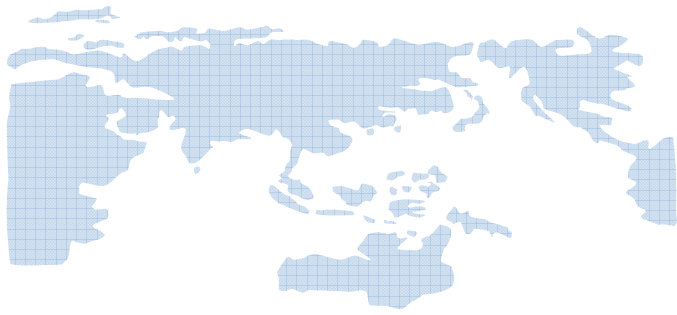




Economic Performance in Q4/2005 and Outlook for 2006

ECONOMIC OUTLOOK

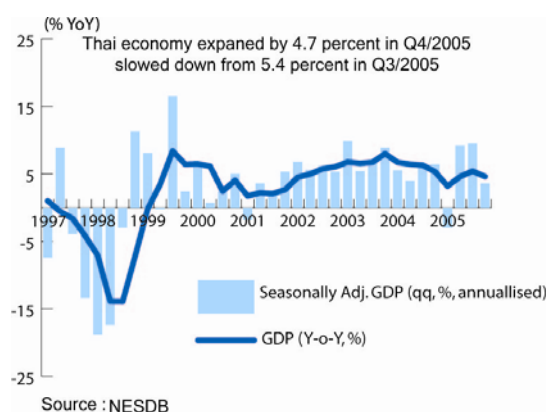
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- ❑ **Thai economy expanded by 4.7 percent in the last quarter of 2005**, softened from the 5.4 percent expansion in Q3. The slowdown is primarily underpinned by (1) the slowdown of household spending caused by continued rising consumer prices and interest rates; (2) softened export in all categories with a drop in export volume of main agricultural products including rice, cassava, and rubber; and (3) accelerated import led by surge in import of capital goods
- ❑ **All in all, 2005 registered 4.5 percent** economic expansion as compared to 6.2 percent in 2004. The economy gained strength slightly in the latter half supported by an increase in net export of goods and services albeit a slowdown in domestic demand under the circumstances of rising oil and consumer prices, and interest rates.
- ❑ **The economic stability has been maintained despite mounting pressures on inflation and current account status.** Rising inflation and rapid current account deficit has led to a more tightening monetary stance while adhering to fiscal discipline to ensure sustainable stability.
- ❑ For the year 2005, **inflation rate was 4.5 percent**, and unemployment rate decreased to 1.8 percent. Current account deficit was 3.7 billion US dollars, equivalent to 2.0 percent of GDP. International reserves stood at 53.7 billion US dollars as of 24 February 2006, 3.2 times short term foreign debt.
- ❑ **The economy in 2006 is estimated to grow by 4.5-5.5 percent, driven by both domestic and external demand.** Net contribution of export of goods and services is expected to be larger than that in 2005. Meanwhile domestic demand is set to soften and contributes less in 2006 as compared to 2006.

1. Overview

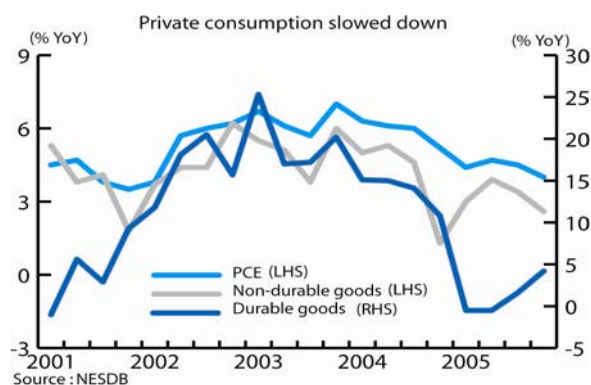
Economic Performance in Q4/2005 and the year 2005

Thai economy in the fourth quarter of 2005 grew by 4.7 percent. Overall, the economy in 2005 expanded by 4.5 percent



Key Themes of 2005

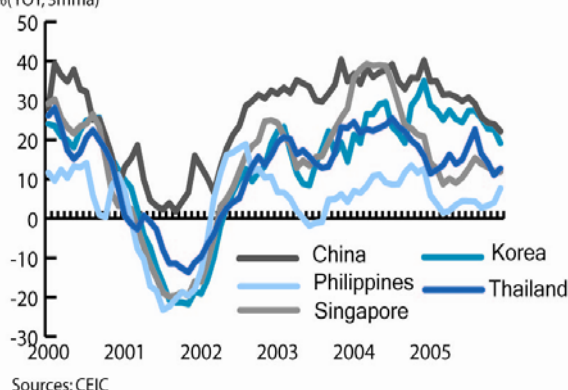
- **Thai economy in the fourth quarter of 2005 grew by 4.7 percent**, lower than 5.4 percent in the third quarter. This is due to a significant slowdown of private consumption as resulting from rising commodities prices and upward trend of interest rates. Another key factor is a slowdown of exports due to real effective exchange rate appreciation, similar to other Asian exporters which were affected from the real effective currency appreciation. In the meantime, investment also showed a slowdown from previous quarter. Both slowdowns of expenditure and exports led to a slowdown of production in manufacturing, and electricity and water supply. Agricultural sector declined as a result of drop in yield per rai.
- **A slowdown of demand side affected the production, in particular manufacturing sector.** Manufacturing production for domestic consumption declined, while manufacturing production for export still performed well, especially electronics, both hard disk drives and integrated circuits. The production of electricity and water supply also showed a slowdown as a result of a slowdown of consumption and production of manufacturing. Meanwhile, agricultural production decreased, in particular corn, cassava, sugar cane, and rubber, due to continuing drought for the past few years which aggravated the yield per rai. In 2005 agriculture production decreased by 2.4 percent, while manufacturing production increased by 5.5 percent in which several industries were engaged in almost full capacity, namely paper, petroleum, chemical product, rubber groves, and compressor industry.
- **Overall, the economy in 2005 expanded by 4.5 percent, slowed down from 6.2 percent in 2004.** This is due to negative effects of rising oil price and inflation, uptrend of interest rate, drought situation, Tsunami impacts and unrest in 3 southernmost provinces.



Capacity Utilization

%	2004	2005			
		Q1	Q2	Q3	Q4p
Intermediate Petrochemical	98.2	96.6	99.1	105.2	104.0
Commercial car	78.8	76.6	82.8	90.8	97.8
Synthetic fibres	102.3	94.6	88.2	94.6	92.8
Integrated circuit	72.4	73.2	75.6	82.9	90.9
TV	57.6	71.0	76.5	89.6	88.0

Source : BOT

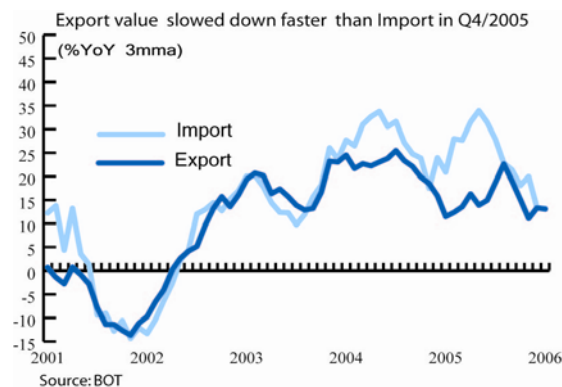
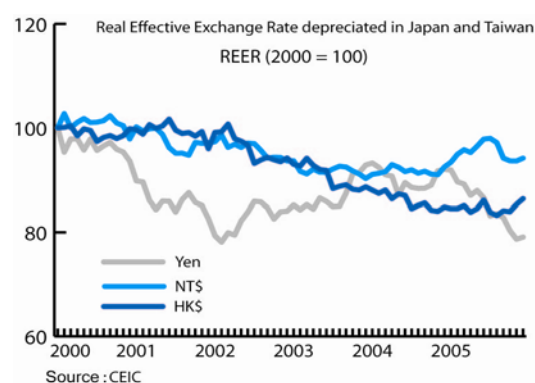
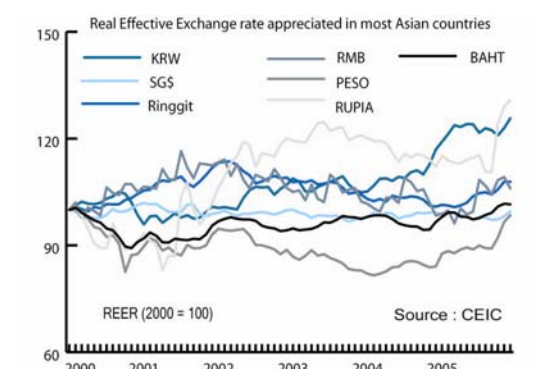
Same as other Asian Countries, Thai export slowed down in Q4/2005
%(YOY, 3mma)

- **Domestic Demand**, in the last quarter private consumption expenditure increased by 4.0 percent, but still lower than the last three quarters. People purchasing power decreased as the result of high oil price, and adjusting interest rate. Total investment increased by 7.9 percent, which slightly slowed down from 8.4 percent in the third Quarter.

In the year of 2005, private consumption and investment increased by 4.4 and 11.2 percent respectively. Investment in construction grew at a moderate level in line with the slowing housing demand. However, investment in machinery and equipment expanded considerably by 12.1 percent as several industries produced to full or near-full capacities. Public investment increased by 10.6 percent and government consumption grew by 12 percent.

- **Export slowed down in the fourth quarter, consistent with the moderate growth of regional export.** In the fourth quarter, export value increased by 11.0 percent, decelerating from 22.7 percent in the third quarter. Both volume and price of export registered a moderate growth, consistent with the slow down in export growth in the Asian region such as China, South Korea, Singapore and the Philippines. This was partly a result of an appreciation in the regional currencies in real effective term and stiff competition with countries with lower cost of production such as China, Vietnam, and countries in South America and Central America, thus leading to a moderate increase in price of export.
- Exports expanded at the accelerated level in major items such as computer and integrated circuit, precious stone and jewelry, plastic product, transport equipment and parts, machinery and parts, and chicken. Exports to the US and Japan increased in the fourth quarter where as exports to Asian registered a moderate growth led by the decline in export to Indonesia and EU

For the year 2005, export value totaled 109,211 million dollar, increased by 15.0 percent from 2004. The export of many commodities recovered in the latter half of the year, causing the export in the latter half to grow faster than that in the first half. For example, export of electronics which benefited from the global electronics recovery. Export of shrimps improved after measures of anti-dumping duty



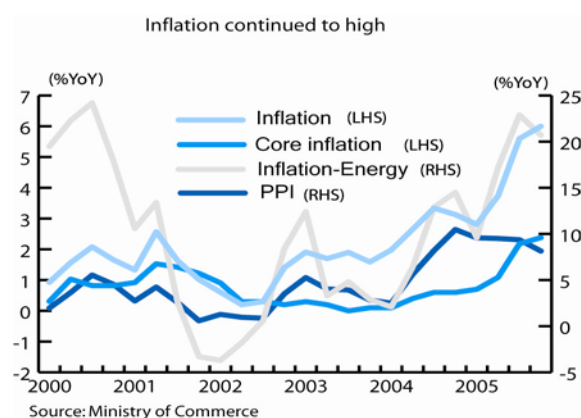
of the US become clear and the European Union reinstated its generalized system of preferences (GSP), the export of rubber benefited from the increasing in price while gems and jewelry benefited from the continued global economic growth. However, export of electronic apparatus and rice declined and the export of textile slowed down due to the loss in price competition with China, Vietnam and India.

- **In the fourth quarter, import value continued to show a slowing down trend, however at a slower pace than that of export. The trade balance turned deficit in the last quarter.** With the satisfactory increase in the surplus of net service income and transfer account, the current account deficit slightly recorded a surplus. In the fourth quarter, import value continued to expand at a moderate level, increasing at a rate of 19.7 percent. The deceleration was due to the decline in imports of fuel and lubricants, in line with the moderate growth of import volumes of oil and gold under the management of import whereas the imports of steel declined. However, the import of capital goods and raw materials continued to increase considerably due to the increase in production and investment. The trade balance recorded a deficit of 749 US million dollar. The current account registered a surplus of 911 million US dollar.
- **In the year 2005, the trade balance registered a deficit of 8,578 million US dollar.** Import value was 117,788 million US dollar, expanding by 26.0 percent. The value of imported crude oil grew substantially by 58.4 percent. Import of raw materials increased by 18.2 percent due to the increase in export production and domestic use. Import of capital goods increased by 24.5 percent as a result of the increase in private investment. The trade balance registered a deficit of 8,118 million US dollar in the first half of 2005 and recorded a slightly surplus in the latter half of 2005. In sum, the trade balance recorded a deficit of 8,578 million US dollar for the whole year of 2005.
- **Current account recorded a deficit of 3,714 million US dollar in 2005.** Service, income and transfer account remained in a surplus of 4,864

million US dollar, but this was insufficient to offset the trade balance deficit. As a result, current account was in a deficit of 3,714 million US dollar or equivalent to 2.0 percent of GDP. In overall, this current account deficit was mainly due to rising oil prices as well as higher imports of iron and gold.

□ **Economic stability has been maintained despite mounting pressures on inflation and current account deficit.**

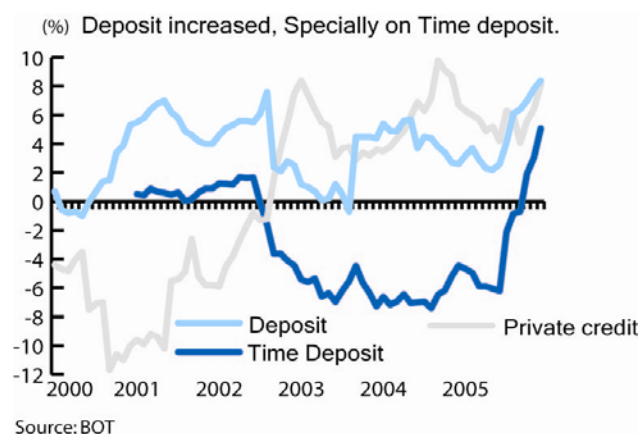
- **Employment rose and unemployment rate declined.** In the fourth quarter of 2005, the number of employment reaches 36.18 million people, up from 35.81 million people in the fourth quarter of 2004, or expanding by 1 percent. Employment in agriculture expanded by 1.62 percent, while the employment in non-agriculture sector increased by 3.45 percent from the fourth quarter of 2004, and the unemployment rate in fourth quarter equaled to 1.22 percent.
- In 2005, average number of employment was 35.34 million people, increased by 1.4 percent. Meanwhile, average unemployment rate declined to 1.8 percent.
- **High pressure on inflation continued.** Inflation in the fourth quarter was 6.0 percent, and averaged to 4.5 percent for 2005. The pass-through effects of rising producer cost, following higher oil prices, to commodities prices were more apparent in the second half of the year. Headline inflation rose from 3.3 percent in the first half to 5.8 percent in the latter half of 2005. Meanwhile, core inflation rose from 0.9 percent in the first half to 2.3 percent in the second half. In addition, the producer price index increased higher than consumer price index indicating that there were a possibility for more cost pressure to be passed on to consumers and it is expected that inflation in the first half of 2006 will be at the high level of 5.5-6.0 percent and will slow down thereafter in the second half of 2006, which is the period that see high base effect of both oil and commodities prices.





- **International stability was favorable.** At the end of December 2005, the international reserved stood at 52.1 billion US dollar or 3.1 times short-term international debt and is equivalent to 5.3 months import, which is considered to be a stable level.
- **Fiscal position: fiscal cash balance recorded a deficit of about 79 billion baht in the forth quarter of 2005**, or the first quarter of fiscal year 2006. Government revenue collection totaled 270.6 billion baht, while a total expenditure was 454.3 billion baht. As a result, the budgetary balance registered a deficit of 183.7 billion baht and the non-budgetary balance was in a surplus of 104.4 billion baht. All in all, the government cash balance recorded a deficit of 79.3 billion baht.

- **Public Debts:** at the end of December 2005, public debts stood at 3.3 trillion baht, or equivalent to 46.4 percent of GDP, dropped slightly from 47.5 percent at the end of 2004.
- **Financial situation: Interest rates have been in a rising trend, credit expansion signaled a slowdown trend and excess liquidity was at a high level.**



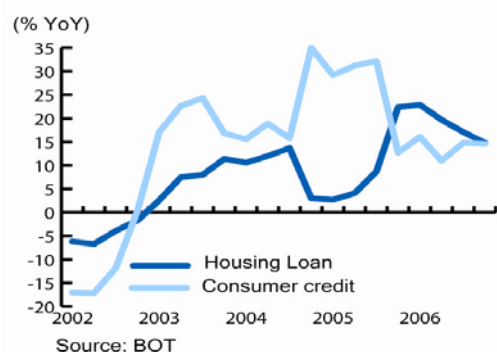
- **Commercial banks' deposits (excluding new banks) expanded by 4.8 percent**, higher than the rate in the first half of the year. Time deposit grew notably after gradual raises in deposit rates. The outstanding amount of private credits rose by 4.0 percent, though higher than the third quarter, but overall private credits in 2005 showed a slowdown.

The credit expansion brought about temporary drop in commercial banks' liquidity. Credit to deposit ratio increased from 94.3 percent at the end of the third quarter to 95.9 percent in the forth quarter. However, this was slightly lower than the level at the end of 2004 indicating that overall liquidity still remained high and not that much significantly change

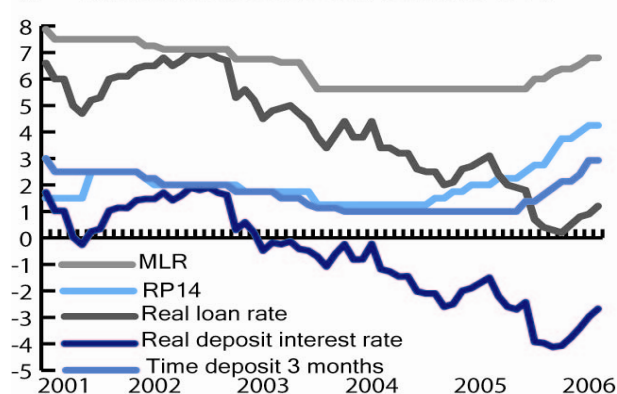
2005						
	Q1	Q2	Q3	Q4	Q3 (deducted)	Q4 (deducted)
Deposits	2.9	2.6	6.4	8.4	4.8	4.8
Loans	5.7	4.2	4.1	8.1	2.3	4.0

Note: deducted the impacts of the merger of finance companies

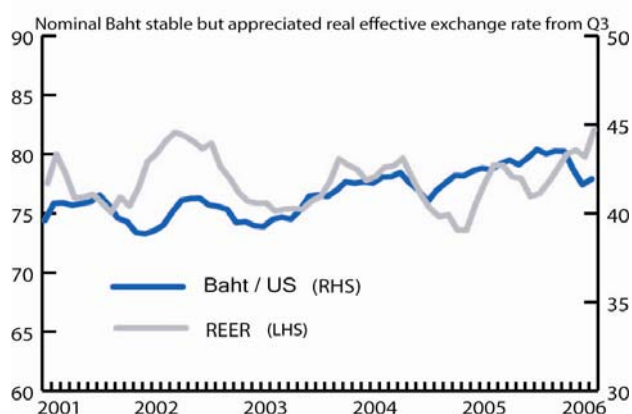
Consumer credit and Housing Loan continued slow down



Interest rate : Commercial Bank and RP14



- Commercial bank and finance company credits slowed down** except credits for financial intermediation which slightly increased. Consumer credits expanded 14.6 percent but continually slowed down since the end of last year. The decreasing trend was mainly due to the moderate growth of housing loan, accounted about 50 percent of the total loans outstanding. This reduction was partly due to the rising trend of interest rate.
- The interest rate was on a rising trend.** During the fourth quarter of 2005, the Bank of Thailand raised 14-day repurchase rate twice from 3.25 percent at the end of third quarter to 4 percent at the end of 2005. The short-term interest rates in the money market were consequently increased responding to the increase in the policy rate. Bond yields also moved in the same direction. Moreover, it is clearly seen that higher policy interest rate has already passed through to both deposit and loan rate as the five large commercial banks raised their deposit and loan interest rates even though their excess liquidity remains high. The 3-month and 1- year time deposit interest rate increased from 1.875 and 2.19 percent respectively at the end of the third quarter to 2.4 and 2.94 percent respectively at the end of forth quarter. Saving rate remained unchanged while the MLR loan rate increased from 6.25 to 6.55 percent. The effective interest spread of Thai commercial banks had continually increased to 3.79 percent in the forth quarter. During the year 2005, there had been 6 times policy rate adjustments, totaled of 2 percent.
- NPLs** in the financial system, at the end of year 2005, totaled 476.8 billion baht or accounted for 8.16 percent of total credits outstanding, 99.7 billion baht less than that in the third quarter. This was due to the conclusion in debt restructuring of the TPI case, allowing the commercial banks to accumulate reserves in order to expand credits in 2006. Meanwhile, the NPAs was rather stable.



- Stock Market underperformed in comparison to the third quarter**, both in terms of trading volume and stock price index. The Stock price index decreased to 713.73 at the end of quarter, slightly lower than 723.23 at the end of third quarter. However, it increased from the end of 2004 by 6.8 percent. The market capitalization at the end of 2005 was 5,105 billion baht.
- Exchange rate was stabilized and is likely to strengthen.** Thai baht in the forth quarter averaged 40.99 baht per US dollar, slightly appreciated from the third quarter by 0.7 percent. The baht appreciated during the end of forth quarter supported by the rising trend of interest rate and the current account surplus. During 2005, Thai baht moved in the range of 38.21 to 42.02 baht per dollar, and the average rate for the year was 40.22 baht per US dollar, the same average level as in the previous year.

2. Economic Projection for 2006: 4.5-5.5 percent GDP growth with 3.5-4.5 percent inflation and 2.0-2.5 percent current account deficit to GDP

2.1 Economic factors/conditions in 2006

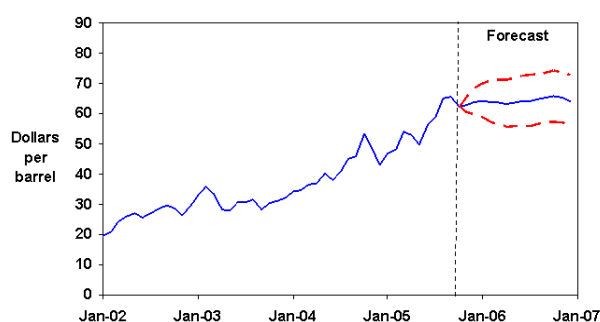
(1) Risk factors

(1.1) External factors: High and volatile oil prices and global imbalances 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 85.1 million barrels, up by 1.8 million barrel per day or 2.1 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. 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) Uncertainty 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 year 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. As well, the US refinery plants gradually reduce their capacity since it is entering into refinery maintenance period and (5) Oil price is already at high level since the

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



*The confidence intervals show ± 2 standard errors based on the properties of the model. The ranges do not include the effects of major supply disruptions.

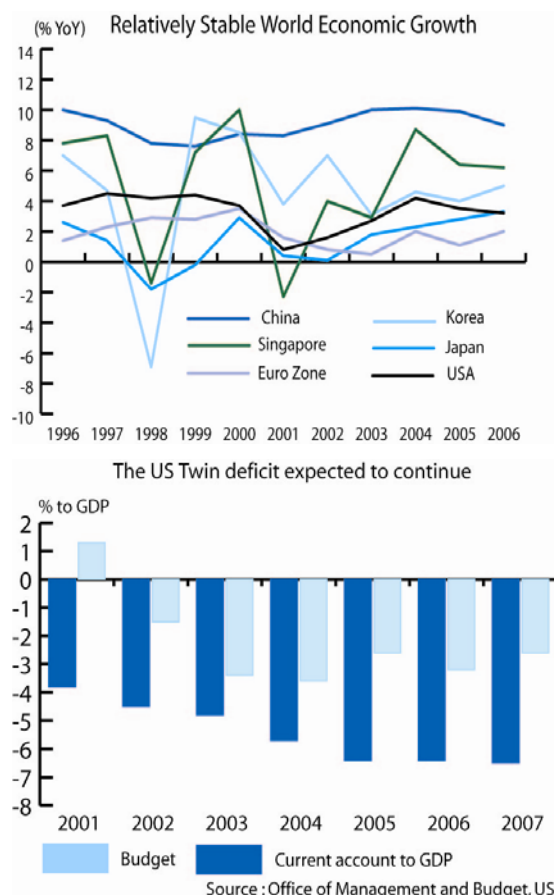
Short-Term Energy Outlook, November 2005



beginning of 2006 and is expected that the OPEC meeting on March 8 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.** Interest rates in the world financial market tends to continuously increase which, in turn, affected the world growth and thus effected Thai exports. Moreover, increased interest rates in the international financial market become one major decisive factor for the Bank of Thailand to further adjust domestic interest rates upward.
- **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 and also the end of credit contraction and deflation in Japan 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 concerns on the world economy as follows: (1) The US twin deficits¹ 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 slow 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

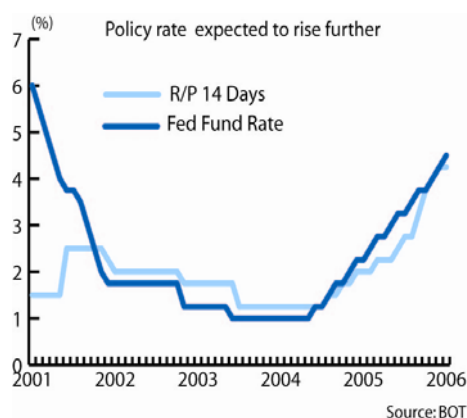
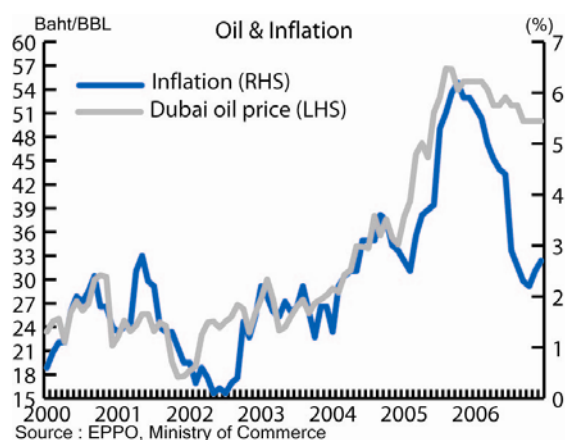
trend to ease inflationary pressure. At the end of 2006, it is expected that the Fed fund rate will be adjusted to 5.5² percent, up from current rate of 4.5 percent. The ECB official rates will be around 2.75-3.00 percent (recently revised on March 2, 2006 up to 2.50 percent). For Japan, the policy rate 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 1.25 in 2006, and Yen appreciate from 118 Yen per US dollar in 2005 to 108 in 2006.

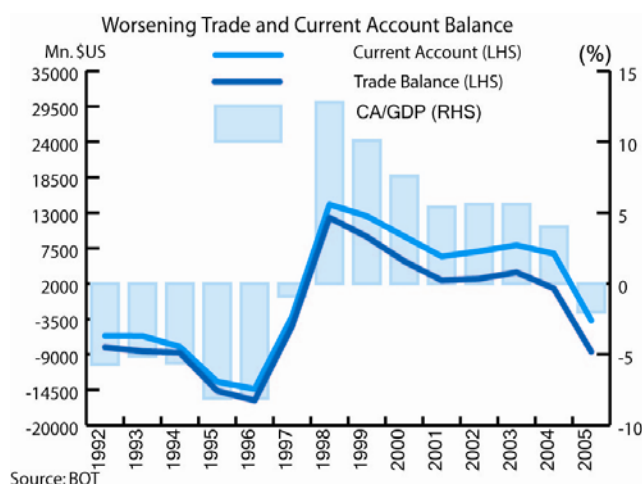
¹ Current account deficit and budget deficit

² According to the Lehman Brothers' projection in "Global Weekly Monitor", March 3, 2006.



(1.2) Internal factors: High inflation and interest rates, trade deficit and political concerns.

- The high inflationary pressure** since the second half of 2005 and moving forwards into 2006 has put constraints on consumption expenditure and affects business investment decision. As well, soaring world oil prices put upward pressure on production costs. However, it is expected that, in the second half of 2006, inflationary pressure will be moderate reflecting the fact that a pass-through of oil prices to domestic prices have been mitigated since the base of oil price and commodity price is already very high in 2005 and also continue into the first half of 2006. Moreover, it is likely that rising nominal and real interest rates will drive private consumption down which, as a consequence, will help alleviate inflationary pressure on demand-pull side
- The further rise in interest rates following tight monetary policy -aiming to restore economic stability** will make household and business sector more cautious on their consumption and investment decision. In 2006, interest rates are expected to increase further as a result of high inflationary pressure and rising trend of interest rate in the world market. The Bank of Thailand is likely to raise the policy rate and thus the financial institutions will adjust both deposit and loan rates. In 2005, core inflation increased from 0.9 percent in the first half to 2.3 percent in the second half and 2.6 percent in the first two months of 2006. These movements reflect that the pass-through mechanism of oil prices to commodities prices become more apparent. Nevertheless, the policy rate is expected to increase not exceeding 75 basis points, owing to (1) Excess liquidity remains high. At the end of 2005, it stayed at around 464,400 million baht, higher than 451,181 million baht at the end of 2004. Meanwhile, credit to deposit ratio still remained at low level of 92.6 percent at the end of January, lower than 96.1 percent at the same period last year. (2) The Baht tends to appreciate following the Yen and the expectation of the Renmenbi appreciation. This expected appreciation shall prevent the Monetary Policy Committee from taking drastic action on policy rate.



It is noted that during August 2004 until January 18, 2006, the Monetary Policy Committee decided to adjust the RP-14 for 10 times, up from 1.50 percent to 4.25 percent.

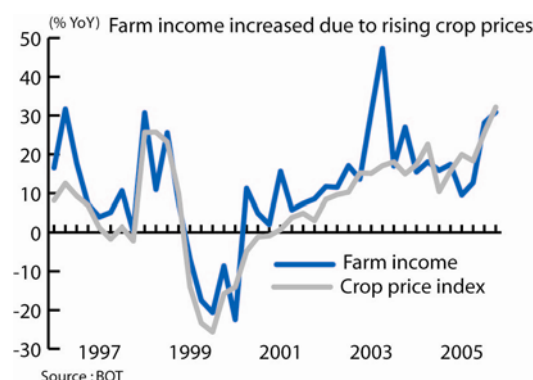
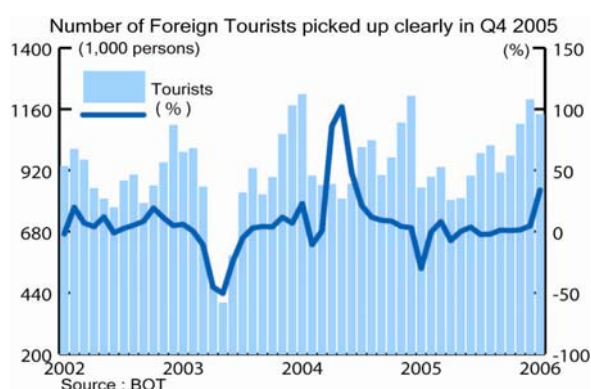
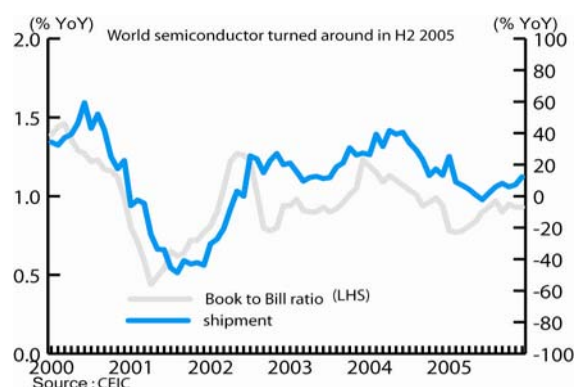
- Trade account tends to register a deficit in tandem with rising oil price.** Therefore, it is necessary to focus more on appropriate and efficient import management policy. In 2005, Dubai price of crude oil averaged at 49.33 US dollar per barrel, increasing by 47.2 percent, up from 33.52 US dollar in 2004. Current account deficit brought about by higher oil prices in 2005 was estimated at 4,800 million US dollar, or 193,000 million baht. In 2006, however, it is expected that oil import will steadily decline since demand for petroleum products has shown a slowdown following effective measures on energy saving and alternative energy development. In 2005, petroleum products consumption increased by only 0.4 percent, compared to 9.7 percent in 2004. It is projected that in 2005, oil import value will increase by 2 billion US dollar from 2004 as a consequence of rising oil prices of around 6-7 US dollar.
- Political uncertainties caused by the dissolution of the parliament on February 24, 2006 and the next general election which will be held on April 2, 2006.** This factor is expected to affect confidences and investment decisions, but should be a short-run. Most public investment projects which have already been approved as well as ongoing private projects will continue and not adversely affect the overall economy. This is explained by (1) Strong economic fundamentals (2) Economic policies framework that still emphasizes on restructuring the economy to be strengthened and competitive, maintaining monetary and fiscal disciplines as well as encouraging international trade and investment cooperations in order to lift up production capacity and potentials and (3) Investors are likely to consider future market opportunity more than short-term circumstances.

(2) Supporting factors:

- **Continuing policy implementation on energy saving and alternative energy development** which have been more apparent as petroleum products consumption 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.

In addition, in 2006, if the use of NGV, Gasohol and Bio-diesel reach planned target, this will save oil import value of about 31,000 million baht or 775 million US dollar which consequently help alleviate pressure on current account deficit.

- **Export promotion and import management.** Export in agricultural products will benefit from a declining world output of approximately 4-5 percent resulting from natural disaster. Commodities whose exports tend to increase are cassava, rubber and corn as well as processing agricultural products. For manufacturing, electronics and automobile and parts continue to show robust export performance in line with world market expansion.
- **The recovery of the tourism sector since the end of 2005.** In 2006, tourism development measures will focus on raising value more than quantities which will increase tourism revenues by more than 70,000 million baht, from the total revenue of 383,000 million baht in 2005.
- **The continued recovery of agricultural sector with the expansion of production.** This will be supported by the product processing promotion aiming to create agricultural product value and the implementation of alternative energy plan according to the target which will help create value of agricultural products including sugar cane, cassava and oil palms. In addition, farm prices, in particular crop prices are expected to increase, namely rubber, palms, cassava and sugar cane. In 2005, average farm prices rose by 24.1 percent, owing to 28.9 percent growth in the second half.



- **SOEs investment and government expenditure are expected to continue as planned**, including the disbursement of various projects for grass-root economic strengthening purpose. In the fiscal year of 2006, disbursement rate was set at 93 percent of total budget and the SOEs are expected to disburse investment budget of 279,000 million baht.
- **Rising capacity utilization rate remaining a key incentive factor for private investment.** In 2005, capacity utilization rate averaged 72.6 percent, up from 70.4 percent in 2004. Several industries operated at full or almost full capacities namely electronics, petrochemical, vehicles, chemical, paper products and television.

2.2 Key Assumptions for 2006 Projection

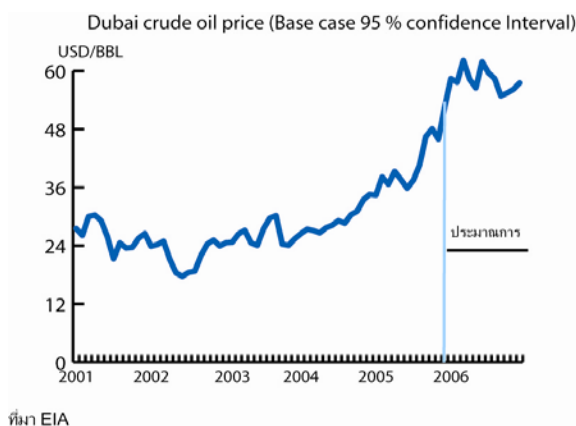
World Economy
(Y-O-Y growth rate, %)

	2003	2004	2005					2005f	2006f	2006f
			Q1	Q2	Q3	Q4	Year	Dec 05	Dec 05	Mar 06
World *	3.1	5.1					4.5	3.6	3.4	4.4
USA	2.7	4.2	3.6	3.6	3.6	3.1	3.5	3.6	3.3	3.2
Eu15	1.0	2.0	1.8	1.6	1.9	n.a.	n.a.	n.a.	n.a.	n.a.
Eu25 1/	1.1	2.4	1.5	1.4	1.8	1.8	1.7	n.a.	n.a.	n.a.
Euro zone	0.7	2.1	1.2	1.2	1.6	1.7	1.4	1.4	1.6	1.9
Germany	-0.2	1.6	0.6	0.8	1.5	0.6	0.9	0.8	1.2	1.6
Japan	1.8	2.3	1.4	2.6	2.8	4.2	2.8	2.1	1.8	3.3
Hong Kong	3.2	8.6	6.0	7.3	8.3	7.6	7.3	6.0	4.2	5.1
Singapore	2.9	8.7	3.4	5.7	7.6	8.7	6.4	4.5	4.7	6.2
South Korea	3.1	4.6	2.7	3.3	4.5	5.2	4.0	3.6	3.3	5.0
Taiwan	3.4	6.1	2.5	3	4.4	6.4	3.8	3.6	4.1	4.0
Indonesia	4.9	5.1	6.3	5.6	5.6	4.9	5.3	5.3	4.3	5.1
Philippines	4.5	6.0	4.6	5.2	4.5	6.1	5.1	4.7	4.3	4.9
Malaysia	5.4	7.1	6.2	4.4	5.3	5.2	5.5	4.8	4.8	5.5
China	10.0	10.1	9.4	9.6	9.2	11.4	9.9	9.5	8.5	9.0

Source: Government agencies and average from several sources

Note: Growth in various economies have been adjusted, thus world growth in 2006 is higher than the forecast in December 2005

(1) **The world economy in 2006 is projected to expand by 4.4 percent, comparable to the rate of 4.5 percent in 2005.** Given the evidence of a strong recovery in private consumption and export as well as that in the banking sector, the Japanese economy tends to expand by 3.3 percent, accelerating from 2.8 percent growth in 2005. The EU economy is projected to expand 1.9 percent, higher than 1.4 percent in 2005 due to the recovery in Germany, France, and Italy from the improved export performance. The US economy tends to expand by 3.2 percent, decelerating from 3.5 percent in 2005 as a result of a moderate growth in domestic spending and a softer landing for housing markets led by tightening monetary stance. China's economic expansion continues unabated, with growth of 9.9 percent for 2005, and a moderate easing to 9.0 percent for 2006 due to the slow down in both fixed asset investment and export in particular export to the US. The slow down in export will be a result of the appreciation of Chinese RMB and a rising pressures on protectionist trade policy. The Asian economies (excluding Japan and China) tend to grow at a moderate level in line with a slow down in export. Moreover, trend of global tightening monetary policy is expected to slow down the world economy in the second half of 2006.



(2) Crude oil price: Dubai price is assumed to be 57 US dollar per barrel, up from previous anticipation of 52 US dollar per barrel.

- Oil price continues to stay at a high level in 2006. It is expected that average Dubai price will be around 55-58 US dollar per barrel. The most likely price is 57 US dollar per barrel which is higher than 49.30 US dollar per barrel in 2005, or increases by 17.6 percent. This level is revised upward from previous assumption of 52 US dollar per barrel, within the range of 50-55 US dollar per barrel. For the movement in oil price throughout 2006, the Dubai price in the first two months stood at 58.22 US dollar per barrel, and is projected to be on average of 58.40 dollar per barrel during winter in the first quarter, increasing from 52.85 dollar per barrel in the last quarter of 2005. The price is expected to remain at high level in the second quarter of 58.70 US dollar per barrel, while it is likely to curb down in the third and forth quarter at the average price of 56.80 and 55.50 US dollar per barrel.
- On February 7, 2006, Energy Information Administration (EIA) announced the forecast of West Texas Intermediate (WTI) in 2006 to be on average of 64-65 US dollar per barrel. WTI price is generally 6-8 dollar per barrel higher than the Dubai price.
- The NYMEX Brent futures price of 2006 is currently on average 65 US dollar per barrel. Meanwhile, gap between the Brent and Dubai price increases to approximately 5-6 US dollar per barrel³

(3) Export and Import prices. In 2006, export prices in US dollar term are expected to increase from the 2005 average price 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

³ Refers to Global Weekly Economic Monitor by Lehman Brother, 3 March 2006.

many countries continue to increase and the excess capacity of global production will decelerate further in 2006. In 2006, export prices in US dollar term are expected to expand by 9 percent, revised down from 10.9 percent in the previous projection. This is in line with a slowdown of export prices in the latter half of 2005 in all commodities items, except for agricultural products price. Import prices are upwardly revised from 8.5 to 9 percent due to higher-than-expected oil prices

2.3 Economic projection for 2006 : 4.5-5.5 percent GDP growth, 3.5-4.5 percent headline inflation, and 2.0-2.5 percent of current account to GDP.

Under the above conditions, the Thai economic expansion in 2006 is expected to be in the range of 4.5 to 5.5 percent, slightly lower than the projection of 4.7-5.7 percent announced on 6 December 2005. Compared to the previous forecast, the projected headline inflation is unchanged at the range of 3.5-4.5 percent. Even though this economic projection assumes higher oil price, a more appreciation in Thai Baht and a lower growth in private consumption would help reduce pressure on inflation. The current account deficit will be approximately 4,000 million US dollar or 2.2 percent of GDP. The projected unemployment rate is unchanged at 1.8 to 2.0 percent, close to 2005's level. **The downward revision of the 2006 economic growth forecast is due to the following reasons:**

- **The forecast of private consumption and investment was revised downwards.** Latest economic indicators of the last quarter of 2005 and January 2006 showed that the domestic demand, both private consumption and investment, continues to grow slower than expected. This is mainly due to rising inflation and higher interest rates meanwhile the oil price is higher than expected.
- **The volume of export of goods and services was revised upwards and that of import was revised downwards, leading to a higher volume of net export and service than the previous forecast.** Higher real revenue of service was revised in line with higher number of tourists expected in 2006 due to the rising trend of the number of foreign tourism in the last quarter of 2005 and in January 2006. The Tourism Authority of Thailand (TAT)'s target of international tourists in 2006 is increased to 13.8 million. In addition, the slightly upward revision of volume of export was in line with the latest trend and the upward trend of world economic growth. The volume of world trade is now expected to expand by 7.5 percent, accelerating from 7 percent in 2005. Moreover, the volume of import of goods was revised downwards as more use of raw materials and finished goods from inventories is expected, and stocks will be run down from 2005 level.
- **In sum, this overall economic projection for 2006 was revised slightly downwards.** However, according to the source of growth in 2006, the net export contributed more whereas the domestic demand contributed less than the previous projection.

(1) The High Case Scenario of 5.5 Percent Growth

Thai economy in 2006 could achieve 5.5 percent growth if (1) The Dubai crude oil price for the whole year is approximately 57 US dollar/barrel or lower. (2) Export accelerates to reach the target of 17 percent growth rate in 2006 from the normal trend rate of 14-15 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 electronics, transport equipment and parts and manufacturing products in household goods category, namely soap and cosmetics. (3) The efforts to promote international tourists generating higher tourist revenue at least 70,000-80,000 million baht from the 2005 revenue base. (4) The disbursement of government and the state enterprise budget are on the target. This includes the SML and provincial CEO budget.

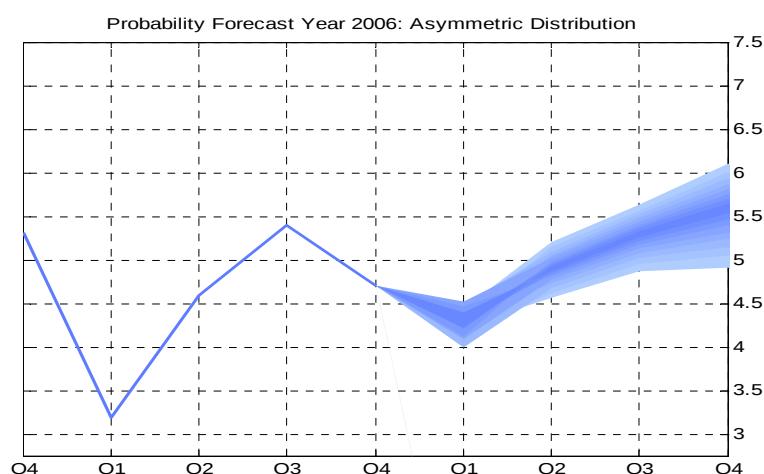
(2) The Low Case Scenario of 4.5 Percent Growth

The low case scenario of 4.5 percent growth in 2006 is conditional upon the worse assumptions of Dubai oil prices beyond 58-60 US dollar per barrel and the slower growth of global economy than expected, leading export to be lower than the trend case. These inevitably push inflation higher than 4.0 percent and the slower growth in household spending than expected. However, the chance of Dubai price to rise to that level is minimal considering that the average Dubai oil price in the first two month of 2006 was at 58 dollar per barrel. This level should be the highest price this year in line with the seasonality pattern with a peak in winter. Moreover, the slowdown in global economic growth will somewhat ease pressure on the demand side. However negative risks could cause economic growth to be lower than the baseline forecast of 4.5-5.5 percent such as the political events which will affect the business confidence of investors and the government disbursement.

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 57 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 suggested that both positive and negative news related to the oil market are common, for example, negative news on running down of oil inventories in the US or OECD countries and positive news on slowing down in the global demand for oil. From the recent movement of the oil price, there are the 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 smaller than the possibility that it will be lower, causing export volume to be on the downside risk. In addition, given political factors and the slowing down of business cycles, the possibility that the investment grows at a moderate level is higher than the possibility that it will grow at an accelerating level.

Therefore, the probability forecast indicates that the cases of economic growth rate below 5 percent are more likely to occur than probability of achieving higher growth than 5.0. In other words, the probability distribution of economic growth is asymmetric and skewed downwards. NESDB projects economic growth for 2006 to lie between 4.5 to 5.5 percent with probability of 81 percent.



4. Economic Policy Management in 2006

Given negative risks from higher oil price together with the rebalancing process of the world economy, the Thai economy is associated with a negative risk factor from a slowdown in global economy. 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 as well as to boost savings. 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, as NESDB already suggested in the previous press release.

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 certainty 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

Economic Projection of 2005-2006^{1/}

	Preliminary		Projection			
			2005		2006	
	2004	2005	6 Dec 05	Preliminary	6 Dec 05	6 Mar 06
GDP (at current prices: Bil.Bht)	5,929.0	6,503.5	7,101.8	7,103.0	7,790.7	7,777.7
GDP per capita (Bht per year)	93,142	101,305	109,658	109,554	119,429	119,033
GDP (at current prices: Bil.USD)	142.9	161.4	176.2	176.3	190.0	194.4
GDP per capita (USD per year)	2,244	2,514	2,721	2,719	2,913	2,958
GDP Growth (at constant prices, %)	7.0	6.2	4.7	4.5	4.7-5.7	4.5 – 5.5
Investment (at constant prices, %)	12.1	13.8	11.1	11.0	12.8	8.7
Private (at constant prices, %)	17.7	16.3	11.0	11.2	12.0	9.3
Public (at constant prices, %)	-0.7	6.8	11.5	10.6	15.0	6.8
Consumption (at constant prices, %)	5.8	5.7	5.8	5.4	5.0	4.5
Private (at constant prices, %)	6.4	5.9	4.7	4.4	4.8	4.2
Public (at constant prices, %)	2.3	4.7	12.8	12.2	6.5	6.2
Export volume of goods&services (Volume,%)	7.0	9.6	4.3	4.4	5.5	7.8
Export value of goods (Bil.USD)	78.1	94.9	110.1	109.2	127.1	125.9
Growth rate (%)	18.2	21.6	16.0	15	15.5	15.3
Growth rate (Volume, %)	9.5	8.4	4.3	4.3	4.6	6.8
Import volume of goods&services (Volume,%)	8.5	13.5	8.9	9.3	8.7	7.0
Import value of goods (Bil.USD)	74.3	93.5	117.7	117.8	138.3	135.5
Growth rate (%)	17.4	25.7	25.6	26.0	17.5	15.0
Growth rate (Volume, %)	10.7	12.3	9.2	8.9	9.0	6.0
Trade balance (Bil.USD)	3.8	1.5	-7.6	-8.6	-11.1	-9.6
Current account balance (Bil.USD)	8.0	6.6	-3.2	-3.7	-4.9	-4.0
Current account to GDP (%)	5.6	4.1	-1.8	-2.0	- (2.2 - 2.7)	- (2.0- 2.5)
Inflation (%)						
CPI	1.8	2.7	4.5	4.5	3.5-4.5	3.5 – 4.5
GDP Deflator	1.6	3.3	4.5	4.6	4.5	4.5
Exchange rate (Bht per USD)	41.5	40.3	-	40.3	41.0	40.0
Unemployment rate (%)	2.0	2.0	-	1.7	-	1.8

Source: Office of the National Economic and Social Development Board. March 6, 2006

Note: ^{1/} Preliminary data 2004 - 2005 were adjusted since data from Office of the National Income Account (GDP) and the Bank of Thailand (Export/Import data) have been revised.