



NESDB

ECONOMIC OUTLOOK

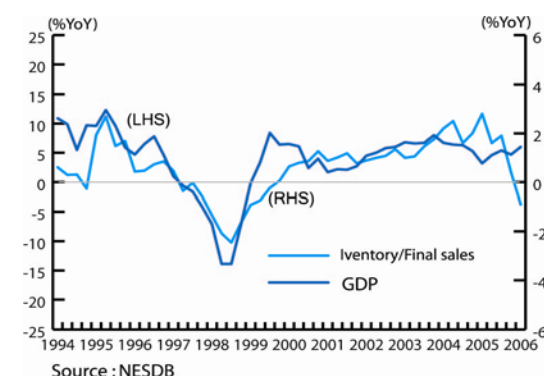
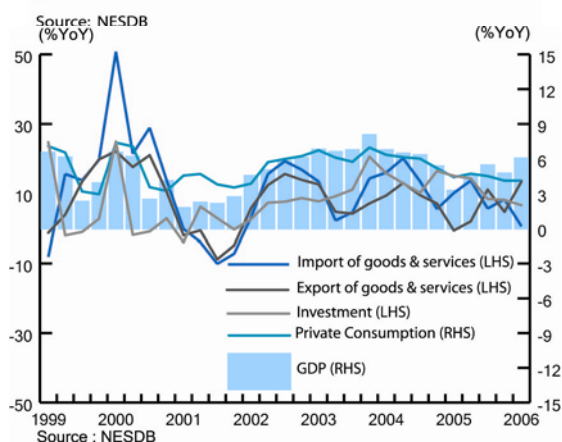
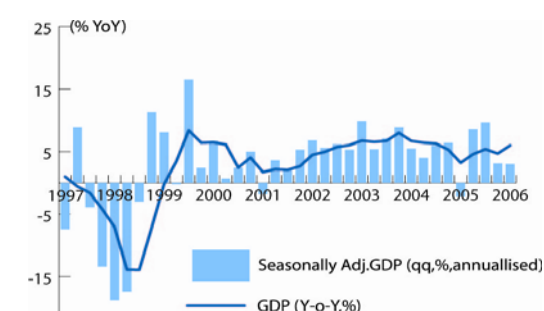
Economic Performance in Q1 and Outlook for 2006

- ❑ Thai economy expanded by 6.0 percent in the first quarter of 2006, accelerating from the 4.7 percent expansion in the last quarter of 2005. However, after elimination of seasonal factors, the economy shows sign of slight softening since the latter half of 2005.
- ❑ The main contribution of the economic growth in the first quarter of 2006 was the substantial increase in the real export of goods and services from a low base in the same period of 2005. This was partly attributed to the recovery in the global electronics cycle since the latter half of last year. Meanwhile the growth of real import of good and services showed a decreasing trend from the abnormally high base last year. As a result, the sharp increase in net real export of good and services offset the slowdown in domestic spending and investment.
- ❑ The impacts of higher oil prices, inflation and interest rate on the real economy became more apparent. This was evident in the continued slowdown of household spending and private investment. The response has been seen in the softening path of commercial bank credits as well as the consumer credits.
- ❑ Overall economic stability had been maintained despite mounting pressures on inflation. On average, headline inflation was 5.9 percent in the first 5 months. However, the more restrictive monetary policy together with balanced government budget will dampen the pressure on inflation. The current account had turned into the surplus of 1.4 billion dollar. Unemployment rate was 1.9 percent. As of April 2005, the international reserves amounted to 57.2 billion dollar, approximately 3 times the short-term external debt.
- ❑ The economy in 2006 is expected to grow by 4.2-4.9 percent, mainly driven by the export of goods and services of which the contribution to the economic growth is larger than in 2005. This was attributed to a rapid tourism recovery, surge in electronics and auto exports, and easing import growth. Meanwhile, the domestic demand has slowed down and will contribute less to the economic growth than in 2005.
- ❑ Risks and constraints to the economic growth in the latter half of 2005 comprised the surge in oil price, continued rising inflation, the increase in interest rates and the slowdown in the global economy, including domestic political uncertainty.

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1. Economic Performance in Q1/2006

- 1.1 Thai economy in the first quarter of 2006 grew by 6.0 percent. The main contribution to economic growth was the substantial increase in net export of goods and services while domestic demand, particularly private investment and government consumption slowed down. In addition, the production expanded at a slower rate than demand for goods and services, leading to a sharp decline in inventory investment.

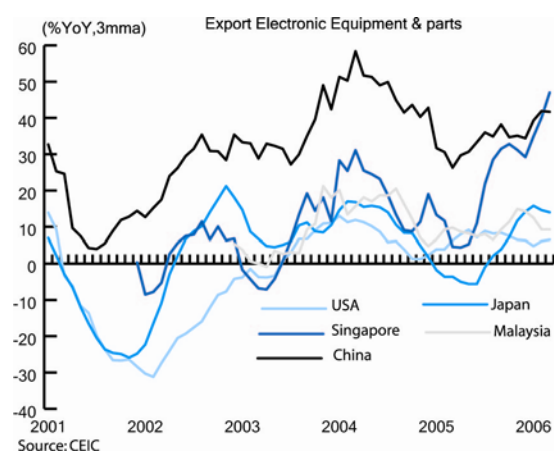
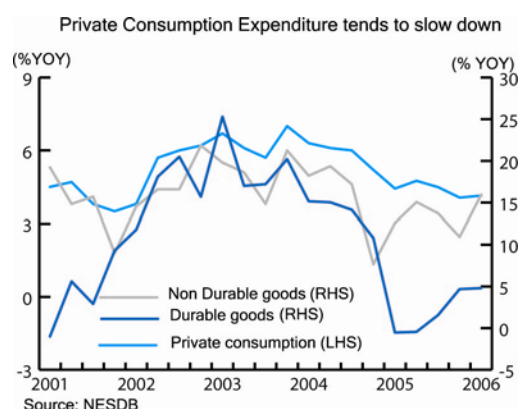
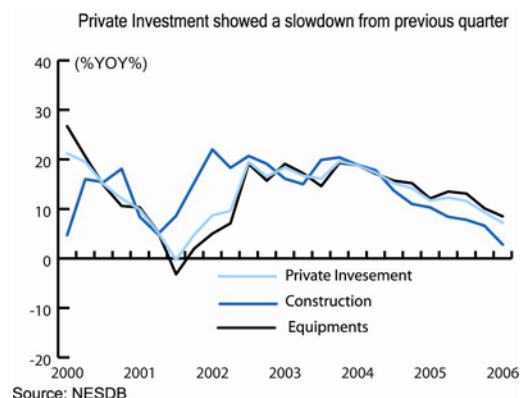


Key Themes

- Thai economy in the first quarter of 2006 grew by 6.0 percent, accelerating from 4.7 percent in the fourth quarter of 2005. This was mainly driven by the strong performance in export and the sharp slowdown in import. As a result the trade balance registered a slight deficit of 224 million dollar, which was less than a deficit of 749 billion dollar in the fourth quarter last year. However, the domestic demand contributed less to the economic growth as it continued to grow at a moderate rate. Specifically, the private investment grew by 7.2 percent. The government consumption at the constant price declined by 4.7 percent.
- The high economic growth in the first quarter was partly a result of the low base effect in the first quarter of 2005. However, the seasonally adjusted real GDP showed a continued slow down¹. In the first quarter of 2006, the Thai economy grew by 3.0 percent (seasonally adjusted at annual rates), comparable to the rate of 3.1 percent in the previous quarter, but this represented a moderate increase compared with the whole year 2005².
- Private investment sharply slowed down. It grew at the rate of 7.2 percent, compared with that of 11.3 percent in 2005 and 9.3 percent in the previous quarter. Both machinery and equipment and construction investment grew at a moderate rate.
 - Private investment in construction increased only by 2.8 percent, sharply decelerating from 8.2 percent in 2005. This was attributable to the slow down in housing demand during the upward trend in interest rates. This was evident in the 51.2 percent decline in condominium registration nationwide in the first quarter. The number of condominium registration dropped by 68.7 percent. In addition, the number of new registered housing in Bangkok Metropolis declined by 13.3 percent during the first two months of

¹ The Thai economy increased only by 3.2 percent in Q1/2005, predominantly underpinned by rapid increase in oil prices, the tragic Tsunami, and the drought, including export constraints on electronics and shrimp.

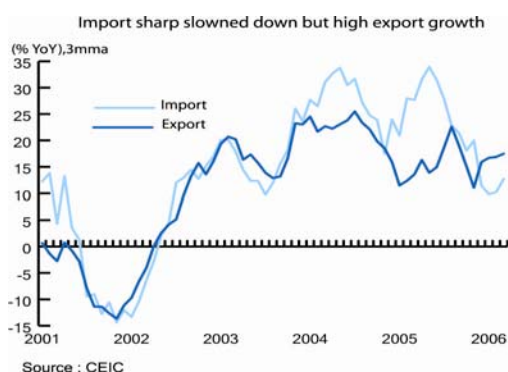
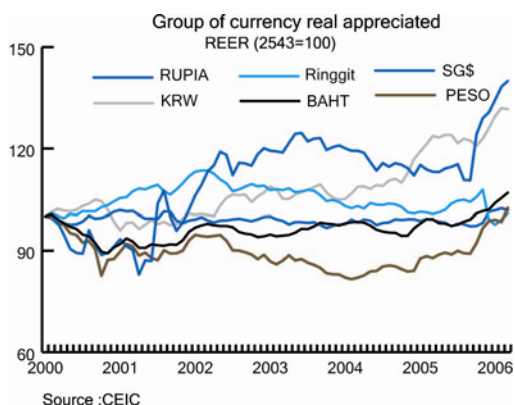
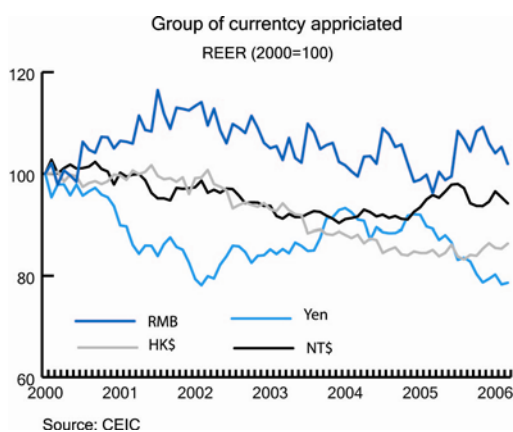
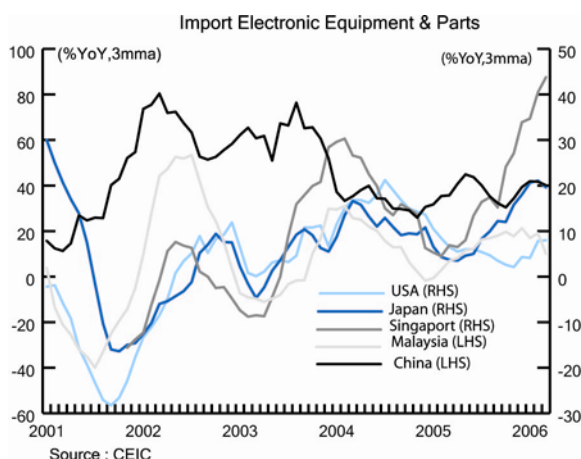
² Real GDP increased at an annual rate of 8.6, 9.7 and 3.1 percent in the second, third, and fourth quarter of 2005 respectively.



2006. In addition, some private sectors delayed new investment in order to wait for the clear decision on mass transit routes in Bangkok and metropolitan. Permitted construction areas increased by 6.5 percent in the first quarter after a decline of 13.3 percent in 2005. The increase was a result of the anticipated impact of the new Bangkok Urban Plan which should be effective on May 19, 2005. In addition the enforcement of the environment protection act requires higher ratio of free space, leading to a higher unit cost of construction. In addition, the new price assessment would affect land development.

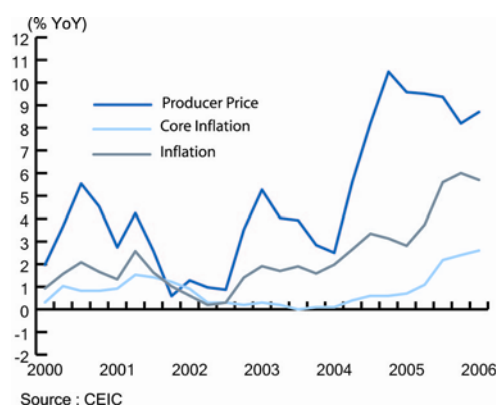
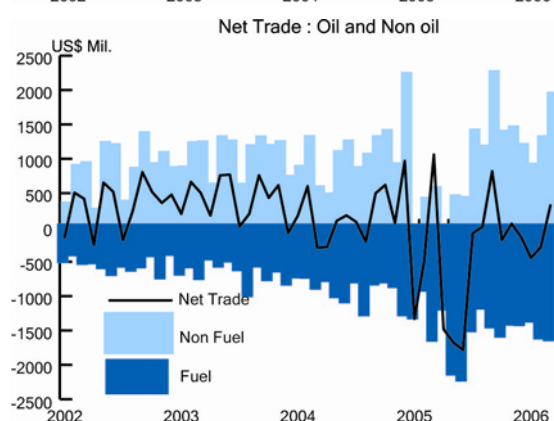
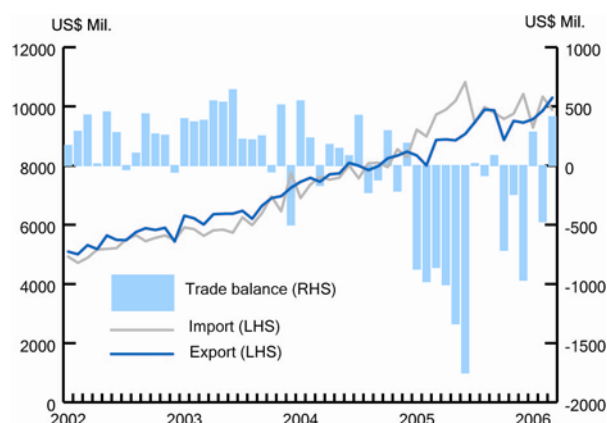
➤ **Private investment in machinery and equipment also showed a sign of slowdown.** It expanded by 8.5 percent, a decline from 12.1 percent in 2005. There was also a reduction in imports of capital goods. The reduction was partly due to the decline in business confidence since 2005, the expectation of the slow down in global economy and the increase in real interest rates. In addition the investment in commercial cars declined after a surge of 26.7 percent increase in 2005.

- ❑ **Private consumption in the first quarter remained stable with the same growth rate of 4.1 percent as in the last quarter.** However, it has shown a gradual slowdown trend over the past year and did not signal a rapid adjustment in the future. The adjustment of consumption was a result of higher oil price and commodities prices, rising interest rate and continual decline in consumer confidence since the beginning of this year.
- ❑ **Export value grew robustly owing to higher export volume. Nevertheless, export price showed a slowdown. This implied that there were not significant impacts on export revenue. Meanwhile, appreciation of the baht affected the revenue in baht term.** In the first quarter, export value increased by 17.9 percent, and 11.8 percent in April. This was partly due to the improvement of electronics cycle since the second half of 2005 as well as good performance of food exports (shrimp and cooked chicken) and agricultural products that Thailand still faced with shortage of production such as shrimp, rubber and rice. In the first 4 months of 2006, exports volume recorded a high growth of 12.8 percent, while export price increased slightly by only 3.1 percent, compared with 12.6 and 7.7 percent in the first and second half of 2005. Average price of export in US dollar term slowed down



in almost all items, particularly technology and electronics products. However, price of agricultural products still increased significantly, in particular price of rubber and rice. Key movements of export are as follow;

- Data of export and import of electronics and electrical appliances in major economies have indicated that electronics cycle has past the peak level.
 - Appreciation of the baht has not yet caused Thailand to lose competitiveness during the first quarter since other regional currencies have also appreciated. However, real effective exchange rate has signaled a rapid increase in line with the inflation rate and, consequently, would render difficulties for Thai export if the price is fixed in baht term.
- ❑ **Import value slowed down sharply, although import prices of oil and other products had increased, since import volume significantly declined.** In the first quarter, import volume dropped by 3.0 percent and 8.6 percent in April, while price rose by 8.6 and 7.1 percent respectively. Thus, import value increased by 5.4 percent in the first quarter but declined by 2.1 percent in April. Import of raw materials slowed down in the first quarter and declined in April. This owed to the adjustment from irregular high import base and rising stock accumulation as a result of expectation on consumer products' price last year. Therefore, in the first quarter of 2006, there was a rundown in inventory. Concurrently, import of capital goods slowed down from 13.7 percent in 2005, to 9.9 percent in the first quarter and dropped by 15.7 percent in April. This was a signal of investment slowdown. Therefore, improved trade balance was partly reflect a symptom of an economic slowdown. However, under strong export performance, nearly full production capacity, together with low import base in the latter half of 2005, it is likely that import in the second half of 2006 will be higher than in the first half.
- ❑ **Trade account registered a deficit of 224 million US dollars:** In the first quarter of 2006, net trade account of oil was in a deficit of 4.5 billion US dollars, higher than a deficit of 4.02 and 4.239 billion US dollars in the third and forth quarter of 2005, respectively as the oil price continue to increase from last year. For non-oil products, the trade balance recorded a surplus of 4.092 billion US dollars. In April, trade account was in a deficit of about 520 million US dollars. Export and import value in



the first four months equaled to 38.2 and 38.9 billion dollars respectively.

□ **Current account recorded a surplus of 1.656 billion US dollars** in the first quarter of 2006. Net services and transfer were in a surplus of 1.881 billion US dollars, higher than the previous quarter and same quarter of last year as revenue from net tourist services and net transportation increased. Also, increased remittance from Thai workers aboard made net income to register less deficit than last quarter, but net transfer increased. A surplus of Service, Income and transfer account could offset trade balance deficit. As a result, current account became surplus. In April, however, the current account recorded a deficit of 283 million dollars.

□ **Production side expanded less than demand for goods and services, thus the inventories have been run down in order to serve the increasing demand.** Manufacturing production expanded by 7.6 percent thanks largely to high growth items of electronics (both hard disk drive and integrated circuits), vehicles and parts and beverages. Hotel and restaurant sector grew by 12.1 percent following a recovery in tourism sector. Wholesale and retail trade and financial sector still performed well, but construction sector showed a significant slowdown, from a growth rate of 7.0 percent in 2005 down to 3.8 percent in the first quarter. Agricultural sector growth bounced back to 7.1 percent. Main increasing products include major rice, cassava, sugar cane and oil palm.

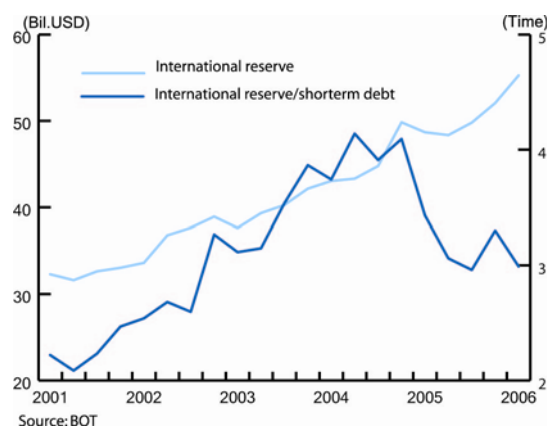
□ **Mounting pressures on inflation continued and current account turned into surplus.**

➤ Employment rose and unemployment rate declined from the same period last year. In the first quarter of 2006, the number of employment reaches 34.83 million people, up from 34.25 million people in the fourth quarter of 2005, or expanding by 1.7 percent. Employment in agriculture expanded by 6.1 percent, while the employment in non-agriculture sector declined by 1.2 percent from the first quarter of 2005, and the unemployment rate in the first quarter of 2006 equaled to 1.6 percent.

➤ High pressure on inflation continued. Inflation in the first quarter of 2006 was 5.7 percent, and increased to 6.0 and 6.2 percent in April and May respectively. Core inflation continued to rise from the fourth quarter of 2004. The core inflation was 2.6 percent in the first quarter and increased to 2.9 percent in April and slightly declined to 2.7 percent in May. This reflected the more apparent pass-

through effects of rising producer cost, following higher oil prices, to commodities prices.

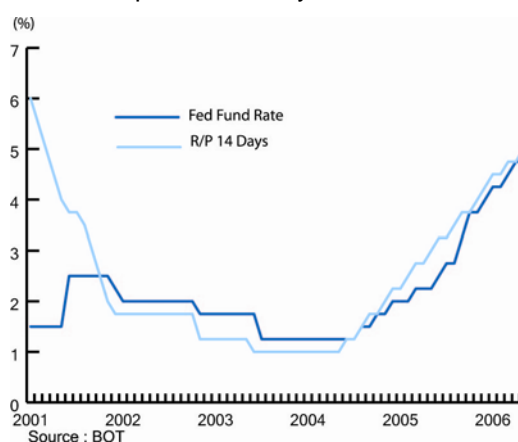
- External stability was favorable. At the end of April 2006, the international reserves stood at 57.2 billion US dollar or 3 times short-term external debt and is equivalent to 5.6 months import, which is considered to be a stable level.



- Fiscal position: fiscal cash balance recorded a deficit of about 9.2 billion baht in the first quarter of 2006, or the second quarter of fiscal year 2006. The fiscal position in the first quarter of 2006 improved, compared with the deficit of 83.9 billion baht in the fourth quarter of 2005. However, during October 2005 to March 2006, the fiscal cash balance still registered a deficit of 74.7 billion baht. Government revenue collection totaled 296.6 billion baht, or increased by 4.5 percent. Total budget disbursement was 321.5 billion baht, reflecting a slower disbursement rate than the same period last year.
- Public Debts: at the end of March 2006, public debts stood at 3.22 trillion baht, or equivalent to 41.44 percent of GDP, dropped slightly from 46.14 percent at the end of September 2004.

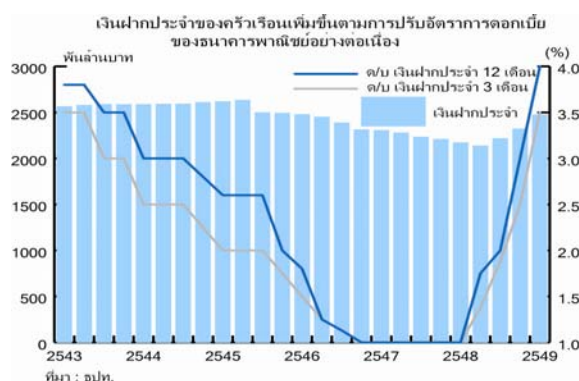
- ❑ **Financial sector: Interest rates have been on a rising trend, credit expansion signaled a slowdown trend and excess liquidity was at a high level**

- The Bank of Thailand raised 14-day repurchase rate (RP-14) twice, each by 25 basis point during the first quarter and another 25 basis point to 4.75 percent in April 2006 meanwhile the Fed Fund rate was 5 percent in May.

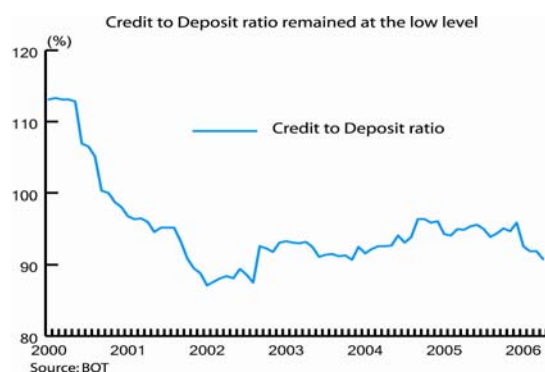


- Commercial banks continued to raise their interest rates because of more intense competition to raise deposit rates in order to maintain deposit base. As a result, the real deposit rates were less negative and the effective spread began to slightly decline in the first quarter because of higher interest rate burden paid to savers.
- During the upward trend in interest rate cycles since August 2004 to May 2006, the policy interest rates were lifted 12 times, amounting to 3.5 percent. However commercial banks began to increase interest rate significantly since the middle of 2005. Overall, the 12-month time deposit interest rate of five large commercial banks increased at a comparable rate with the increase in the RP-14. With the high liquidity in the financial system and no tightening is expected in the near future, it is expected that the deposit interest rates will only slightly increase; however the increase in MLR was approximately 57 percent of the increase in policy rate. It is therefore expected that the MLR will continue to increase.
- The increase in the interest rate of commercial banks has led the deposit to expand at a faster rate. Commercial banks' deposits, excluding the establishment of new bank, expanded by

7.6 percent. This reflected a substantial increase of corporate deposit which had higher profits in 2005 and the slowdown in investment. Household's deposits expanded only by 0.5 percent. This might be an indicator of a slowdown in household savings as expenditures increased at a faster rate than income. In terms of deposit structure, there will be a shift from saving deposits which offer no change in interest rate towards time deposits which offer higher interest rates. As a result, saving deposits declined for the first time in 10 years.



- Commercial bank and finance company credits slowed down because of the rising interest rates and the slow down in private investment. Credits to manufacturing sector which is a major proportion of total credits in the first quarter of 2006 expanded by 4.8 percent, lower than the growth rate during the same period of 2005. Credits to construction sector also declined but there is yet no sign of increasing NPLs.
- Credits for personal consumption slowed down in response with higher interest rates, particularly the housing credits which had a longer grace period for repayment. Meanwhile credits for other personal consumption stabilized. Credits for car leasing expanded at a faster rate. This was partly due to the more intense regulation of personal credit loan.



- Thai Baht in the first quarter averaged 39.29 baht per dollar, appreciated by 4.2 percent from the last quarter but depreciated by 1.9 percent from the first quarter of 2005. The Baht continues to appreciate in the first two months of second quarter and reach 37.47 baht per dollar in late April, which recorded the highest appreciation in 6 years. The appreciation in the Baht was in line with every regional currency. This was contributed by the increase in capital inflow, expectation of sharper RMB appreciation and dollar depreciation.
- The Baht relative to other major currencies continued to increase throughout the first quarter. In addition the increase in inflation rate led to a sharp appreciation in real effective rate at the faster rate than those in other regional currencies. This may affect the competitiveness of Thai export.
- Value of issuances of equity securities significantly declined whereas the mobilization through debt instruments continues to increase even though money market interest rates have increased. The inclusion of bill of exchange as new product in the market will help corporate sector to raise working capital more conveniently.
- Stock market improved as international investors bought large amounts of stock while net buy from domestic investors both institution and individual slowed down. The performance of listed non-financial institutions expanded from the same period last year by 13 percent while the profits of listed financial institutions will continue to stabilize.
- Yields on short-term bonds with less than 1-year to maturity had risen in tandem with increase in policy interest rates. Meanwhile the yields on long term bonds slightly increased because long-term securities had a limited amount and investors expects the interest rate hike will not affect the economy in the long run as the economy will be quickly adjusted and inflation will be controlled under the target.

1.2 World economic growth in the first quarter of 2006: the expansion is becoming more broadly based since almost all countries experienced higher growth. Key driving factor was export of goods and investment.

Inflationary pressure remained unabated, therefore, further monetary tightening were needed in most countries.

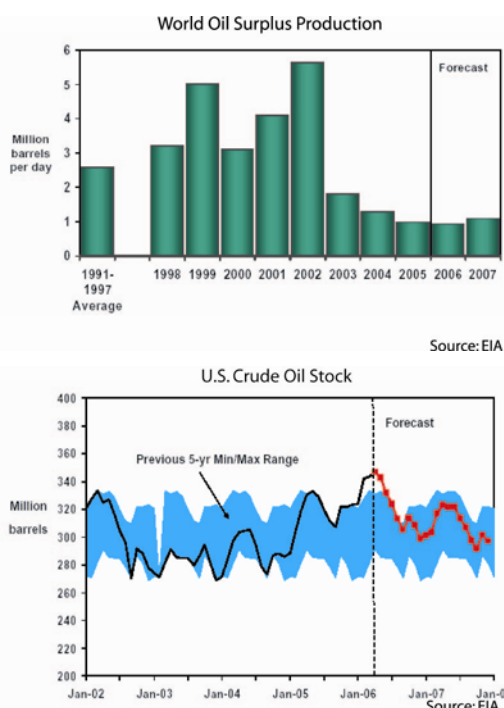
The US, China, EU and Asian economies had higher growth fueled primarily by export of goods and services and private investment as key contributions. Nevertheless, Japanese economy became softer due to a slowdown of private consumption, housing investment and export of goods and services. Meanwhile, import growth accelerated for boosting up investment. Indonesian economy also appeared to slow down from the fourth quarter of last year owing to a slowdown of private and government consumption. NIEs countries, including Singapore and South Korea grew robustly with a buoyancy of electronics and product export following uptrend of electronics and electrical appliance. Investment in major economies appeared to be pick up, both EU and Asia including Germany, UK, Malaysia and Indonesia

- US economy expanded at an accelerated rate in the first quarter, thanks to private

consumption and investment in software and parts items. Chinese economy was still upbeat due to strong exports and private investment. Japanese economy grew at a moderate rate in line with a slowdown of private consumption. However, there are some recovery sign throughout the year's end as deflationary pressure and credit contraction were gone. Unemployment rate was 4.1 percent, lowest level ever in the last 7 years.

- High oil price put upward pressure on inflation which is expected to stay at high level in the first quarter. Asian economies including Japan and China experienced declining trade surplus. The US and Philippines recorded a smaller trade deficit in the first quarter, while, on the contrary, the EU had higher deficit.

2. Economic Projection for 2006: 4.2-4.9 percent GDP growth with 4.5-4.7 percent inflation and 0.5 percent current account deficit to GDP



2.1 Economic factors/conditions in 2006

(1) Risk factors

(1.1) External factors: High and volatile oil prices as well as global economic slowdown in the second half of the year as a result of rising oil prices and interest rate uptrend in several countries. Besides, global imbalances still remain significant risks associated to the outlook.

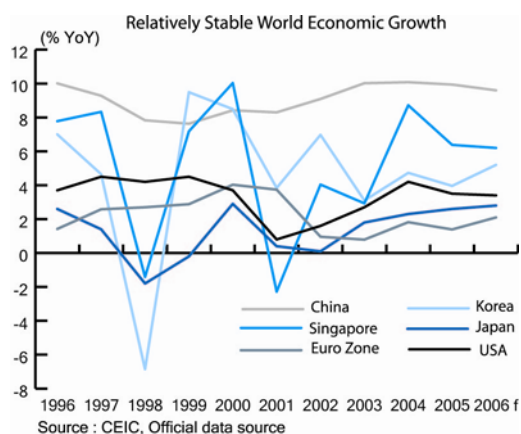
- **Crude oil price stays at a high level** due to following reasons: (1) Continuing rise in crude oil demand. International Energy Agency (IEA) revised world oil demand forecasts in 2006 to 84.83 million barrels, up by 1.23 million barrel per day or increased by 1.5 percent compared with 2005. This is primarily due to continuing increases in demand from China and US. (2) Tightened production capacity of both crude oil production and refinery plants capacity. At the end of April 2006, OPEC's reserve production capacity remained at only 0.9-1.4 million barrel per day. This renders oil price to be sensitive to the supply disruptions and also to unconstructive news related to oil production, demand and inventories conditions.

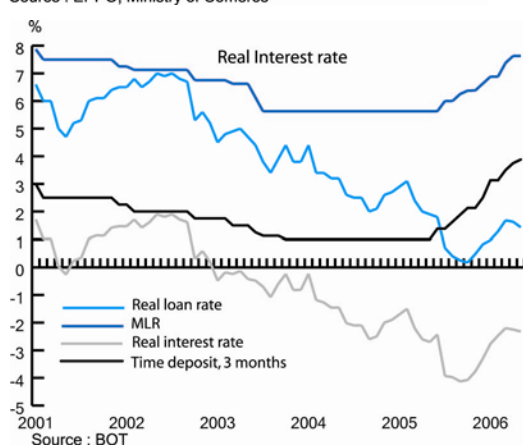
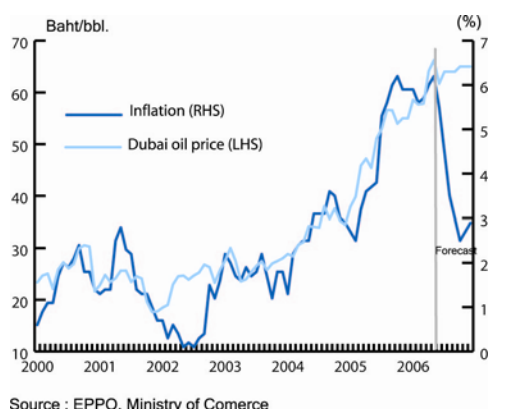
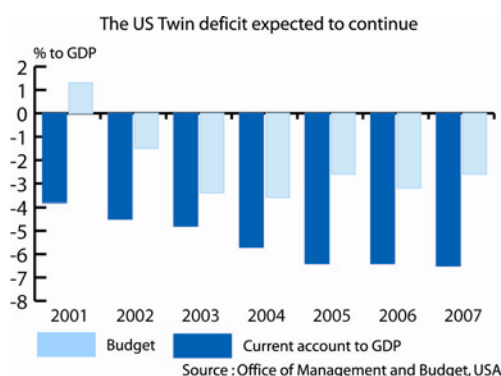


(3) Uncertain situations and political conflicts among leading oil producers, in particular those Middle East countries, such as nuclear tensions between Iran and the West and unrest in Nigeria and (4) Speculation from the hedge funds under volatile structure of both demand and supply conditions which, in turn, allow oil prices to fluctuate in broader range.

However, some supporting factors show that oil prices will not continue their ascent far from current level owing to the following factors: (1) A slowdown of the Chinese, US and Asian economies in the latter half of 2006. (2) The improvement of various countries in energy saving and alternative energy development which help ease price pressure. (3) In 2006, the spare capacity is expected to be 2.0-2.5 million barrel per day, slightly higher than 1.0-1.5 in 2005. (4) Reserved amounts of crude, middle distillate and gasoline in the US – largest oil consumers- remain at high level above 5 years-averaged level. Total reserve amount of OECD increased in the last quarter of 2005 and is likely to confirm in 2006. (5) Oil price is already at high level since the beginning of 2006 and is expected that the OPEC will determine to keep the production ceiling at the current level. Thus, it is anticipated that oil prices will not leap far from the current level.

- **Rising interest rates in 2006 results in a slowdown of global economy.** In 2006, interest rates in the world financial market tend to continuously increase, including the US, EU, China and Asia which, in turn, affected the world growth and consequently affected Thai exports.
- **Risk factors to the world economy including soaring oil prices and global imbalances bring about trade conflicts over the US and China.** Global economy in 2006 tends to expand at the same rate as recorded in 2005. This is owing to robust Japanese economic growth as well as the recovery of South Korean and the EU economies, while the Chinese, the US and Asian economies show a slowdown. Correspondingly, favorable Japanese economic expansion was apparently in line with 4.1 percent of unemployment rate – lowest level in the past 7 years. Credit started to expand and commodities price increased which helped ease deflationary problem. Stronger Japanese economy will become key driver to the world economy in 2006 following the gains of higher imports from Japan since late 2005. Nevertheless, there are three broad





Major Crop Production

	Growth (%)						
	2005					2006*	
	Year	Q1	Q2	Q3	Q4	Year	Q1
1. Major rice	1.5	-15.3	261.6	8.7	2.7	2.1	10.5
2. Second rice	-7.0	-26.0	-7.4	43.6	-31.2	10.5	15.2
3. Corn	-9.7	-27.1	-19.2	1.6	-13.5	0.3	1.1
4. Cassava	-15.4	-21.0	-10.5	-4.4	-10.7	37.6	41.6
5. Sugar cane	-36.5	-31.1	-36.9	-	-57.4	14.9	12.5
6. Oil palm	-3.5	-1.6	-6.6	-2.3	-1.6	13.1	12.6
7. Rubber	-1.0	3.8	-4.9	2.1	-5.0	3.0	0.5

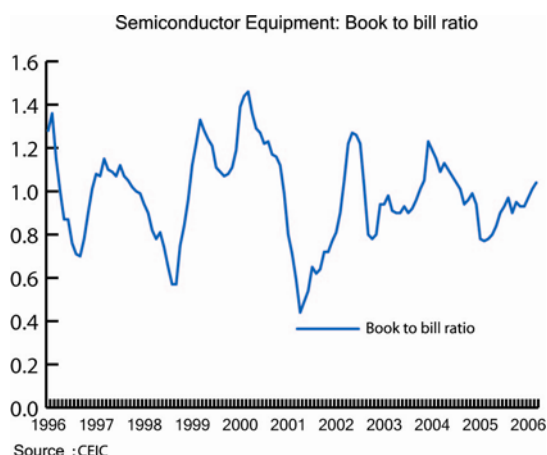
concerns on the world economy as follows: (1) The US twin deficits³ remain a problem, especially a continuing trade deficit with China could cause a further conflict between them. As a result, US imposed across-the-board tariffs on China in order to put pressure on the revaluation of the Renminbi. Moreover, excess production capacity in China will also exacerbate the economic slow down. Meanwhile, the US twin deficits will adversely affect investors' confidence in the US dollars. (2) The European economic recovery is likely to be sluggish due to a slowdown in domestic consumption resulting from labor market problem with high unemployment rate and subdued wage level (3) Interest rates in the world market is on a rising trend to ease inflationary pressure. At the end of 2006, it is expected that the Fed fund rate will be adjusted to 5.5⁴ percent, up from current rate of 5.0 percent. The ECB official rates will be 3.00 percent (recently revised on March 2, 2006 up to 2.50 percent). For Japan, the policy rate will be revised upward to 0.25 percent, up from current rate of 0 percent. Global imbalances -as apparent in continuing rise in twin deficits of the US, while the Chinese, Japanese, South Korean, and Taiwanese economies were in surplus- remain key challenges or risk factors for investors to watchfully make their decision. In addition, the confidences on the US dollars will not increase, thus, many analysts expect that in 2006 the dollars will depreciate against the Euro and Yen currency, from 1.19 US dollar per Euro in 2005 to 1.32 in 2006, and Yen will appreciate from 118 Yen per US dollar in 2005 to 105 Yen in 2006.

(2) Supporting factors: Expansion of export, tourism, agricultural products price and volume

(2.1) The recovery of agricultural sector with the expansion of production. This has been supported by the product processing promotion and implementation on alternative energy development, such as bio-fuel, aiming to create values of agricultural products including sugar cane, cassava and oil palm. In addition, major crop production is projected to increase in the second half of the year, thanks to sufficient water supply. Farm prices, in particular crop prices are expected to rise further especially those of rubber, rice, oil palm and sugar cane. In the first 4 months of 2006, average farm prices grew by 27.2 percent and crop production

³ Current account deficit and budget deficit

⁴ According to the Lehman Brothers' projection in "Global Weekly Monitor", 2 June 2006.

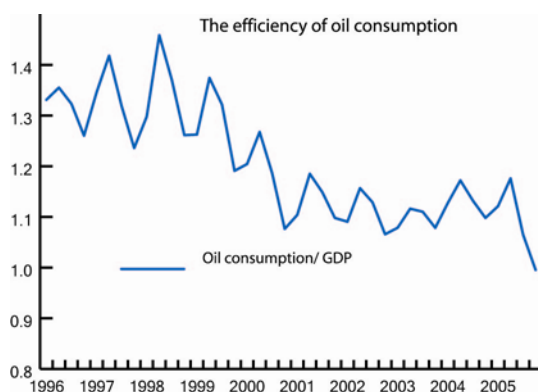
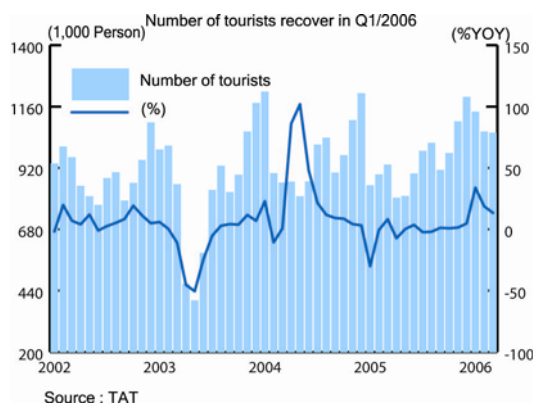


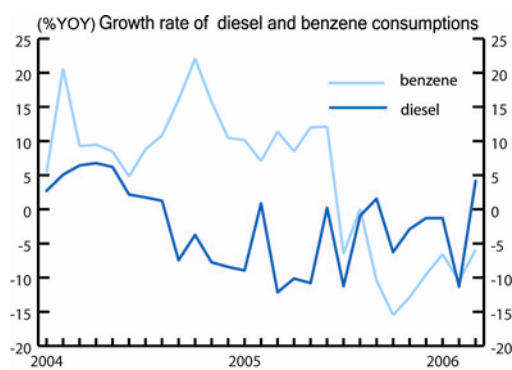
expanded by 5.9 percent. Thus, farm income rose significantly by 34.7 percent.

(2.2) Export is likely to expand well through the year's end, while import will continue its slowdown. Trade balance as a result, will be enhanced. Export in agricultural products will benefit from an approximately decline in world's agricultural output of 4-5 percent as a result of natural disaster. Commodities whose exports tend to increase are cassava, rubber and corn as well as processing agricultural products. For manufacturing products, it is expected that electronics and automobile and parts will record robust export performance in tandem with world market growth. Nonetheless, in the second half, export will not perform as well as in the first half due to a slowdown of world economy and demand for electronics and electrical appliance in the world market after showing high growth in earlier year. Moreover, export growth will be constrained by high base effect in the latter half of 2006. Import is likely to expand at higher rate than the first half since there has been a run down of inventory. Therefore, there will be more import of raw materials, in particular of those export-oriented one as well as high oil price which will render trade account deficit.

(2.3) The tourism sector continues its recovery. In the first 4 months, numbers of foreign tourists were 4.218 billion people, rose by 21.4 percent. This attributed to a surplus of service account of about 2.08 billion US dollars and thus a current account surplus of 1.4 billion US dollars. Looking ahead, the tourism sector is likely to expand well due to favorable global economic condition, in particular Asian and emerging economies like China and India that brought about higher foreign tourists. Moreover, tourism development measures which focus on raising value more than quantities as well as international road show will encourage number of tourists to meet target level of 13.8 million people in 2006.

(2.4) Continuing policy implementation on energy saving and alternative energy development from 2005. The result has been more apparent as petroleum products consumption noticeably slowed down in 2005, increasing by only 0.4 percent, compared to 9.7 percent in 2004. Consumption of Benzene and Diesel dropped by 1.4 percent, compared with expansion rate of 8.3 percent in 2004. Due to an economic slowdown and higher oil price, total oil consumption slowed down.





2.2 Key Assumptions for 2006 Projection: Dubai oil price is expected to be 62-65 US dollars per barrel, up from 49.30 US dollars in 2005. Global growth is estimated at 4.6 percent.

(2.5) In the first quarter of 2006, petroleum products consumption totaled 10.708 billion liters, remaining quite the same level as compared with 10,707 billion liters in the first quarter of 2005 despite almost double economic growth in the first quarter of 2006 compared with 2005. This was partly reflected the adjustment of consumers' behavior under soaring domestic oil price. Total oil consumption to GDP also signified a gradual downtrend.

In addition, in 2006, if the use of NGV, gasohol and bio-diesel reach planned target, this will save oil import value of about 34.4 billion baht or about 895 million US dollar which, consequently, help alleviate pressure on current account deficit.

(1) The world economy in 2006 is likely to grow by 4.6 percent, accelerating from 4.4 percent in 2005. The assumption is revised upward slightly from 4.4 percent growth assumed in the December projection. The upward adjustment is due to the upward revisions of key economies such as US, China, Eurozone, South Korea and Philippines. Even though the growth of the Japanese economy is revised downward from 3.3 percent in March projection to 2.8 percent in this revision, the upward revision of other economies outpaces this downward revision.

The Japanese economy is well established with an expansion rate of 2.8 percent, revised upward from 2.6 percent growth in 2005 due to solid consumption and investment as well as easing deflationary pressure. The EU economy is projected to expand by 2.1 percent, higher than 1.9 percent in 2005 as a result of a strong economic recovery of Germany, France, and Italy from an improved export performance. The US economy is expected to slightly slow down from 3.5 percent in 2005 to 3.4 percent owing to a slowdown in domestic spending and cooling housing market. Growth in China remain strong, though slowing down from 9.9 percent to 9.6 percent due to a slowdown in fixed capital formation and exports, in particular to the US market, which resulted from the Chinese RMB's appreciation. Meanwhile, there have been increasing pressures from the US's corporate sector on trade protection from Chinese products which implied more risks associated with trade conflicts with the US. The Asian economies (excluding Japan and China) tend to remain quite stable with a strong growth in the early part of the year and start to slow down in the second half in tandem with a slow down in export following

World Economic Growth

	2003	2004	2005					2006	2006f	
	Year		Q1	Q2	Q3	Q4	Year	Q1	Mar	Jun
World *	3.1	5.2					4.4	4.9	4.4	4.6
USA	2.7	4.2	3.6	3.6	3.6	3.2	3.5	3.6	3.2	3.4
Eu15	1.1	2.3	1.4	1.3	1.7	1.8	1.5	2.1	n.a.	
Eu25 1/	1.2	2.4	1.5	1.4	1.8	1.8	1.6	1.6	n.a.	
Euro	0.7	2.0	0.6	1.2	1.6	1.8	1.4	2.0	1.9	2.1
Germany	-0.2	1.6	-0.5	1.8	1.5	1.1	1.0	2.9	1.6	1.8
Japan	1.8	2.3	1.4	2.6	2.8	3.7	2.6	3.1	3.3	2.8
Hong Kong	3.2	8.6	6.0	7.3	8.3	7.6	7.3	8.2	5.1	5.0
Singapore	2.9	8.7	3.4	5.7	7.6	8.7	6.4	10.6	6.2	6.2
South Korea	3.1	4.7	2.7	3.2	4.5	5.3	4.0	6.2	5.0	5.2
Taiwan	3.4	6.1	2.5	3.0	4.4	6.4	4.1	4.9	4.0	4.0
Indonesia	4.8	5.1	6.3	5.6	5.6	4.9	5.6	4.6	5.1	5.1
Philippines	4.5	6.2	4.2	5.4	4.8	5.3	5.0	5.5	4.9	5.1
Malaysia	5.4	7.1	6.2	4.4	5.3	5.2	5.3	5.3	5.5	5.5
China	10.0	10.1	9.9	10.1	9.7	9.9	9.9	10.3	9.0	9.6

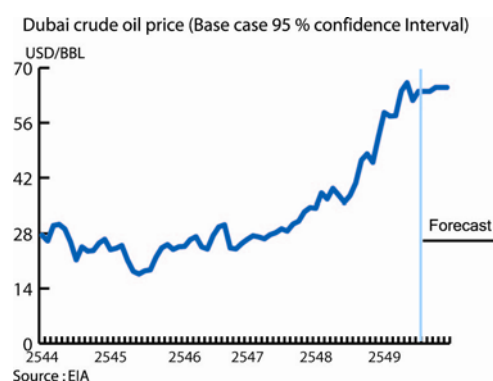
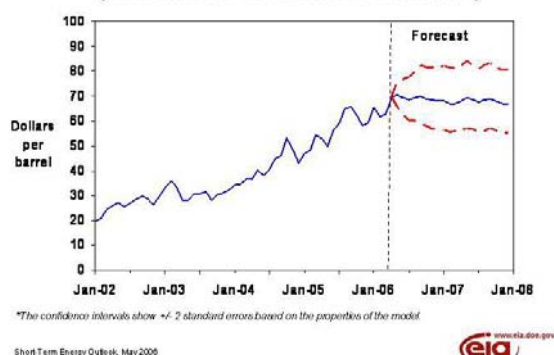


Figure 1. West Texas Intermediate Crude Oil Price (Base Case and 95% Confidence Interval*)

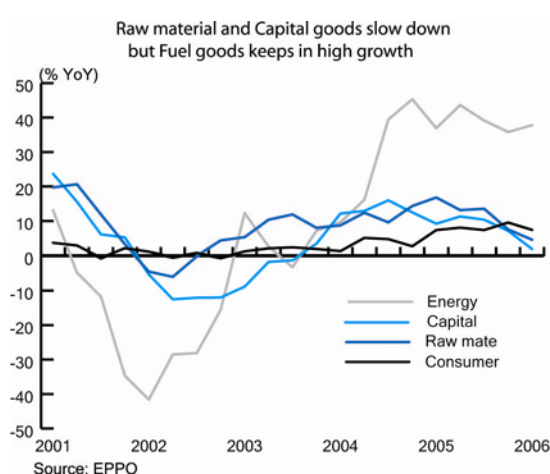
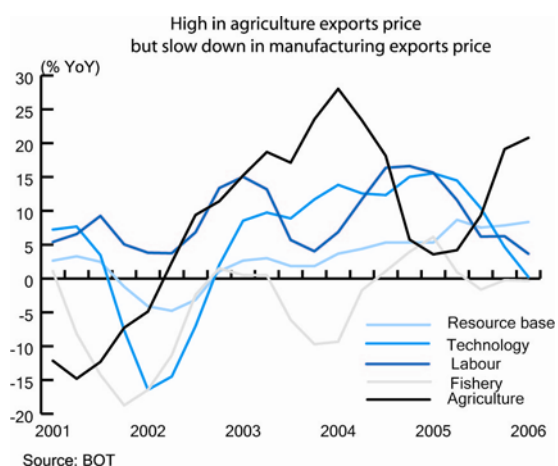


electronics cycle trend. In addition, rising oil price and tightening monetary policy in which most countries, US, China, EU, Korea, Taiwan, already raised interest rates. In addition, it is expected that Japan will raise its interest rate in the latter half of the year which, as a consequence, will slowdown the global economy in the second half of 2006.

(2) Crude oil price is expected to be around 63 US dollars per barrel, revised up from earlier assumption of 57 US dollars per barrel.

- Oil price continues to remain high. It is expected that average Dubai price will be around 62-65 US dollar per barrel in 2006. The most likely price is 63 US dollars per barrel which is higher than 49.30 US dollar per barrel in 2005, or increases by 27.8 percent. This level is revised upward from previous assumption of 57 US dollars per barrel, within the range of 55-58 US dollars per barrel. For the movement of oil price throughout 2006, the Dubai price in the first five months averaged at 60.67 US dollars per barrel, and is projected to be 64 US dollars per barrel in the second quarter which is the beginning of summer and more cars traveling in Europe and North America. It is, however, likely to decline to stay at 62 US dollars per barrel during spring time and move up to 65 US dollars per barrel in the winter of those western countries.
- On May 9, 2006, Energy Information Administration (EIA) announced the forecast of West Texas Intermediate (WTI) in 2006 to be on average of 68 US dollars per barrel. WTI price is generally 5-8 dollars per barrel higher than the Dubai price.
- Currently, the NYMEX Brent futures price of 2006 is about 69 US dollar per barrel. Meanwhile, the gap between Brent and Dubai price increases to approximately 5-8 US dollars per barrel⁵

⁵ Refers to Global Weekly Economic Monitor by Lehman Brother, 26 May 2006.



(3) Export and Import prices. In 2006, it is expected that commodities' prices in the global market is still on an uptrend as a result of continuing rise in oil and raw materials prices as well as strong growth momentum of world economy, 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 will be lower than in 2005. Nevertheless, consumer products' prices including steel and crude oil price increased considerably in the year 2005 which signified a high base for 2006. Moreover, a slowdown sign of world growth in the second half of this year suggests that demand for goods in the world market, particularly of electronics products, has past the peak level. This was shown in a continual slowdown of export prices in all items, except for agricultural product, since the second half of 2005 up until the first 4 months of 2006. Export prices in the first 4 months increased by 3.1 percent, lower than the growth rate of 12.6 and 7.7 in the first and second half of 2005.

Therefore, in this projection, export prices in US dollar term are expected to expand by 5.2 percent, revised down from 8.5 percent in the previous projection. Import prices increase are also revised down from 9 to 7.6 percent due to a slowdown of import prices in the first 4 months, particularly those of capital and raw material products, notwithstanding continued higher crude oil import prices.

2.3 Economic projection for 2006: 4.2-4.9 percent GDP growth, 4.5-4.7 percent headline inflation, and 0.5 percent of current account to GDP.

Under above conditions, the Thai economic expansion in 2006 is expected to be in the range of 4.2 to 4.9 percent, slightly lower than the previous projection of 4.7-5.7 percent announced on 5 March 2006. The headline inflation will be in between 4.5-4.7 percent, up from earlier forecast of 3.5-4.5 percent due to higher-than-expected oil prices. The current account deficit will be approximately 1 billion US dollars or 0.5 percent of GDP. The projected unemployment rate will remain unchanged at 1.8-2.0 percent as in 2005.

In all, this projection is revised downward slightly from previous forecast, as better-than-expected exports of goods and services almost offset a slowdown of domestic demand. Therefore, the 2006 growth will be supported by stronger net exports, while domestic demand tends to contribute less than earlier estimated. **The slight downward revision of the 2006 economic growth forecast is due to following reasons:**

- **Downwards revision on private consumption and investment projection.** Latest economic indicators in the first 4 months of 2006 showed that the domestic demand, both private consumption and investment, continues its slowdown and to a larger extent than previously expected. This is mainly due to continued higher oil prices, rising inflation and uptrend interest rates in financial market. All of which is expected to increase in the second half of the year. Both consumers' and business sentiment continued to decline as well.

- **Upwards revision on export volume and downward revision on volume of import of goods and services results in higher volume of net export and service than the previous forecast.** In this projection, volume of export of goods is upwardly revised as latest data have generally indicated stronger export volume than expected. In the first 4 months, exports grew by 12.8 percent. It is assumed that the world trade volume will expand by 8 percent, higher than earlier estimation of 7.5 percent and up from 7.3 percent in 2005 despite unchanged world growth compared with 2005's. Volume of import of goods is revised down as it is expected that more inventories both of raw materials and finished goods will be run down of stocks level. Moreover, slower-than-expected private investment brings on a significant slowdown of import of capital goods. However, higher service payment was revised in line with higher number of Thai tourists traveling abroad in the first quarter of 2006. As a result, the expenditure on services grew by 14 percent, up from 10.1 percent in 2005.

(1) The High Case Scenario of 4.9 Percent Economic Growth

Thai economy in 2006 will achieve 4.9 percent growth under the condition (1) Export accelerated to expand by 15 percent from the normal trend rate of 13-14 percent. The efforts would be primarily focused to increase exports of agricultural products, in particular, rubber, shrimp, fowls, and canned seafood as electronics, transport equipment and parts. (2) The efforts to promote international tourists generating higher tourist revenue at least 50,000 million baht from the 2005 revenue base. (3) The disbursements of government budget and state enterprise capital budget are on the target. This includes the SML and provincial CEO budget and (4). Financial and fiscal measures will be consistent with economic condition which faced higher pressures from labor costs and energy prices.

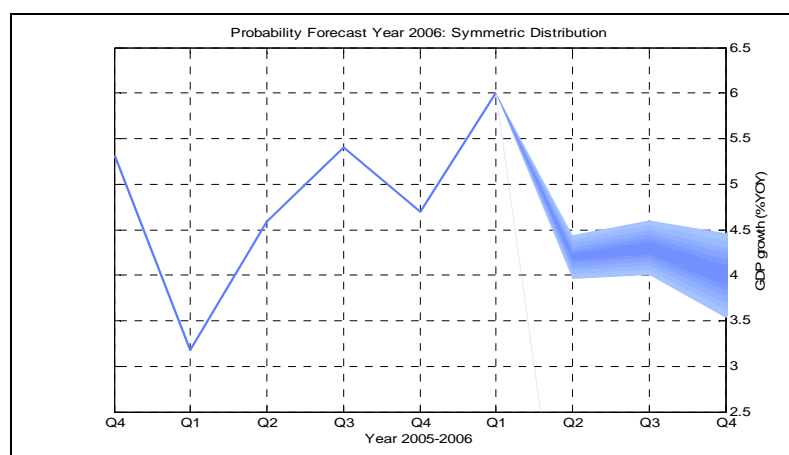
(2) The Low Case Scenario of 4.5 Percent Economic Growth

In the case of oil supply disruption caused by the more severe Iran-Iraq conflict or the prolonged internal political conflict in Nigeria and the much lower temperature in winter in the West, the Dubai oil prices could be 68-70 US dollar per barrel in the remaining of the year. The averaged Dubai oil price for the whole year of 2006 will be beyond 60 dollar per barrel. This led to the slower growth of global economy than expected, leading export to be lower than the trend case. Meanwhile, the value of import will increase in accordance with higher oil prices, leading to a larger trade deficit than the normal trend. Higher oil prices than 65 dollar per barrel will push inflation higher than 4.0 percent and the slower growth in household spending than expected. These will finally affect the private sector's decision to invest. However, the case that the oil price will increase more than 65 dollar is less likely to occur as both the slowdown in world economy in the latter half of 2006 and behavior changes in energy use toward more efficiency will reduce pressures on inflation. However, there will be other conditions that can lead to a lower economic growth than 4.2-4.9 percent such as political uncertainty which affects the investor confidence and the lower disbursement of government budget than the target, and natural disaster.

3. Probability Distribution of GDP Growth Forecast

The probability that the averaged Dubai oil price for the whole year of 2006 will be higher or lower than 63 dollar per barrel is assessed to be equally possible. The reason is that technical and psychological factors cause the oil price to respond to the both positive and negative news of demand and supply rapidly. The recent movement in oil prices in the world market reflected both positive and negative news such as the slowdown in oil demand or the increase in the stock. The probability that the world economic growth will be higher than 4.4 percent is equal to the possibility that it will be lower. This led to an equal chance that the Thai export volume will be higher or lower than 4.4 percent. Given political factors, the slowing down of business cycles and the high oil price, and the increase in interest rates, the domestic expenditure and investment to some degree be affected. The possibility that the investment grows at a moderate level does not substantially differ than the possibility that it will grow at an accelerating level.

Therefore, the probability forecast indicates that the cases of economic growth rate below and over the base case of 4.6 percent are equally likely. In other words, the probability distribution of economic growth is symmetric. NESDB projects economic growth for 2006 to lie between 4.2 to 4.9 percent with probability of 86 percent.



4. Economic Policy Management in 2006

Household consumption and private investment has exhibited slowing down trend since the latter half of 2005 and has become more pronounced entering 2006. In 2006 higher oil price together with the rebalancing process of the world economy deems key risk factors associated with the outlook of the Thai economy. In addition, the downward trend of the electronic cycles will dampen export performance. Meanwhile higher oil prices and interest rates could potentially destabilize the adjustment of expenditure and investment towards a stable path. The economic policy management should, therefore, focus on accelerating the disbursement of approved government's and state own enterprises' capital budgets to reach the planned target, intensively promoting export and tourism and developing and promoting of alternative energy sources in order to reduce oil import and consequently to contain current account deficit. Together with those efforts, restoring investment confidence and promoting foreign investment should also included in the policy guidelines for 2006.

Measures ought to be intensively implemented to prevent the stagnation in the latter half of 2006 and as well to provide a smooth transition into 2007 are as follows:

Acceleration of the disbursement of government's and state own enterprises' capital budgets, including the carry-over budget. The disbursement in 2006 should be increased from 2005 at least by 10-12 percent. This includes the SML and provincial CEO expenditures, which will help stabilize the grass root economy during the economic slowdown.

Maintaining the level of growth rate of agricultural sector. This includes maintaining price stability, production levels and the growth rate of agricultural export including agro industries, fowls, shrimp, rubber and rice, for instance. These agricultural products used domestic input of production, and thus leaving Thailand with high benefit from an increase in export income.

Increasing and broadening income base of the country, Measures comprise the promotion of tourism and export oriented industries and building business confidence of Thai and foreign investors. The latter can be achieved by improving public understanding of economic fundamental, communicating clear policy directions, and promoting foreign direct investment.

- Promoting the usages of alternative energy sources, reducing costs and increasing efficiency in energy consumption. This will reduce dependency on imported crude oil, increase efficiency of production, and increase the value of energy plants and farm income.

- Prudent macroeconomic management through greater fiscal and monetary policy coordination under fiscal and monetary disciplines. This will be achieved by maintaining government budget balance and increasing interest rate at the pace that is consistent with inflation conditions such that the economy will not be severely suffocated, the condition under which stagnation could result, particularly under the condition of cost push inflation stemming from rising wages, and rising price of raw material and energy.

Economic Projection of 2006^{1/}

	Preliminary		Projection			
	2003	2004	2005	2006		
				6 Dec 05	6 Mar 06	5 June 06
GDP (at current prices: Bil.Bht)	5,929.0	6,503.5	7,104.2	7,790.7	7,777.7	7,750.7
GDP per capita (Bht per year)	93,142	101,305	109,573.5	119,429	119,033	118,619
GDP (at current prices: Bil.USD)	142.9	161.4	176.3	190.0	194.4	201.3
GDP per capita (USD per year)	2,244	2,514	2,846	2,913	2,958	3,081
GDP Growth (at constant prices, %)	7.0	6.2	4.5	4.7-5.7	4.5 – 5.5	4.2 – 4.9
Investment (at constant prices, %)	12.1	13.8	11.4	12.8	8.7	4.7
Private (at constant prices, %)	17.7	16.3	11.2	12.0	9.3	4.9
Public (at constant prices, %)	-0.7	6.8	11.9	15.0	6.8	4.0
Consumption (at constant prices, %)	5.8	5.7	5.4	5.0	4.5	3.5
Private (at constant prices, %)	6.4	5.9	4.4	4.8	4.2	4.0
Public (at constant prices, %)	2.3	4.7	12.2	6.5	6.2	0.8
Export volume of goods&services (Volume,%)	7.0	9.6	4.4	5.5	7.8	8.7
Export value of goods (Bil.USD)	78.1	94.9	109.2	127.1	125.9	124.1
Growth rate (%)	18.2	21.6	15.0	15.5	15.3	13.6
Growth rate (Volume, %)	9.5	8.4	4.3	4.6	6.8	8.4
Import volume of goods&services (Volume,%)	8.5	13.5	9.4	8.7	7.0	4.9
Import value of goods (Bil.USD)	74.3	93.5	117.8	138.3	135.5	130.2
Growth rate (%)	17.4	25.7	26.0	17.5	15.0	10.5
Growth rate (Volume, %)	10.7	12.3	8.9	9.0	6.0	2.9
Trade balance (Bil.USD)	3.8	1.5	-8.6	-11.1	-9.6	-6.1
Current account balance (Bil.USD)	8.0	6.6	-3.7	-4.9	-4.0	-1.0
Current account to GDP (%)	5.6	4.1	-2.0	- (2.2 - 2.7)	- (2.0- 2.5)	- 0.5
Inflation (%)						
CPI	1.8	2.7	4.5	3.5-4.5	3.5 – 4.5	4.5-4.7
GDP Deflator	1.6	3.3	4.6	4.5	4.5	4.5
Exchange rate (Bht per USD)	41.5	40.3	40.3	41.0	40.0	38.5
Unemployment rate (%)	2.0	2.0	1.7	-	1.8	1.8-2.0

Source: Office of the National Economic and Social Development Board. June 5, 2006

Note: ^{1/} Preliminary data 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.