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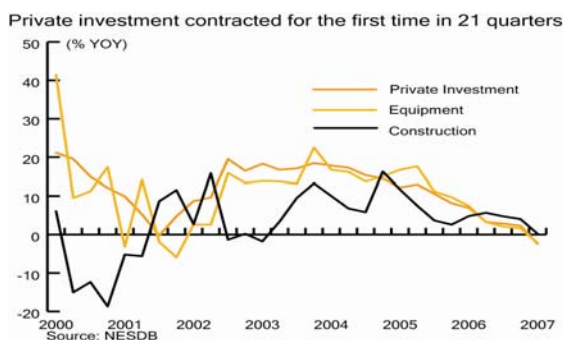
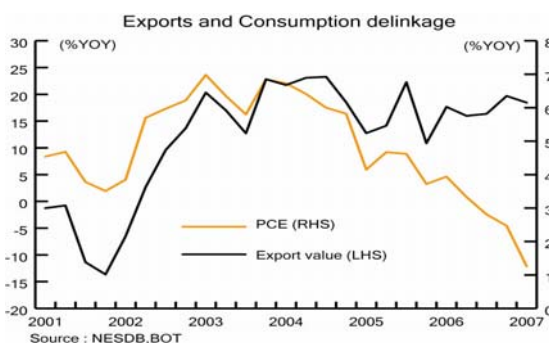
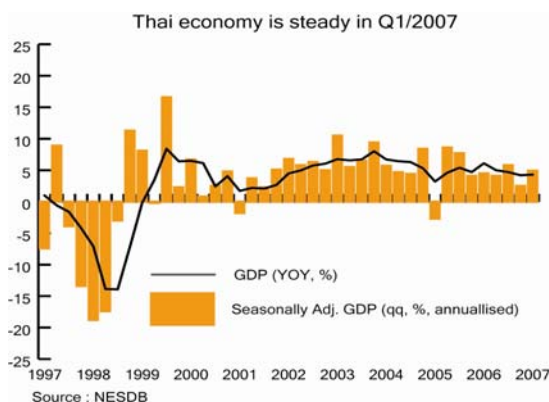
ECONOMIC OUTLOOK

THAI ECONOMIC PERFORMANCE IN Q1 AND OUTLOOK FOR 2007

- **The Thai economy in the first quarter of 2007 showed favorable growth with stability**, but trended downward compared to the growth rates of 6.1, 5.0, 4.7 and 4.3 percent in first to fourth quarters of 2006 respectively. Robust export of goods and services weathered the domestic demand-led slowdown. Overall, the economic stability remained in check. The headline inflation averaged at 2.4 percent in the first quarter of this year. It subsided consecutively from the second half of 2006. Unemployment rate was equal to 1.5 percent. While, current account balance recorded a surplus of 5.4 billion USD.
- **Government expenditure increased in both current and investment spending** by 11.2 and 2.1 percent respectively at the constant price. These also help stimulate the economic activities in the first quarter.
- **Although, interest rates declined, the liquidity remained at high level and Thai baht has been on appreciating trend.** In the first quarter of 2007, commercial banks and finance companies' credit slowed down in almost every sector while commercial banks' deposits continuously expanded. Therefore, financial liquidity in the financial institutions stayed at high level. Exchange rate, Thai Baht per US dollar, slightly appreciated and was more in line with movement of regional currencies.
- **Consumption of petroleum products declined** by 5.7 percent in the first quarter despite an expansion of economic activities. Compared with 8 percent increase in 2005 and 3.7 percent decline in 2006, this improvement implied higher energy efficiency.
- **In 2007, the economy is likely to grow by 4.0-4.5 percent** with an expected upturn of private consumption and investment in the second half of the year. On the export front, it is expected to expand further but at a moderate pace due to deceleration in exports of electronics, electrical appliances, and automobile and parts. The supportive factors which will facilitate the economic expansion, for the remaining months of 2007, consist of a decreasing in interest rate and inflation rate, effective disbursement of government expenditure, an investment from state enterprise and export sectors.
- **Economic stability tends to be favorable in 2007.** An expected average inflation rate will be 2.0-2.5 percent. The current account balance will be in surplus of approximately 3.0 – 4.0 percent of GDP. Unemployment rate will remain low at 1.5 – 2.0 percent throughout 2007.

1. Economic Performance in Q1 of 2007

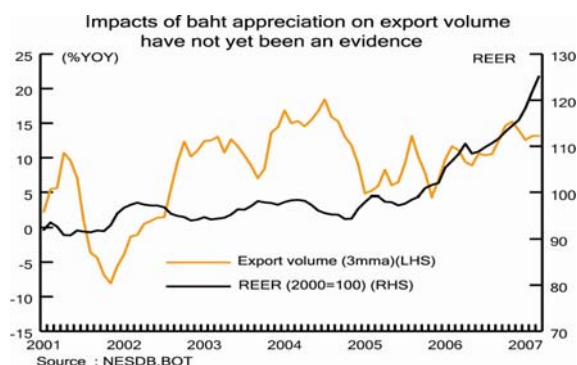
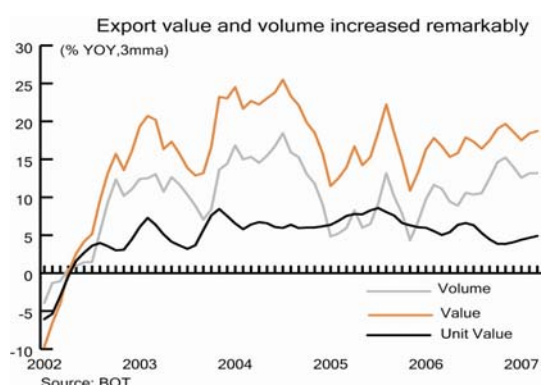
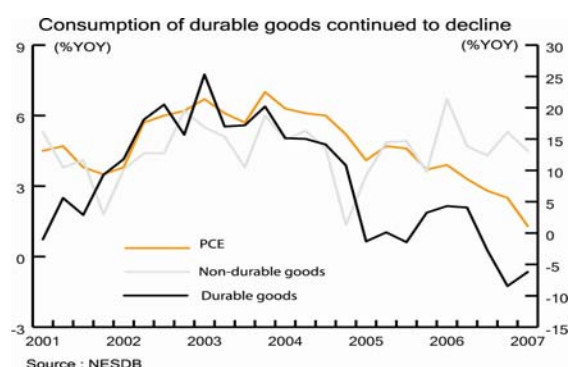
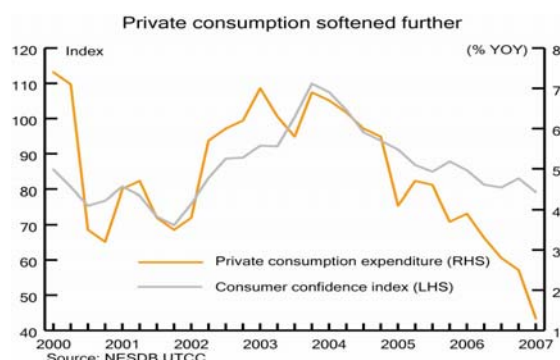
1.1 The Thai economy in the first quarter of 2007 expanded by 4.3 percent, the same rate as that of last quarter of 2006, supporting by remarkable growth in net exports of goods and services and increasing government budget disbursement, which help to offset a significant slowdown in private consumption and a first contraction in private investment in 5 years.



Highlight

The Thai economy in the first quarter expanded by 4.3 percent, the same rate as that of last quarter of 2006. Comparing to the economic expansion of 6.1, 5.0 and 4.7 percent in the first three respective quarters of 2006, this suggests a slowing down pace of the economy. Exports, growing faster than expected, remained the key driving force for growth, whereas imports continued to be on a moderate trend. Positive contribution of public spending entailed by an acceleration of budget disbursement, where public investment and government consumption, measured at constant price, increased by 2.1 and 11.2 percent respectively. Nevertheless, private consumption expanded only modestly by 1.3 percent while private investment contracted by 2.4 percent. This was a result of low consumer and business confidence and high oil prices, as well as adjustments to continuously rising interest rates during late 2005 throughout 2006 that brought about rising real interest rates. Moreover, there was a sizeable reduction in inventories to serve excess demand, particularly in the export sector.

□ **Private investment fell** by 2.4 percent, compared to 7.0, 3.3, 2.9 and 2.3 percent growth in four consecutive quarters of 2006. In that, investment in machinery and equipment declined by 2.9 percent thus reduced the demand for capital goods import by 6.6 percent. The investment in construction dropped by 0.7 percent with a remarkably drop of industrial factories construction by 15.7 percent meanwhile commercial and residential construction slowed down. The key factor depressing investment was the low investor confidence on economic opportunity and political uncertainty. Investors tended to wait for clearer direction regarding the approval of new constitution, the settlement of election date, and the continuity of economic driving measures being implemented by the government. In addition, expected soften export outlook caused by the world economic slowdown tends to discourage investment prospect



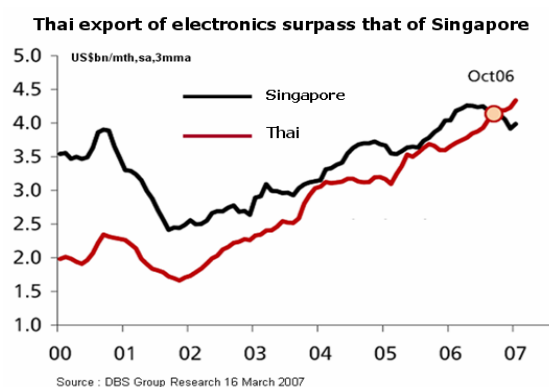
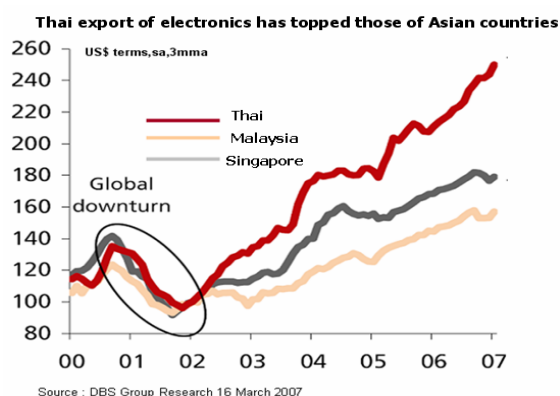
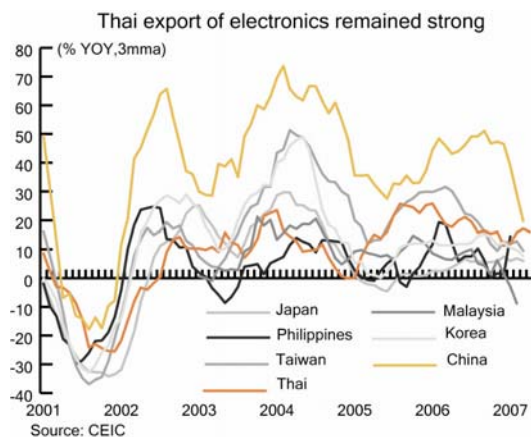
Private consumption expanded by only 1.3 percent, clearly softened from 3.9, 3.3, 2.8 and 2.5 percent in four consecutive quarters of 2006. The consumption of durable goods remained to decline by 6.2 percent particularly vehicles electrical and electronic appliances which were sensitive to income slowdown, high real interest rate and lower confidence. However, the consumption of non-durable goods, mainly food, and semi-durable goods continued to increase.

❑ **Export substantially expanded particularly in volume while prices were relatively stable.** Export value has increased by 18.5 with an increase in quantity and price by 13.2 and 4.7 respectively. Export items with high growth included electronics, electrical appliances, vehicles and parts and rubber products. Exports of rice and rubber grew better than the last quarter of 2006 performance, partly due to favorable price. Furthermore, the export of cassava has increased, thanks to high demand from China for animal feed industry and alternative fuel production.

However, there is a signal of slowing down in export as the value grew by 16.5 percent in April whereby export of electronics slowed down substantially to 10.0 percent, compared to the average of 16.2 percent growth in the first quarter. Important movements of the export are as follows:

- Exports that expanded well were the same group that performed well throughout the year 2006 and benefited from the robust world economy. These goods included computers, integrated circuit, air conditioner and parts, construction materials, vehicle and parts and rubber products. They continued to grow considerably in April with the share of around 49 percent of total export¹
- The signal of downtrend in Thailand's electronic export has started but in a slower pace than other countries in the region such as Malaysia, Taiwan, Korea and China. One reason was attributed to structural change in both production and demand. Regarding production side, production

¹ Including electronics, electrical appliances, vehicles, construction materials, and rubbles.

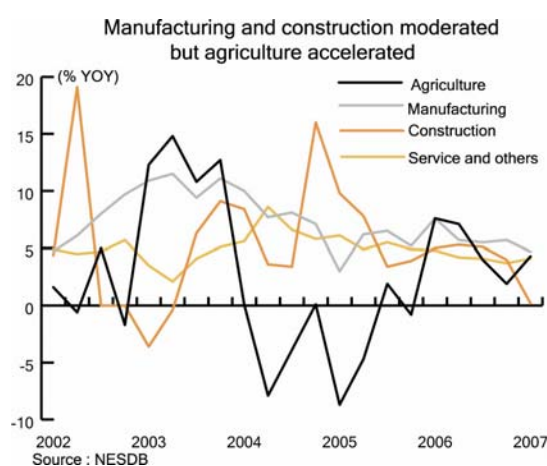
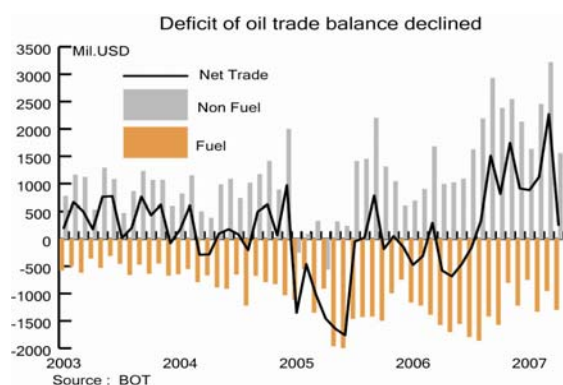
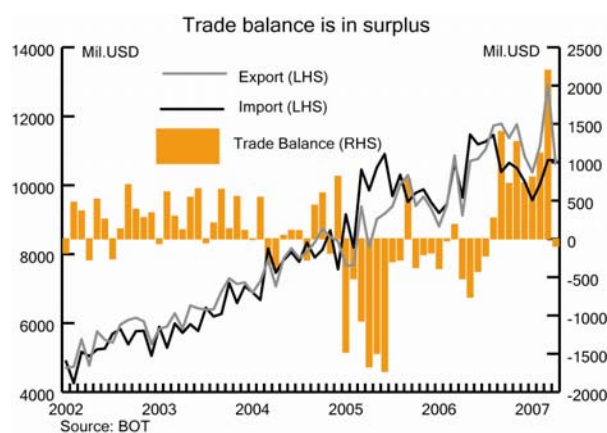


base has been expanded since 2005. Especially, Thailand has become the world major producer and exporter of hard disk drive with the market share of around 45 percent of world demand. On the demand side, Thailand's electronic market was diversified well from The US and Japan to China and ASEAN countries which showed high growth. Electronics exported to china in the first four months expanded by 33.6 percent and accounted for 14.9 percent of total electronic export, compared to 12.0 percent growth and 13.6 percent share in 2006 respectively. China imported electronic parts for producing both the export goods and finished goods for growing domestic market.

- The export to major markets namely Japan, ASEAN and Europe, remained to perform well. Meanwhile, export markets were broadened to India, Eastern Europe, ASEAN, Middle East and China, with increasing proportion². The substantial growth of export to these emerging markets could partly offset the declining US market. Products that faced the fall of export to the US but expanded successfully in other markets were, for instance, jewelry and ornaments, radio receiver and parts, machinery and parts.

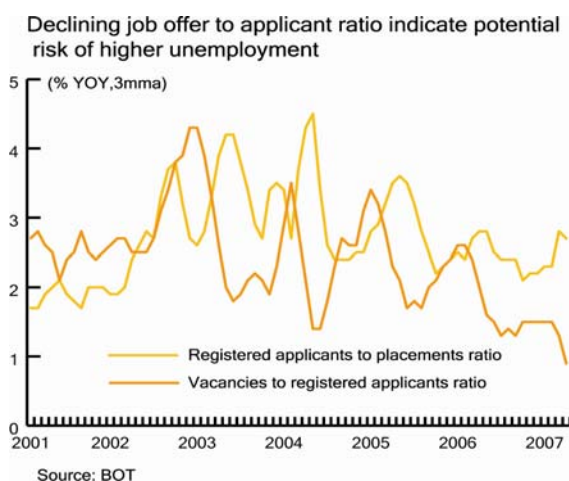
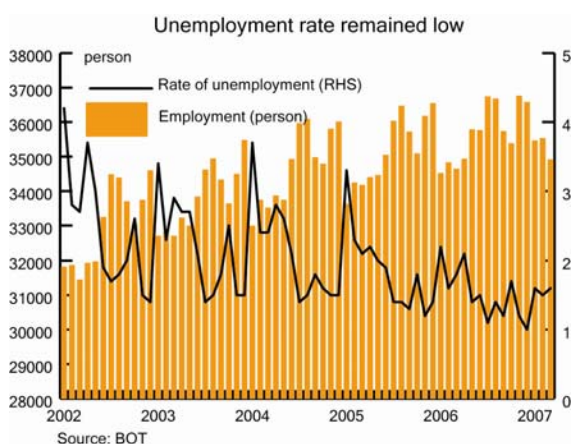
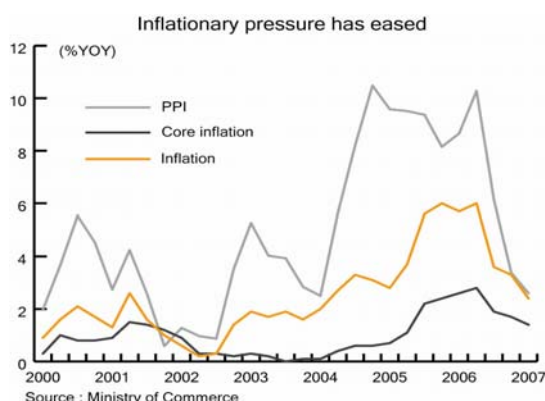
- **The value of import slowed down in the first quarter but signaled an improvement in April.** Import value increased by 3.5 percent owing to the rise in price and quantity by 3.4 and 0.1 percent respectively. The import of raw materials still expanded along with export growth while import of consumer goods were induced by a strong Baht. Meanwhile, import of capital good shrunk by 6.6 percent, followed the 3.3 percent drop in the last quarter of 2006 due to domestic investment contraction and lower import of fuel. However, import accelerated in April with 11.2 percent expansion, led by the import of capital goods which returned to grow by 8.6 percent, together with continuous

² China, India, Eastern Europe, ASEAN and Middle East shared 33.0 percent of total market.



growth in raw material and consumer goods import by 18.9 and 18.7 percent respectively. The seasonalized trend also indicated the import recovery in a near future. This potential import recovery is partly because of the recurring decline of inventories.

- **Trade balance was in a surplus of 4,127 million US dollars** in the first quarter of 2007, compared to 2,244.7 million US dollars through out the year 2006 and 224.5 million US dollars deficit in the first quarter of 2006. However, accelerating imports brought the trade balance into a deficit of 97 million US dollars in April
- **Current account registered a surplus of 5,452.5 million US dollars** in the first quarter of 2007, contributed by remarkable trade surplus and a 1,325.2 million US dollars of net services income and transfers which was higher than the previous quarter and the same quarter of last year. This was due to the increase in net income from tourism and transportation, remittance from Thais working abroad and a surplus in transfer and grants. Current account in April remained in a surplus of 43.7 million US dollars.
- **Production sector** which expanded less than the aggregate demand for good and service caused a sharp decline in inventories to serve the increasing demand. In the first quarter of 2007, the agricultural sector grew by 4.3 percent due to the increase in sugar cane and cassava production while rice and maize production declined. Non agricultural sector slowed down continuously to 4.3 percent as the major manufacturing production such as textile, petroleum products, automobiles and accessories, electrical goods and jewelry dropped due mainly to the slowdown in domestic consumption. Moreover, the decline of entrepreneurs' confidence affected the slowdown in investment and service sector such as construction, hotel and restaurant, wholesale and retail trade and financial services.



□ **Economic stability: inflationary pressure decreased substantially and international reserves remained high**

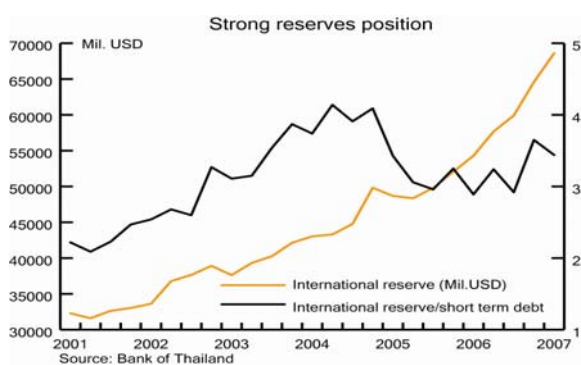
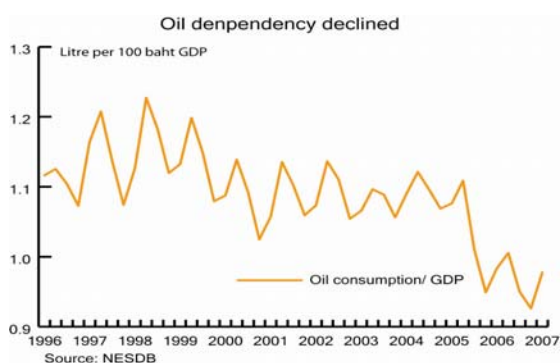
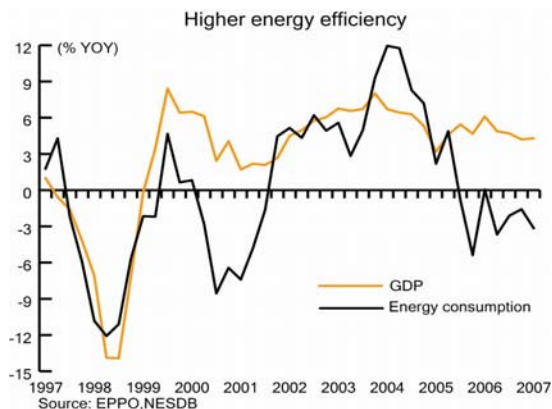
➤ **Continually lessen pressure on price.** In the first quarter of 2007, headline inflation rate was 2.4 percent, lower than 4.7 percent in 2006, and declined to 1.8 percent and 1.9 percent in April and May³ consecutively. This was due to sharply decrease of domestic demand. Core inflation rate was 1.4 percent, compared with 2.3 percent in 2006, and declined to 1.2 percent and 0.7 percent in April and May consecutively. Moreover, producer price index slowed down steadily partly due to Baht appreciation which lowered the cost of imports.

➤ **Employment rose and unemployment rate was lower than the same period of 2006.** In the first quarter of 2007, the numbers of employed person were 35.31 million people, rose by 1.9 percent compared with the same period last year. The numbers of employment in agriculture sector were 12.42 million people, increased by 2.2 percent compared with the same period last year. In addition, the numbers of employment in non agriculture sector were 22.89 million people rose by 1.7 percent. While, unemployment rate was 1.6 percent lower than 1.9 percent from the same period last year.

However, some indicators showed the risk factors of an increasing in the number of unemployment in the future. For example, there is a tendency for employment to decline in some of non agriculture sectors for instance construction sector, retail sector, financial sector and real estate sector. The number of under employment (working time lower than 35 hours per week) increased from 520,000 people in the first quarter last year to 630,000 people in the first quarter of 2007. The ratio of job offers to applications dropped from 1.5 percent in the forth quarter of 2006 to 0.3 percent at the end of the first quarter of 2007. The ratio of applications to

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In the first 5 months of 2007, headline inflation was 2.2 percent and core inflation was 1.3 percent.



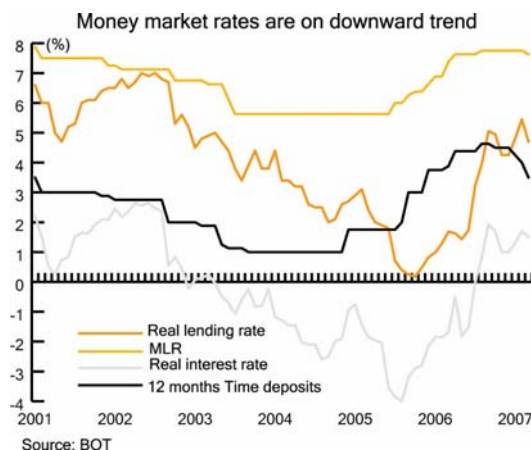
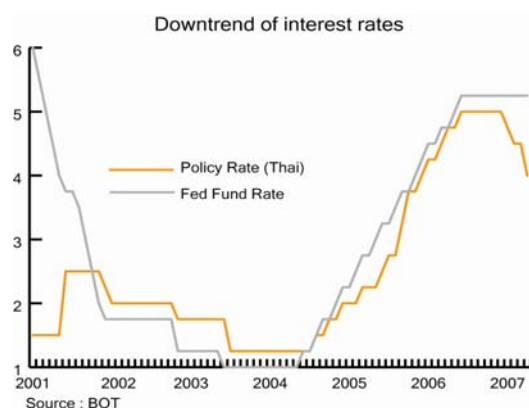
placements remained at 2.2 percent. This ratio reveals that recruitment tends to slow down further if production and investment are not clearly improving. In addition, the skill requirement of labour demand may not match those of labour in market. The lower unemployment rate of 1.6 percent in the first quarter still showed that the demand could not absorb all new labour since the labour force grew by 1.47 percent in the first quarter of 2007, faster than 1.06 percent in the same period of last year.

- **Petroleum consumption⁴ declined** in the first quarter of 2007 by 5.7 percent and continued to decrease by 3.7 from the average of year 2006 despite the increasing in economic activities which meant an increasing in efficiency of petroleum consumption. As for gasohol consumption, for the first quarter of 2007, the consumption continued to increase by 3.8 from the fourth quarter of 2006. Moreover, in April 2007, petroleum consumption proceeded to drop by 4.2 percent while gasohol consumption increased by 10 percent.
- **Externality stability was favorable.** International reserves stood at 71.7 billion US dollars at the end of April 2007. International reserves were equivalent to 3.5 times of short-term external debts or 7 months of import, which is considered to be stable level.
- **Fiscal cash balance recorded a deficit** In the second quarter of fiscal year 2007 (January-March 2007), Revenue was 307,517.95 million Baht and total expense was 437,267.87 million Baht, increasing from the same quarter of the previous year by 22.59 percent. Consequently, fiscal balance also recorded a deficit of 132,226.07 million Baht which increased by 79,541.57 million Baht from the same quarter of the previous year. When adding to the 5,691.33 million baht surplus of the off-budget balance, the resulting balance total deficit of fiscal cash balance was 126,534.74 million Baht. After

⁴ The figures from Department of Energy Business which is 4-month figures, different from 3-month figures of the National Energy Policy and Planning Office but following the same trend

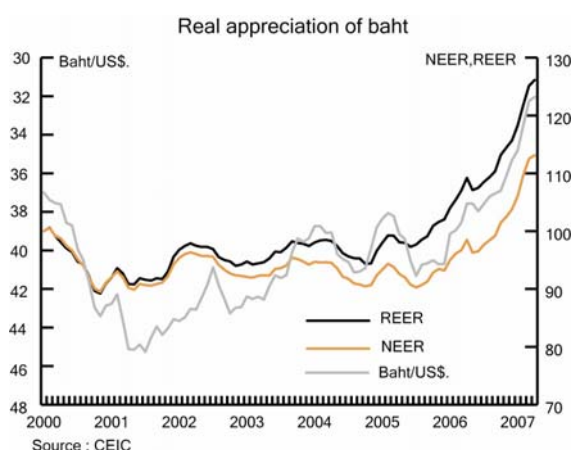
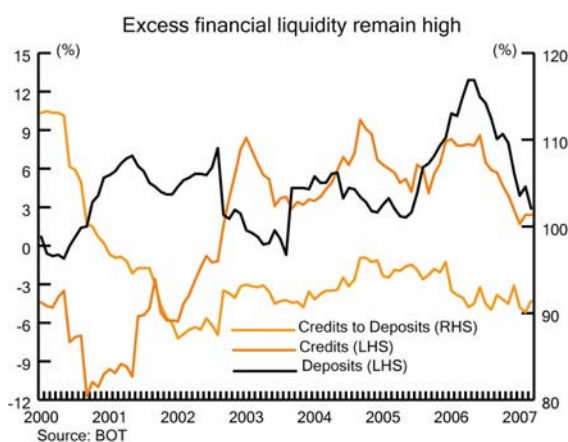
issuing Bonds and T-Bill, fiscal cash balance recorded a deficit of 21,274.74 million Baht.

- **Public debts** At the end of March 2007, public debts was 3.21 trillion Baht, equivalent to approximately 38.10 percent of GDP, lower than 40.48 percent of GDP at the end of December 2006 and 41.45 percent at the end of March 2006.



Financial conditions: Interest rates adjusted downward. Bank deposits slowed down, particularly time deposit. However, credits continued to slow down by more than deposits, thus liquidity in the banking system remained high. Thai baht as well as real effective exchange rate has been on appreciating trend.

- **The policy rate was lowered.** The Monetary Policy Committee decided to lower the policy rate twice, each by 25 basis points, in the first quarter of 2007 to 4.5 percent per annum, in response to the slow down economy and continuously lessened inflationary pressure. The policy rate was lowered consecutively in April and May, each by 50 basis points, to 3.5 percent per annum. Meanwhile the Fed Fund Rate was maintained at 5.25 percent. In other industrial countries, including Japan, Euro zone and the UK, policy rates have been on the rising trend.
- **Commercial banks' deposit and lending rates were adjusted downward,** particularly long-term deposit rates which were lowered rapidly and exceeded the policy rate cut, while lending rates were slightly reduced. Average MLR and 12-month time deposit rate of five large commercial banks declined by 0.13 and 1.0 percent from the end of 2006 to 7.63 and 3.5 percent per annum at the end of the first quarter respectively. Commercial banks continued to lower interest rates further in the second quarter. At the end of May, therefore, average MLR and 12-month time deposit rate decreased to 7.25 and 2.38 percent per annum respectively. As deposit rates declined at a larger pace than lending rates, the effective spread increased from 2.86 percent in the previous quarter to 3.32 percent in this quarter.
- **Deposits and Credits slowed down.** First quarter commercial banks' deposits expanded from the same period of 2006 by 2.9 percent, slowing down from 5.7 percent growth in the previous quarter. The reduction in deposit rates decelerated the growth of time deposit to 9 percent, compared to 21.8 percent in the previous quarter. Commercial banks and finance companies' credits expanded by



only 0.8 percent, down from the 6.6 percent growth in the same quarter of last year, with the downtrend in almost all sectors mainly due to the slowdown in private consumption and investment. In addition, credit card spending slowed down notably.

➤ **Liquidity in the banking system remained high.**

The credits (including investment in private securities) to deposits ratio dropped slightly to 91.4 percent at the end of first quarter since credits slowed down faster than deposits. Hence, excess liquidity in the banking system, estimated as disposable liquidity accumulated continuously to approximately 844 billion baht by the end of quarter or increased by 29.2 percent year-on-year.

➤ **Thai baht strengthened continuously**, averaged at 35.54 baht per US dollar in the first quarter, appreciated by 2.7 and 9.5 percent from the previous quarter and the same period of last year respectively. This is due to the considerable current account surplus, capital inflow to the stock market, as well as the selling of US dollars by exporters, in both spot and forward contracts, which resulted in the rapid appreciation of the baht in March. The baht has been on an appreciating trend to the average of 34.83 and 34.57 baht per US dollar in April and May respectively, and the 5-months average was 35.22 baht per US dollar. 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 quarter. Average NEER and REER in the first quarter appreciated by 7.7 and 8.3 percent year-on-year respectively, slowing down from the previous quarter.

➤ **Stock market and bond market.** Average daily trading in stock market was 11.8 billion baht in the first quarter, dropped by 43.5 percent year-on-year, and SET index slightly declined from the end of last year. Domestic unrest and fragile investors' confidence about political uncertainties depressed the stock market. However, continuing buy of foreign investor, to the net of 66.6 billion baht in the first five months drove SET index to close at 737.4

points at the end of May, increased by 57.6 points from the end of 2006 with market capitalization of 5.5 trillion baht.

The downward trend of interest rate and large issuing of BOT short-term bond encouraged the trading in bond market. Daily trading in the first quarter averaged at 50.1 billion baht, increasing by 59.8 percent from the same period of 2006, and escalated to 63.1 billion baht in the period of April - May. The government bond yields dropped by 82-112 basis points during the quarter, which was larger than policy rate cut. In the first five months yield dropped by 128-184 basis points and led total return index to increase significantly.

1.2 World economic situation in the First Quarter of year 2007

The global economy in the first quarter of 2007 slowed down from the last quarter of 2006 as a result of deceleration in G3 economies (namely US, Eurozone and Japan) as well as the Asian economies with an exception of the Chinese economy which continued to grow faster.

- **The US economy** expanded 2.1 percent - the lowest growth rate it has seen since the second quarter of 2003. The deceleration, from 3.1 percent the previous quarter, was mainly due to a decline in growth rates of private consumption and exports of goods and services on top of a further contraction of private investment – most notably in construction and housing. Amid declining prospects of growth in the property market demand and the consequential threats of excess supply, number of new building projects fell. This contraction in supply, in conjunction with a further decline in the total expenditure on purchases of new and second-hand housings, has been the reason for eight-consecutive-month descent in property prices.
- **The Eurozone economy** continued on a solid recovery path despite growing at a slightly slower pace than seen in the fourth quarter of last year. Led by a concerted descent in growth rates of the German, French and Italian economies, the overall Euro economy was subject to a slight fall in the rate
- of growth, from 3.3 percent in the last quarter down to 3.1 percent in the first quarter of 2007. Paralleled with a fall in growth, inflation rose from 1.8 percent in the previous quarter to 1.9 percent this quarter as a result of further escalation in energy costs and expansion of money credits, prompting the European Central Bank to raise interest rates from the previous level of 3.25 percent to 3.5 and 3.75 percent respectively in January and March 2007. Despite growing more slowly, the Euro economy's unemployment rate managed to improve from 7.3 percent to 7.6 percent over the recent quarter.
- **The Japanese economy** expanded by 2.0 percent, compared with 2.2 percent in the previous quarter owing to a decline in private investment growth. Nevertheless, the growth in net exports of goods and services remained a significant driving force behind the Japanese economic growth, whereby exports of computer parts and accessories account for the large part of the Japanese export surge.
- **The Chinese Economy** managed to maintain a rising trend in growth rates, having grown by 11.1 percent this quarter compared with 10.4 percent in the fourth quarter of 2006. Favorable growth rates of exports and fixed asset investment were the main supporting factors of growth of the overall economy. Value of exports growth remained robust at 27.9 percent whereas value of imports grew by 18.2 percent, improving the Chinese trade position further with the newly calculated surplus amounting to 46.5 billion US dollars – a twofold soar from the 23.1 billion US dollars recorded in the same quarter of last year. Inflation climbed upward to 2.7 percent.
- **The Asian Economy** slowed down as a result of a deceleration in exports of goods and services that corresponds to the current economic slowdown among the major trading partner countries. The economies of Singapore, Taiwan, South Korea and Malaysia had slowed down. Domestic demand, nonetheless, did expand to some countries, most fundamentally in the cases of private consumption in Indonesia, Malaysia, and the Philippines

2. Economic Projection for 2007

The Thai economy in the first quarter of 2007 showed favorable growth with stability, but trended downward compared to the growth rates of 6.1, 5.0, 4.7 and 4.3 percent in first to fourth quarters of 2006 respectively. The key fundamentals which remained sound include increased employment level and low unemployment rate, significantly lessened inflationary pressure, a decline in public debt-to-GDP ratio and a current account surplus. Moreover, interest rates in money market were adjusted downward. The mentioned favorable factors are expected to support further economic growth in the rest of 2007.

Nevertheless, there was increasing imbalance associated with economic growth from 2006 upto the first quarter of this year, which the export sector grew rapidly and became the main engine of economic growth while private spending and investment slowed down considerably. Some downside risks, both external and internal factors that should be taken into consideration also remained. External factors include a cooling down of the US real estate sector which could turn into a real estate bubble burst, a potential stock market bubble in China, the US-China trade conflicts and a pressure from industrialized countries on the Chinese to allow the RMB to appreciate according to the market tides. Moreover, crude oil price is rising amidst geopolitics uncertainty, oil production limitation and risks from natural disaster.

On internal fronts, attention should be on the significant slowdowns of domestic consumption and investment. It is important that the government improve understanding and restore confidence of the general public as well as domestic and foreign investors, by providing access to accurate information and persistently undertaking economic steering measures consistent with the announced schemes such as infrastructure investment projects, environment related proposals by the petrochemical project phase 3 of the National Environmental Board, and projects which currently await approval from the Board of Investment.

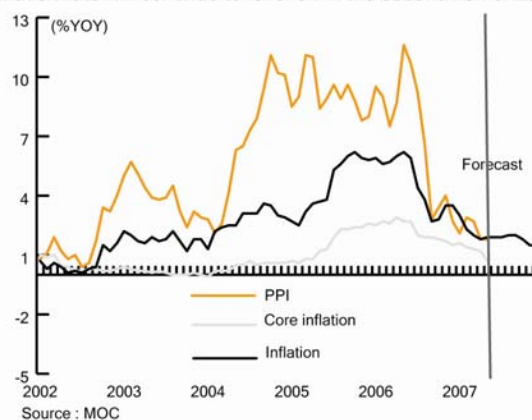
2.1 Positive Factors in the rest of 2007

2.1.1 Pressure on prices and monetary contraction will enhance purchasing power and confidence of the people.

- (1) **Inflation rate is likely to decrease. As a result, purchasing power and confidence of consumer will increase.** Headline inflation apparently decreased in the first 5 months and producer price index also declined from 7 percent in 2006 to 2.6 percent in the first quarter and 1.8 percent in April. Particularly, price of crude material group adjusted downward 3.4 percent and price of intermediate materials fell 0.2 percent during the first 5 months which indicated that inflationary pressures to consumer price is likely to ease. Over the remaining months of this year, factors that will help maintain low inflation include an appreciation of Thai Baht, a slowdown of domestic spending, and a potential slow down of agricultural product prices. However, rising oil price would pressure the

production cost upward, though the impacts on prices of consumer products would not be substantial since the price level had already endured significant upward adjustment starting early 2005 to 2006. Therefore, the current weakness in domestic demand would limit producers' ability to pass on their higher cost to consumers.

Inflation rate will continue to level off in the second half of 2007



(2) Interest rate has declined and is likely to fall further over the remainder of 2007.

The Monetary Policy Committee gradually cut policy rate - a total reduction of 150 basis points in the first 5 months of 2007, from 5 percent at the end of 2006 to 3.50 percent at the end of May 2007, which was lower than the Fed Fund Rate by 175 basis points. In line with the policy rate, financial institutions have responded by gradually lowering the saving rates since January 2007, followed by the reduction in lending rate. The Minimum Loan Rate (MLR) of five large commercial banks averaged 7.25 percent at the end of May, down from 7.75 percent at the end of 2006. Average 12-month time deposit rate decreased from 4.5 percent to 2.38 percent at the end of May. Nonetheless, real interest rate remained relatively unchanged since inflation adjusted downward at a faster pace than deposit and lending rates, limiting the effectiveness of monetary policy stimulation particularly under the current circumstance of fragile consumer confidence. Moreover, it should be noted that the downward adjustment of lending rates by financial institutions was slower than that of policy rate and deposit rates, therefore it is likely that financial institutions would lower the lending rate further to encourage credit needs. However, credit approval tends to be more stringent during an economic slowdown. In addition, the policy rate is expected to be lowered further under the conditions of the apparent slow down in private spending and investment.

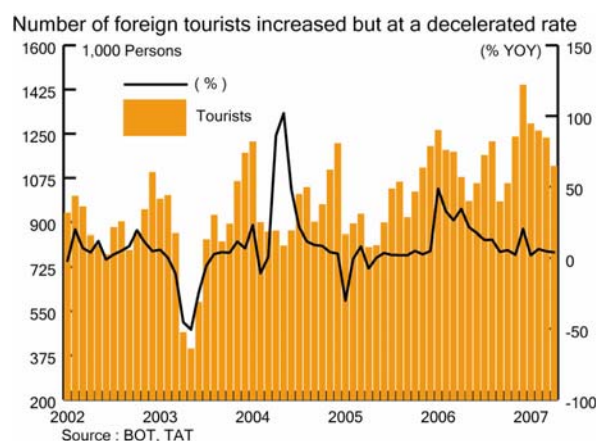
2.1.2 Income from export and tourism will expectedly continue to increase and help support economic growth.

Export opportunities have been on a rising trend in many markets such as, China, India, ASEAN and Japan. Their growth rates in the first 4 months of 2007 were high but slightly fell from their previous levels in 2006. The economy in those countries still have potential to grow strongly in 2007, providing favoring prospects for Thai export growth and partly weathering the impact of the U.S. economic slowdown. Nevertheless, exports of computer related products and integrated circuits to China, India, and Japan

exhibit signs of a mild slowdown. All in all, total exports in the latter half of 2007 would have more constraints than in the former due to a slowdown of the world economy, Baht appreciation and increasing intense trade barriers under the pressure over Asian countries to curb down on exchange rate intervention measures.

Tourism is expected to expand continually.

Tourism Authority of Thailand set the target for growth in the number of foreign tourist at around 8.0 percent, based on the total of 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 entry visa exemption for the tourists staying in the country for 30 days or less.



2.1.3 Increased government budget and investment budget of state enterprises will support economic growth.

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, whereby on 11 May 2007 the government spent 51.71% of this allowed budget. And of the investment budget for state enterprises, 67.70 percent has been spent. Government expenditure in each area averaging no less than 80% of the total budget is expected to significantly mitigate the current dampening down of private investment and consumption, thus generating economic stability during the second half of this year.

2.1.4 The increased total employment level in the presence of low unemployment rate bolster household earnings.

Total employment level recorded a 1.9 percent gain in the first quarter of this year, where employment went up 2.2 percent in the agricultural sector and 1.7 percent in non-agricultural sectors. Unemployment rate was 1.6 percent, having fallen from 1.9 percent recorded in the same period of 2006. Nonetheless, the labour market starts to reveal signs of a possible forthcoming rise in unemployment. They are (i) a slowing down of employment growth in construction and real estate, retail, wholesale and financial sectors (ii) under-employment level rising from approximately 520,000 units in the first quarter of last year to 630,000 units in the first quarter of this year (iii) a fall in the number of job offer to new-job-applicants ratio in conjunction with a stagnant new-job-applicants to job-placements ratio implying a likely continuance of employment growth deceleration provided the production and investment sectors do not show clear signs of recovery, as well as indicating a poor match between the natures of demand and supply in the

labour market and (iv) in spite of a lower unemployment rate in the first quarter of this year in comparison to that recorded at the same point of last year, labour demand was not able to absorb all new available labour supply. This resulted from higher growth rate of the labour force which expanded 1.47 percent in the first quarter of this year compared with 1.06 percent in the same quarter of last year.

2.2 Risk Factors

2.2.1 Crude oil price is in the upward trend

Crude oil price is likely to be higher than expected: average oil price in the first five months of 2007 equal to 57.91 USD per barrel and 64.59 USD per barrel in May. The oil price continued to increase due to a following reasons: (i) Increase of demand in summer during the driving season (ii) Shut down of US refineries led to a decrease of US oil stock below the normal level (iii) OPEC reduced the oil capacity by 1.1 million barrel per day since the third quarter of 2006 which led to decrease of OECD oil stock about 1.1 million barrel per day.

For the rest of 2007, crude oil price is expected to be at high level due to supply shortage. In May 2007, International Energy Agency (IEA) forecasted that world oil supply in 2007 will be 85.3 million barrels per day, increasing from 84.7 million barrels per day in 2006. Meanwhile, the world oil demand will increase from 85.1 million barrels per day in 2006 to 86.50 million barrels per day with a growth rate of 1.4 million barrels per day compared with an increase of 0.6 million barrels per day in 2006. More than half of such demand increase in the world market will be from an increased demand in US and China while the demand of OPEC countries also increase which account to 9.3 percent of the world demand, compared to 8 percent in 2002. This was resulted from higher income of exporting oil during the past few years which led to a faster economic expansion. Moreover, oil demand of India also increases according to their high economic growth which is estimated

to account for 8 percent of the expansion of world oil demand.

- On 8 May 2007, Energy Information Administration (EIA) forecasted West Texas Intermediate (WTI) in 2007 to be on average of 64 US dollars per barrel, lower than 66 US dollars per barrel in 2006. WTI price is generally 3-5 US dollars per barrel higher than the Dubai price.
- On 25 May 2007, referring to Global Weekly Economic Monitor by Lehman Brothers, the Brent future price of 2007 is about 67.5 US dollars per barrel, increasing from 66.2 US dollars per barrel in 2006. The gap between Brent and Dubai price increases to approximately 3-8 US dollars per barrel.
- Domestic retail price of benzene 95 increased from 26.49 baht per litre on January 1, 2007 to 30.39 baht per litre on June 1, 2007. The average retail price of high speed diesel oil increased from 23.34 to 25.34 and to 23.34 baht per litre during the same periods.

Nevertheless, the government policy and measures on energy has improved the efficiency of energy usage which result in a reduction of petroleum products by 5.3 percent in the first four months of 2007, even though, economic activities still growing. In addition, the consumption pattern has been shifted toward gasohol which recorded 90 percent growth of daily demand in 2006 and 5.4 percent increase in total demand during the first four months of 2007. Meanwhile, demand for benzene 95 has declined by 34 percent in 2006 and 20.3 percent for the first four months of 2007. Demand for high speed diesel also follows the same trend as benzene 95 with 5.8 and 0.7 percent reduction during the same periods.

2.2.2 Slow down in private investment resulted from lack of investor confidence toward the political situation and continuity of government policy after the election. Other reasons contributed to lack of confidence are as follow: (i) Unresolved environmental problem in Eastern seaboard (ii)

Delay in EIA approval of private mega-project investment (iii) Construction and property sectors continue to slow down due to the impact of high interest rate during the past two years (iv) Slow down in private consumption due to higher oil price (v) Delay in construction approval of public sector which caused delay in construction payment

2.2.3 Continually slowdown in consumer spending since last year, due to high oil price. The spending still has signal of steadily slowdown in 2007 and apparently decline in durable goods, for instance, vehicles, electrical appliances, and electronic products. That because consumers expect price would be lower from downward trend of interest rate and wait for new models. Furthermore, there was an adjustment of purchasing from a large increase in durable good purchasing in recent years.

2.2.4 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, world agricultural production continues its normal trend.

Agriculture products' price							
(%YOY)	2006					2007	
	Year	Q1	Q2	Q3	Q4	Q1	Apr
1. Agriculture price on sold							
- Rice Grade 1	-2.5	1.9	-5.9	-1.4	-4.4	-0.3	3.9
- Minor Rice	-0.6	1.2	3.3	-2.0	-9.7	-2.8	-7.9
- Maize	6.0	-4.3	11.0	1.3	16.4	44.3	35.9
- Ribbed	30.6	66.1	73.0	16.2	-13.6	-1.7	-2.8
- Tapioca	-19.6	-3.3	-24.2	-29.2	-22.5	-13.1	2.3
- Sugar Cane	19.5	33.7	25.4	-	0.4	-2.1	1.7
- Oil Palm	-12.2	9.9	-23.5	-23.9	-8.1	13.5	66.1
2. Bangkok Wholesale Price							
- Rice 100% Grade2	0.2	5.0	0.9	0.5	-5.4	-4.9	-5.5
- Corn	11.5	-1.4	16.4	10.8	20.3	45.4	26.2
- Ribbed Smoke Grade 3 (Hat-Yai Market)	37.4	73.5	77.1	24.0	-4.6	-0.5	-1.0
3. World Market Price							
- Rice 100% Grade 2	6.6	2.9	4.5	11.3	7.8	6.6	5.5
- Maize, Chicago	23.5	8.5	13.5	15.3	56.0	62.1	43.2
- Ribbed Smoke Grade (Singapore Market)	33.8	58.7	69.5	23.9	-3.3	3.8	2.1
- Sugar, New York	36.7	72.9	70.1	27.4	-9.1	-35.5	-40.7

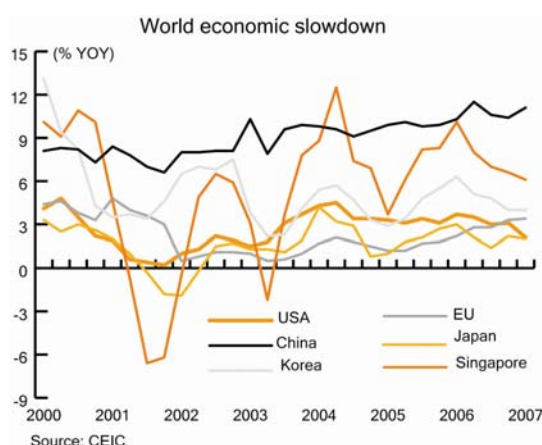
Source: BOT, Office of Agriculture Economic

2.3 Key Assumptions for 2007 Projection: Global economic growth is estimated to be 4.3 percent. Dubai oil price is expected to be 60 – 64 US dollars per barrel

(1) The world economy in 2007 is likely to grow by 4.3 percent, slightly increases from the assumption of 4.2 percent in the previous projection. Japan and Euro area economies are revised upward, from 1.9 and 2.1 percent to 2.3 and 2.5 percent respectively, which substitute a slowdown of the US economy that is revised downward from 2.7 to 2.2 percent. However, world economic growth for 2007 is expected to decrease from 4.9 percent in 2006 and 4.4 percent in 2005. This due to the slowing economic growth of key economies such as the US, Euro area, China, Japan and Asia, as a result of tightening monetary and fiscal policies in China, Japan and Euro area. In addition, the US economy is slowing down in response to decreasing in investment of residential construction and real estate sectors. Moreover, a decrease of investment in US, Euro area, Japan and China and slowdown in electronics cycle led to a slowdown in Asian economies such as, Korea, Taiwan, Malaysia and Singapore. Besides there was an impact from high oil prices since the latter half of 2005. Moreover, Euro area, China and the US still face risks of high inflation due to increasing oil price in this year.

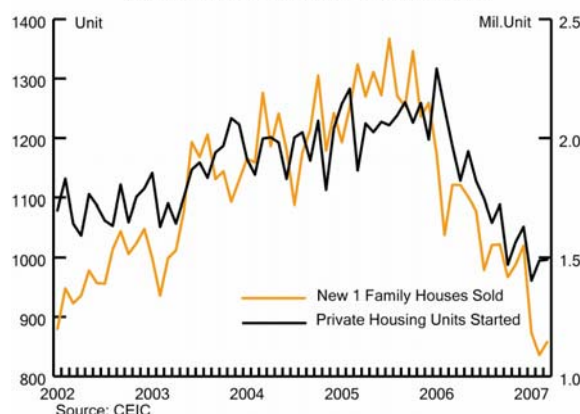
	2005	2006					2007f	2007f	2008f
	Year	Q1	Q2	Q3	Q4	Year	Q1	June	June
World	4.5	5.3	5.0	4.7	4.8	5.0		4.3	4.3
USA	3.2	3.7	3.5	3.0	3.1	3.3	2.1	2.2	2.8
Euro	1.5	2.2	2.9	2.7	3.3	2.8	3.4	2.5	2.2
Germany	0.9	3.2	1.4	2.6	3.5	2.7		1.8	1.9
Japan	1.9	2.9	2.1	1.5	2.1	2.2	2.0	2.3	1.9
Hong kong	7.5	8.0	5.5	6.7	7.0	6.9	5.6	5.5	5.0
Singapore	6.6	10.1	8.0	7.0	6.6	7.9	6.1	5.5	5.7
South Korea	4.0	6.1	5.3	4.8	4.0	5.0	4.0	4.5	5.0
Taiwan	4.0	4.9	4.6	5.0	4.0	4.6	4.2	4.2	4.5
Indonesia	5.7	5.0	5.0	5.9	6.1	5.5	6.0	6.0	6.1
Philippine	5.0	5.7	5.8	5.3	4.8	5.4	6.9	5.8	5.8
Malaysia	5.2	5.9	6.2	5.8	5.7	5.9	5.3	5.5	5.8
China	10.4	10.4	11.5	10.6	10.4	10.7	11.1	10.3	9.8
India	9.2	8.3	9.6	10.2	8.7	9.4	9.1	8.4	7.8

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



The foreseen continual structural changes of the world economy essentially features a more balanced growth distribution over diverse countries, offsetting the US economic deceleration and undergoing adjustments towards a more stable global growth. Most notably in 2007, China, India, Japan, other Asian countries and Europe foresee a fair expansion path owing to the benefits reaped from intra-regional trade, thus mitigating the dampening effect from the US deceleration. The projected changes and risk factors impending on the global economies during the course of this year are accounted as follows:

Real estate market correction in the US



Total home sales and inventories



(1.1) The US economy tends to expand at a rate below its potential capacity. Private consumption continued its role as the main factor in support of economic growth going forward, due to low unemployment rate of 4.5 percent, increasing non-farm payroll, the depreciation of US dollar, and the economic expansion of major trading partners in favor of export growth this year. However, there are downside risks associated with the US economic outlook as follows:

- (i) The slowdown in the real estate sector has yet to fade and will impose negative influence economy-wide, while the requirement for housing loan approval has increasingly been stringent. Moreover, sub-prime mortgage would lead to property foreclosure in the long term, thus causing more excess inventories of housing stocks.
- (ii) Inflation risk still prevails, particularly cost-push inflationary pressure as prices of oil and consumer goods are likely to increase. In addition, tightness in the labor market would pose upward pressures on wages. A slowdown in labor productivity caused wages per labor unit to increase by 1.5 percent in the first quarter, making it impossible for business to maintain its grip on cost. Therefore, the risks to inflation remain and it is expected that the Federal Reserve would maintain the policy rate at 5.25 percent throughout the remainder of year 2007.

(1.2) The Japanese economy in 2007 will experience growth that is driven by a considerable exports growth figure, a recovery of consumption expenditure and a fading deflationary pressure. Land prices are starting to rise while inflation rate begins to stabilize and excess productive capacity has receded. Nevertheless, once taking into account the observed surplus in technological goods stock along with a low level of orders made for the purchases of machineries,

private investment is still expected to slow down further over the course of this year, thus posing limitation on overall economic expansion. Loan credits also grow at a slow pace where wages remain stagnant, allowing room for further expansion in household consumption later this year. Hence, short-term uncertainties that befall on the Japanese economy will originate from interest rates that rise too quickly, placing its economic recovery process under a tight position.

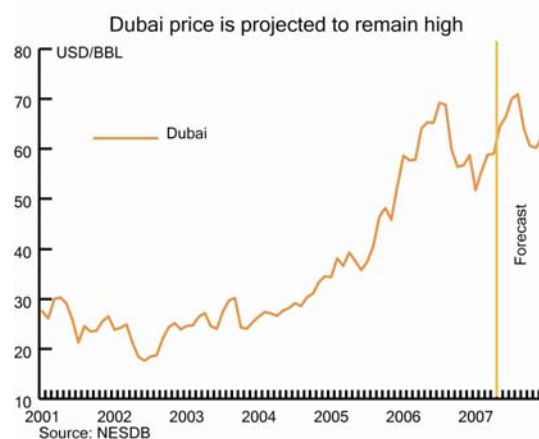
(1.3) The Eurozone economy still exhibits favourable prospects for growth, recording an improved rate of growth in investment, compared with 2006 – an observation which partly owes its cause to the recovery of the German construction sector. Underlying factors for investment growth will include an increase in the exploited production capacity utilization level.

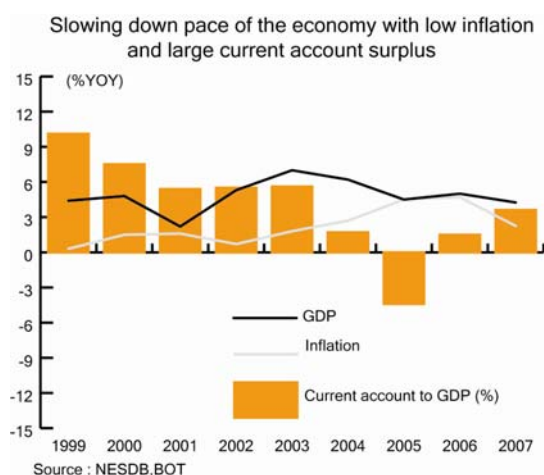
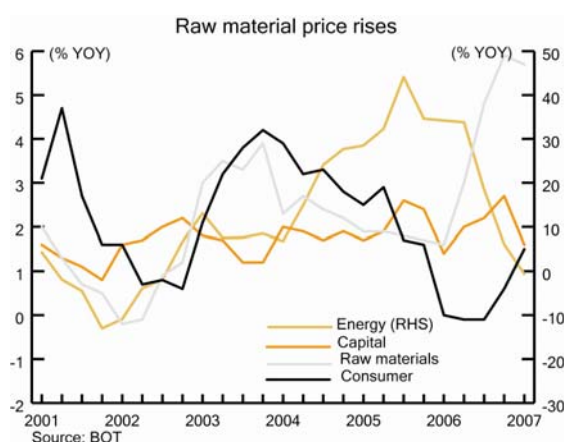
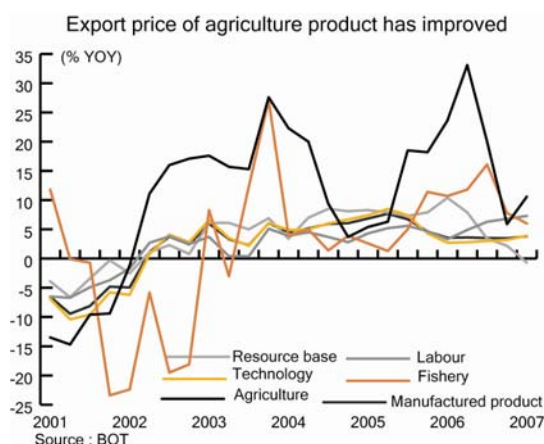
(1.4) The Chinese economy still faces favorable prospects for growth supported by expansion in investment and exports. In the first quarter, fixed capital investment grew by 23.7 percent while exports grew by 27.9 percent. Once the quantity of domestic retail sale growth of 14.9 percent is taken into account, the economy exhibits a more balanced growth. The figure reflects a gradually increasing role of the private consumption on the overall economy. There exist however short-term concerns regarding the sizeable surplus in trade balance as well as in the current account which may reach 9 – 10 percent of GDP, generating upward pressure on the RMB and, consequentially, triggering trade conflicts between China and the US. The US in turn is under consideration to undertake a more serious retaliatory trade action. Throughout the period of attempts to counter the upward pressure on the RMB and keep it within the targeted range, the Chinese economy saw a huge surge in foreign reserves to 1.2 trillion US dollars. In order to relieve the upward pressure on the RMB and

prevent an overheating of the economy, the Chinese authority has implemented several measures to control the economic situation in the coming phases, such as:

- (i) Granting permission for Qualified Domestic Institutional Investors (QDII) to invest in foreign stock markets.
- (ii) Imposing tariffs on the exports of chemical fertilizers at 10 – 20 percent, effective from 1 June 2007 and planning to impose tariffs on 142 other export items at 5 – 10 percent while reducing the tariffs on 209 import items, effective from 5 June this year.
- (iii) Increasing the reserve requirement to 11.5 percent of the total deposit – a measure designed to prevent an economic overheating and stock market bubble.
- (iv) Expanding the daily exchange rate trading range from +/- 0.3 to +/- 0.5

(2) **Dubai crude oil price is expected to be around 60 – 64 US dollars per barrel**, slightly increased from 61.52 US dollars per barrel in 2006. This assumption is revised upward from 55 – 60 US dollars per barrel assumed in the projection in March 6, 2007. However, this assumption is very close with the previous projection and the average price in 2007 would likely to be in the neighborhood of 60 US dollars per barrel.





(3) Export and import prices slowdown. It is expected that commodities' prices in the global market remain on an upward trend, but apparently with a decelerating rate, as a result of increasing manufactured goods prices in 2006, which were pushed by increasing oil and raw materials prices. It can be seen that prices of steel, gold computer parts and electrical appliances were already at peak and started to cool down in the late of 2006. In addition, a slowdown in world demand would create intense price competition. Despite the continuing increase in demand for agricultural products continue to increase, export prices of rice, rubber, cassava and corn, are expected to slowdown as well. Meanwhile, oil palm price has increased thanks to the rundown stock in Malaysia. Average export price, in US dollar term, is assumed to increase by 4.55 percent higher than 4.0 percent assumption of previous projection, but declining from 5.2 percent growth in 2006. Import prices are expected to increase by 4.5 percent, revised up from 3.06 percent assumed previously due to the change in crude oil prices, but slowdown from 6.5 percent in 2006.

2.4 Economic projection for 2007: 4.0-4.5 percent GDP growth, 2.0-2.5 percent headline inflation and 3.0-3.6 percent of current account surplus to GDP

In the first quarter, Thai economy expanded by 4.3 percent, closed to previous quarter with the export remaining to be the main growth engine. Public current expenditure and investment started to improve, providing a support to economic growth momentum. However, private consumption and investment slowed down more than expected in the previous forecast on March 6, 2007. For the rest of

5

In the first 4 months of 2007, export prices in US dollar term increased by 4.9 percent. In the April 2007 World Economic Outlook, the IMF forecasted that commodities prices excluding crude oil would increase by 4.2 percent in 2007, slowdown sharply from 10.3 percent and 28.4 percent growth in 2005 and 2006

6

In the first 4 months of 2007, the averaged import price, calculated by Ministry of Commerce, increased by 3.5 percent.

2007, Office of the National Economic and Social Development Board (NESDB) considered positive factors which would contribute to favorable economic growth including (i) inflation tends to decline (ii) downward trend of interest rates would stimulate consumption and investment. Moreover, larger income tax deduction for interest payment on housing loans from 50,000 to 100,000 baht would help stimulate residential demand. (iii) The acceleration of the disbursement of the government budget and state enterprises investment under the government steering economic policy are ongoing and public investment projects are expected be ready to disburse in the latter half of the year. (iv) Employment continues to expand. Furthermore, latest economic indicators in April suggested positive signs of stable manufacturing production and increase in import of manufacturing machineries and equipments, and raw materials and parts.

Nevertheless, some downside risks associating with economic conditions remain and may deter the recovery including (i) the world economy downward trend that would affect exports and tourism. There is a possibility that the world economy would slow down more than expected if there were the recession of the US real estate sector, the burst of overheated stock market in China, and a sharp rise and fluctuation in oil price due to international political risks, climate conditions and natural disaster. (ii) The oil price remains high and fluctuating according to increasing world demand and contracted production capacity by the OPEC (iii) personal income base might be adversely affected by the employment which signaled the downtrend together with the slowdown of average agricultural commodities price. In addition, real interest rate which encourages spending and investment has yet to adjust downward, provided that the inflation decreased at a faster pace than lending rates and (iv) consumers' and businesses' confidence have declined and remains low under domestic uncertainty. Thus the government has obligation to resume economic and political confidence by proceeding to general election as scheduled,

passing major laws and investing in the announced mega projects.

Based on key assumptions, assessment of latest economic indicators in the first 4 months of this year, including positive and risk factors, NESDB considered that it is less likely for the economy to grow within the range of 4.5 – 5.0 percent since the recovery of private consumption and investment has not yet fully realized. Therefore, the projection is revised to 4.0 – 4.5 percent with the midpoint of 4.2 percent, down from 4.0 – 5.0 percent range and midpoint of 4.5 percent in the previous forecast on March 6, 2007. Main component that contributes to economic growth is the expansion of export sector while domestic demand slows down. Economic stability would remain favorable with the low unemployment rate of approximately 1.5 – 2.0 percent, headline inflation rate down to 2.0 – 2.5 percent and the current account is expected to record a surplus of around 3.0 – 4.0 percent of GDP.

(1) The revision of the economic growth. There are downward revisions on domestic demand and a larger reduction in inventories than the previous projection. However, upward revision on export volume growth would partly offset downward revision on domestic demand. Therefore, downward revision on economic growth is not substantial. The components of 2007 economic growth forecast are as follows

- **Downward revision on projection of private expenditure** from previous projection of 3.8 percent to 2.2 percent following the considerable slow down in private spending in the first quarter, higher oil price which depresses purchasing power and consumer confidence which has no clear sign of recovery. Moreover, signal of spillover from export to employment and consumer spending is unclear

7

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.

since income nominated in baht earned from export of goods with high local content was affected by the appreciation of the baht. Meanwhile, high growth export items including computer and components, integrated circuits, cars and accessories and parts use a low local content.

- **Downward revision on projection of private investment** from previous projection of 5.0 percent to 1.5 percent. Latest economic indicators showed that private investment contracted by 2.4 percent in the first quarter and the business confidence remained low, indicated that the private investment has not yet recovered. However, investment value of application submitted for privilege granted from the Board of Investment (BOI) in the first 4 months increased by 69 percent and investment value of application approved increased by 63.6 percent. This indicated that private sector is planning to invest next year. In the meantime, the projection of public investment, measured at a constant price, remained unchanged at 4.0 percent.

Investment Promotion by BOI

	2006 year	2006				2007 Jan- Apr
		Q1	Q2	Q3	Q4	
Application Approved	-2.7	16.1	-7.5	-4.8	-11.2	3.9
Total Investment	-34.6	58.7	-65.1	-25.1	-27.8	63.6
Agricultural Products	-14.9	37.5	23.4	-51.5	-36.9	25.6
Minerals & Ceramics	-96.9	-68.4	-99.5	-43.7	-61.1	1,153.8
Light Industry	6.3	131.3	-41.7	-22.2	41.4	70.2
Metal Processing	-60.7	31.4	-90.9	-39.2	-9.7	52.6
Electronics & Electrical	-30.8	-65.3	93.8	-43.2	-55.3	158.2
Chemical Plastic Paper	161.2	844.1	385.3	12.3	43.4	-91.4
Service & Infrastructure	-51.4	-21.4	-68.6	-8.3	-60.9	639.1

Source : BOI

- **Upward revision on government current spending** due to speeding up of disbursement during the beginning of 2007 partly from teachers' honorarium disbursement and expediting budget for the well-being strategies at provincial level (5,000 million baht) and 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 6.3 percent, higher than earlier projection of 5.0 percent.

- **Upward revision on export volume growth** from 5.4 percent to 7.9 percent in line with favorable trend of 8.5 percent export volume growth during the first 4 months of 2007, after 8.7 percent growth in the fourth quarter of 2006. Furthermore, the slowdown in main export items such as electronics parts and vehicles is less than anticipated. Electronics parts export to china, in particular, increased considerably resulted from growth potential of the Chinese economy. In addition, export volume to ASEAN, Middle East and India, which have economic growth potential in 2007 still increased. Export price gained from the rising price of rice and rubber which benefited from high oil price and accelerating demand from China. Therefore, export price was revised upward from 2.5 percent to 4.5 percent. However, rise in export value would be contributed mainly by higher export volume. Export value would increase by 12.4 percent in US dollars term but grew only 4 percent in Baht term due to Baht appreciation.
- **Downward revision on import volume growth** from 5.0 percent to 3.8 percent since investment and capital goods import have not recovered as expected. However, average import price move in a rising trend faster than anticipated because of increasing oil price. In addition, commodity price has not slowed down as much because Chinese economy still grew steadily and maintained higher demand. Therefore, import price was revised upward from 3.0 percent to 4.5 percent, causing the import value to increase by 8.3 percent, slightly higher than the growth of 8.0 percent in the previous projection. This is due to the downward adjustment of import price despite the upward adjustment of import volume from 4.6 percent to 5.0 percent.

The reasons for downward revision of import volume are as follows, (i) the economy in the first quarter still relied more on rundown inventories and decreased import volume. (ii) Investment recovery is slower than expected. However, import is likely to rise in the latter half of 2007 since raw materials and parts import apparently increased in April. It is possible that capital goods and raw materials and parts import would move upward because of high export growth and stronger Baht than expected.

- **Downward revision on headline inflation rate** in 2007 to 2.0-2.5 percent, from earlier projection of 2.5-3.0 percent. Appreciation of Baht and slowdown in domestic demand lessened pressure from the increasing oil price and inflation fell rapidly since March. Inflation in the rest of 2007 is less likely to increase at high pace because domestic demand still slow down. Although inflation has declined, private spending has been revised downward according to: slower-than-expected of private investment growth which lessens income and employment below anticipated level, slowdown of export revenue in Baht term, higher oil price and fragile confidence.
- **Current account is in surplus of 3.0-4.0 percent of GDP** with the most possibility around 8.5 billion US dollar or 3.6 percent of GDP

(2) The high case scenario of 4.5 percent economic growth

The economy in 2007 will achieve 4.5 percent growth or higher under the following conditions: (i) Exports sector is competitive under increasing

constraints and increase by 14 – 15 percent and tourism income increases by 6-7 percent (ii) The disbursement of public budget will not be less than 80 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, healthcare infrastructure and social program (iii) Business confidence improves which will support investment (iv) Agricultural products' prices have been maintained at stabilized level with the prevention of output damages from any natural disaster (v) Average Dubai oil price will not exceed 60 US dollars per barrel.

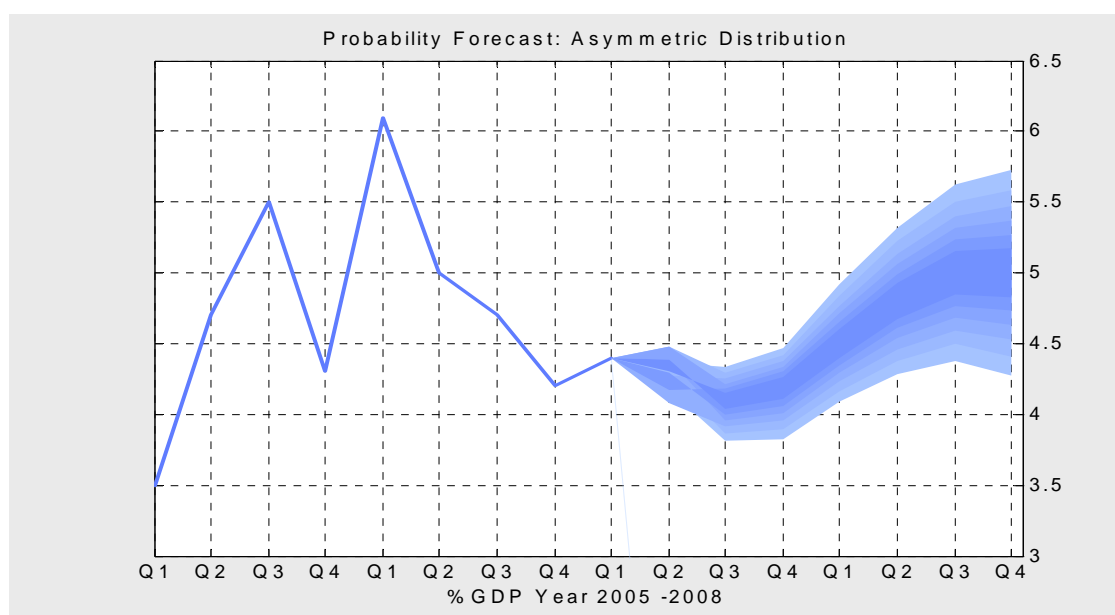
(3) The low case scenario of 4 percent economic growth or lower

The economy in 2007 will expand according to the low case scenario if: (i) Investment recovers at 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 (iv) The average Dubai oil price is above 62 US dollars per barrel as a result of risks of natural disaster, international political tension, or oil stock of OECD countries which are below the seasonal trend.

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 62 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 put serious efforts in the development of renewable energy. In addition, there are some downside risks from the seasonal natural calamities and international conflicts. On the world economic front, tightening monetary policy implementation will also put constraint 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 than anticipated.

Probability Forecast in 2007: Symmetric Distribution



As a result, NESDB forecasts that the probability of the Thai economy expanding higher than the midpoint of 4.2 percent in 2007 is less than the probability of achieving the lower side of the forecast range. Thus the asymmetric probability distribution is relatively skewed. The probability of achieving the economic growth of 4.0-4.5 percent is approximately 76 percent of which the probability of growth forecast of 4.0-4.2 percent is higher than the probability of the growth forecast of 4.2-4.5 percent. This shows an adjustment of probability distribution more towards downside risks.

3. Economic Policy Management for 2007

The economic management in 2007 should give priorities to the maintenance of economic stability, the driving force for smooth economic movement, as well as the balance of economy, for example, productivity improvement, investment stimulation and the support for adjustment of people and business sector during a political transition period and an economic slowdown. Therefore, following measures should be recognized:

- 3.1 Accelerating 2007 government budget disbursement to achieve the goal with no less than 93 percent disbursement rate for government and no less than 85 percent for SOEs. The disbursement was the responsibility of Overall Economy Steering Committee and Government Spending Monitoring Committee. Priorities were given to projects and plans that could allocate budget down through village area and individuals, for instance, the project of well-being strategies at provincial level, the project of community development following the Sufficiency Economy approach, and the projects to solve problems in the three southernmost provinces.
- 3.2 Preparing for the disbursement of 2008 budget as scheduled, particularly ensuring that the planned deficit of 120,000 million baht will be allocated for infrastructure projects and others government project which would strengthen economic foundations
- 3.3 Creating and restoring confidence of investors, manufacturers, and tourists, especially solving problems that limit growth of private investment as the follows:
 - 3.3.1 Speeding up government infrastructure project which would increase opportunities of construction and real estate sectors. Also, speeding up mass transit system project to get bidding at least 2 lines by August 2007
 - 3.3.2 Accelerating government procedure involved with private investment in order to start the project within this year, especially the project under consideration of Board of Investment and the National Environment Board.
 - 3.3.3 Restoring confidence of tourists in uncertain circumstance, especially in securities matters, in order to boost income from tourism sector to meet target
 - 3.3.4 Supporting development and usage of alternative energy sources, particularly NGV, Gasohol and Bio-diesel
- 3.4 Creating and restoring confidence in economic and political prospect by focusing on approval of new constitution as scheduled, implementing the election with transparency and enacting important laws.

Economic Projection of 2006 - 2007

	Preliminary			Projection	
	2004	2005	2006_p	2007_f	
				6 Mar 07	4 Jun 07
GDP (at current prices: Bil.Bht)	6,489.8	7,087.7	7,813.1	8,438.1	8,399.0
GDP per capita (Bht per year)	101,017.2	109,318.4	120,497.4	129,139.3	128,541.5
GDP (at current prices: Bil.USD)	161.0	176.0	206.1	237.7	240.0
GDP per capita (USD per year)	2,507	2,715	3,179	3,637.7	3,672.6
GDP Growth (at constant prices, %)	6.3	4.5	5.0	4.0-5.0	4.0-4.5
Investment (at constant prices, %)	13.2	11.1	4.0	4.8	2.1
Private (at constant prices, %)	16.2	10.9	3.9	5.0	1.5
Public (at constant prices, %)	5.0	11.3	4.5	4.0	4.0
Consumption (at constant prices, %)	6.1	5.5	3.2	4.0	2.8
Private (at constant prices, %)	6.2	4.3	3.1	3.8	2.2
Public (at constant prices, %)	5.6	13.7	3.4	5.0	6.3
Export volume of goods&services (,%)	9.6	4.3	8.5	5.5	6.9
Export value of goods (Bil.USD)	94.9	109.2	128.2	138.3	144.1
Growth rate (%)	21.6	15.0	17.4	7.9	12.4
Growth rate (Volume, %)	8.4	4.3	9.0	5.4	7.9
Import volume of goods&services (,%)	13.4	9.3	1.6	5.6	4.3
Import value of goods (Bil.USD)	93.5	117.7	126.0	136.1	136.4
Growth rate (%)	25.7	25.9	7.0	8.0	8.3
Growth rate (Volume, %)	12.3	8.9	-0.8	5.0	3.8
Trade balance (Bil.USD)	1.5	-8.5	2.2	2.3	7.7
Current account balance (Bil.USD) ^{2/}	2.8	-7.9	3.2	3.1	8.5
Current account to GDP (%)	1.7	-4.4	1.5	1.3	3.6
Inflation (%)					
CPI	2.7	4.5	4.7	2.5-3.0	2.0-2.5
GDP Deflator	3.2	4.5	5.0	3.5	3.3
Unemployment rate (%)	2.1	1.8	1.5	1.5-2.0	1.5-2.0

Source: Office of National Economic and Social Development Board. June 4, 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.