increased in 2004. For the first three quarters, profits of registered companies rose by 39.5 percent compared to the same period of previous year.
- Tax measures will provide incentive to expand investment in 2005. Under new tax scheme, corporate income tax rate for businesses which have registered capital not exceed 5 million baht is reduced. Tax rate applied to the first one million net profits decreased from 20 percent to 15 percent. However, tax rate for net profits exceed one million is kept unchanged. This tax cut was effective from January 1, 2005 on. In addition, the cabinet agreed to extend maximum income not required to register in VAT system from 1.2 million baht per year to 1.8 million baht per year which will be effective in April 1, 2005.
- In 2004, the number of investment projects approved by the Board of Investment rose by 46.2 percent, while the amount of investment budget plan increased by 111.7 percent. Rapid increase is observed in export-oriented projects (80-100 percent to export) and in electronic and electrical product, utility, chemical product, paper, plastic, machinery and transportation equipment. Foreign investment is likely to increase, especially investment from Japan. Total capital of project application surged by 115.2 percent

compared to the same period of previous year, reflecting the increasing trend in investment.

- Public consumption and investment will increase as a result of increasing investments in infrastructure and mega projects. These investments are under 5-year-infrastructure development strategic plan and were approved by the cabinet on October 19, 2004. Total amount of investment plan is around 827,978 million baht and some projects are expected to begin by the end of 2005. In addition, there will be extra government spending around 50,000 million baht as mid-year additional fund.

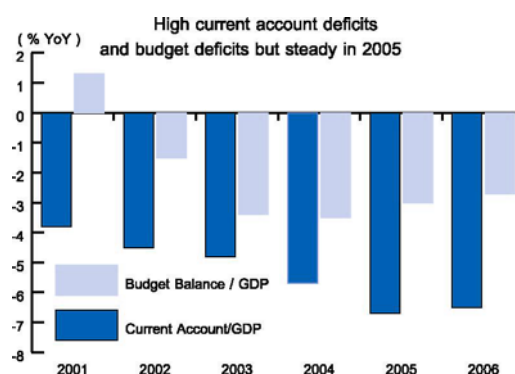
3. DOWNSIDE RISKS/FACTORS IN 2005

3.1 External Factors/ Risks

(1) The US policies on current account deficit and their effects on the world economic growth in 2005.

The US is facing with current account deficit and the government budget deficit at the same time. Together with a current account deficit of around 5.7 percent of GDP in 2004, the government budget deficit had also increased to around 3.6 percent of GDP. These are among the factors causing some uncertainties in the US economy from investors' perspectives. The investors have become more reluctant to hold financial assets in the US dollars denomination, their portfolios are rebalanced toward more Euro, and thus put downward pressure on the US dollar. At the same time, some Asian central banks e.g. the South Korea and Japan have reduced their degree of intervention in the foreign exchange market. The November 20th meeting among the ministers of finance and the governors of the central bank in 20 countries (Group 20), in Berlin, called for a more flexibility of the Asian currencies. Chinese authority then expanded its

band of exchange rate against the US dollar by 3 percent. Under such circumstances and pressures, the US dollar has depreciated more constantly since then. With these factors and uncertainties, investors are more concerned and not confident in the value of the US dollar, with some panics about tendencies for sudden drops. The speculation also led to more volatility. Given the weakening value of the US dollar, the exporting countries especially Asia of which the US is a major market is at disadvantages. These factors could aggravate the expected slowing-down of the world economy. Another factor needs to be taken into account is the remaining high oil price which could push the world economic growth to slow down faster.



Nevertheless, it is assessed that the US government would tighten the monetary policy and increase the rate of interest. By the end of 2005, the Fed funds rate is expected to be 3.5 percent, based on the fact that the current real interest rate remains low and further hike in the Fed fund rate is necessary³. In this regard, the weaker US dollar and the higher rate of interest would reduce the US current account deficit. Noting that since the rate of interest in the US is likely to be higher than in the Asian economies, investors might consider that it is still profitable to hold some financial assets in US dollars, while weighting in as well a possible depreciation of the US dollar. Especially, the Japanese domestic rate of interest is about 0 percent thus the US dollar assets would remain attractive for the Japanese investors. Therefore, the pressure on the US dollar to weaken would not be rapid and destabilizing. More importantly, the US economic growth at 4.4 percent would rebuild more confidence in the US economy and allows for further adjustment in interest rates.

³ There has been 6 adjustments since June 2004.

(2) Exchange rate policy and the slow down of the Chinese economy

In 2004, the Chinese economy still expanded at a high growth rate of 9.5 percent. This concerns most economists and analysts for this heating economic situation. Together with a fragile financial institution, pressure from a higher inflation, and possibly non-performing loans, the risks of a sharp drop in economic growth in the future may be high. At present, however, the Chinese economy is better balanced comparing to the past. The fear about the economic crash is not tangible and the probability of sudden fall is fading. Three main reasons for sustaining a favorable Chinese economic situation are: **first**, the Chinese government attempts in softening the overheating in targeted sectors show a good sign. This is from several evidences: the investment indicators in durable assets show that the production sectors which the government targets (e.g. steel, automobiles, and construction) continually slow down. The basic metal is an only exception due to a higher foreign demand. Altogether, the slowing down of the economic growth of the main trading partners, high price of energy, and the Chinese government target to lower the economic growth by tighten monetary and fiscal policies, the Chinese economy is expected to gradually slowdown in 2005. **Second**, recent policy targets show more serious intention to strengthen the monetary sectors, lessen the risks for financial crisis and achieve a more flexible exchange rate by step-by-step adjustment. In latest annual meeting, the People's Republic of China Central bank announced 2 directions of its operation plan in 2005: 1) the improvement and taking care of the monetary system, especially on the credit structure in order to prepare for the economic fluctuation and to maintain the price stability. 2) the reforms of monetary sector: removal of monetary obstacles and then a serious target of a gradual reform regarding the exchange rate mechanism and the

stabilization of the RMB. **Third**, an exchange rate adjustment in response to an external pressure will not be radically implemented. As in the 4-5 February meeting of G-7 ministers of finance and the governors of their central banks, the topic about the need for flexible Chinese Yuan was discussed but with no specific deadline. Most investors strongly believe that the alteration of the Chinese currency value would be up to the Chinese government decision. Also, it is expected to have prepared some appropriate monetary instruments to prevent the risks form exchange rate and to improve the money market to reflect the structure of interest rate before the alteration of exchange rate regime.

(3) The oil price is still soaring and sensitive

The oil price is still high and fluctuates in response to many factors. The world economic growth, as well the Thai exports, would be negatively affected by this situation. Whereas the import value will accelerate by the higher crude-oil price, oil consumption will gradually slow down. This would reduce the trade surplus. The consumer and the investor confidence are likely to be affected.

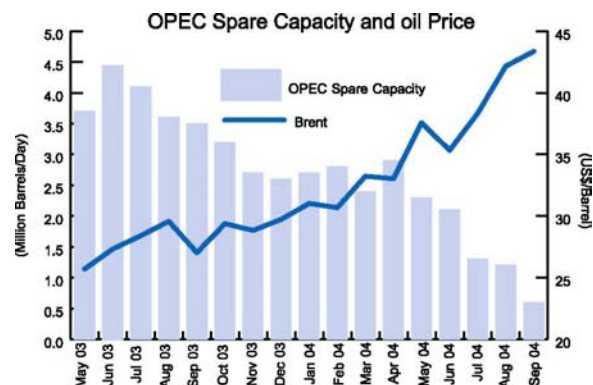
The prospective factors to sustain the crude oil price at high level are both from demand and supply sides. They are:

- (3.1) More demand for crude oil, but less oil reserve
 - The International Energy Agency (IEA) adjusted the demand for crude oil in 2005 to be 84.0 mb/day on average, from the previous forecast of 83.8 mb/day. Comparing to 2004, the demand in 2005 will be higher by 1.5 mb/d, little lower than the change from 2003 to 2004 at 2.7 mb/d.
 - OECD oil reserve decreases: in December 2004, the oil reserve was at 2,576.8 million barrels. In the fourth quarter of 2004, the oil stock on average decreased by 190,000 barrels/day, however, the reduction was lower than the previous 5 years which was about 950,00 barrels/day reduction. Hence, the pressure on the price according to the

change in the oil reserve should not be too high.

(3.2) Supply: the oil production continually increases to meet the higher demand, whereas the excess capacity gradually reduces.

Latest data in January 2005 show that the OPEC-10 (excluding Iraq) produced the crude oil about 27.21 mb/d. This amount is a little higher than the quota of 27 mb/d⁴ but lower than the December production of 27.76 mb/d. In addition, the production from Iraq is at 1.8 mb/d. Surplus capacity is expected to be around 1.6-2.1 mb/d in 2005, decreasing from 2.6 mb/day and 4.5 mb/day at the beginning of 2004 and during mid 2003, respectively. The little excess capacity will affect the price of oil to be higher and more sensitive to a temporary situation affecting the production. OPEC production capacity is expected to increase by 1 mb/d in 2005. For non-OPEC economies, the production decreased in past few years. The production of Canada, Norway, and US Gulf of Mexico was still lower in January 2005. In January 2005, the total world supply was 83.55 mb/d, reducing from 84.21 mb/d in December 2004. For the projection to 2005, the oil production from these economies, including Russia, will still decrease. This cause non-OPEC production to be lower by 175,000 barrels/day in 2005. On the overview, the supply situation prospect is still tight.

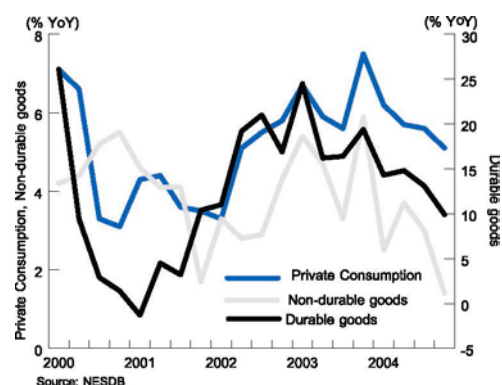


(3.3) Psychological factors and technical factors (e.g. the speculation on the oil prices by the mutual fund or hedge fund) are some of the reasons contributing to the much higher price of oil than what it should be based on demand and supply fundamentals.

3.2 Internal Factors

The domestic factors deterring economic expansion are: an increase in the rate of interest, inflation rate, an increase in the oil price after a gradual reduction of subsidy, drought and impact of the Bird flu epidemic on exports, as well as, Tsunami impact if the restoration plan is delayed.

(1) Increasing prices and rising interest rates



Higher consumer prices and an increase in the rate of interest affected the household expenditure since the beginning of 2004. This is especially on the durables which are more sensitive to prices, income and interest rate than non-durables or semi-durables. Together with a lower consumers' confidence, the household's expenditure on metallic products, machinery, and tools at a constant price in 2004 increased by 13.5 percent (less than the 20.8 percent expansion in 2003).

⁴ On 30 January 2005, the OPEC meeting agreed on maintaining the quota of crude oil production at 27 mb/day during the first quarter of 2005.

Within this product group, the sharp slowdown of growth rate is in automobiles and tools (17.8 percent growth rate comparing to 36.4 percent in 2003), partly explained by the base that had substantially already highly expanded during the same period of previous year. The consumer credit is slowing down since the beginning of this year. At the end of December 2004, this credit outstanding increased about 12.1 percent from the same period of last year (less than 14.3 percent expansion at the end of 2002 and 30.0 percent at the end of 2003).

Although the nominal interest rate is increasing, at a slower pace than the inflation, or in other words, the real interest rate is not increasing, the expectation on a higher rate of interest would cause people to be more careful on the debt creation and the demand on domestic and foreign products will expand slowly. The investment would be affected; especially in the situation that the business confidence has continuously decreasing since May 2004 and the confidence index is below 50. The index averaged 49.0 in 2004, as compared to 50.0 in 2003.

(2) Bird Flu and its impact on frozen chicken exports

In 2004, the quantity and value of frozen chicken export declined by 92.8 and 92.6 percent, respectively, compared to the same period of last year. This was because Europe and Japan still prohibited the frozen chicken imports from Thailand. The continuous Bird Flu epidemic was the reason that the importing markets were still strict on the imports from Thailand as well as the need for factory inspection and ensuring preventive measures on the epidemic in the farm. All these factors would increase the production cost to the producers.

(3) Abandoning of diesel oil price controls will raise domestic production cost and prices.

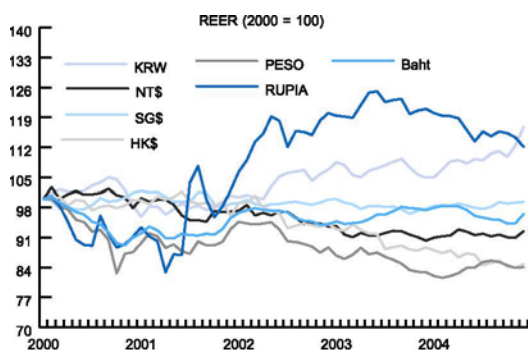
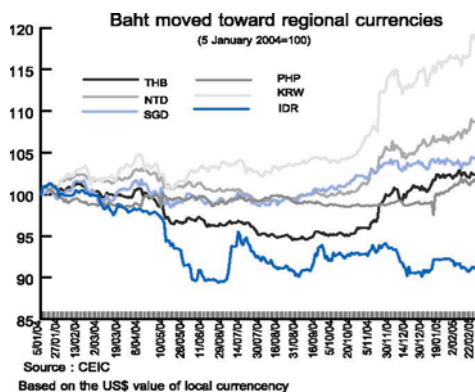
In the case of average crude oil price (Oman quoted) in 2005 to be 38 US dollar/bbl and government already started to reduce subsidies since February, as a result, the average diesel oil price with no subsidy will be 19.50 baht/litre. The retailed price for benzene 95 and 91 will be 21.60 baht/litre and 20.90 baht/litre, respectively. In that case, inflation will increase by around 0.7 percent which, as a consequence, will dampen purchasing power and household spending.

- (4) **Drought impacts:** as a consequence of few precipitations, early ending of rainy season and delayed raining period in 2004, drought conditions occur in several areas across the country. Few amount of water was kept in dams and reservoirs particularly in four reservoirs, namely Kra-seaw (Supunburi province) Tab-salao (Utaithani province) Lam-prapueng and Lam-takong (Nakornrachasima province) which are used for releasing impounded water through irrigation system to almost 460,000 rai. Amount of water was below 15 percent of total available amount. Kra-seaw reservoirs, in particular, could supply water into irrigated area of around 130,000 rai with only 40 million square meters amount of water. With this amount, it is not likely to be sufficient for cultivation usage downstream and, thus, result in damage on agricultural areas as well as effect on crop production such as major rice, second rice, sugar cane, cassava and maize. Droughts could have both direct and indirect effects on other economic sectors related to crop sector, namely chemical fertilizer, petrochemical products and transportation. Hence, overall drought impacts would be 6,000 million baht higher than earlier impact assessment of only 5,000 baht in 2005.

Agricultural areas affected by Drought

| | Agricultural area (Rai) | | |
|-------------|-------------------------|-----------------|------------|
| | Damaged | Expected damage | Total |
| Rice | 9,813,411 | 5,742,510 | 15,555,921 |
| Farm crop | 2,896,557 | 3,076,496 | 5,973,053 |
| Garden crop | 310,291 | 1,016,860 | 1,327,151 |
| Total | 13,020,259 | 9,835,866 | 22,856,125 |

Source: Ministry of Interior



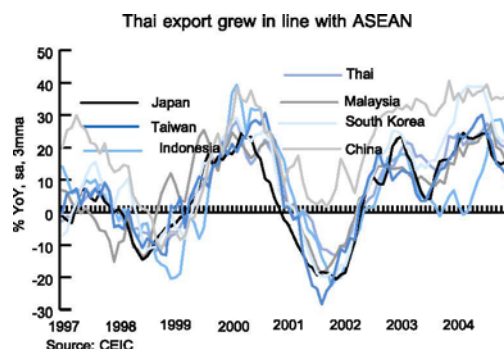
(5) Appreciation of exchange rate

4. KEY ASSUMPTIONS FOR 2005 PROJECTION

Key Assumptions for 2005 Projection

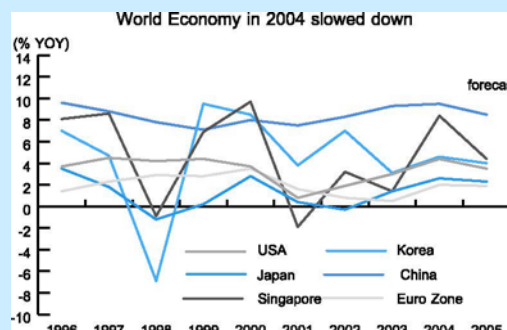
4.1 World Economic Growth: Similar to the previously released assumptions⁵, the world economic growth rate in 2005 is forecasted to be 3.8 percent, a little less than the 4.6 percent growth in 2004. This prediction based on the latest economic information, keeps the previous assumptions unchanged. To be specific, in 2004, the growth was much higher in the first half than the second half of the year when the economy confronted with the high oil price, the higher interest rate in many countries⁶ wishing to control the domestic expenditure and to stabilize the economy, as well as the more stringent fiscal policies. These attempts in the second half of the year which gradually softened the world

Effects of the appreciation of exchange rate on exports will not be alarming at danger. Since the adjustment has been consistent with other currencies in the region and real effective exchange rate does not appreciate significantly. As well, the export so far has increased consistently with those of other countries in the region.



taken into account in the previous estimation. Most public and private institutions, therefore, adhere to the previous estimation for the 2005.

The main trading partners: the United States growth rate is forecasted at 3.8 percent, lower than 4.4 growth rate in 2004. Japan, China, EU are expected to achieve economic growth rate of 1.0, 8.5 and 1.5 percent respectively.

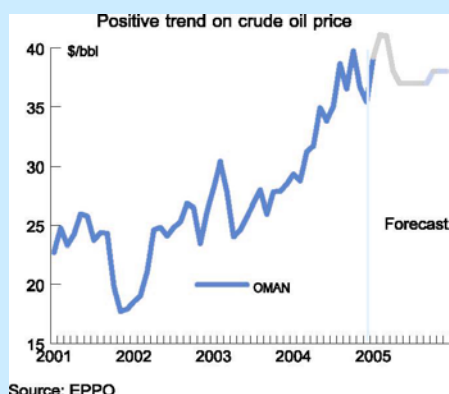


4.2 Crude Oil Price: the crude oil price (Oman quoted) is predicted to be 38 dollars/barrel on average in 2005. This is higher than the previous forecast and the 2004 prices which were at 35 and 34.23 dollars/barrel respectively.

⁵ NESDB Economic Outlook released on December 7, 2004

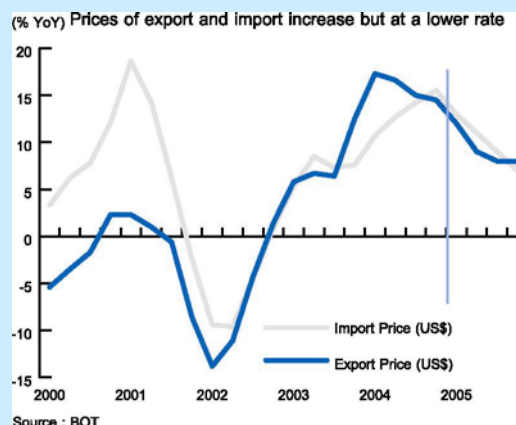
⁶ These countries are, for example, the United States, Canada, China, and the Great Britain.

Current assumption is that the price would remain at the present level during the beginning of 2005 and then be little lower during the second quarter (Summer) but not significantly as the demand only switches from heating oil to gasoline. Finally, the price would be scaled up in the third quarter and obviously becomes higher in the fourth quarter (Winter). On February 8, 2005, the Energy Information Administration (EIA), the U.S. Department of Energy forecasted the reference rate of the West Texas Index, for the year 2005-2006, to be about 42-47 dollars/barrel. During the past two years, this reference rate has been 5-6 dollars/barrel higher than Oman crude oil.



According to this 38 dollars/barrel assumption, the 2005 domestic retail prices would be higher, comparing to the 2004 ones. In 2005, predicted domestic benzene 95, benzene 91 and high-speeded diesel prices without subsidy are at 21.60, 20.90, and 19.50 baht/litre, respectively.

4.3 Export and Import price: In 2004, the average export and import prices of commodities in USD terms increased by 15.8 and 13.3 percents, respectively. These higher rates of increase in export prices than the import prices resulted in a better comparative advantage in the term of trade. In 2005, the growth in exports prices are forecasted to be slower following a lower growth rate of the trading partners' demand. In 2005, the average export and import prices are forecasted to grow by 9.3 and 10 percent, respectively. One of the reasons for higher increase in import prices is the continually increase in the oil price. This would cause the Thai comparative advantage in the terms of trade to be reduced.



4.4 Tsunami impact on the Thai economy: In the 2005 forecast, the NESDB's estimation of the Tsunami impact on the Thai economy is based on following assumptions:

Assumptions for evaluating the economic impact causing by the Tsunami

| | Assumptions on impact |
|--|--|
| <p><u>Negative Impact:</u></p> <p>1. The Tourism</p> <ul style="list-style-type: none"> ❑ Number of international tourists in the six tsunami-hit provinces | <ul style="list-style-type: none"> ❑ Falling by 20%, 10%, 5% and back to normal situation in the first, second, third and the fourth quarter (travel season), respectively. ❑ Average length of stay is 6 days ❑ Average expenditure per person per day is 4,000 baht |
| <ul style="list-style-type: none"> ❑ Number of domestic tourists in the six tsunami-hit provinces | <ul style="list-style-type: none"> ❑ Reduced by 55% in Q1, from approximately 360,000 tourists per month ❑ Average length of stay is 3 days ❑ Average daily expenditure per person is 2,000 baht |
| <p>2. The private expenditure</p> | <ul style="list-style-type: none"> ❑ Unemployment impact in the tourism and fishery sector accounting for 480 million baht ❑ Impact on the fishery and insurance businesses, 4,875 million baht ❑ Thai tourists' expenditure (as stated in section 1) |
| <p>3. Job loss mainly in tourism and fishery sectors</p> | <ul style="list-style-type: none"> ❑ Number of employment reduced by 20,000 persons for 3 months (with individual labor earnings of 8,000 baht per month). |
| <p>Positive/Increasing economic activities:</p> <p>1. Reconstruction for the damages on business enterprises such as hotel and accommodations, restaurants, and travel agencies</p> | <ul style="list-style-type: none"> ❑ Investment in the constructions of both private and households, estimated at 25,000 million baht. ❑ Replacement of damaged tools machinery automobiles and etc., 4,000 million baht. ❑ Damaged assets (excluding housing) valued at 29,705 million baht. The assumptions are that some businesses will not be resumed while some are ready to restart in 2005. ❑ Private investment financing and |

| | |
|---|--|
| | <p>the job recruitment:</p> <ol style="list-style-type: none"> 1) Soft loan amounted 48,000 million baht (already disbursed 25,685 million baht) with 2 percent rate of interest 2) Additional credits for each financial institutions amounted 12,000 million baht 3) SMEs Fund for 2,000 million baht (140 million baht already approved) 4) Tsunami Recovery Fund managed by MFC with starting budget of 1,400 million baht 5) Credit loans for Specialized financial institutes already helped 7,284 victims, valued 25,942 million baht. |
| 2. Housing reconstruction | <ul style="list-style-type: none"> ❑ Approximately 7,053 units |
| 3. Private expenditure includes expenses for hotel and resort renovation and decoration | <ul style="list-style-type: none"> ❑ Approximately 4,500 million baht |
| 4. Government expenditure for rehabilitation and subsidy | <ul style="list-style-type: none"> ❑ Central government budget for the Tsunami victims in the amount of 6,296.43 million baht ❑ Local government budget subsidy for 1,500 million baht |

4.5 Drought Impact: In 2005, the estimated impact by the drought will totally affect the output value of 11,000 million bahts, with direct and individual effects via the channels of the structure of the production of approximately 8,000 and 3,000 million bahts, respectively. They are illustrated in detail as follows:

| Impact | 2005 output value (Mil. Baht) |
|---|----------------------------------|
| Total impact on the output value (included in the estimation on 7 December 2004, 5,000 mil. baht) | 11,000 |
| (1) Direct impact on major crops yields (namely paddy, sugarcane, maize and cassava) | 8,000 |
| (2) Indirect impact | 3,000 |

5. ECONOMIC PROJECTION FOR 2005

The favorable and stable economic growth in 2004 is a sound economic foundation for the current year. In 2005, the expected positive factors are a higher employment, a higher wages and salary, a tax cut, and a higher disbursement of the public and state enterprises investment budgets. Still, there remains some urgent concerns for factors that might hinder the economic growth from reaching the potential level—both for the short-run and sustainable long-run prospects. These are the high price of oil in the world market, the domestic drought impact, and the Tsunami disaster impact/reconstruction. For the external aspect, the economic growth of the major trading partners, is still propitious, although the world economic environment of 2005 is expected to be not as much favorable for the Thai exports as the one of 2004. Some policy priorities to help exports should be on increasing the exports of the chicken products, enhancing the qualities of fishery and food products as well as other exports to be competitive in the world economic slowdown.

5.1 The Revisions and Adjustments of Economic Projection for 2005

Some new development since the previous forecast—as of December 2004, are the additional information of recent economic situation, as well as some new positive and negative factors as follow:

(1) Additional information:

- The latest GDP figures in 2004 shows that the economic growth of the fourth quarter is close to the previous estimate, resulting in the 2004 economic growth rate of 6.1 percent, only slightly below the 6.2 percent prediction. Some factors causing the slower growth rate in the

fourth quarter are a slower growth of several components in the national income: consumption expenditure, private investment, and the export.

- The monthly economic indicators in January 2005 showed that the domestic demand and export grew at a slower rate, with a high price of oil at the beginning of the year. Imports of gold and raw material picked up in January 2005 after slowing down in December 2004. Similar to 2004, the import growth was higher than export growth. The data imply that in overall and net terms, the Thai economy still highly depends on imports, though the entrepreneur can manage the timing of import to a certain extent. The fluctuation of the oil price might also cause the monthly data to deviate from the normal trend.
- The more current data confirm that the direction of the economic trend is still the same as previously predicted.

(2) The Tsunami impacts in 6 Southern provinces

In the short run, several sectors have been effected. These are tourism, employments and earnings especially related to fishery business, the consumption expenditure, the export of fishery products and finally the financial and insurance businesses. On the other hand, more economic activities occur as a result of reconstruction and rescue efforts, more construction and machinery to restore the assets and buildings, more public expenditure on subsidy and relief provided for the people who were affected by the disaster, as well as more foreign assistance pouring in. It is estimated that the compensations from more economic activities would be sufficient to compensate for damages or loss of economic activities, if the restoration, reconstruction, and disbursement are as planned.

(3) Drought Impact:

In 2005, the overall impact including indirect effects on backward and forward crop-linkage sectors: chemical fertilizers, petrochemicals, and transportation, shows a higher impact than expected, totaled 11,000 million baht (6,000 baht

higher than previously estimated at 5,000 million baht)

(4) Higher price of oil with an early raise of the diesel price ceiling:

The oil price is higher than expected and the diesel price ceiling was raised 2-3 months earlier than expected. In Thailand, the diesel price was raised, as the first round, on February 22, resulting in an increase in the price of 0.60 baht/litre, or 4.11 percent increase. The estimated impact on inflation rate is slightly higher by 0.1 percent in the first quarter of 2005 (or 0.025 on annual average). In the world market, the price of crude oil is still volatile and sustains at a higher level than expected.

(5) Higher public disbursement from the government budget:

The disbursement of central government budget will be higher than earlier expected. Several items are allocated for the Tsunami victims in the 6 southern provinces and the payment for reconstruction and the fund for the drought remedy.

(6) Higher investment target for the state enterprise in 2005:

Previously, on 21 September 2004, the cabinet approved the 2005 fiscal budget for the state enterprise 315,485 million baht with the expected actual disbursement of 248,921 million baht. Since then, the disbursement limit was extended with an additional 23,554 million baht. The additional budget is for several projects: the investment for Suvarnabhumi Airport by the New Bangkok International Airport Company Limited, Ban Uar Arthorn phase IV by the National Housing Authority, and the new construction of the Thailand Tobacco Monopoly. These cause the overall 2005 disbursement budget of the state enterprises to be higher at 272,476 million baht. On the 31 January 2005, the state enterprises proposed another

additional budget of 57,074 million baht, as the Thai Airways International Public Company Limited requested for more investments. The investment budget limit of the state enterprise is then increased up to 329,550 million baht (including the 57,074 million baht budget which is in consideration)

Noting that, in 2005, there are some other risk factors associated with the outlook. Firstly, the Bird flu epidemic is still a risk factor and one of the limitations for the poultry exports-- in the form of both frozen and processed products. Secondly, the unrest of the three southern provinces that still remains-- nevertheless, they are not more severe than earlier projection on 7 December 2004 has already assumed..

5.2 Low-case projection

In 2005, there are some risk factors that could render economic growth to be lower than 6.0 percent and to expand at the rate closed to the lower bound of projection range. These downside risks associated with low-case projection are as follows;

- (1) **Crude oil price:** if rising above 38 US dollars per barrel and floating diesel price, these will put more pressure on inflation and consumption.
- (2) **Drought:** if drought condition continues until the period after May, this will affect crop year of 2005/2006 which will inevitably affect some crop productions to be harvested in 2005. Under this circumstance, damage on agricultural sector will be larger than currently anticipated.
- (3) **Recovery and reconstruction in the aftermath of tsunami:** Though the tourism sector has been recovered faster than earlier expected as shown by number of tourists in January 2005 declined by 26 percent and some data in February has shown increasing foreign tourists. Nonetheless, measures on new credit issuances and debt restructuring for those affected private sectors have not yet been much on progress. As well, area-zoning plan needs to be clarified and be more well-prepared in order to guide and assist private sectors to recover as planned.

- (4) **Mega projects:** in case that some planned investment in 2005 were delayed.

5.3 High-case projection

The high-case projection which is an upper bound growth forecast can be achieved through the implementation of key policy guidelines as follows;

- (1) **Expediting government budget spending** of 50,000 million bahts extra budget recently approved to be disbursed on time as planned in the fiscal year 2005, while also ensuring efficiency and transparency of the spending. Concurrently, the spending of the local administration and state-owned enterprises must also be speeded up to support income and economic activities at the grassroots and community levels.
- (2) **Expediting state enterprises expenditure** particularly on the preparation process in the early stage of Mega project investment plan.
- (3) **Accelerating measures on recovery and reconstruction** in the aftermath of the disaster. It is needed to set a target and a timeframe for implementing plans on zoning, urban planning as well as financial credit supporting.
- (4) **Containing the Avian Flu** to prevent further widespread while negotiating to expand the market for broiled and processed fowls.
- (5) **Expediting Gassohol production** to gradually substitute oil imports.
- (6) **Gradually rising diesel price** in order to reflect the real cost. However, price adjustment needs to be done step-by-step. The government needs to adjust prices gradually in the early stage and to closely monitor an economic situation and inflation rate for a certain period as well as to accelerate measures for generating income. In addition, the government should monitor and control producers that raise prices much over production costs. It is entailed to

consider all costs including lowered import cost due to baht appreciation and declining cost due to higher capacity utilization.

- (7) **Implementing monetary policy** which supports continual economic expansion and stability.

5.4 Economic Outlook by Components

Private Consumption Expenditure

Private consumption expenditure is expected to expand by 5.3 percent, slowing down from 5.6 percent in 2004. This is due to rising oil prices and commodities prices, higher interest rates as well as weaken consumer confidence.

Private Investment

Private investment is expected to increase by 15.7 percent, slightly higher than 15.3 percent in 2004. This is upwardly revised from the previous projection due to increasing private investment for reconstructing hotels, restaurants, residential and commercial buildings. Besides, the figure in the last quarter of 2004 also shows better-than-expected investment trend. These partly verify confidences from both foreign and Thai investors in which a slowdown in demand for goods both in domestic and international markets would not be much significant.

Government Expenditure

Public investment at constant prices is projected to increase by 15.3 percent, higher than 11.7 percent in 2004. This is owing to the infrastructure investment plan that is expected to start implementing within 2005 and some investment projects financed by extra government budget of 50,000 million baht. Concomitantly, the construction project of second international airport, Suvarnabhumi airport, also needs to be expedited in order to complete their works within the scheduling period. Meanwhile, government consumption expenditure at constant prices is projected to grow by 8.6 percent, upwardly revised from the earlier projection owing to the expenditure that will be incurred on rehabilitation and reconstruction of those damaged by tsunami.

Export of goods and services

Export volume of goods is expected to grow by 5.5 percent, slightly lower than 7.0 percent in 2004, owing to global economic slowdown. Export volume of services also tends to increase even though tourism sector has been adversely affected by the tsunami disaster. Numbers of tourists are projected to increase by 4.0 from 2004.

Export of goods is projected to be 110.3 billion US dollars, increasing by 14.8 percent or equivalent to 4,251.1 billion baht, which accounted for 9.7 percent growth. In sum, export of goods and services at constant prices is projected to grow by 5.9 percent, lower than 7.8 percent of 2004. This is revised down from the previous projection as a result of downward adjustment in both export volume and export of services.

Imports of goods and services

Import of goods is expected to be at 113.4 billion US dollars, increasing by 20.2 percent. Import volume is projected to grow by 10.2 percent, slowing down a bit from 12.1 percent growth in 2004. Though private investment and state enterprises investment expand at accelerating rate than those in 2004. This is under the assumption of preceding measures on import monitoring. Also, import price in term of US dollar is projected to increase by 10.0 percent, revised upwards due to rising oil prices and higher import and export prices in several items throughout the year 2004. In terms of baht, import value is projected to be 4,367.7 billion baht, increasing by 14.9 percent from 2004.

Import of services is expected to rise as a result of increasing expenditures of Thai residents abroad and expenses on freight and insurance services as well as high repatriation of investment income by foreign firms. Hence, import of goods and services at constant price in 2005 is expected to grow by 9.4 percent, higher than 12.1 percent in 2004.

Trade account and current account

Trade account is projected to register a deficit of 3.2 billion US dollars, compared with a surplus of 1.7 billion US dollars in 2004. This is as a result of faster import value growth than exports and losing the gains in terms of trade. However, tourism condition is expected to improve once the tsunami recovery package has been implemented according to the plan and numbers of tourist will rise during the high season at the end of the year. Accordingly, this will result in the higher surplus in net service income of around 5.1 billion US dollars, lower marginally than that of 5.6 billion US dollars in 2004. All in all, the higher surplus in service income would offset the trade balance deficit and current account will accordingly record a surplus of about 1.9 billion US dollars or equivalent to 1.0 percent of GDP, while still much lower than a surplus of 7.3 billion US dollars or 4.5 percent of GDP in 2004.

Inflation

The headline inflation is expected to be in the range of 3.0-3.2 percent, higher than 2.7 percent in 2004. This is attributed to rising cost of raw materials, oil prices as well as wages and salaries. In addition, high growth of producer prices in 2004 will render increasing consumer price in 2005 which mostly are those of foods and beverages and transportation items.

Economic Projection of 2005

| | Preliminary | | Projection | |
|---|-------------|---------|------------|-----------|
| | 2003 | 2004 | Dec 7,04 | Mar 7,05 |
| | | | 2005 | 2005 |
| GDP (at current prices, Billion Baht) | 5,930.4 | 6,576.0 | 7,130.1 | 7,198.8 |
| GDP growth rate | 6.9 | 6.1 | 5.5 - 6.5 | 5.5 - 6.5 |
| (at constant prices, %) | | | | |
| Investment (at constant prices, %) | 11.9 | 14.4 | 12.2 | 15.6 |
| Private (at constant prices, %) | 17.5 | 15.3 | 13.0 | 15.7 |
| Public (at constant prices, %) | -0.8 | 11.7 | 10.0 | 15.3 |
| Consumption (at constant prices, %) | 5.8 | 5.4 | 5.7 | 5.7 |
| Private (at constant prices, %) | 6.4 | 5.6 | 5.5 | 5.3 |
| Public (at constant prices, %) | 2.0 | 4.1 | 7.0 | 8.6 |
| Export volume of goods and services (Volume, %) | 7.0 | 7.8 | 6.4 | 5.9 |
| Export value of goods (Billion US dollar) | 78.1 | 96.1 | 107.4 | 110.3 |
| Growth rate (%) | 18.2 | 23.0 | 11.8 | 14.8 |
| Growth rate (Volume, %) | 9.5 | 7.0 | 5.8 | 5.5 |
| Import Volume of goods and services (Volume, %) | 7.7 | 12.1 | 8.4 | 9.4 |
| Import value of goods (Billion US dollar) | 74.3 | 94.4 | 107.7 | 113.4 |
| Growth rate (%) | 17.4 | 26.9 | 15.5 | 20.2 |
| Growth rate (Volume, %) | 9.7 | 12.1 | 9.5 | 10.2 |
| Trade balance (Billion US dollar) | 3.8 | 1.7 | -0.4 | -3.2 |
| Current Account (Billion US dollar) | 8.0 | 7.3 | 6.4 | 1.9 |
| Current Account to GDP (%) | 5.6 | 4.5 | 3.4 | 1.0 |
| Inflation (%) | | | | |
| CPI | 1.8 | 2.7 | 2.9 - 3.2 | 3.0-3.2 |
| GDP Deflator | 1.9 | 4.6 | 3.5 | 3.6 |

Source: Office of the National Economic and Social Development Board, March 7, 2005