



NESDB

ECONOMIC OUTLOOK

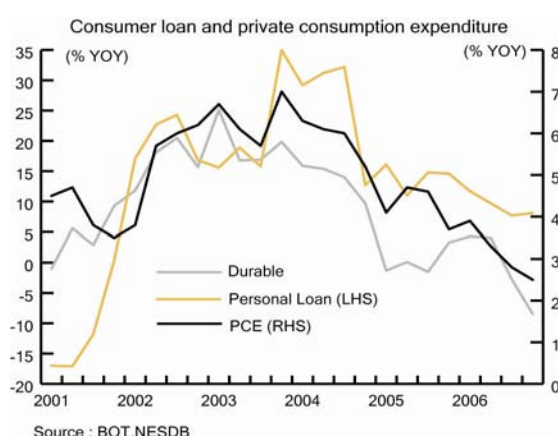
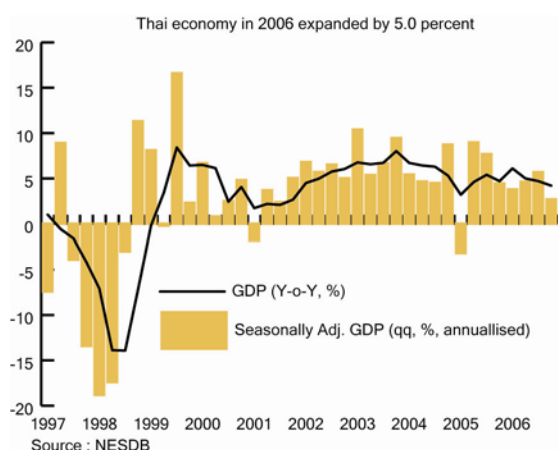
Economic Performance in Q4 and Outlook for 2007

- **The Thai economy grew by 4.2 percent in Q4/2006, softened further from 6.1, 5.0 and 4.7 percent growth in the previous respective quarters.** Overall, 2006 registered 5.0 percent growth, higher than 4.5 percent in 2005. The better performance of the economy in 2006 was driven primarily by net export of goods and services which outperformed that in 2005, and thus weathered the domestic demand-led slowdown. The quarterly growth path confirmed this slowing trend.
- **The economic stability remained in check.** Inflationary pressure subsided as Q4 saw an inflation rate of 3.3 percent, down from 3.6 percent in Q3 and 5.9 percent in H1. Lower oil prices, baht appreciation, and softened domestic demand helped contain inflation. The headline inflation rate averaged at 4.7 percent for the year, comparable to 4.5 percent in 2005. Unemployment rate was 1.51 percent, while current account was in surplus of 3.2 billion USD.
- **Interest rates remained constant in Q4 following a continued increase since H2/2005.** Deposits expanded at a slower pace. Meanwhile credit expansion to most sectors decelerated and thereby liquidity remained high. Thai baht appreciated against the USD throughout most of Q4, driven by large current account surplus together with capital inflows into securities and bond markets. The 30 percent reserve requirement imposed on short-terms capital inflows led baht to depreciate only in a brief period.
- **Consumption of petroleum products declined by 2 percent in spite of 5 percent economic expansion.** Compared with the increase in petroleum consumption of 8.0 percent and 1.2 percent in 2004 and 2005, respectively, this improvement implied a higher energy-efficiency.
- **The 2007 economy is forecast to grow 4.0-5.0 percent** The economic constraints in 2007 will be primarily the limited potential for export growth while the recovery of investment will not be full-fledged. Supportive factors for growth in 2007 include declining interest rates, lower oil prices and inflation which shall stimulate private consumption and investment. In addition, a larger planned government budget and SOEs' investment plan than in 2006 is expected to provide cushion for the economy should the targeted disbursement be materialized. However, exports and tourism are likely to expand at a slower pace than in 2006.
- **Economic stability in 2007 will remain strong.** Inflation rate of 2.5-3.0 percent, a surplus current account of approximately 1.0-1.5 percent of GDP, and low unemployment rate of 1.5-2.0 percent, are expected.

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1. Economic Performance in Q4 and the year 2006

1.1 The Thai economy in the fourth quarter of 2006 expanded by 4.2 percent, slowing down from the first three quarters. However, overall economic growth in 2006 reached a favorable rate of 5.0 percent, higher than 2005, supporting by a remarkable export performance while import declined. Thus, net exports offset the slowdown in domestic demand.



Highlight

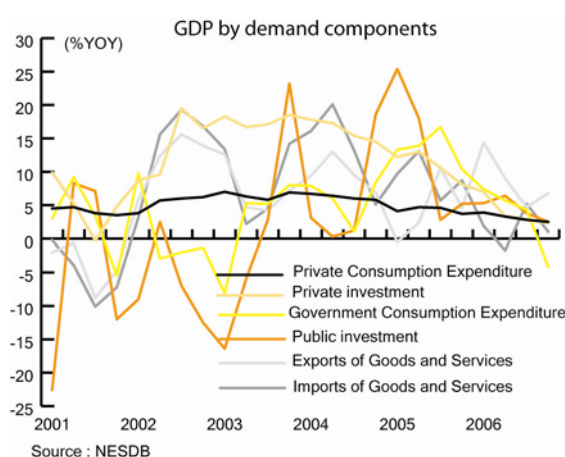
(1) **Thai economy in the fourth quarter grew by 4.2 percent, slowing down from 6.1, 5.0 and 4.7 percent in the first three quarters.** This was due to a significant slowdown in private consumption and investment following interest rate lifting and rising real interest rates, and high oil prices. Meanwhile consumers and businesses' confidence remained low. Consumer credits in the fourth quarter grew by 8.1 percent, below 9.7 percent of the first three quarters which mostly are credits for dwellings and hire purchase. Government expenditure declined due to a delay in passing FY2007 government budget act. However, exports still showed a healthy expansion, while imports declined following a slowdown in investment and consumption. All in all, net exports remained key engine of growth in the fourth quarter.

➤ **Private consumption and investment in the fourth quarter grew by 2.5 and 2.3 percent respectively, continuing the downtrend from the first three quarters.** In the first three quarters, private consumption expanded by 3.9, 3.3 and 2.8 percent respectively. Private investment grew by 5.3, 6.4 and 3.8 percent in those three respective quarters. Government expenditure in real term declined by 4.2 percent, while public investment rose by 2.5 percent.

➤ **Exports showed strong growth and still served as a key driving force, while imports decelerated sharply.** Export value was 33,981 million US dollar, expanded by 19.7 percent. This was as a result of the upturn of electronics cycle and new product and technology development especially electrical appliances that induce higher exports of electrical appliances in the latter half of the year following the market demand. Import value was 31,258 million US dollar, increased by 7.2 percent slowing down from 12.2 percent in the third quarter.

➤ **The slowdown was seen in all commodities, in particular imports of capital goods that dropped by 3.4 percent.** Decline of capital goods imports were largely seen in electrical machinery and parts and vehicles and parts by 9.6 and 0.8 percent respectively. A rise in exports and a slowdown in imports resulted in a trade surplus of 2,723 million US dollar and a current account surplus of 3,582 million US dollar.

➤ **Production sector** In the fourth quarter, the agricultural sector grew only by 0.9 percent due mainly to flood impacts in several areas exacerbating crops and other vegetable and fruits. Meanwhile, chicken production slowed down as a result of the bird flu since July. Non-agricultural sector expanded by 4.6 percent, about the same rate as in the third quarter. Manufacturing and almost all services sectors grew at constant rate. Construction sector, however, decelerated in response to rising interest rate in earlier period which soften demand for residential. In addition, financial sector also slowed down as a result of moderate credit expansion and smaller gap between lending and deposit rates.



(2) **Overall, the economy expanded by 5.0 percent in 2006**, above that of 4.5 percent in 2005. The leading driver was strong export volume which expanded by 9.0 percent owing to a robust global economy. Import volume growth, however, dropped by 0.8 percent comparing with 8.8 percent increase in 2005 following a slowdown in private consumption and investment which expanded only by 3.1 and 3.9 percent, respectively. The slowdown in domestic demand was due to higher oil price, rising inflation and interest rate uptrend. Moreover, rising concerns over domestic situation both in the Southern unrest and political uncertainty also dampened people and investors' confidence.

(2.1) Exports of goods and services were the key drivers for the Thai economy in year 2006, especially in electronics goods and tourism services. In 2006, the volume of exports in

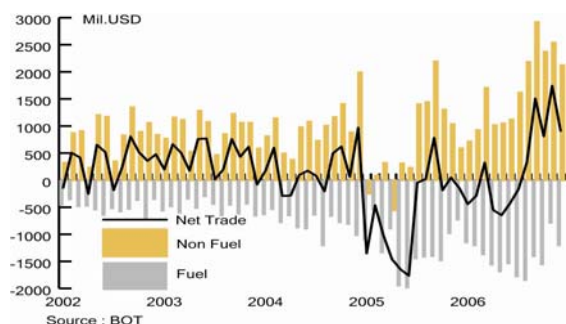
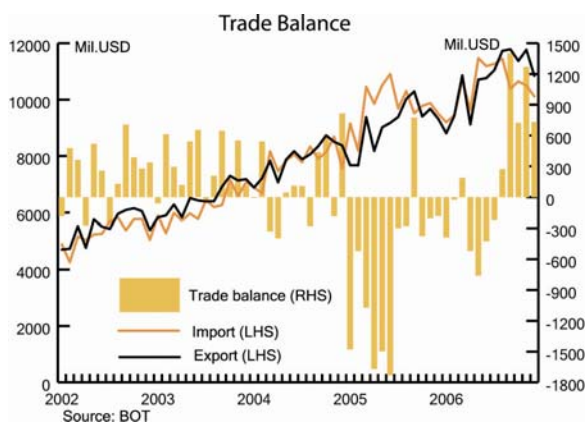
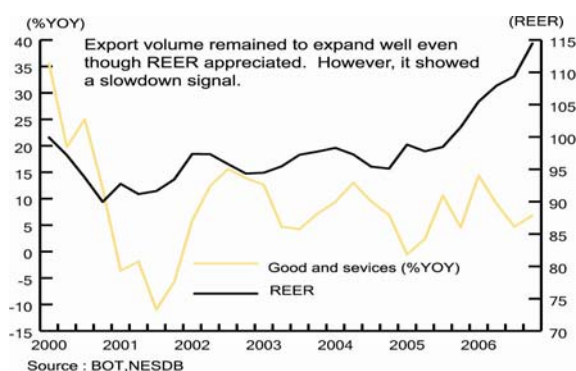
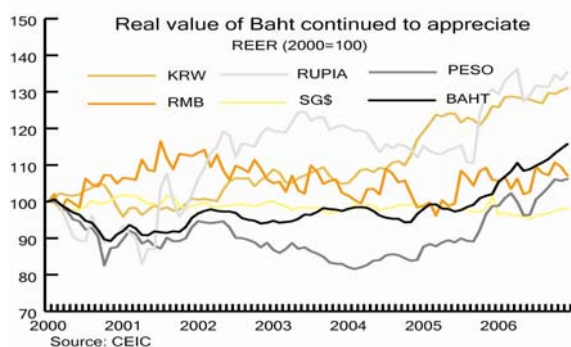
¹ In 2005, private consumption and investment expanded by 4.3 and 10.9 percent, respectively.



goods and services increased sharply by 46.7 percent, comparing to 16.5 percent increase in 2005. The domestic demand (including changes in inventories) increased merely by 0.3 percent, slowing down from 7.3 percent in 2005. Therefore, production and service sectors which related to exports gained higher benefits from the economic situation than those with current income or business that depended on the domestic economy. The exports which expanded well were those in the high import-content industries which tend to generate benefits to only limited group of people.

➤ In year 2006, the value of exports was 128,220 million US dollars; increased by 17.4 percent from 2005. This was equal to 4,849,247 million baht; which increased by only 10.2 percent due to the appreciation of the Baht. Exports benefited from the world electronics uptrend, and the development of new technology and design of televisions and radios, for example, LCD and plasma televisions has induced demand in the market. Furthermore, the acceleration of television sale in the US market before the decision to scrap the GSP in television products with Thailand in year 2007 also explained the rapid increase. Air conditioners and parts also increased as well as agriculture products, for example, rice and rubber. The price of industrial products still increased in the second half of the year. Consequently, the total value of exports continued to rise.

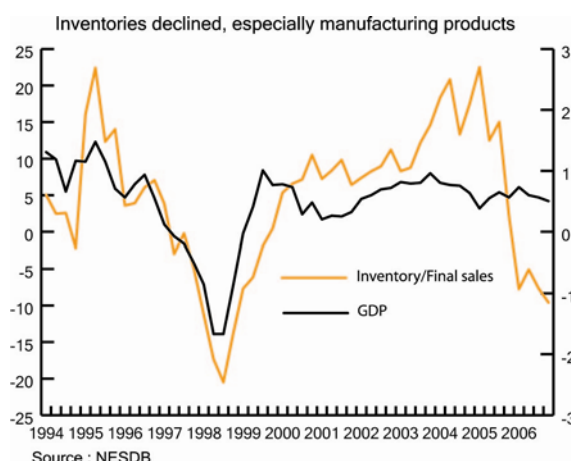
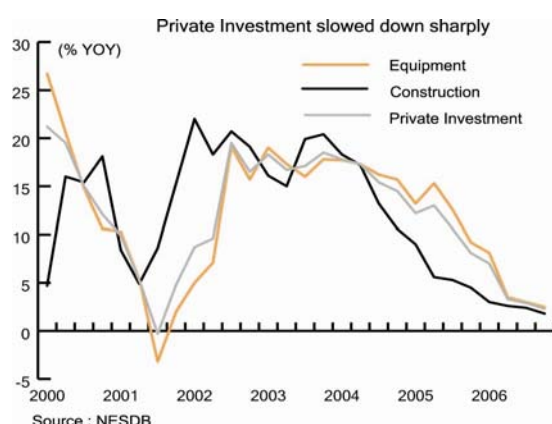
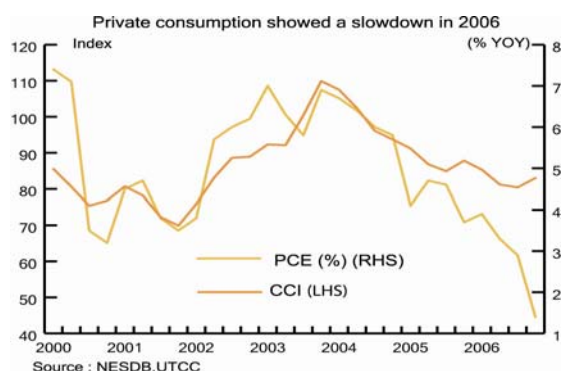
However, the exports volume softened in the second half of the year from 13.9 percent increase in the first quarter to 10.9 percent, 4.9 percent and 8.7 percent in the second, third and fourth quarter respectively, signaling that electronics cycle is entering the downtrend. The signs of slowdown began in the second quarter and it was also caused by the high base effect as exports growth was buoyant in the third quarter of 2005. The price and quantity of the exports in year 2006



increased by 7.2 percent and 9.5 percent respectively.

There has not been a clear evidence of the impacts of baht appreciation on exports. The Baht appreciated from 40.98 Baht per US dollar in the fourth quarter of 2005 to an average of 39.29, 38.07, 37.64 and 36.53 Baht per US dollar in first, second, third and fourth quarter in 2006. Exporters, especially those who mainly rely on domestic raw materials and being labor-intensive, such as agro-industry products, textiles, clothes and shoes will suffer more than the technology intensive industries which depend on imported inputs. The reason is that labor-intensive industries can not fully adjust price in terms of US dollar upward, whereas there were increasing burdens from higher wage, interest rates and oil price in Baht terms with no benefit of obtaining cheaper imports.

- The value of import in year 2006 was 125,975 million US dollars, increased by 7.0 percent comparing to 25.9 percent increase in 2005. This is due to a slow down in most categories of imports, especially import of oils which rose by 20.9 percent, down from 59.1 percent in 2005. Imported raw material products for export and domestic use increased by 4.3 percent and capital goods increased by only 3.9 percent thanks to sluggish investment.
- In year 2006, the trade balance was in surplus at 2,245 million of US dollars, even though trade balance in the first half of the year was in deficit at 1,929 million US dollars. Trade balance of oil recorded a deficit at 15,288 million US dollars, but non-oil trade balance registered a surplus at 14,810 million US dollars. Trade surplus together with the surplus in net services income and transfers of 996 million US dollars resulted in a current account surplus of 3,240 million US dollars, equivalent to 1.5 percent of GDP.



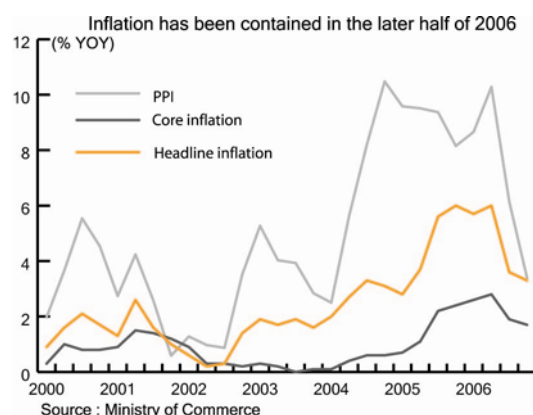
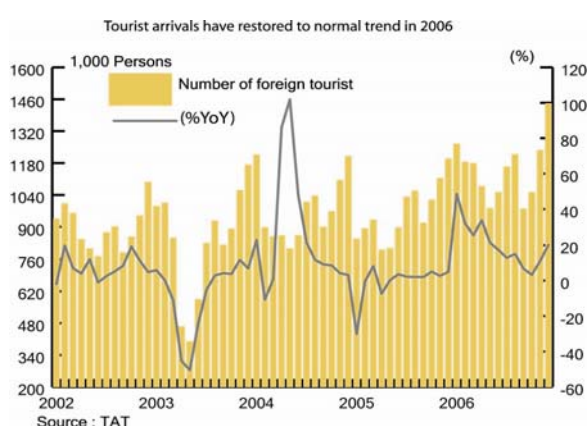
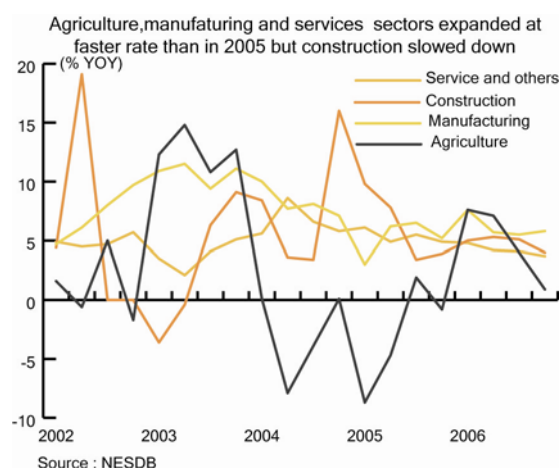
(2.2) **Private consumption and investment continued their slowdowns in 2006**, expanding by only 3.1 and 3.9 percent from 4.3 and 10.9 percent in 2005 respectively. This was a result of reduced purchasing power in response to high oil prices and commodity prices, uplifted interest rates and deteriorated consumer confidence since the beginning of the year. Private investment slowed down both in equipment and machinery and construction, particularly housing construction. Negative factors include (i) Soaring oil prices and high interest rates that put pressure on production cost (ii) Political uncertainty that worsened business confidence and led to pending decisions on investment.

(2.3) **Government consumption and investment slowed down.** Government consumption expended by 3.4 percent, slowing down from a high growth of 13.7 percent of the previous year. Government investment increased by 4.5 percent, lower than 11.3 percent in 2005, partly due to delayed disbursement of state enterprises in infrastructure and logistic developments.

(2.4) **A reduction in inventories was seen in 2006.** Stocks declined by 37,613 million baht at the 1988 constant price, compared to increases of 68,280 million baht in 2005. This was mainly because of strong exports in manufacturing products that depleted stocks of finished products as well as raw materials and electronics components. The use of inventories allowed imports in 2006 to decline despite a strong economic growth. A reduction in inventory stock in 2006 would necessarily lead to rising import in 2007.

(2.5) **Production side in 2006 expanded well both in the agricultural and non-agricultural sectors**

- Manufacturing production expanded by 6.1 percent, up from 5.2 percent in 2005 in tandem with strong export growth and domestic-oriented industries. Significant increases in manufacturing production were witnessed in food, beverages, electronics,



vehicles and construction materials.

- Agricultural production grew by 4.4 percent, compared with a negative growth of 3.2 percent in 2005, despite the adverse effects from drought at the beginning of the year and floods in various provinces between September and October. Major increasing was seen in products such as paddy, cassava, sugar cane and oil palm.
- The hotel and restaurant industry expanded by 10.5 percent. This was partly due to a low base of 2005 which gradually recovered from the tsunami in 2004. Nonetheless, the 2006 Royal Flora Ratchahpruek Fair held on November 2006-January 2007 was one factor attracting more tourists into the country. The tourism income spurred by the event in the last quarter was estimated at 15,000-20,000 million baht

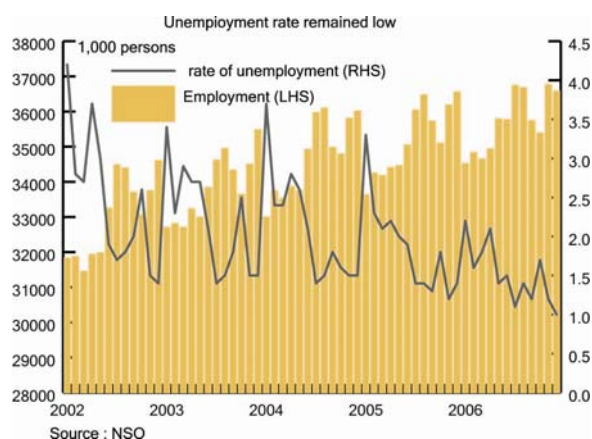
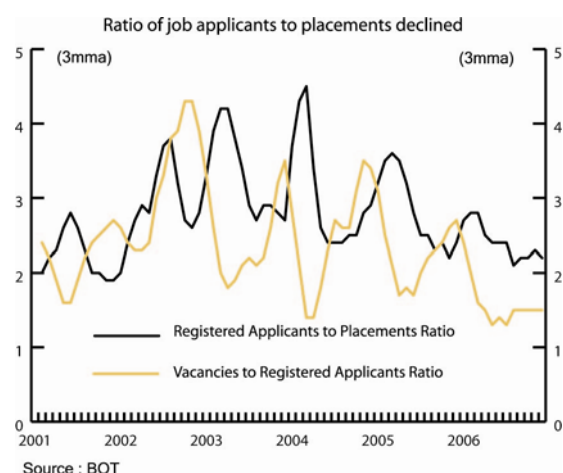
(2.6) Economic stability remained favorable and inflationary pressure clearly subsided in the latter half of 2006.

- **Inflationary pressure continued to decline in the latter half of 2006.** In the fourth quarter of 2006, the inflation rate was 3.3 percent, lower than 5.1 percent in the first nine months of 2006. This was due to the fact that there were significant prices adjustments during the same period of 2005. In addition, oil prices gradually declined in accordance with the world market and domestic demand continued to fall. As a result, the inflation rate dropped further to 3.0 percent and 2.3 percent in January and February 2007, respectively. In the fourth quarter of 2006, the core inflation rate was 1.7 percent, decreasing from 2.4 percent in the first nine months of 2006. Core inflation still continued its downtrend to 1.6 percent and 1.4 percent in January and February 2007, respectively.

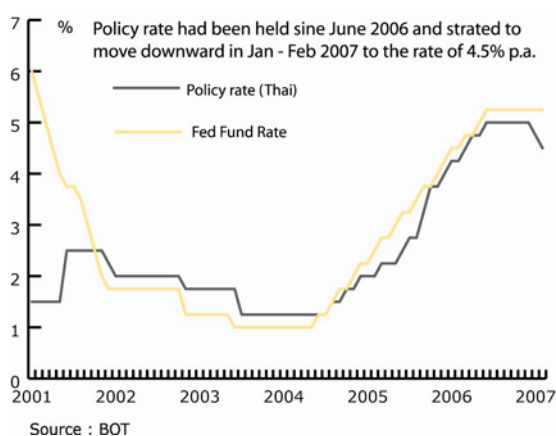
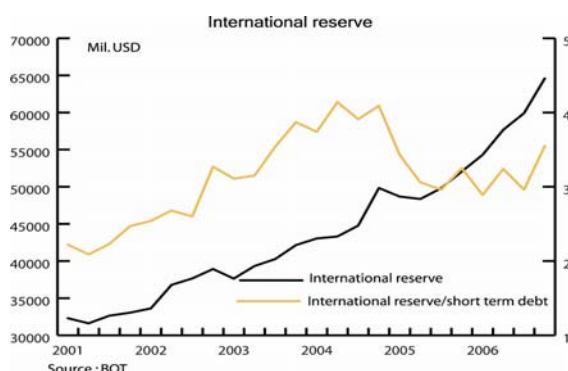
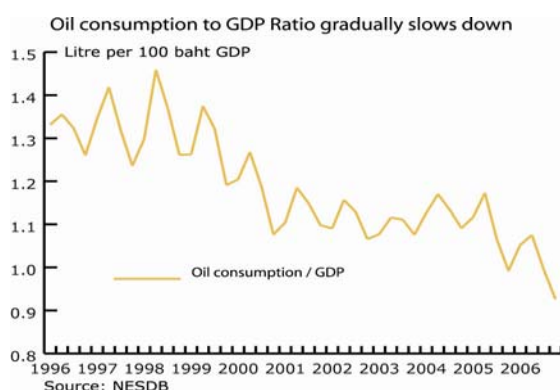
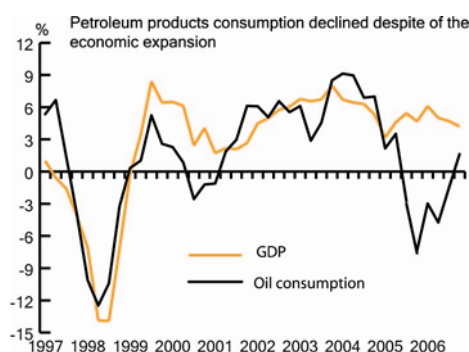
For the year, the inflation rate was 4.7 percent, up slightly from

4.5 percent in 2005. Core inflation was 2.3 percent, edging up from 1.7 percent 2005². The producer price index also shows that the pressure on production has been somewhat eased.

➤ **Employment rose and unemployment rate remained about the same as in 2005.** In the fourth quarter of 2005, the numbers of employees were 36.24 million people, increasing by 0.67 percent from 36 million people in the fourth quarter of 2005. The numbers of employees in agricultural sector dropped by 1.9 percent in the fourth quarter of 2005. Meanwhile the numbers of employees in non-agricultural sector increased by 2.5 percent. Employment in trade and banking sectors increased by 8.2 percent, whereas employment in construction and manufacturing sectors rose by 1.4 percent and 3.6 percent respectively. Unemployment rate was 1.29 percent about the same as in 2005. In 2006, average unemployment rate was 1.51 percent, lower than 1.9 percent in 2005. However, vacancies to registered applicants ratio increased from 0.44 in the third quarter of 2006 up to 0.50 in the fourth quarter of 2006. This figure together with lower registered applicants to placement ratio indicated a less tension in labor market.



² In the first half of 2006, the inflation rate increased due to rising oil price, increased electricity bills and public transport fare. The drought also led to higher prices of vegetables and fruit. Moreover, this high inflation was partly due to the low base of the inflation rate during the oil prices stabilization period



➤ **Consumption of petroleum products declined by 2 percent despite of 5 percent expansion of the economy.**

Compared with the increase in petroleum consumption of 8.0 percent and 1.2 percent in 2004 and 2005, respectively, this improvement implied a higher energy-efficiency

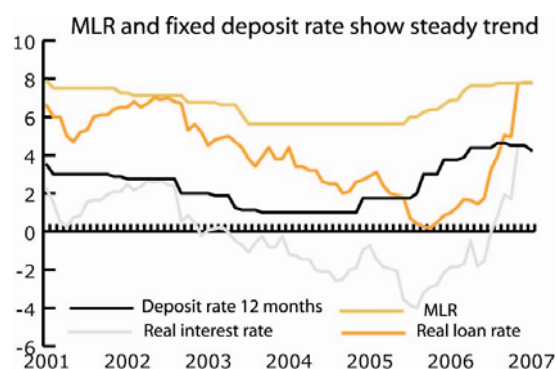
➤ **Public debts:** At the end of December 2005 public debts was 3.16 trillion Baht, equivalent to approximately 40.48 percent of GDP, lower than 41.14 percent of GDP at the end of September 2006 and 46.4 percent at the end of December 2005.

➤ **Overall external stability was also favorable.** International reserves stood at 66.98 billion US dollars at the end of December 2006, 3.6 times short-term external debts and equivalent to 3.68 months of import, which is considered as a stabilized level. International reserves rose up to 67.67 billion US dollars on 23 February 2007³.

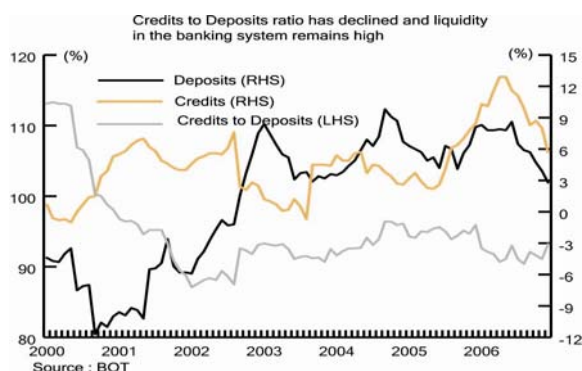
(2.7) **Financial conditions:** Interest rates remained on hold in the latter half of 2006. As a result, overall deposits slowed down, but time deposit still expanded sharply. Meanwhile, credit continued to slow down, causing liquidity in the banking system to remain high. Thai baht has been on an appreciating trend. The stock market condition fluctuated.

➤ The policy interest rate was raised four times in the first half of 2006 from 4.0 percent to 5.0 percent per annum. After the latest tightening in June, the Monetary Policy Committee decided to hold the policy rate at 5.0 percent throughout the latter half of 2006, in response to the slowing economy and a reduction in inflationary pressures, before starting to lower the policy rate twice, each by 25 basis points, in January and February of 2007.

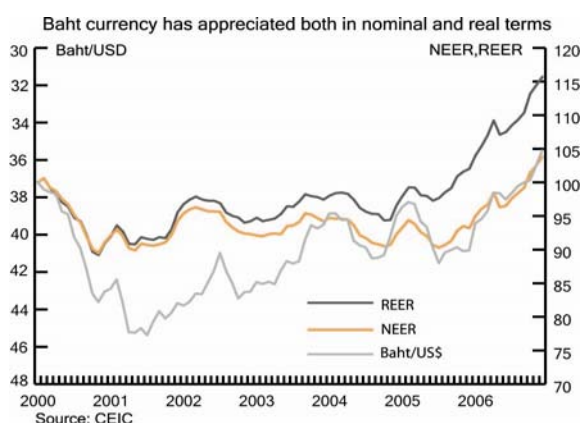
³ The accumulation was partly due to exchange rate management scheme.



Source: BOT



Source : BOT



Source: CEIC

➤ Most commercial banks' reference deposit and lending rates remained steady in the fourth quarter, after being raised throughout the first three quarters. Average MLR and 12-month time deposit rate of five large commercial banks increased from 1.125 and 1.50 percent at the end of 2005 to 7.75 and 4.5 percent per annum at the end of 2006 respectively. The effective spread decreased to 2.86 percent at the end of the fourth quarter, compared to 3.57, 3.60 and 3.48 percent at the end of the first three quarters respectively, due to continual increase of interest expenditure at a larger pace than interest revenue.

➤ Credits slowed down faster than. Commercial banks' deposits expanded by 5.7 percent in 2006 from the previous year, but slowing down from 11.6 and 8.3 percent in the first half and third quarter of 2006 respectively, partly as a result of the high base effect in the latter half of 2005. Time deposit expanded continuously, while saving deposit continued to decline, due in part by shifting deposit account from fixed deposit to saving deposit. Commercial banks and finance companies' credit at the end of 2006 grew by 1.9 percent, slowed down from 6.0 percent in 2005 and 4.4 percent in the first half of 2006, with the downtrend in most sectors.

➤ Liquidity in the Banking system remained high. The credits (including investment in private securities) to deposits ratio picked up slightly from previous quarter to 93.2 percent at the end of 2006, yet lower than the ratio at the end of previous year. Hence, the excess liquidity in the banking system estimated as disposable liquidity continued to expand, approximately 730 billion baht at the end of 2006.

➤ Thai baht has been on appreciating trend and reached its highest level in 9 years at 35.15 baht per US dollar in mid-December, before depreciating by 2.0 percent during end-December due to the BOT's measure on reserve requirement on short-term capital inflows. However, the average baht

in December continued to appreciate to 35.78 baht per US dollar and the average baht in the fourth quarter stood at 36.53 baht per US dollar, appreciating continuously from the previous quarter.

In 2006, the baht averaged at 37.89 baht per US dollar, appreciating by 5.8 percent from 2005. The baht has been on appreciating trend in the beginning of 2007, following the same direction of other regional currencies. However, the appreciation of the baht at the faster rate than major currencies and most regional currencies caused the nominal effective exchange rate (NEER) and the real effective exchange rate (REER) to appreciate throughout the year. The average NEER and REER in the fourth quarter appreciated by 8.4 and 9.9 percent year-on-year respectively.

➤ **Fund mobilizing of private sector.**

The slowdown in private investment and domestic uncertainties that worsened business confidence led to pending decisions on direct funding of non-financial sectors. Non-financial sectors issued new securities worth 89.6 billion baht in the fourth quarter, lower by 32.9 percent from the same period of 2005, while the new issuance throughout 2006 worth 262 billion baht, decreasing by 5.6 percent from the previous year.

➤ **Stock and bond markets.** The stock market condition fluctuated, with the improvement in the first four months before slowing down in the middle of the year due to foreign capital withdrawal from the region, as well as domestic interest rate uncertainty. However, the market condition had seen continual improvement in the last quarter, prior to the sharp drop in the last two weeks of 2006 due to the reserve requirement measure on

short-term capital inflows which caused foreign investors to sell large amount of stocks. SET index closed at 679.8 at the end of the year, lower by 4.7 percent from the previous year, with market capitalization of 5.08 trillion baht, decelerating by 0.5 year-on-year.

Daily trading in bond market continuously expanded throughout the year, averaged 37.9 billion baht in the fourth quarter, increasing by 153 percent from the same period of 2005. The yields on short term bonds followed policy rate direction, while long term yields remained stable and began to decline in the latter half of the year. Total return index was averaged at 5.45 percent in 2006.

(2.8) **Fiscal cash balance recorded a deficit of 62,899 million Baht due to a deficit in a non-budgetary account.**

In the first quarter of fiscal year 2007 (October - December 2006), total government revenue collection was 286,915 million Baht, increased by 12.9 percent, whereas total revenue collection incurred by 2.0 percent in fiscal year 2006. Compared to the first quarter of fiscal year 2005, collection of excise taxes - especially taxes of oil, spirits, tobacco and beer - increased. This was due to a decreased consumption of oil, increased rate of tobacco tax and increased production of spirits and beer products. However, there were decreases in collections by the Revenue Department especially in the collection of VAT and corporate income tax. The Customs department showed similar downward trends, while the revenue of state enterprises increased. Budget disbursement was 300,179 million Baht, or 17.0 percent of total budget in fiscal year 2007. Such budget disbursement was lower than budget disbursement in the fourth quarter of fiscal year 2006. One of the main reasons was that Budget Act of FY 2007 was not yet enforced in that period. Thus, budget disbursement, especially investment budget, was delayed pending approval of the budget act. Meanwhile, government expenditure was higher than government

revenue. Therefore, fiscal balance recorded a deficit of 13,264 million Baht. When such deficit added up with off-budget balance, the government had a deficit of 49,635 million Baht. This was because there was a large disbursement of decentralization budget to local administrations. Moreover, the government had made a payment to the Agricultural Fund. Hence, cash balance recorded a deficit of 62,899 million Baht, decreased by 20,967 million Baht, compared to the first quarter of fiscal year 2006.

1.2 World economic situation in the fourth quarter and in year 2006

The global economy in the fourth quarter expanded at a similar rate as in the third quarter. The economic growth of the G3 increased, whereas the Asian economy slowed down. However, the world economy in the whole year of 2006 expanded at a rate higher than in year 2005, contributed by better performance of most economies.

- **The US economy** expanded by 3.1 percent, comparable to 3.0 percent in the previous quarter. Private consumption, exports and net services were the main factors which supported the expansion of the US economy. There was a decline in private investment in both residential and non-residential construction, and software and parts also slowed down. However, Real estate sector has somewhat stabilized. The real estate prices have decreased but at gradual pace.
- **The economy of the Euro area** grew by 3.3 percent, up from 2.7 percent in the previous quarter due to the boost of the economies in Germany, Italy and France. Exports and net services were the two main factors which caused the economies in these areas to expand. The unemployment rate decreased constantly, and confidence picked up.
- **The Japanese economy** grew by 2.1 percent and it was better than 1.5 percent in the third quarter due mainly to the increases in domestic consumption and domestic investment. However, Japan faced slowdowns of exports and net services.
- **The Chinese economy** grew by 10.4 percent, down slightly from 10.6 percent in the third quarter. Gross fixed capital formation had slowed down since the second half of the year after adopting measures to cool down the overheated economy such as raising interest rate, and increasing the ratio of commercial banks' reserve requirement. Exports and net services were still the main drivers of the Chinese economy.
- **The slowdown of exports and net services, especially electronics products, caused the**

Asian economy to slow down.

Singapore, Taiwan, Philippines and Malaysia experienced decelerating exports. However, Hong Kong and Indonesia enjoyed export increase in the fourth quarter. Lowering interest rate in Indonesia helped stimulate consumption and investment. For Malaysia, the acceleration of government spending has helped to boost investment. Private consumption increased in Taiwan. In addition, remitted earnings of Philippines' laborers working abroad supported domestic consumption.

In year 2006, the world economy performed well and the growth was broad-based. The economies in the US, EU, Japan and Asia grew faster than in 2005 due to the supporting of exports and investments, especially in Asia and Japan which benefited from the export of electronics products.

Inflation rate in some countries remained high, especially in the US, EU, and ASEAN, despite the decline in the last quarter caused by reduction in the oil prices. However, central banks still keep interest rate on hold. The US and Malaysia maintained interest rate at 5.25 percent and

3.5 percent respectively. Whereas, Central Bank of Indonesia cut the rate continuously to 9.75 percent, 9.5 percent and 9.25 percent in December 2006, January and February 2007 respectively, in order to stimulate investment. Central Bank of Europe and Central Bank of England were more concerned about the inflationary pressures and they raised the interest rate in the fourth quarter to 3.5 percent and 5.0 percent respectively to slowdown the inflationary pressures. Bank of Japan adjusted interest rate from 0.25 percent in August 2006 to 0.5 percent in February 2007, as well as China who is still exercising tight monetary policy. China also increased the ratio of commercial bank reserve funds to 9.0 percent in November 2006 and to 10 percent in February 2007 in order to discourage the expansion of credits.

Economic imbalance problem has mounted, reflected in the large trade surpluses of the countries in Asia, especially in China and Japan, whereas the US continued to run trade deficit. In 2006, China, Japan and other Asia (Singapore, South Korea, Taiwan, Hong Kong, Indonesia, Malaysia, and Philippine) registered trade surplus at 177.5, 69.3 and 117.8 billion US dollars respectively. The US trade deficit was at 836.0 billion US dollars.

2. Economic Projection for 2007

The Thai economy of 2006 showed favorable growth with stability. Concurrently, the fundamental of the economy was sound and stable as observed in several key economic indicators such as low unemployment rate, declining public debt to GDP and lessened inflationary pressure as a result of (1) upward interest rate adjustment in the earlier period which softened credit expansion and (2) falling oil price since August. Moreover, the interest rate remained stable since the middle of 2006 before policy rate cuts twice at the beginning of 2007 and some financial institutions started to lower their lending rates thereafter. Consumer confidence has also improved since September and business sentiment has started to pickup. All of these positive factors will continue to support the economic growth in 2007.

Nevertheless, there are still some downside risks associated with the economic outlook in 2007, both external and internal factors. External factors include a global slowdown led by a slowdown in the US economy. A cooling down of US real estate sector could be severe which could put depreciation pressures on the US dollar, while the US twin deficits problem still persists. Moreover, it is likely that crude oil price will be higher than in the first two months of 2007 and still volatile due to the production constraints of petroleum industry. Meanwhile, the US-Iran disputes over Iran's nuclear program have not yet eased. On internal fronts, attention should be on continuing slowdowns of domestic consumption and investment. It is important to create understanding and restore confidence from people, both domestic and foreign by such measures as making public relations based on precise facts and enhancing opportunities for trade and investment.

2.1 Positive Factors in 2007

2.1.1 Lower inflation and financial pressures will be favorable factors for strengthening people's purchasing power and confidence.

- (1) **Average oil price is likely to be more stable in 2007:** In 2006, the Dubai oil price declined sharply since September and continued to decline to the end of 2006. However, high average oil price in the first eight months of 2006 resulted in a high average price of 61.52 USD per barrel, up by 24.2 percent from 2005.

The decline in oil price during the last quarter of 2006 was the incentive for OPEC to reduce the oil capacity in November 2006 and February 2007. However, the oil price continued to decline during the first two month of 2007. Main reasons are as follows: (i) Global oil demand slowed down (ii) Oil inventory of OECD increased above the normal level (iii) Temperatures in the winter was warmer than usual and (iv) Spare production capacity increased to 2 million barrel per day in 2006 from 1.5 million barrel per day in 2005.

In 2007, crude oil price is expected to be approximately at the same level of 2006. Crude oil price will stabilize during the beginning of the year and will increase at the end of the year since the demand tends to increase faster than the production. Nonetheless, the increase in spare capacity to almost 2 million barrel per day would help reduce the pressure on oil price. In February 2007, International Energy Agency (IEA) forecasted that world oil supply in 2007 will be 86.0 million barrels per day, increasing from 84.7 million barrels per day in 2006 (with a growth rate of 1.5 percent). Meanwhile, the world oil demand will increase from 85.1 million barrels per day in 2006 to 86.7 million barrels per day with a growth rate of 1.6 barrel per day or 1.9 percent compared with an increase of 0.6 barrel per day in 2006. More than half of such demand increase in the world market will be from an increased demand in the US and China. The oil demand of oil exporters will also increase, stimulated by rising income from oil exporters in the past 2-3 years. Moreover, it is expected that the stock of oil products in OECD will decrease to the normal level in the mid of 2007. In

tandem with higher demand compared with 2006, it is likely that oil price will rise at the end of 2007. However, average oil price of 2007 will be the same as 2006 in which that it will remain high in the first half of the year.

- On 6 February 2007, Energy Information Administration (EIA) forecasted West Texas Intermediate (WTI) in 2007 to be on average of 59.5 US dollars per barrel, lower than 66 US dollars per barrel in 2007. WTI price is generally 3-5 US dollars per barrel higher than the Dubai price.⁴
- On 2 March 2007, referring to Global Weekly Economic Monitor by Lehman Brothers, the Brent future price of 2007 is forecasted at 69 US dollars per barrel, up from 66 US dollars per barrel in 2006. The Brent price is approximately 3-8 US dollars per barrel higher than Dubai price.⁵

Domestic retail price of benzene 95 declined from 28.49 baht per litre on September 1, 2006 to 25.69 baht per litre on December 1, 2006, and to 26.39 baht per litre on March 2, 2007. The average retail price of diesel oil declined from 27.54 to 23.84 and to 23.34 baht per litre during the same periods.

- (2) Inflation rate is likely to be contained. As a result, purchasing power and confidence of consumer will improve.** Inflation rate decreased from 5.9 percent in the first half of 2006 to 3.5 percent in the latter half of 2006. It has continuously declined to 3.0 and 2.3 percent in January and February 2007 respectively. Core inflation decreased to 1.6 percent and 1.4 percent in the first two months of 2007 comparing with 2.3 percent of the year 2006. Inflationary pressures were eased due to a decrease in oil price, an appreciation of Thai Baht and recent interest rate upward adjustment. Moreover, the lower level of consumer confidence also led to a slowdown of domestic demand. It is expected that pressures on the inflation rate will

continuously decline in 2007 due to decreases in the oil price and the consumer products price (i.e., steel and agricultural products). Baht appreciation also helps reduce the cost of imports. In addition, private consumption has continued its decreasing trend.

- (3) Interest rate has declined and will be lower for the rest of 2007.** This is due to lower inflationary pressures and slowdown in domestic demand. Meanwhile, financial liquidity was high and the Baht has appreciated. The monetary Policy Committee cut policy rate by 25 basis points in the meeting on 17 January 2007. Recently, the committee decided to further lower the rate by another 25 basis points on 28 February 2007. As a result, the policy rate (R/P 1 day) decreased to 4.50 percent, lower than the Fed Fund rate by 75 basis points. Following the policy rate, financial institutions have responded by gradually lowered the saving rates since January 2007. Siam Commercial Bank was the first bank who cut the lending rate (MLR) from 7.75 percent to 7.5 percent per annum on 1 March 2007. The average of 12 month-time deposit of five large commercial banks in Thailand was 3.875 percent, decreasing by 0.63 percent from the end of 2006. Specific financial institutions reduced their saving rates by 0.25 - 0.5 percent and the Government Housing Bank also lowered the interest rates of housing loans for retail customers from 7.75 to 7.5 percent. As for the rest of 2007, the policy rate is expected to be cut by 50 -100 basis points due to a slow recovery of private expenditure and investment. Moreover, the Baht will appreciate further as a result of high pressures on the US dollar and downward inflationary pressures. Moreover, liquidity in the financial system remains high. Thus, interest rate will be on the downtrend. Nonetheless, real interest rate will not decline significantly due to a declining inflation rate. Hence, the impact of loosening monetary policy could be limited.

⁴ Short-Term Energy Outlook, EIA, 6 February 2007

⁵ Global Weekly Economic Monitor, Lehman Brothers, 2 March 2007

2.1.2 Income from export and tourism will increase and help support economic growth despite a slower pace than in 2006. It is expected that the export and tourism sectors will not expand as much as they did in 2006 due to constraints from the world economy especially a slowdown in the US, Chinese, Japanese and European economies. Export volumes will not slowdown significantly following a soft-landing of the global economy and thus will continue to support economic growth. However, export value is expected to slow down more than export volume because price of goods will increase only slightly from a high base over last 2-3 years.

Tourism is expected to continually expand. Tourism Authority of Thailand set the target of foreign tourist at around 8.0 percent growth rate, based on 13.78 million international tourists in 2006. The increase will support hotel and restaurant sectors in Thailand. The supporting factor works through public relations in order to make a better understanding and the safety of tourists, the agreement on facilitation and visa entry exemption for the tourists (no more than 30 days).

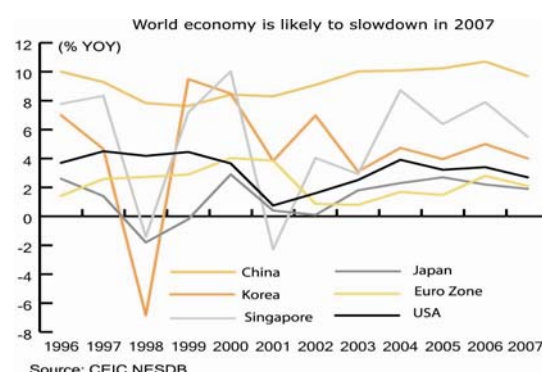
2.1.3 Government budget and investment budget of state enterprises will support economic growth if budget disbursement rate is not less than 80 percent of overall budget. In fiscal year 2007, the government approved larger amount of government and SOEs investment budget than the budget in the fiscal year 2006. The budget ceiling in fiscal year 2007 is 1,566,200 million Baht, increased by 15.2 percent from the fiscal year 2006. Investment budget is 374,721 million Baht. Meanwhile, SOEs investment budget approved by the cabinet is 369,302 million Baht, higher than 303,430 million Baht in fiscal year 2006.

Expediting government budget and SOEs's investment fund will help stabilize the economy and build strong foundation for sustainable development under the condition of limited effectiveness of monetary policy.

2.2 Risk factors

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

2.2.1 A slowdown of the world economy in 2007 will be the constraint on exports and tourism. The world economy has continued its downward trend since the latter half of 2006. The US adopted the tightening monetary policy over the past 2 years by raising interest rates to help easing inflationary pressure and a current account deficit. Consequently, the household consumption has slowed down and investment in real estate sector declined while large current account deficit has continued. The Chinese economy also showed a slowdown in 2006 as a result of rising interest rate and reserve requirements of banks and limited credit expansion to cool down the overheated investment



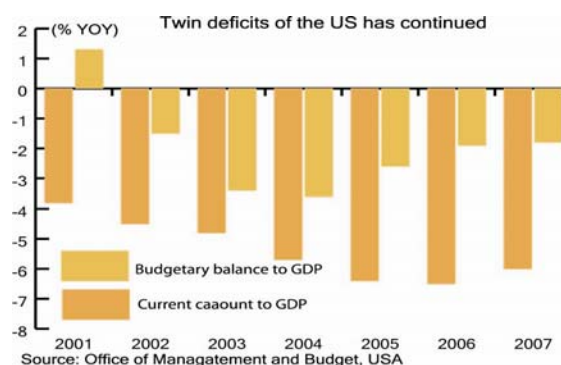
Economic trends of key economies in 2007 are as follows: The US economy will expand by 2.7 percent, softened from 3.4 percent in 2006, due to the slowdown in real estate sector. The EU economy will increase by 2.1 percent, slowing down from 2.8 percent in the face of tightening monetary and fiscal policies aiming at reducing fiscal deficits as well as raising value-added tax in Germany by 0.3 percent in January 2007. The Japanese economy will grow by 1.9 percent, lower than 2.2 percent in 2006 in tandem with the slowdown of investment cycle, consumption and export. The Chinese economy is expected to slowdown from 10.7 percent in 2006 to 9.7 percent in 2007 following a

slowdown trend of exports which has been led by the US economic slowdown, the Chinese RMB appreciation, the scheme of export tax duties and capital gain tax that could further investment slowdown. The Asian economy (excluding Japan and China) tends to slow down as a result of a downtrend of US, Japanese and Chinese economies which, in turn, lead to a slowdown in exports, especially of electronics products. The slowdown was also caused by more stringent trade policies of the US and Europe. Nonetheless, domestic demand is expected to support the growth momentum of the Asian economies, and partly offsets the moderation in the external sector. The declines in policy interest rates and inflation rates, more positive business perceptions as well as the sound fiscal and financial sectors will be important factors to support Asian economic growth. Particularly, investment is likely to accelerate in Malaysia and Indonesia which will partly offset a slowdown in export. Hence, the economy is not expected to experience a sharp slowdown.

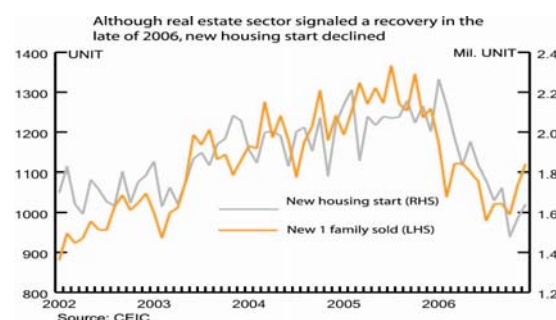
Some risk factors that could lead to hard landing of the world economy are as follows:

- Oil prices continue to be at high level and remain volatile due to rising world demand. On the supply side, the production capacity has been tight and there are possible risks from Hurricane season as well as geopolitical conflicts such as over North Korea's nuclear program and Iran's nuclear program.
- Large US twin deficits (current account and fiscal account) continue to be a concern which exacerbated business confidence on the US dollar and, thus, deferred demand for dollar. This, as a result, put depreciation pressure on US dollar in the latter half of 2006. This become downside risks to countries owning large amount of US dollar denominated securities and equities and dollar deposits such as China, Japan and oil exporters (including Russia and Norway). Should these countries lose confidence in the US economy and US dollar currency, huge capital outflows from the US could be resulted or it will lead to big US dollar or dollar-denominated securities

sell-off⁶ in order to hold other currencies. The US dollar would, therefore, rapidly depreciate. In the meantime, falling asset prices in US dollar will also affect wealth of those countries⁷ and will continue its effects on global financial market as well as those dollar holder countries. It is expected that in 2007, the dollar will depreciate against Euro and Japanese Yen (from 117 Yen per dollar in 2006 to 112 Yen per dollar in 2007 and from 1.32 dollar per 1 Euro to 1.28 dollar per Euro in 2007)



- More risks remain, notably a sharper than expected slowdown in the US economy from the slowdown in business investment, automotive and real estate sectors. A cooling down in US real estate sector might occur briskly due to interest rate upward adjustment over the past two years. This would affect



6 Central bank of Russia, United Arab Emirates and Switzerland started to hold Yen-denominated assets. ECB sold US dollar and bought Yen currency instead.

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

demand for residential to slowdown severely and create additional excess housing stocks. Housing price could decline significantly which will lessen asset value and jeopardize wealth of household and consequently affect private consumption. Credit quality of financial institutions will deteriorate as a result of lower collateral asset value. There will also be continual effect on employment due to declining investment in real estate construction

- Other factor that would affect global economy to abruptly slow down is the geopolitical conflicts such as disputes between the US and Iran over the nuclear program.

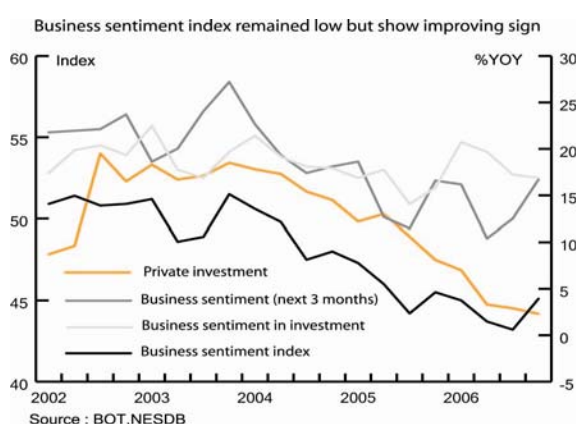
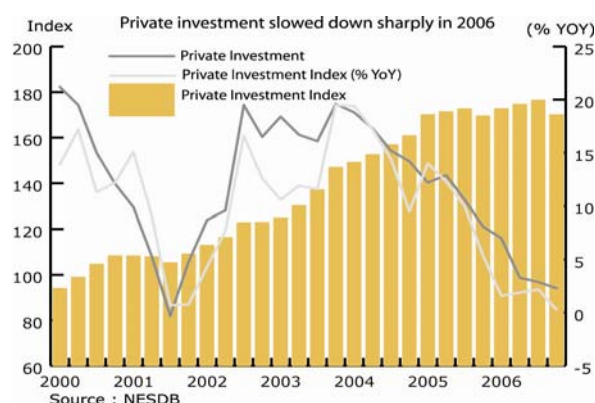
2.2.2 Internal risk factors associated with the economic prospect are as follows:

- (1) A recovery of private investment is still uncertain. In 2006, total investment value of application approved from the Board of Investment (BOI) declined by 34.6 percent which signaled a setback of investment in 2007. In addition, most investors would wait for a clear direction of political situation as well as policy guidelines. Current investors' confidence remained low which will exacerbate private investment not to fully recover despite lowered interest rates. Therefore, it is important for the government to create and restore investors' confidence of both domestic and international investors by increasing public relation to provide precise facts as well as implementing supportive measures for enhancing trade and investment opportunity, for example Mass transit and logistics system development, Integrated water resource management, Energy and alternative energy investment, Petrochemical industry investment, Area development for expanding production and investment base.
- (2) Adjustment of export-oriented production sector under more stringent trade measures namely (i) Review for the US's Generalized System of Preferences (GSP) renewal for Thailand's export of jewelry and precious stone which will consequently lead to tax rate of 6.5 percent (ii) Moreover, the US will consider whether they will continue cutting the GSP privilege in 2007 on television export because Thailand's potential on television exports has increased resulting in higher export share. (iii) The EU countries arrange to announce regulation on Restriction on Hazardous Substances (RoHS) in electrical appliances and electronic products. The SMEs entrepreneur will, thus, need to adjust themselves to handle higher cost. (iv) The European Commission plan to regulate

Investment privilege granted by BOI

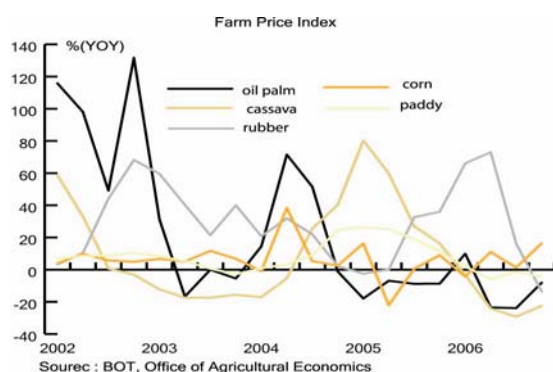
Value (Billion baht)	2005	2006	January	
			2006	2007
- Net applications submitted	673.7	514.3	18.4	40.6
(%)	(5.7)	(-23.7)	(-85.5)	(120.7)
- Applications approved	571.3	373.5	16.1	39.8
(%)	(-4.9)	(-34.6)	(-25.0)	(145.7)

Source: Board of Investment (BOI)



exporters of food products and aquatic animal's food to acquire approval document for detecting dioxins prior to their exports to the EU countries which will cause higher cost of export.

- (3) Agricultural products' prices showed a slowdown and will adversely affect farmer's income, particularly prices of rubber, corn and paddy. During 2004-2005, rising trend of agricultural prices significantly supported farm income. Nevertheless, agricultural products' prices in the world market in 2007 tend to slowdown as a result of large price adjustment during last two years. Moreover, Thai farmers also face with some risks from drought situation due to shortage of rainfalls that could delay the plantation period and affect agricultural products.



Growth of important agricultural prices

	2005	2006				
	Year	Year	Q1	Q2	Q3	Q4
1. Agriculture price on sold						
- Rice Grade 1	19.5	-2.5	1.9	-5.9	-1.4	-4.4
- Minor Rice	23.0	-0.6	1.2	3.3	-2.0	-9.7
- Maize	-2.4	6.0	-4.3	11.0	1.3	16.4
- Ribbedr	17.0	30.6	66.1	73.0	16.2	-13.6
- Tapioca	42.1	-19.6	-3.3	-24.2	-29.2	-22.5
- Sugar Cane	34.4	19.5	33.7	25.4	-	0.4
- Oil Plam	-10.8	-12.2	9.9	-23.5	-23.9	-8.1
2. Bangkok Wholesale Price						
- Rice 100% Grade2	21.2	0.2	5.0	0.9	0.5	-5.4
- Corn	-2.9	11.5	-1.4	16.4	10.8	20.3
-Ribbed Smoke Grade 3 (Hat-Yai Market)	19.0	37.4	73.5	77.1	24.0	-4.6
3. World Market Price						
-Rice 100% Grade 2	21.2	6.6	2.9	4.5	11.3	7.8
-Maize, Chicaco	-11.8	23.5	8.5	13.5	15.3	56.0
-Ribbed Smoke Grade (Singapore Market)	14.1	33.8	58.7	69.5	23.9	-3.3

Source: Bank of Thailand, Office of Agricultural Economics

2.3 Key Assumptions for 2007 Projection: Global economic growth is estimated to be 4.2 percent. Dubai oil price is expected to be 55 – 60 US dollars per barrel

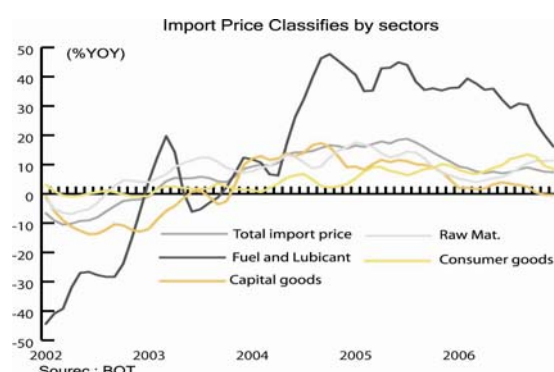
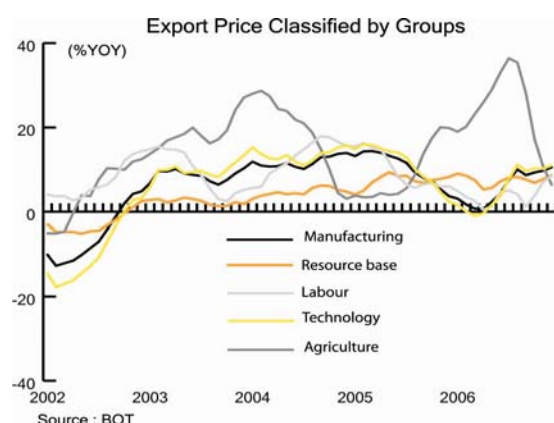
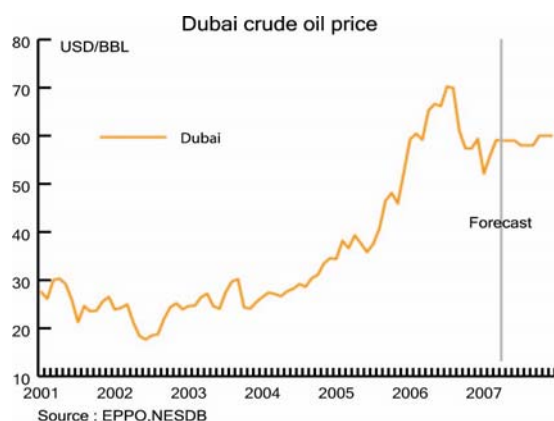
- (1) The world economy in 2007 is likely to grow by 4.2 percent, soften from 4.9 percent in 2006 and 4.4 percent in 2005. This projection is due to the slowing economic growth of key economies such as the US, Euro area, China, Japan and Asia, as a result of the tightening monetary and fiscal policies over the last two years. In addition, this slower growth has resulted from a slowdown in private investment in electronics which rapidly expanded during 2004 – 2006, and 2004, the impact of high oil prices

World Economic Growth

(% changes from the same period of previous year)

	2005	2006				2007f	2007f
	Year	Q1	Q2	Q3	Q4	Year	Dec
World	4.5	5.3	5.0	4.7	4.8	4.9	4.2
USA	3.2	3.7	3.5	3.0	3.1	3.3	2.7
Euro	1.5	2.2	2.9	2.7	3.3	2.8	1.9
Germany	0.9	3.2	1.4	2.6	3.5	2.7	1.6
Japan	1.9	2.9	2.1	1.5	2.1	2.2	2.3
Hongkong	7.5	8.0	5.5	6.7	7.0	6.8	5.5
Singapore	6.6	10.1	8.0	7.0	6.6	7.9	5.5
South	4.0	6.1	5.3	4.8	4.0	5.0	4.0
Taiwan	4.0	4.9	4.6	5.0	4.0	4.6	3.7
Indonesia	5.7	5.0	5.0	5.9	6.1	5.5	5.5
Philippine	5.0	5.7	5.8	5.3	4.8	5.4	5.8
Malaysia	5.2	5.9	6.2	5.8	5.7	5.9	5.4
China	10.4	10.4	11.5	10.6	10.4	10.7	9.6

Source: CEIC, Public agencies and average value from many sources



lingering since 2004. Therefore, international trade and investment in 2007 is expected to decelerate and less likely to be a strong economic impulse as in 2005 – 2006.

(2) **Dubai Crude oil price is expected to be around 55 – 60 US dollars per barrel or the average price of 58 US dollars per barrel**, decreasing by 5.7 percent from 61.52 US dollars per barrel in 2006. This assumption is revised downward slightly from 58 – 62 US dollars per barrel assumed in the projection in December 6, 2006.

(3) **Export and import prices. It is expected that commodities' prices in the global market will continue to be on an upward trend**, but apparently with a decelerating rate, as a result of falling oil and raw materials prices. Although the demand of commodities and raw materials remains high, the prices were adjusted significantly in 2006. It can be seen that commodities prices, including steel and rubber and prices of computer components were already at peak and started to decline at the end of 2006. In addition, a slowdown in world demand would create intense price competition.

Average export price in US dollar term is assumed to increase by 2.5 percent, falling from earlier projections of 4.0 percent and decreasing from the growth of 5.2 percent in 2006, as a result of a slowdown in commodities prices, including price of agricultural products, steel and gold prices, and prices of electronics and computer components according to the downtrend of the world demand. Import prices are expected to increase by 3 percent in 2007, decreasing from 6.5 percent in 2006⁸. Hence, Thailand's term of trade will improve and generate positive income effect.

⁸ BOT has adjusted the export price index and import price index down from 7.7 and 8.0 percent respectively, following the Ministry of Commerce modification of export and import price index.

2.4 Economic projection for 2007: 4.0-5.0 percent GDP growth, 2.5-3.0 percent headline inflation and 1.0-1.3 percent of current account surplus to GDP

In 2007, Thai economy is expected to expand by 4.0-5.0 percent (midpoint average of 4.5 percent) less than 5.0 percent in 2006 as a result of (1) Export slowdown due to a global economic slowdowns, appreciation of baht and tightened trade measures of trading partners countries (2) Recovery of private investment is not expected to be fully realized since some investors still wait for a clear direction of the political situation as well as policy guidelines. Investors' confidence has also remained low which will affect investment. Moreover, government investment projects are expected to be implemented and disbursed in the second half of the year. However, it is likely that private consumption will be slightly stronger than in 2006, as a result of interest rate cuts as well as recent declines in oil prices and inflation.

On stability front, the economic stability will remain favorable with 1.5-2.0 percent of unemployment rate, 2.5-3.0 percent of headline inflation as a result of lower oil price, baht appreciation, subdued consumer prices as well as moderate private⁹ consumption. Meanwhile, the current account⁹ is expected to record a slight surplus of 1.0-1.3 percent of GDP.

In all, NESDB's projection range remains unchanged from the previous forecast on December 6, 2006. The revisions in the contribution of growth components were made along with the release of the actual data in 2006. Latest economic indicators in January 2007 showed a continual slowdown of private investment and higher disbursement of government's current budget during February. Net exports and domestic demand will contribute to 2007 growth with similar rates as

earlier predicted. Both of the components are likely to contribute less than those of 2006.

The components of 2007 economic growth forecast are as follows:

- **Upward revision on government current spending** due to speeding up of the disbursement during the beginning of 2007 and acceleration of budget for the well-being strategies at provincial level (5,000 million baht) and the budget for community development project following the sufficiency economy approach (5,000 million baht). It is expected that in 2007, government expenditure at constant prices will expand by 5.0 percent, higher than earlier projection of 4.0 percent. Meanwhile, expansion of private consumption will remain the same as earlier projections at 3.8 percent.
- **Downward revision on projection of private investment.** Latest economic indicators showed that private investment has not yet recovered. It is expected that private investment will grow by 5.0 percent, down from the previous forecast of 7.0 percent. In the meantime, public investment will increase by 4.0 percent, same as in the previous forecast.
- **Upward revision on export volume growth** from 5.0 percent to 5.4 percent in line with favorable export trends during the end of 2006. Nonetheless, average export prices show slower growth than expected. The export price is revised downward from the growth rate of 4.0 percent to 2.5 percent. As a result, export value is revised down from 9.0 percent to 7.9 percent¹⁰.
- **Downward revision on import value growth** from 9.6 percent to 8.0 percent. This is due to a downward revision of import price and an upward revision of import volume growth to 5.0 percent (from 4.6 percent). An upward revision of import volume was due to (i) Reductions in inventories in 2006 was faster than previously

⁹ Under new definition, 'Reinvested earnings' has been recorded as part of FDI in Financial account, and its contra entry recorded as 'income on equity' in current account. The series have been revised back to 2001.

¹⁰ A downward revision of export price is partly due to the revision of price data from Ministry of Commerce. New data from MOC suggest that export price increase at lower rate than the BOT's data. However, it still showed a slowdown trend in 2007 as expected.

expected. It is thus possible to import more raw materials and parts in 2007. (ii) Stronger export growth (iii) Baht appreciation at faster rate than expected. Nevertheless, import price slowed down rapidly in the last quarter of 2006 and lower-than-expected oil prices. Thus, growth rate of import price is revised down from 5.0 percent to 3.0 percent.

- **Downward revision on inflation rate** in 2007 to 2.5-3.0 percent (from earlier projection of 3.0-3.5 percent). This is a result of lower-than-expected oil prices and appreciation of Baht.
- **Current account will be in a small surplus of 1.0-1.3 percent of GDP or about 2,400-3,100 million US dollar.**

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

The economy in 2007 will achieve 5.0 percent growth under the following conditions: (i) Exports sector is competitive under increasing constraints and tourism income increase by 8-10 percent (ii) The disbursement of public budget will not be less than 90 percent of total government budget and state enterprise capital budget. Budget allocation should be prioritized to projects which support low-income people with career development purpose, infrastructure development and social program (iii) Business confidence improves which will support investment. (iv) Agricultural products' prices have been maintained at stabilized level in order to support farm income (v) Average Dubai oil price will not exceed 58 US dollars per barrel.

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

The economy in 2007 will expand according to the low case scenario if: (i) Investment recovers at a slower pace (ii) The disbursement rate of government and SOEs investment budget is lower than 80 percent of total budget (iii) The global economy expands by lower than 4.0 percent which will lead to

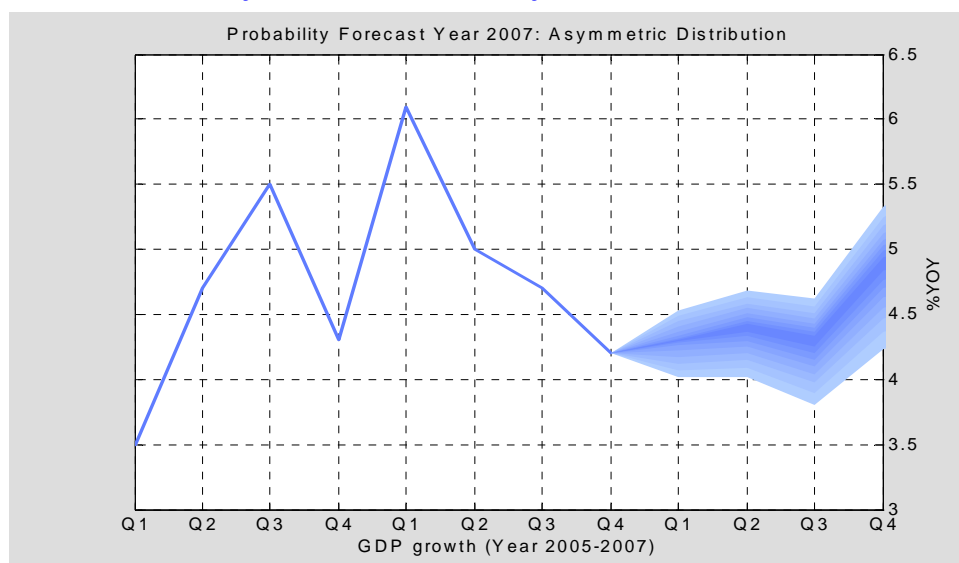
slower growth of the Thai's exports and tourism sector (iii) The average Dubai oil price is above 58 US dollars per barrel as a result of more tension on the US-Iran conflicts and impact from unexpected natural disaster.

2.5 Probability Distribution of GDP Growth Forecast

Domestic economic conditions suggest that opportunities for investment to recover rapidly are less than a slow recovery. Government budget disbursements are also needed to be expedited. In addition, the probability that the averaged Dubai oil price for the whole year of 2007 being lower than 58 dollars per barrel is likely to be smaller than otherwise. This is due to the fact that the oil prices have already curbed down during the end of 2006. The world oil demand is also expected to increase, although various countries have placed serious efforts on the development of renewable energy. In addition, there are some downside risks from the conflicts between US and Iran. On the world economic front, tightening monetary policy implementation will also put constraints to Chinese and Japanese economies which could expand at slower rate than expected, rather than on the upside. Following stronger-than-expected Baht currency, export and tourism could also expand at slower pace than anticipated.

As a result, **NESDB forecasts that the probability of the Thai economy expanding higher than the midpoint of 4.5 percent in 2007 is less than the probability of achieving the lower side of the forecast range** or asymmetric probability distribution with positive skewness. The probability of achieving the economic growth of 4.0-5.0 percent is approximately 85 percent of which the probability of growth forecast of 4.0-4.5 percent is higher than the probability of the growth forecast of 4.5-5.0 percent. This shows an adjustment of probability distribution more towards downside risks.

Probability Forecast Year 2007: Asymmetric Distribution



3. Economic Policy Management for 2007

The economic management in 2007 should give priorities to the maintenance of economic stability, productivity improvement and the support for adjustment of people and business sector during a political transition period and an economic slowdown.

Measures to be implemented in 2007 are recommended as follows:

- 3.1 Accelerating government and SOEs's budget of FY 2007 to achieve no less than 80 percent disbursement rate. Emphases should be made in particular on the budget allocated for the well-being strategies at provincial level (5,000 million baht) and the budget for project of community development following the sufficiency economy approach (5,000 million baht). In addition, the investment budget allocation to infrastructure projects, logistics development as well as a rail based mass transit system should also be implemented and operated as scheduled.
- 3.2 Supporting community and local people, such as stabilizing prices of agricultural products and preparing measures to protect and alleviate drought problems which could take place during the middle of the year.
- 3.3 Promoting exports and tourism by exploring new markets for exports amid an overall global slowdown as well as working on public relations to create better understanding and stepping up security system for tourism.
- 3.4 Implementing energy saving measures and developing alternative energy sources, particularly the expansion plan of service providers and usage of NGV and Gasohol.
- 3.5 Creating and restoring confidence of both domestic and foreign investors by increasing public relations to make a better understanding based on precise facts as well as implementing supportive measures to increase opportunities for trade and investment, for example Japan-Thailand Economic Partnership Agreement (JTEPA), Mass transit and logistics system development, Integrated water resource management, Energy and alternative energy investment, Petrochemical industry investment, Area/Spatial development for expanding production and investment base.

Economic Projection of 2007

	Preliminary			Projection	
	2004	2005	2006_p	2007_f	
				4 Dec 06	6 Mar 07
GDP (at current prices: Bil.Bht)	6,489.8	7,087.7	7,813.1	8,474.6	8,438.1
GDP per capita (Bht per year)	101,017.2	109,318.4	120,497.4	129,697.7	129,139.3
GDP (at current prices: Bil.USD)	161.0	176.0	206.1	229.0	237.7
GDP per capita (USD per year)	2,507	2,715	3,179	3,505.3	3,637.7
GDP Growth (at constant prices, %)	6.3	4.5	5.0	4.0-5.0	4.0-5.0
Investment (at constant prices, %)	13.2	11.1	4.0	6.2	4.8
Private (at constant prices, %)	16.2	10.9	3.9	7.0	5.0
Public (at constant prices, %)	5.0	11.3	4.5	4.0	4.0
Consumption (at constant prices, %)	6.1	5.5	3.2	3.8	4.0
Private (at constant prices, %)	6.2	4.3	3.1	3.8	3.8
Public (at constant prices, %)	5.6	13.7	3.4	4.0	5.0
Export volume of goods&services (,%)	9.6	4.3	8.5	5.4	5.5
Export value of goods (Bil.USD)	94.9	109.2	128.2	139.0	138.3
Growth rate (%)	21.6	15.0	17.4	9.0	7.9
Growth rate (Volume, %)	8.4	4.3	9.0	5.0	5.4
Import volume of goods&services (,%)	13.4	9.3	1.6	5.6	5.6
Import value of goods (Bil.USD)	93.5	117.7	126.0	139.8	136.1
Growth rate (%)	25.7	25.9	7.0	9.6	8.0
Growth rate (Volume, %)	12.3	8.9	-0.8	4.6	5.0
Trade balance (Bil.USD)	1.5	-8.5	2.2	-0.8	2.3
Current account balance (Bil.USD) ^{2/}	2.8	-7.9	3.2	0.2	3.1
Current account to GDP (%)	1.7	-4.4	1.5	0.1	1.3
Inflation (%)					
CPI	2.7	4.5	4.7	3.0-3.5	2.5-3.0
GDP Deflator	3.2	4.5	5.0	4.0	3.5
Unemployment rate (%)	2.1	1.8	1.5	1.8	1.5-2.0

Source: Office of the National Economic and Social Development Board. March 6, 2007

Note: ^{1/} Reinvested earnings has been recorded as part of FDI in Financial account, and its contra entry recorded as income on equity in current account.