

## Economic Performance in Q3/2005 and Outlook for 2005-2006

### ECONOMIC OUTLOOK

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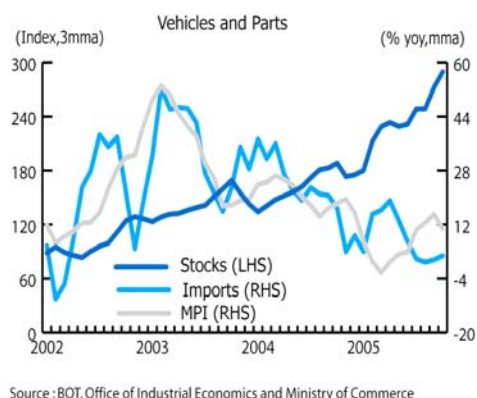
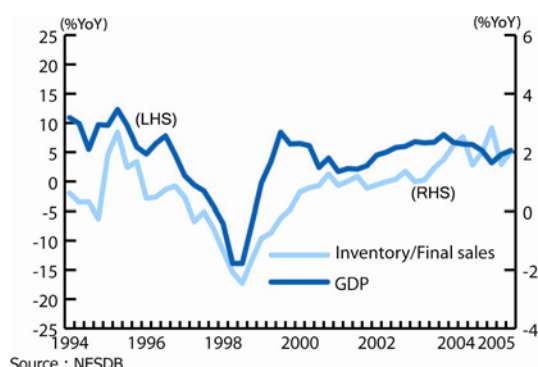
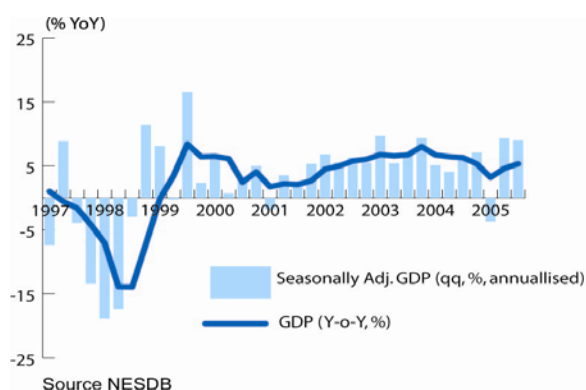
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- ❑ The Thai economy expanded by 5.3 percent in Q3, noticeably higher than 4.6 percent in Q2, contributed mainly by the surge in export while import slowed down. The pick up in tourism sector also supported the expansion. Agricultural sector grew by 4.4 percent after 6 consecutive quarters of contraction. Crop production which increased included rice, maize, soy bean, fruit and vegetable, and oil palm.
- ❑ In sum, the first three quarters registered 4.4 percent growth of real GDP, higher than expectation of various sources, albeit rising inflation rate to 5.6 percent in Q3 fueled by oil price rises. Current account turned positive in Q3 after running deficits in Q1 and Q2.
- ❑ The economic expansion looks set to continue quite impressively in the last quarter on the back of an improving tourism situation, buoyant export especially of such goods as electronics, foods, and auto and parts. Rising agriculture production and price together with higher salary in public sector, effective from October, shall support an expansion of private consumption.
- ❑ All in all, for the year, 2005 is likely to record a 4.7 percent growth of the economy with 4.5 percent inflation. The current account deficit could total 3.2 billion USD, equivalent to 1.8 percent of GDP. An annual unemployment rate is expected to average at 1.9 percent.
- ❑ Moving to 2006, the economic momentum is expected to gain strength on the back of increasing investment, continued recovery in tourism, and further expansion in private consumption underpinned by rising real income both in private and public sectors as the inflationary pressures are expected to cool down in the latter half. The 2006 economic growth is projected at 4.7-5.7 percent with 3.5-4.5 percent inflation rate, and current account deficit of approximately 2.2-2.7 percent of GDP.

# OVERVIEW

## ECONOMIC PERFORMANCE IN Q3/2005 AND OUTLOOK FOR 2005-2006

Thai economy in the third quarter of 2005 grew by 5.3 percent, higher than 3.9 percent in the first half of the year.



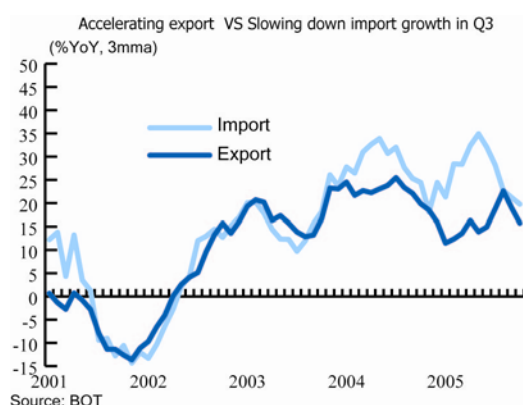
## Key Themes of 2005

- **Thai economy in the third quarter of 2005 grew by 5.3 percent, higher than 3.9 percent in the first half of the year.** The annualized growth rate of seasonally-adjusted GDP in the third quarter was at 9.0 percent. This is underpinned by a number of factors including the alleviated drought impacts on agricultural products, the pickup in the tourism sector with number of tourists rising and continued expansion in industrial production especially in export products which received higher order for shipment in the last quarter. Export expectations index indicated growing orders, particularly in food, electronics products, furniture and parts and rubber. However, imports and domestic demand showed sign of slowdown.
- **In the third quarter, production expanded slower than demand.** Thus, stocks were run down sharply. Stocks of raw materials and finished products declined with total value of 53,432 million baht some of which are those reserved in the previous quarters to be exported, namely electronics appliances, computer, integrated circuits, telecommunication devices, sugar and frozen shrimps. In the mean time, some stocks, including automobiles, were increasing. This reflected the lower sales of passenger cars and commercial cars resulting from the rainy season as well as flood impacts on several areas. In addition, stocks of imported raw materials such as crude oil, iron and gold, stocks of these products expanded as well, though at a slower rate than that in the first half of the year.

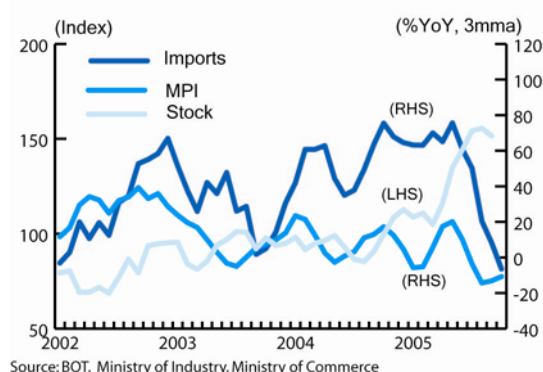
Exports to Major markets

(%YoY)	2004			2005					
	Year	H1	H2	Q1	Q2	Q3	Oct	10 m	Share
<b>Major Markets</b>	19.7	20.3	19.1	8.7	9.9	15.3	0.8	10.2	59.9
US	14.1	13.1	14.9	5.7	11.6	17.1	0.8	10.4	15.5
EU (15)	17.6	17.6	17.5	4.7	6.7	3.6	-2.7	4.2	13.0
Japan	18.8	18.5	19.1	14.7	15.1	14.6	4.0	13.6	13.8
ASEAN (5)	27.9	31.6	24.7	10.0	7.0	23.3	1.0	12.2	17.7
Singapore	20.1	21.7	18.6	-1.4	-4.8	23.0	5.0	5.7	6.7
Malaysia	37.2	50.9	26.6	4.6	7.2	14.4	0.8	7.9	5.2
Others	22.1	20.8	23.3	19.2	18.8	33.2	21.3	23.7	40.1
Hong Kong	14.5	19.5	10.2	10.8	20.5	34.9	33.7	23.6	5.5
Taiwan	1.0	6.2	-3.9	-2.7	-8.7	19.5	3.6	2.3	2.5
South Korea	17.4	16.7	18.1	4.1	2.6	48.5	23.0	17.8	1.9
China	25.1	23.7	26.2	16.2	30.1	42.2	22.1	29.0	8.1
India	43.0	35.1	50.3	110.6	56.1	40.7	43.3	63.2	1.3
Australia	15.5	18.3	13.3	23.4	36.9	46.4	25.3	34.8	3.5

Source: MOC



A decline in steel import and production running down the stock



- Exports grew robustly while domestic demand continued to slowdown. Hence, the economy in the third quarter was driven mainly by net exports of goods and services.

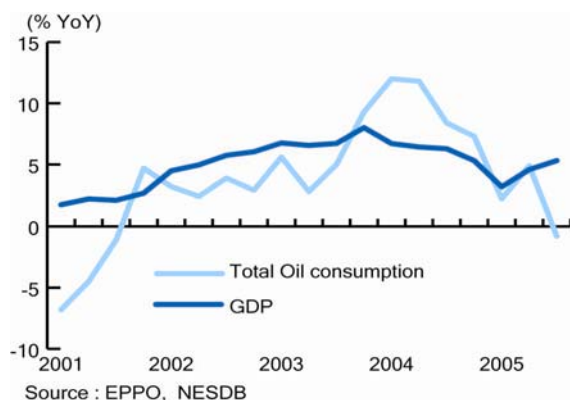
In the third quarter, exports value expanded by 22.7 percent, up from 13.2 percent in the first half of 2005 while export volume increased by 11.5 percent. Major export items are electronics, vehicle and parts, chicken, shrimp and rubber. In all, export in the first nine months totaled 80,778 million US dollars, increased by 16.5 percent from the same period of previous year. Also, export showed expansion to all markets.

- However, imports value showed a slowdown in the third quarter. As a result, trade account and current account recorded a small surplus.

Trade balance and current account registered a surplus of 204 and 1,152 million USD compared with a deficit of 8,464 and 6,209 million US dollars in the first half of 2005. In the third quarter, import value grew by 22.7 percent, much slowdown compared to 31.8 percent rate in the first half. A slowdown has been apparent in all import goods categories.

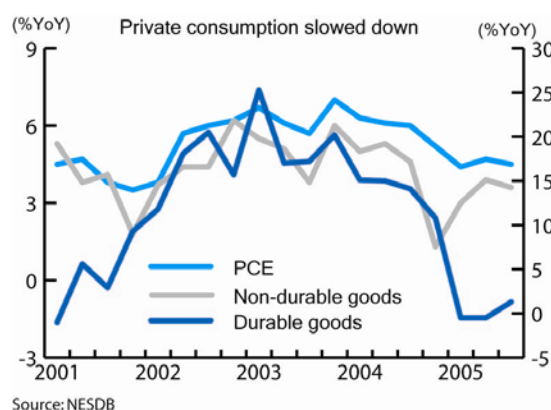
- ❖ Imports of raw materials increased by 11.3 percent, less than 25.0 percent in the first half. Import goods experiencing much slowdown include iron, steel, chemical products and other raw materials as well as semi-finished good. Stocks of iron and iron products started to slowdown in the third quarter. Meanwhile, production index dropped by 14.6 percent.

- ❖ Imports of capital goods slightly slowed down with growth rate of 22.0 percent, less than 26.8 percent in the first half of the year. This is also in line with a slowdown in investment in machinery and equipment, both private and public investment. In the third quarter, total investment in machinery and equipment expanded by 10.9 percent, following the expansion rate of 15.8 and 16.7 percent in the first and the second quarter respectively.



❖ Imports of fuel and lubricants increased by 50.9 percent, slowing down from 61.6 and 91.8 percent in the first two quarters. This was due to a slowdown in import volume despite rising import prices of fuel and lubricants. Dubai oil price grew by 54.5 percent, compared with 40.6 and 44.5 percent in the first two quarters. Meanwhile, a slowdown in oil imports quantity pointed out that domestic oil consumption has responded to rising oil price and floating diesel price in particular. In the third quarter, diesel consumption dropped by 5.6 percent. Overall, consumption of petroleum products also showed increasing usage efficiency. In the first three quarter of 2005, petroleum products consumption rose by 0.5 percent per 1.0 percent GDP growth. This is compared with those of 1.6, 0.8 and 0.6 percent in the previous three years.

- ❑ **Domestic demand was slowdown mainly in private expenditure and investment due to the pressure of inflation, product cost and the upward rate of interest.** In this third quarter, the private expenditure increased by 4.5 percent slightly slowing down from the rate of 4.7 percent in the second quarter. In the meantime, private investment still expanded fairly by 11.5 percent, a little less than 12.3 percent growth rate in last quarter. This was due to the postponement of construction projects, following the slowing demand in the real estate sector. The private investment is still the main contribution to the Thai economy in 2005.
- ❑ **Real government expenditure increased by 15.0 percent,** wage rate increased by 4.7 percent and the net expenditure for good and services increased by 28.9 percent, higher than 16.8 percent in quarter 3 last year. The expenditure at current price was 232,920 million baht, this amount composed of the employee salary 147,525 million baht, with 7.9 percent growth rate and net expenditure for goods and services, 85,404 million baht, with 36.1 growth rate. The public investment expands only 0.2 percent much less than 21.1 percent growth rate in previous quarter. This was due to the construction investment reduced by 0.3 percent compared to



the 11.2 growth rate in last quarter. Besides, investment in machinery and tools expanded only by 1.3 percent, a sharp slowdown compared to 41.8 percent in last quarter.

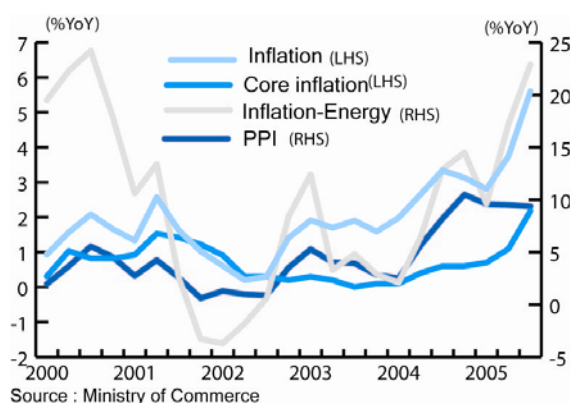
- ❖ Private consumption expanded at a rate of 4.5 percent slower than 4.7 percent in the second quarter. This 4.5 percent rate in the first three quarters was lower than 5.9 percent in 2004 by several main factors including rising oil price, higher inflation, higher interest rate and the expectation of further increase in the interest rate, as well as lower consumer confidence.
- ❖ Increasing interest rate to soften private consumption, and inflationary pressure, and the increase in household debt has shown its effects: (1) Durable goods expenditure, in particular, the purchase of vehicle and electrical appliance continued to slow down with 1.3 percent growth in the third quarter, compared to 13.7 percent growth rate in 2004. These expenditures are sensitive to the interest rate change. (2) Commercial banks' consumption credits slowed down. And (3) saving rate started to increase as seen in the time deposit of the commercial banks which increased in the third quarter around 61,000 million baht after decreasing since 1999. The major banks gradually raised their interest rate on the long-term deposit account around the end of second quarter. (4) The commercial banks loans at the end of the third quarter increased by 5.9 percent slower than 6.9 and 6.7 percent in the first and second quarter, respectively, slowing down as well, compared to average of the first three quarters. Consumption credits, excluding housing and land purposes, increased only by 2.0 percent.

- ❖ **In total, during the first three quarters of 2005, the Thai economy expanded by 4.4 percent** higher than most predictions. The risk factors are higher oil prices which increased by 47 percent and domestic negative factors such as drought, Tsunami, and the unrest in the south. The headline inflation on average is about 4.0 percent in average three quarters and the core inflation is about 1.3 percent.

□ **Economic stability: Inflation pressure increased while current account improved**

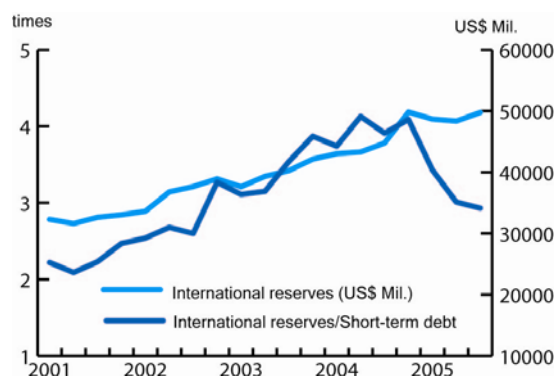
❖ **Employment rose and unemployment rate declined.** The number of employment reached 36.47 million persons in the third quarter of 2005, increasing from 34.46 million persons in the second quarter of 2005 and 36.10 million persons in the third quarter of 2004. Employment in agricultural sector expanded by 1.97 percent after having record negative growths since the first quarter of 2005 as the impact of drought on agricultural production has been mitigated. On the other hand, the employment in non-agriculture sector contracted by 1.2 percent. Overall, the unemployment rate had declined to 1.36.

❖ **Higher pressure on inflation continued.** Headline inflation in the third quarter stood at 5.6 percent. It was, on averaged 4.3 percent during the first three quarters of 2005. This price movement indicated that firms had passed on their increased costs of production such as higher prices of crude oil and raw materials to higher consumer prices. This could be seen from the fact that the consumer price index (CPI) rose by 2.8 percent in the first quarter, accelerating to 3.7 and 5.6 percent in the second quarter and third quarter respectively<sup>1</sup>. In addition the domestic demand continued to expand, causing higher second round effects of higher energy prices on the overall rate of inflation. Core inflation which provided a useful indicator of the second-round effects continued to rise since the second half of 2004. Core CPI accelerated to 0.7, 1.1, and 2.2 percent in the first quarter, second quarter, and third quarter respectively. It then increased to 2.4 percent in October and November. However, the production price index rose at a rate faster than the consumer price index, causing the ratio of PPI to CPI to increase. This indicated that higher pressure on cost of production will be passed through the consumer prices in the near future.



<sup>1</sup> Headline inflation was 6.2 and 5.9 in October and November respectively. Inflation averaged 11 month was 4.4





Inflation is expected to remain at the high level during the first half of 2006 and forecasted to slow down in the latter half, due to the high base effects of oil and commodity prices.

❖ **External stability improved.** In the third quarter of 2005, the trade balance and current account recorded surpluses of 1,153 and 204 million US dollars respectively after having recorded trade and current account deficits of 4,710 and 5,239 million US dollar, in the second quarter. Therefore, during the first three quarter of 2005, the trade and current account balances were in deficits by 8,201 and 5,057 million US dollars respectively. International reserves at the end of September were at 49.8 billion US dollars, equivalent to 2.9 times short-term external debt, which remained at a satisfactory level.

❑ **Fiscal Position:** a reduction in cash deficit. In the third quarter of 2005 government revenue collection rose by 1.8 per cent year-on-year. Government spending grew by 6.6 percent from the same quarter last year due to measures designed to accelerate disbursement. This resulted in the government cash balance deficit of 53,300 million baht. For the fiscal stance at first 11 month of fiscal year 2005, the budgetary balance registered a deficit of 35,854 million baht and the non-budgetary balance was in deficit of 28,670 million baht. As a result, the fiscal position recorded a cash deficit of 64,524 million baht, equivalent to -0.9 percent of GDP. The fiscal instance recorded by FPO using GFS system registered a surplus of 0.8 percent of GDP.

❖ **Public Debt:** At the end of September 2005, public debt stood at 3.28 trillion baht, equivalent to 45.9 percent of GDP, increasing from 3.21 trillion baht at the end of June 2005.

❑ **Financial situation:**

**Excess liquidity was at the high level as the deposit rate started to increase, high NPLs remained.**

❖ The outstanding amount of **private credits** rose by 6 percent compared to the same period of last year in line with interest rate expectation. As the commercial bank credit

expanded at the slower rate than the deposit, the excess liquidity increased

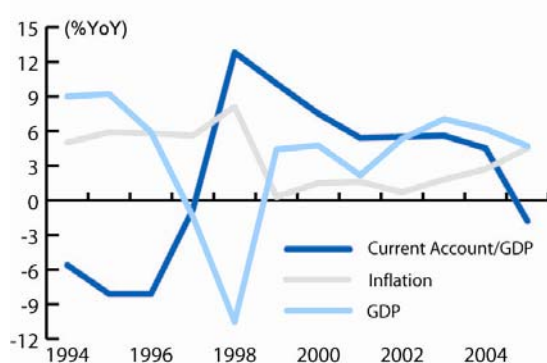
- ❖ **NPLs** in the financial system, at the end of September 2005 totaled 576.5 billion baht, or accounted for 9.93 percent of total credits, slightly declined from 10.33 percent of total loans at the end of June 2005.
- ❖ **Stock market** outperformed the second quarter, both in terms of trading volume and stock index. The stock index increased to 723.23 at the end of third quarter, higher than 675.5 at the end of second quarter.
- ❖ **Exchange rate** slightly depreciated and later stabilized. Thai baht in the third quarter was on average 41.29 baht per dollar, slightly depreciated from the second quarter by 3.1 percent. The baht appreciated during the end of third quarter according to the rising trend of interest rate and the current account surplus.

- ❑ **The economy is expected to expand in the fourth quarter of 2005** at the rate similar to that of the third quarter according to (1) Exports of food, electronics, rubbers, household appliances, soaps and cosmetics show a rising trend. (2) Efficient management of imports contributed to a moderate growth in imports and (3) the recovery of tourisms has been on an increasing trend and the service account surplus is expected to continue.
- ❑ In addition economic stimulus package is likely to support economic growth in the fourth quarter. Major measures are an acceleration of government budget disbursement process, SML Fund to improve the capabilities of villages and rural communities, a rise in labor wage, minimum wage and civil servants' salaries, promoting more usage of NGV as an alternative source of energy, and establishing "Fix It Centers" across 2000 villages, which will extend lifespan of machinery tools and thus help reduce import expenses. Government spending contributed to economic growth both to consumption and investment, in particular to boost the grass root economy.



## 1. REVISION OF ECONOMIC PROJECTION FOR 2005.

In 2005, the annual growth is projected to expand by 4.7 percent with 4.5 percent inflation and current account deficit of 3.2 billion dollar, equivalent to 1.8 percent of GDP



Source : BOT, NESDB

**Thai economy grew better than expected in the first three quarters of 2005:** crude oil price tend to be softer and the pressure of the inflation alleviated in the last quarter. The world economic growth is higher than previously expected, helping export expansion. The exports are expected to pick up towards the end of the year, indicated by the business sentiment survey and advanced order. The agriculture sector is picking up in the last quarter of the year and the tourism sector shown sign of continued improvement. Thus the office of the National Economic and Social Development Board (NESDB) revised the projection of economic growth from 3.8-4.3 percent as of 5 September to 4.7 percent with the increase in the growth rate of export, private consumption and investment, government spending which registered a higher disbursement than expected. Expected inflation rate will be 4.5 percent. Current account deficit will be 3.2 billion US dollars or 1.8 percent of GDP and the unemployment rate will be 1.9 percent.

**Global growth in Q3/2005 showed stronger growth than in Q2, although the trend has slowed down from 2004.**

World Economy  
(Y-O-Y growth rate, %)

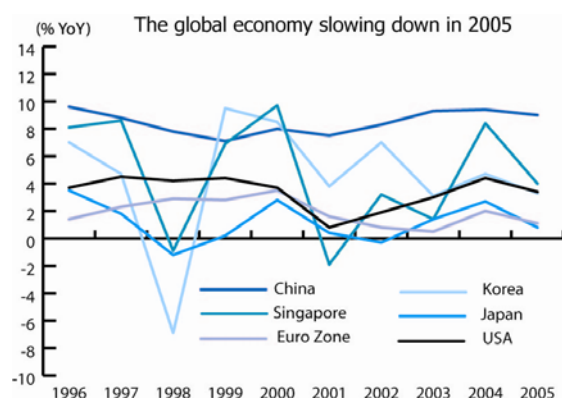
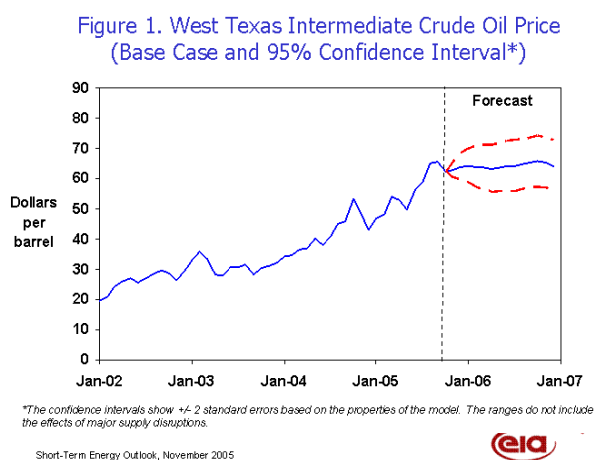
	2003	2004	2005			2005f	2006f
			Q1	Q2	Q3		
World*	2.9	5.1				3.6	3.4
USA	2.7	4.2	3.6	3.6	3.7	3.6	3.3
Eu15	1.0	2.0	1.4	1.2	1.6	NA	NA
Eu25 1/	1.1	2.4	1.5	1.4	1.7	NA	NA
Euro zone	0.7	1.8	1.3	1.2	1.6	1.4	1.6
Germany	-0.2	1.6	0.6	0.7	1.4	0.8	1.2
Japan	1.4	2.7	1.3	2.2	3.0	2.1	1.8
HongKong	3.1	8.2	6.2	6.8	8.2	6.0	4.2
Singapore	1.4	8.4	2.7	5.4	7.0	4.5	4.7
South Korea	3.1	4.6	2.7	3.3	4.4	3.6	3.3
Taiwan	3.4	6.1	2.5	3	4.4	3.6	4.1
Indonesia	4.9	5.1	6.1	5.8	5.3	5.3	4.3
Philippines	4.5	6.1	4.6	5.2	4.1	4.7	4.3
Malaysia	5.4	7.1	6.2	4.4	5.3	4.8	4.8
China	9.5	9.5	9.4	9.6	9.2	9.5	8.5

Source: Government agencies, WEO (April 2005) and average from several sources.

Global growth in the third quarter of 2005 continued to exceed expectations, particularly in Newly Industrial Economies (NIEs), EU, Malaysia and the US, underpinned mainly by robust export growth following rising electronics demand in the world market as well as continued expansion in private consumption. The US economy accelerated, aided by higher consumption on durable goods and government spending on Hurricane Katrina restoration. Japanese economy continued to pick up with improvement in business and financial sectors. Chinese economy remained robust with 9.2 percent growth with strong export expansion, though at a slower pace in line with declining in fixed capital formation. Indonesia and Philippines economies slowed down, owing to government expenditure and export slowdown. All in all, global growth in Q3/2005 showed stronger growth than in Q2, although the trend has slowed down from 2004.

## 2. ECONOMIC PROJECTION FOR 2006:

4.7-5.7 percent GDP growth, 3.5-4.5 percent headline inflation, and 2.2-2.7 percent current account deficit to GDP.



## 2.1 Economic Factors/Conditions in 2006

### (1) External factors

❖ **Crude oil prices remained at the high level:** the world demand of oil is expected to increase by 2.0 percent whereas the supply is limited by both the crude production and the refinery capacity. These cause oil prices to be sensitive to the production impact and the negative news on the production situation. The upward revision is hence on the global demand and on the stock accumulation. Hurricanes and the warming global temperature causing volatile climate are also risk factors. The hedge fund continues to be a factor which can cause a wider fluctuation of the oil prices. Nevertheless, the slowing down of the world economic growth and the improvement of many countries in energy saving and alternative energy development will soften the pressure. In 2006 the spare capacity is expected to be 2.0-2.5 million barrels per day slightly high than 1.0-1.5 million barrels per day in 2005. Also, as oil price is already at the high level, a large jump in price is unlikely.

❖ **World economic growth slows down:** leading by the slowing down of the US, EU and China. This situation is the normal of business cycles, resulting from strict monetary and fiscal policies since the second half of 2005. The interest rates in many countries are raised to alleviate the inflation pressure. The EU, despite a slow growth rate, the central bank announced on the 1 December 2005 an interest rate raise from 2.0 to 2.25 percent after sustaining the previous rate of interest for 2 years. It is expected that by 2006 the EU central bank will lift the policy interest rate to 2.50 percent. The Fed funds rate will be 4.50 percent by mid 2006 and remains at this rate till the end of next year. For Japan, the average commodity price is expected to be higher, reducing the deflationary pressure, and the policy interest rate to reach 0.1 percent rate by the end of 2006.

Nevertheless, the slowdown of global economy in 2006 has many risk factors: (1) the US twin deficits<sup>2</sup> might cause lower investors' confidence in dollar currency. The US dollar, thus, may be weaker and fluctuate. It has been expected that in 2006 the US dollar will be weaker versus the Euro and Japanese yen. (2) The real estate sector is expected to peak in many countries like the US, Great Britain and Australia – the price of the real estate will be very high and is expected to be lower in 2006. The investors are uncertain about the speed of adjustment and monitoring the situation closely. and (3) The risk of the economy from the volatile oil prices.

Other risk factors from the disasters, epidemic, unrest and terrorism are factors both from domestic and outside the country.

## (2) Internal factors

- ❖ The high inflationary pressure since the second half of 2005 is the constraint on consumption expenditure and affects business investment decision. However, inflation will decline in the second half of 2006 as the base of oil price and commodity price is already very high in 2005.
- ❖ Investment continued a strong momentum, due to (1) Rising capacity utilization rate which counted as key driving force. At the end of October, capacity utilization averaged 71.9 percent up from the rate of 68.7 percent in 2004. Several industries produced to full or almost full capacities namely electronics, petrochemical, vehicles, chemical and paper products. (2) Investment in Mega-project and the disbursement target of 100 in SOEs investment plan (3) Increasing corporate profits in the previous 2-3 years and benign market expectation from both domestic and international market support investors to expand their investment.

**Capacity Utilization**

(%)	2004	2005		
		Q1	Q2	Q3p
Hard disk drive	82.7	99.8	101.3	107.5
Integrated	72.4	75.9	78.5	85.6
Commercial car	78.8	76.6	82.8	90.9
Petrochemical	97.4	100.3	97.2	103.4

Source: BOT

<sup>2</sup> Current account deficit and budget deficit.

- ❖ The export tends to be promising especially in the agricultural products, food, vehicles, and electronics. The global economic growth at least 3.0 percent will support the export at a satisfactory rate both IMF and the world bank expected the world trade will increase by 6.0-7.0 percent in 2006
- ❖ The agriculture sector tends to expand at a good pace. Both price and quantity of exports are expected to increase after facing drought last year. Commodities whose price tend to rise are rubber, palm oil, sugar cane and cassava
- ❖ Tourisms improved from the continued rehabilitation of Tsunami and the development of new tourism
- ❖ The unrest in the south, Avian flu, and other disasters are the risks of the economy that should be on the precaution. This needs some preparation for problem solvency and warning system

## 2.2 Key Assumptions for 2006 Projection

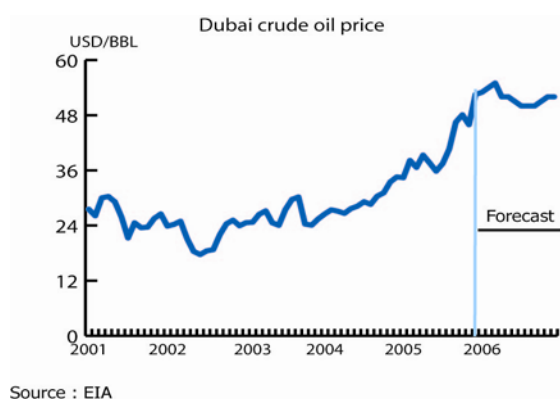
**Average Dubai price is likely to average at 52 USD, slightly up from 49.3 USD per barrel in 2005 and world growth of 3.4 percent, lower than 3.6 percent in 2005.**

(1) **The world economy in 2006 is projected to expand by 3.4 percent, slightly softening from 3.6 percent in 2005.** Major economies are expected to grow at a moderate level. The US economy tends to expand by 3.3 percent, decelerating from 3.6 percent in 2005. The Japanese economy tends to expand by 1.8 percent, compared to 2.1 percent growth in 2005. The growth of EU economy will decelerate further from 1.5 percent to 1.0 percent. The Asia-ex Japan economies will accelerate further in 2006 due to the stronger economic growth momentum in the latter half of 2005 with the major contribution from export as trade within the region is expected to increase as a result of the Asian trade cooperation. China is expected to cool down from 9.5 percent in 2005 to 8.5 percent in 2006, due to high expansion rate of 9.5 percent due to the rising interest rate, control of credits in overheated sectors such as real estate. Key themes of the world economy of 2006 are as follows:



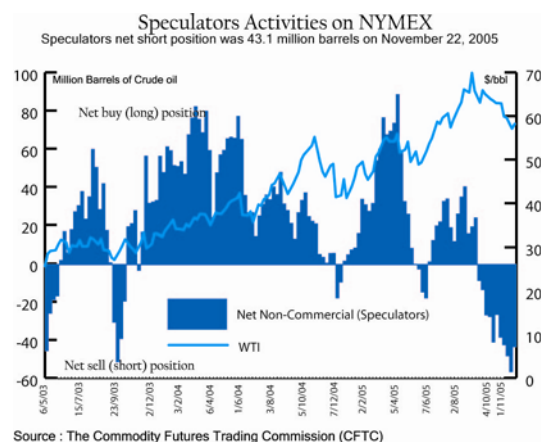
- ❖ The widening current account imbalance, reflected in the continued trade deficit and current account deficits in the US and that of surpluses in China, Japan, South Korea and Taiwan will be the risk factors that could jeopardize investment and dollar confidences. Major analysts forecast that in 2006 the dollar tends to depreciate relative to euro and yen.
- ❖ Inflation is on a rising trend during the first half of 2006 in line with higher oil prices and demand for goods and services. However, inflation is expected to slow down in the latter half because of the high base price in the latter half of 2005. In addition, the demands of goods is expected to slow down in the second half of 2006 which will help reduce the pressure of inflation in the latter half of the year. The inflation in 2006 is on average at the lower level than in 2005.
- ❖ Trend of global tightening monetary will cool down inflation.

**(2) Crude oil price: Dubai price is assumed to be 52 US dollar per barrel, rising from 49.3 US dollar per barrel in 2005.**



- ❖ Oil price will remain at the high level in 2006. Dubai price is expected to be on average at 52 US dollar per barrel in 2006. For the movement in oil price throughout 2006, the Dubai price in the first quarter (during the winter) will be on average at 54 dollar per barrel, slightly increasing from 52.66 dollar per barrel in the fourth quarter of 2005. It will then decline to 51.7 dollar in the second quarter (the driving season) and 50 dollar per barrel in the third quarter. The oil price however tends to increase in the fourth quarter, at the average of 52 dollar per
- ❖ The future price of Brent in 2006 is currently on average 57 US dollar per barrel. Moreover, gap between the Brent and Dubai prices increases to approximately 5-6 US dollar per barrel<sup>3</sup>
- ❖ The trend of oil prices continued to increase from the following supporting factors: (1) The crude oil demand tends to increase by 1.7

<sup>3</sup> Refers to Global Weekly Economic Monitor by Lehman Brother, 25 November 2006.



million barrel to 85 million barrel, or expand by 2 percent. The non- OECD demand, particularly China and India continued to increase. (2) The tightening capacity. The volume of OPEC production will reach 30 million barrel per day. The excess capacity is expected to reach 2-2.5 million barrel per day, higher than 1.0-1.5 million barrel in 2005. (3) Uncertainty, such as volatility in weather condition and political uncertainty. However, the net long position started to slow down since the second quarter, showing that the crude oil prices may be close to the peak, leading to a reduction in net buy positions. Therefore, the oil price is expected to slightly increase from the current situation. In addition the slowdown in world economy will reduce pressure on crude oil demand

**(3) Export and Import prices.** Export prices in US dollar term are expected to increase from the 2005 average price as the global economy continues strong growth momentum, leading to the higher world demand for goods. While the capacity utilization rates in many countries continue to increase and the excess capacity of global production decelerate further in 2006. In 2006, export prices and import prices in US dollar term are expected to expand by 10.9 and 8.5 percent respectively, partly reflected higher oil price. As demands for industrial commodities and prices of agricultural commodities tend to increase in accordance with high base prices of crude oil and capital goods in 2006, the term of trade in Thailand tends to improve.

## 2.3 Economic projection for 2006:

Under the above conditions, the Thai economic expansion in 2006 is expected to be in the range of 4.7 to 5.7 percent. Strong improvements in investment both private and public will become key driver of growth in 2006. Private consumption will remain steady while government expenditure is likely to expand with disbursement target rate of 93 percent, higher than 90.9 percent in the 2005 fiscal year.



## **(1) The High Case Scenario of 5.7 Percent Growth**

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Thai economy in 2006 could achieve 5.7 percent growth if (1) Export accelerates to reach the target of 17-18 percent growth rate in 2006 from the normal trend rate of 15-16 percent. The efforts would be primarily focused to increase exports of agricultural products, in particular rubber, shrimp, fowls, rice and canned seafood as well as manufacturing products in household goods category, namely soap and cosmetics, and electronics products. (2) The number of tourists increases by around 10 percent from the number in 2005. (3) The government disbursement and the state enterprise budget are on the target. This includes the Fix it center, SML and the provincial CEO budget and (4) The Dubai crude oil price for the whole year is approximately 50-52 US dollar/barrel.

## **(2) The Low Case Scenario of 4.7 Percent Growth**

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The low case scenario of 4.7 percent growth in 2006 is conditional upon the worse assumptions of Dubai oil prices beyond 52 US dollar per barrel. These inevitably push inflation higher than 4.0 percent. However, the chance of Dubai price to rise to that level is rare. This is because the slowdown in global economic growth will somewhat ease pressure on the demand side.

However, some domestic factors could also render economic growth to be lower than 4.7-5.7 percent such as the slower recovery in tourism sector and the delayed disbursement of mega-project and the government budget.

**Economic Projection of 2005-2006<sup>1/</sup>**

	Preliminary		Projection		
	2003	2004	2005		2006
			Sep 5	Dec 6	Dec 6
GDP (at current prices: Bil.Bht)	5,929.0	6,503.5	7,142.4	7,101.8	7,790.7
GDP Growth (at constant prices, %)	7.0	6.2	3.8-4.3	4.7	4.7-5.7
Investment (at constant prices, %)	12.1	13.8	11.0	11.1	12.8
Private (at constant prices, %)	17.7	16.3	9.5	11.0	12.0
Public (at constant prices, %)	-0.7	6.8	15.3	11.5	15.0
Consumption (at constant prices, %)	5.8	5.7	4.9	5.8	5.0
Private (at constant prices, %)	6.4	5.9	4.3	4.7	4.8
Public (at constant prices, %)	2.3	4.7	8.6	12.8	6.5
Export volume of goods&services (Volume, %)	7.0	9.6	3.8	4.3	5.5
Export value of goods (Bil.USD)	78.1	94.9	110.5	110.1	127.1
Growth rate (%)	18.2	21.6	15.0	16.0	15.5
Growth rate (Volume, %)	9.5	8.4	4.0	4.3	4.6
Import volume of goods&services (Volume, %)	8.5	13.5	8.3	8.9	8.7
Import value of goods (Bil.USD)	74.3	93.7	118.2	117.7	138.3
Growth rate (%)	17.4	26.0	25.2	25.6	17.5
Growth rate (Volume, %)	10.7	12.3	9.2	9.2	9.0
Trade balance (Bil.USD)	3.8	1.2	-7.7	-7.6	-11.1
Current account balance (Bil.USD)	8.0	6.6	-3.2	-3.2	-4.9
Current account to GDP (%)	5.6	4.1	-1.9	-1.8	- (2.2 - 2.7)
Inflation (%)					
CPI	1.8	2.7	4.1	4.5	3.5-4.5
GDP Deflator	1.6	3.3	4.5	4.5	4.5

Source: Office of the National Economic and Social Development Board. December 6, 2005

Note: 1/ Preliminary data of 2003-2004 were adjusted since data from Office of the National Income Account (GDP) and the Bank of Thailand (Export/ Import data) have been revised.

## **4. ECONOMIC POLICY MANAGEMENT IN 2006**

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Since the global economy in 2006 is expected to slightly slow down, the economic policy management should focus on intensive promotion of export and tourism and the development of alternative energy sources in order to contain current account deficit. At the same time, promoting private investment and accelerate disbursement of government budget especially those for grass-root economy and agricultural sector as well as investment in Mega-project to increase international competitiveness, should be the policy guideline for 2006.

Measures to be intensively implemented are as follows:

- ❖ Promote the usage of NGV and Gasohol in order to reduce dependency on imported crude oil.
- ❖ Promote private investment to be key driving force of growth in 2006
- ❖ Accelerate Mega-project investment according to plan for national modernization and to build investors' confidence which depend on certainly of Mega-project plan and expectation of future infrastructure services since it is an important factor for investment and business decision.
- ❖ Accelerate disbursement of budget for SML funds, Fix-it center and the provincial CEO budget.
- ❖ Increase farmers' income and promote value creation for agricultural products.
- ❖ Promote tourism by developing new products for specific niche market and utilize the Suvarnabhumi International Airport to draw increasing tourists and be regional air-hub. Targeted tourist numbers should increase by 10 percent.
- ❖ Target export growth at 17-18 percent focusing on new exports category and those with high growth performance in 2005.
- ❖ Comprehensive mobilization of savings in order to reduce unnecessary expenditures and future public burden as well as increase liquidity for capital investment.