



**Thailand's Economic and Monetary Conditions  
in 2007**

**Monetary Policy Group**

**March 2008**

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## Part 1: Economic Performance in 2007

### Executive Summary

#### The Thai Economy in 2007

In 2007, the Thai economy expanded well at the rate of 4.8 percent with export sector as the major driving force. This corresponded to the accelerated manufacturing production, particularly in the export-oriented industries. Meanwhile, the domestic demand grew at a slower pace, compared to the previous year. However, both consumption and investment began to exhibit recovery signs in the second half of the year, in line with the speedup in imports. Overall economic stability remained sound. Current account continued to register a surplus and international reserves stayed at a high level. Average inflation rate was lower than the previous year, though accelerating in the fourth quarter owing to the increase in oil prices.

(%Δ)	Growth rate		Contribution to Growth	
	2006	2007	2006	2007
Consumption	3.0	2.7	1.9	1.7
Private	3.2	1.4	1.7	0.8
Public	2.3	10.8	0.2	0.9
Gross fixed capital formation	3.8	1.4	0.9	0.3
Private	3.7	0.5	0.7	0.1
Public	3.9	4.0	0.2	0.2
Domestic demand	3.2	2.3	2.8	2.0
Change in inventories	11.6 <sup>1/</sup>	1.8 <sup>1/</sup>	-1.7	-0.2
Net exports of goods and services	40.5	21.6	4.1	3.0
Exports of goods and services	8.5	7.1	5.6	4.8
Imports of goods and services	2.6	3.5	1.5	1.9
<b>Gross Domestic Product</b>	<b>5.1</b>	<b>4.8</b>	<b>5.1</b>	<b>4.8</b>

<sup>1/</sup> Billion baht

Source: NESDB

With respect to the agricultural sector, farm income from major crops remained satisfactory, though slowing down from last year owing to the deceleration in both production and price of major crops. Nonetheless, high growth rate was observed in manufacturing productions. The Manufacturing Production Index (MPI) increased by 8.2 percent, accelerating from last year in line with the productions of the electronics, electrical appliances, leather products, and chemical products, which were all mainly for

exports. The capacity utilization rate in 2007 was at 74.6 percent, increasing from 73.9 percent in the previous year.

In the service sector, tourism conditions were favorable, with the number of foreign tourists reaching 14.5 million, equivalent to an increase of 4.6 percent from the preceding year. These numbers matched the estimates of the Tourism Authority of Thailand. The satisfactory expansion of tourism was in spite of several negative factors such as the explosion incidents in Bangkok area on 31 December 2006, smoke problem in the upper Northern region, and 7 bombings in Had Yai.

On the demand side, private consumption in 2007 increased by 1.4 percent, decelerating from the previous year's rate of 3.2 percent as a result of weakened consumer confidence. This was in line with the Private Consumption Index, which also slowed down. However, private consumption began to gradually improve in the second half of the year, particularly in the fourth quarter when political uncertainties unwound, while interest rates remained low. On the other hand, private investment expanded only 0.5 percent, slowing down from the last year's growth of 3.7 percent, in line with the deceleration in the machinery and equipment as well as construction categories. This corresponded to Business Sentiment Index (BSI), which lowered from last year. Nevertheless, in the second half of 2007, machinery and equipment investment improved continuously.

On the external front, trade balance in 2007 registered a surplus of 12.0 billion US dollars, up from a surplus of 1.0 billion US dollars in the previous year. This was attributed to high export growth of 18.1 percent, accelerating from 17.0 percent in

2006. Exports in the high-technology category continued to achieve satisfactory expansion from the preceding year. Meanwhile, imports rose by 9.6 percent, accelerating from last year. In the first half of 2007, imports continued a decelerating trend from 2006, in line with the weak domestic demand. However, the improvement in imports occurred in the second half of the year. Services, income and transfers account recorded a surplus of 2.9 billion US dollars, increasing from last year's surplus of 1.2 billion US dollars. This was in line with the increased receipts from tourism and public investment income. Consequently, the current account recorded a surplus of 14.9 billion US dollars, up from the previous year's surplus of 2.2 billion US dollars. Meanwhile, net capital flows registered a small outflow in 2007. The unremunerated reserve requirement (URR) on short-term capital inflows resulted in the slowdown of net external borrowing. Moreover, the relaxation of measures on capital outflows caused an increase in portfolio outflows by Thai residents, particularly in the latter half of the year. Nonetheless, after accounted for net errors and omissions, the balance of payments was in a surplus of 17.1 billion US dollars.

As for fiscal conditions in fiscal year 2007, the government implemented a deficit budget policy after running balanced budgets for two consecutive years in fiscal year 2005 and fiscal year 2006. The government budget expenditure for fiscal year 2007 was set at 1,566.2 billion baht, with the net revenue of 1,420 billion baht and a budget deficit of 146.2 billion baht (or 1.7 percent of GDP). The government's revenue remitted to the Treasury (cash basis) totaled 1,432.7 billion baht, rising by 6.9 percent from the previous fiscal year. This was higher than initially estimated in the budget document partly because of the extra income from the dissolving of the Exchange Equalization

Fund. Meanwhile, the government's expenditures totaled 1,575 billion baht, increasing by 12.8 percent from the previous fiscal year. The disbursement rate was 93.9 percent, higher than that of the previous year and the target rate of 93.4 and 93.0 percent, respectively. This resulted from the government's measures to accelerate the rate of disbursement. As a consequence, the government's cash balance registered a deficit of 94.2 billion baht.

Regarding monetary conditions, money market interest rates continuously adjusted downward in the first half of 2007, following the five cuts in the policy rate by the Monetary Policy Committee (MPC). During the latter half of the year, the rates were stable, in line with the the policy rate that was kept unchanged. For the entire year, the 1-day repurchase rate and the overnight interbank rate averaged at 3.77 and 3.79 percent per annum, declining from the previous year's averages of 4.64 and 4.69 percent per annum, respectively. Because of the lower deposit interest rates compared to the previous year, some depositors shifted their deposits into investment on bills of exchange and bonds which yielded higher returns. Hence, the deposits of depository corporations were in a decelerating trend since the beginning of the year. Regarding private credits, a low growth rate was seen since the beginning of 2007, corresponding to the contraction of credits extended to the business sector, particularly investment credits. This mostly stemmed from the slowdown in domestic demand and fragile business sentiment. Nonetheless, credits extended to the business sector began to expand towards year-end.

In 2007, the baht averaged at 34.56 baht per US dollar, appreciating from the average of 37.93 baht per US dollar in the previous year. This mainly followed the US

dollar depreciation as well as the continued current account surplus. Even though the baht against the US dollar in December appreciated by 6.3 percent from the same period last year, the Nominal Effective Exchange Rate (NEER) and Real Effective Exchange Rate (REER) appreciated by 1.4 and 1.3 percent, respectively.

The overall economic stability in 2007 was satisfactory. The internal stability remained sound. The headline and core inflation rates were at 2.3 and 1.1 percent, respectively, decreasing from the previous year's average of 4.7 and 2.3 percent, respectively, despite the acceleration of headline inflation during the fourth quarter from the increase in oil prices. Unemployment rate and public debt stayed low. Meanwhile, external stability was also satisfactory with continued current account surplus and high ratio of international reserves to short-term debts.

### **Economic Outlook for 2008**

The economy in 2008 was expected to continue an expansion trend. The MPC assessed the economic growth to be in the range of 4.5-6.0 percent, with more balanced contribution from both domestic demand and exports. Private consumption continued to exhibit an improving trend from 2007, following the recovery signs since the latter half of the year, even though consumers' purchasing power was affected somewhat by the persistently high oil prices. Meanwhile, private investment was also on a recovery track, in line with the improved business sentiments from subsided political uncertainties, high capacity utilization rate, and the ongoing propulsion from public investment, particularly the large-scale investment projects. On the other hand, exports were expected to decelerate due to the trading partners' economic slowdown, especially the US economy as the subprime problems prolonged. An acceleration of

headline inflation driven by supply-side factors was also expected, following the increasing prices of oil, agricultural products and other commodities. Moreover, greater transmission of costs into prices of goods and services was also anticipated, particularly when domestic demand strengthened. However, when the supply-side inflationary pressure faded out, headline inflation should slow down in the second half of the year. Although core inflation would also adjust upward, it was still expected to be within the target range of 0-3.5 percent.

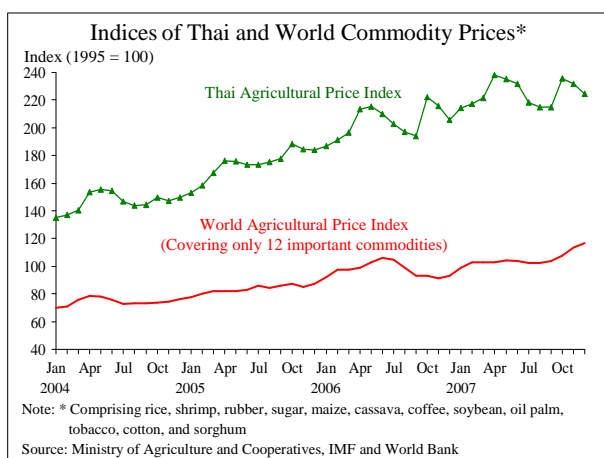
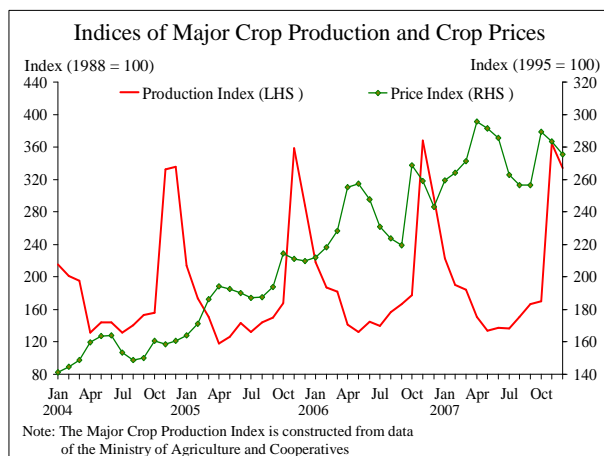
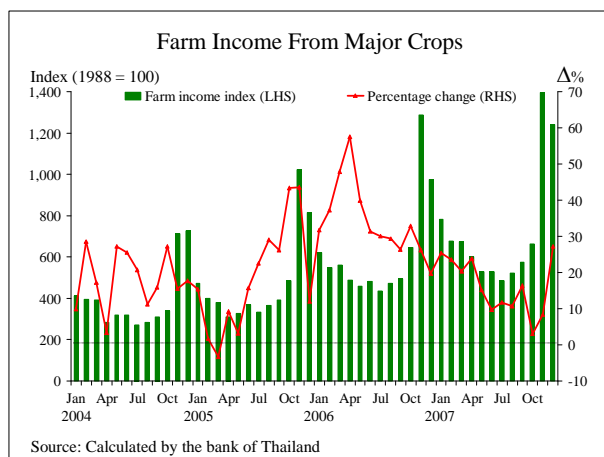
Risks to growth and inflation still remained. The downside risks included increasing world crude oil prices, the greater-than-expected slowdown of trading partners' economies affected by the US subprime problems, the volatility of regional currencies, and the consumer and business sentiments with respect to political stability. Nevertheless, the upside risk involved the greater-than-expected effect of fiscal stimulation measures on public investment as well as the promotion of private investment.

Monetary Policy Group  
Bank of Thailand  
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## Section 2: Economic Conditions by Sector

### 2.1 Agricultural Sector

$\Delta\%$	2006	2007				
		Total	Q1	Q2	Q3	Q4
Farm Income	32.7	16.6	23.1	16.1	12.8	13.3
Crop Production	6.6	1.4	2.0	1.2	-2.0	3.0
Crop Prices	24.4	14.9	20.7	14.8	15.1	10.0



According to the Office of the National Economic and Social Development Board (NESDB) report, **agricultural production** in 2007 expanded by 3.9 percent, decelerating from 4.4 percent in the previous year. This corresponded to the slowdown in the agricultural production index, which resulted from the decrease in maize and oil palm production. Meanwhile, sugarcane and cassava production rose in response to higher prices.

**Production index for major crops** increased by 1.4 percent, though slowing down slightly from last year. Sugarcane and cassava production increased substantially owing to favorable climate and a price surge in the preceding year, which led to the expansion of the cultivation areas. In contrast, maize production fell as farmers reduced areas for maize cultivation and switched to more profitable crops. Oil palm production also declined from drought at the end of 2006.

**Price index of major crops** in 2007 rose by 14.9 percent, decelerating from last year's 24.4 percent partly due to the continuous price increase earlier since 2006. The prices of cassava and maize edged up significantly as the demand for alternative energy increased. The price of paddy remained favorable, particularly the price of glutinous paddy which increased in line with the increased demand from China in preparation for the 2008 Olympic Games.

Overall, the deceleration in production and price of major crops resulted in the 16.6 percent increase in farm income from major crops, weakening from the preceding year's increase of 32.7 percent.

**Price index of livestock** dropped by 4.8 percent due to the excess supply of swine and the decline in domestic demand for cattle. On the other hand, the price of broiler and eggs rose moderately as a result of the higher external demand for processed fowl as well as the supply-demand rebalancing measures.

**Fishery Price** increased slightly by 0.3 percent, decelerating significantly from last year. This was due mainly to the reduction in shrimp price that resulted from the excess supply and the sluggish shrimp exports.

Following the deceleration in the crop and fishery price indices, together with the contraction in the livestock price index, the **overall Thai farm price index** increased by 10.1 percent, decelerating from the previous year.

**World agricultural price** (covering only 12 important commodities) heightened by 8.0 percent from the previous year. This was in line with an increase in the prices of oil palm, cassava, maize, and paddy, following the sustained demand for consumption and for alternative energy production. However, the price of sugar declined due to excess supply.

### **Major Commodities**

**Paddy.** Paddy production grew slightly due to favorable climate condition and sufficient water level in all major reservoirs. The second crop production expanded to compensate the first crop that was damaged by flood at the end of 2006. Nonetheless, the satisfactory production growth at the end of 2007 resulted in a moderate increase in the overall first crop production compared to the preceding year.

In 2007, rice exports surged noticeably compared to last year in terms of both volume and price, due to the high level of the government's paddy stock. In addition, other rice exporters, such as Vietnam and India, faced natural disasters, which slowed down their exports and thereby pushed up the export price of Thai rice.

**Cassava.** Cassava production rose 1.8 percent, following the upward adjustment in price resulted from the surge in domestic and external demand. In addition, the policy to promote ethanol production and favorable climate condition induced farmers to expand the cultivation areas. The value of cassava exports increased mainly from price, while the volume of exports was similar to that of last year.

**Rubber.** Rubber production contracted 1.6 percent from the previous year. Despite the expansion of cultivation areas in response to price incentives, frequent rainfall in the southern part of Thailand impeded rubber tapping, causing the decline in yield per rai. Nonetheless, the price of rubber remained high in line with the external demand, particularly from China, India, and Russia.

**Sugar cane.** Sugar cane production increased 8.5 percent from favorable climate condition. Additionally, the preliminary sugar cane price for 2006/2007 that reached 800 baht per ton also encouraged the expansion of planted areas. However, the price of sugar cane for 2006/2007 dropped following a decrease in world sugar price due to the remaining excess supply.

**Broiler.** For 2007, broiler production increased only slightly due to the downward shift in production at the end of 2006, which attempted to curb excess supply that stemmed from the price hike in 2005. In addition, confidence in the quality of Thai broiler resulted in the balance between the supply and the demand from both domestic and external markets. The price of broiler rose satisfactorily in line with the higher demand for processed fowl exports.

**Swine.** In 2007, the excess supply of swine caused its price to decline from the preceding year. However, supply management measures contributed to the slight increase in swine price since mid-2007.

**Shrimp.** Shrimp production decelerated as a result of an unattractive price, unfavorable climate condition for shrimp production, and a slowdown in shrimp export.

### **Outlook for 2008**

**Major crops production** was expected to increase due to favorable climate condition and the satisfactory price level since 2007, which would result in the expansion of cultivation areas. In addition, the external demand for agricultural products, both for consumption and for alternative energy production, was expected to remain strong. Crop production which was expected to expand included paddy, rubber, cassava, and oil palm.

**Price of major crops**, particularly paddy, rubber, cassava, oil palm and sugar cane, was also expected to rise in line with the high demand from both domestic and external markets. Additionally, the price of maize was expected to accelerate as the supply declined while the demand for feed production was still rising, even though the input was partly substituted by cassava.

**Farm income from major crops** was expected to increase following both price and production factors.

**Price of livestock** was expected to exhibit an upward trend in line with the prices of broiler and swine. Broiler export would benefit from the newly distributed import quota from EU and the high purchasing power from the Middle East. Meanwhile, the price of swine was likely to increase as excess supply subsided.

**Price of fishery** was also expected to increase in line with the price of shrimp, which was likely to rise amid the decreasing supply caused by the higher prices of oil and feed. In addition, the Japan-Thailand Economic Partnership Agreement (JTEPA), which was effective since 1 November 2007, would also benefit livestock and fishery exports.

**World agricultural price** (covering only 12 important commodities) was expected to adjust upward in line with the increase in prices of rubber, paddy, maize, oil palm, cassava, and sugar, which resulted from the rising demand for consumption and alternative energy production.

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## Major Crop Production, Trade, and Consumption<sup>1/</sup>

(Unit: Million tonnes)

Thai Crops	2003/04	2004/05	2005/06	2006/07 <sup>P</sup>	2007/08 <sup>E</sup>	Δ%
Paddy	29.47	28.54	30.29	29.64	30.18	1.8
First crop	23.14	22.65	23.54	22.84	23.39	2.4
Second crop <sup>2/</sup>	6.33	5.89	6.75	6.80	6.79	-0.1
Rubber	2.86	3.01	2.98	3.07	3.02	-1.6
Maize	4.18	4.22	3.94	3.72	3.60	-3.1
Cassava	21.44	16.94	22.58	26.92	27.39	1.8
Sugarcane	67.93	52.24	50.41	67.19	72.88	8.5
Mungbean	0.18	0.13	0.11	0.11	0.11	0.1
Soybean	0.23	0.22	0.23	0.21	0.21	-0.6
Oil palm	4.90	5.18	5.00	6.72	6.41	-4.5
Coffee	0.06	0.06	0.05	0.06	0.05	-9.4
World Crops	2003/04	2004/05	2005/06	2006/07 <sup>P</sup>	2007/08 <sup>E</sup>	Δ%
Grains						
Production	1,861.9	1,861.2	2,041.4	2,016.4	1,991.1	-1.3
Trade	233.0	233.0	243.1	251.1	259.6	3.4
Rice (milled)						
Production	391.5	391.6	400.5	417.6	418.2	0.1
Trade	27.2	27.2	29.2	29.4	30.5	3.8
Maize						
Production	627.2	627.3	714.8	696.3	704.3	1.1
Trade	79.1	79.1	76.0	82.6	90.9	10.0
Soybean						
Production	186.5	186.6	215.8	220.5	237.2	7.6
Trade	56.2	56.2	64.7	63.9	70.9	10.9
Rubber						
Production	8.1	8.7	8.8	9.6	9.7	1.2
Consumption	8.1	8.6	9.1	9.4	9.8	3.5

Note: P = Preliminary

E = Estimated

<sup>1/</sup> Estimate as of January 2008

<sup>2/</sup> Second crop production of 2007/08 is the production obtained during 1 January - 31 December 2008

Source: Office of Agricultural Economics

World Production, Market and Trade Reports, Foreign Agriculture Service, United States Department of Agriculture

*LMC Commodity Bulletin*

### Thai Farm Prices

(Unit: Bath/tonnes)

	2006	2007				
		Total	Q1	Q2	Q3	Q4
<b>Farm Price Index</b> (1995 =100)	<b>204.3</b>	<b>224.9</b>	<b>226.4</b>	<b>223.4</b>	<b>216.2</b>	<b>230.6</b>
Δ%	17.4	10.1	11.9	8.3	9.2	7.5
<b>1. Crop Price Index</b> (1995 =100)	<b>238.7</b>	<b>274.2</b>	<b>277.9</b>	<b>270.6</b>	<b>258.6</b>	<b>282.7</b>
Δ%	24.4	14.9	17.5	12.4	15.1	10.0
Hom Mali Paddy	8,180	8,772	8,447	9,098	8,971	9,224
Δ%	6.5	7.2	6.2	8.2	5.1	11.5
Paddy Class 1 (5%)	6,496	6,529	6,541	6,517	6,444	6,590
Δ%	-2.5	0.5	1.9	-0.8	-3.3	1.7
Rubber	68,187	68,971	69,789	68,154	63,677	72,631
Δ%	30.7	1.2	-8.0	12.6	-8.4	41.0
Maize	5,165	6,804	6,852	6,756	6,270	7,242
Δ%	6.0	31.7	34.5	29.0	26.6	31.3
Cassava	1,088	1,460	1,222	1,699	1,678	1,720
Δ%	-19.5	34.2	1.6	74.4	77.5	71.5
<b>2. Livestock Price Index</b> (1995 =100)	<b>137.0</b>	<b>130.4</b>	<b>124.8</b>	<b>135.9</b>	<b>137.1</b>	<b>134.7</b>
Δ%	-7.5	-4.8	-12.1	3.0	2.8	3.3
<b>3. Fishery Price Index</b> (1995 =100)	<b>162.5</b>	<b>163.0</b>	<b>164.7</b>	<b>161.3</b>	<b>160.9</b>	<b>161.6</b>
Δ%	13.4	0.3	6.6	-5.5	-9.3	-1.3
<b>4. Wood Price Index</b> (1995 =100)	<b>122.2</b>	<b>122.8</b>	<b>121.4</b>	<b>124.1</b>	<b>122.7</b>	<b>125.5</b>
Δ%	6.1	0.5	0.2	0.8	-0.3	1.9

Note: Δ% represents percentage change from the same period last year

Source: The Farm Price Index is constructed from data of the Fish Marketing Organization, the Ministry of Agriculture and Cooperatives, and the Ministry of Commerce

### World Agriculture Prices

(Unit: US dollar/tonne )

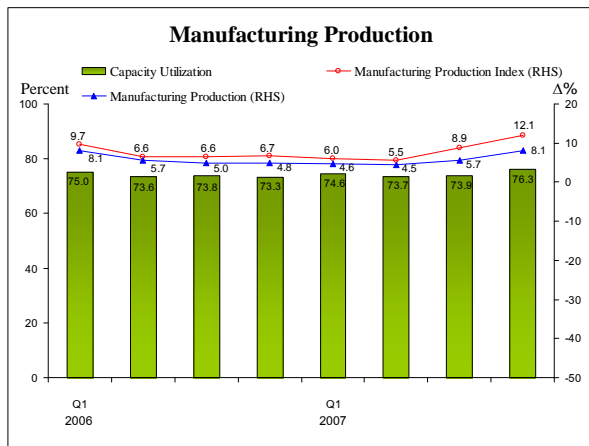
	2006	2007 <sup>P/</sup>				
		Total	Q1	Q2	Q3	Q4
<b>World Agricultural Price* (1995 =100)</b>	<b>97.4</b>	<b>105.2</b>	<b>101.7</b>	<b>103.6</b>	<b>102.8</b>	<b>112.7</b>
Δ%	16.6	8.0	6.2	0.9	4.0	22.0
Rice 5%	304	332	319	323	331	357
Δ%	5.5	9.5	8.8	7.1	5.9	16.3
Shrimp	10,238	10,096	9,877	10,031	10,031	10,446
Δ%	-1.0	-1.4	-5.7	-4.2	-4.2	9.6
Rubber	2,107	2,290	2,233	2,338	2,138	2,451
Δ%	40.3	8.7	10.4	-4.8	-2.4	39.6
Sugar	326	220	234	205	216	223
Δ%	46.9	-32.7	-38.0	-44.2	-28.7	-13.2
Cassava	222	303	249	287	329	349
Δ%	-11.7	36.7	9.1	30.3	57.2	51.6
Maize	122	163	171	158	153	172
Δ%	23.6	34.3	62.8	44.4	31.0	10.4
Oil palm	417	719	557	711	746	862
Δ%	13.4	72.5	45.1	82.9	78.4	81.1

Note: \* Only 12 commodities particularly important to the Thai economy are included , namely, rice, shrimp, rubber, sugar, maize, cassava, coffee, soybean, oil palm, tobacco, cotton, and sorghum  
 Δ% represents percentage change from the same period last year

<sup>P/</sup> = Preliminary

Source: The World Agricultural Price Index is constructed from World Bank and IMF's data, except cassava price is constructed from The Thai Tapioca Trade Association's data

## 2.2 Manufacturing Sector



According to the NESDB report, the **manufacturing production** expanded by 5.8 percent in 2007, close to last year's growth of 5.9 percent. **Manufacturing Production Index (MPI)**, which covered 76 products or 75.7 percent of the overall value added in the manufacturing sector, rose by 8.2 percent, accelerating from 7.4 percent in the previous year. This was in line with the rapid growth of export-oriented industries, while the domestic-oriented industries decelerated in tandem with the slowdown in domestic economy.

**Manufacturing Production Index\***  
(Year-on-year percentage change)

Industry	Weight 2000	2005	2006	2007 <sup>P</sup>		
				H1	H2	Year
Textiles	12.23	2.2	2.2	-1.1	-3.8	-2.4
Electronics	10.31	39.7	23.7	19.2	30.3	25.3
Petroleum	9.48	-0.4	2.4	1.1	1.2	1.2
Vehicles and Equipment	6.85	6.3	5.0	-3.2	10.9	3.8
Food	6.82	-0.3	7.6	6.7	1.8	4.6
Beverages	5.11	2.9	14.1	6.7	-0.1	3.3
Electrical Appliances	5.05	1.8	-8.1	2.2	10.1	6.0
Leather and Leather products	2.79	-10.2	-26.9	47.8	-12.7	22.7
Chemical Products	2.36	3.5	0.4	0.9	14.4	7.6
Iron and Steel Products	2.21	-3.6	-3.4	-6.4	2.3	-2.3
Construction Materials	1.84	11.3	5.6	-4.4	-2.8	-3.6
Others	10.62	4.4	0.3	1.9	1.7	1.8
<b>Total*</b>	<b>75.68</b>	<b>9.1</b>	<b>7.4</b>	<b>5.8</b>	<b>10.6</b>	<b>8.2</b>

Note: \* Covering 76 products with 75.7 percent of the overall value added in the manufacturing sector  
P = Preliminary Data  
Source: BOT surveys

Industries that expanded favorably included electronics, leather and leather products, food, and electrical appliances. However, various industries experienced a contraction, particularly textiles, furniture, construction materials, and iron and steel products. This was due to the intensified competition from foreign markets as well as the slowdown of domestic demand.

**Capacity Utilization\***  
(Unit: Percent)

Industry	Average 1995-1996	2005	2006	2007 <sup>P</sup>		
				H1	H2	Year
Electronics	77.1	67.0	76.1	72.2	86.3	79.3
Petroleum	88.6	85.2	87.2	87.5	89.0	88.2
Vehicles and Equipment	74.7	75.9	79.2	68.8	76.3	72.6
Beverages	69.0	66.6	77.1	81.4	81.7	81.5
Electrical Appliances	87.1	74.6	68.1	68.8	72.9	70.6
Food	40.4	54.0	59.5	69.1	51.6	60.4
Leather and Leathers Products	-	55.0	40.2	69.4	29.1	49.3
Chemical Products	91.4	94.0	93.8	90.4	101.4	95.9
Iron and Steel Products	58.1	61.8	58.9	57.5	55.0	56.2
Construction Materials	87.9	77.9	81.6	78.4	78.3	78.4
Pulp and Paper Products	77.6	93.4	91.0	90.3	91.7	91.0
Rubber and Rubber Products	73.1	67.1	64.6	58.2	63.8	61.0
Others	81.8	67.9	64.3	63.7	60.8	62.3
<b>Total*</b>	<b>76.7</b>	<b>72.1</b>	<b>73.9</b>	<b>74.1</b>	<b>75.1</b>	<b>74.6</b>

Note: \* Covering 69 products with 59.1 percent of the overall value added in the manufacturing sector  
P = Preliminary Data  
Source: BOT surveys

**Capacity Utilization Rate** of the manufacturing sector averaged at 74.6 percent in 2007, increasing from 73.9 percent in the previous year. The industries contributed to this expansion were electronics, vehicles, rubber products, chemical products, and pulp and paper products.

The details of manufacturing production and capacity utilization by sectors are as follows:

**Electronics** production continued to expand well, especially in the case of hard disk drive following favorable demand from foreign markets. The capacity utilization rate increased from 76.1 percent in the previous year to 79.3 percent in 2007.

Production of **leather and leather products** accelerated, particularly in the first half of the year as a result of special orders for small leather products from the US market. Despite a moderation during the second half of 2007, the outlook for leather production was expected to improve as the Chinese government decided to cut its export subsidy. This induced higher foreign demands on Thai leather products. The capacity utilization rate of this sector was up from 40.2 percent in 2006 to 49.3 percent in 2007.

**Food** production improved from the previous year, following higher production of sugar (especially during the first half of the year). The increased supply of sugar cane was due to favorable climate conditions as well as expanded cultivation areas as farmers were motivated by high price of sugar last year. With regard to frozen seafood, production also expanded well in line with favorable external demand. In 2007, the capacity utilization rate stood at 60.4 percent, closed to 59.5 percent in the previous year.

**Electrical appliances** production improved from the previous year. This was due to the expansion in air-conditioner production as Japan and South Korea manufacturers moved their production bases to Thailand. The capacity utilization rate was at

70.6 percent, rising from 68.1 percent in the previous year.

Production of **vehicle and transportation equipment** decelerated slightly from the previous year as a result of soft domestic demand in passenger cars and saturated market for motorcycles. Nonetheless, external demand for commercial cars and passenger cars continued to expand. In the second half of the year, domestic demand improved, owing mainly to the launch of new car models as well as continuous marketing campaigns and promotions, including attractive terms and conditions of car leasing. The capacity utilization rate stood at 72.6 percent, down from 79.2 percent in the previous year.

**Chemical products** production accelerated, especially in the second half of 2007. This was following the reopening of intermediate petrochemical plants that were shut down for maintenance during the same period last year. The capacity utilization rate was at 95.9 percent, up from 93.8 percent last year.

**Beverage** production growth moderated from the previous year, particularly in beer and liquor production. This was due mainly to the high base effect last year, following accelerated production of beer and liquor in anticipation of the excise tax increase. In addition, the moderation was also due to declining purchasing power of consumers along with the slowdown of domestic economy. Despite the slowdown in beer production, competition, however,

increased as manufacturers had launched new products and relied more on price-cutting to attract more market share. Overall, the capacity utilization rate rose from 77.1 percent in the previous year to 81.5 percent in 2007.

**Tobacco** production accelerated, particularly in the first half of 2007. This was due to the low base effect last year when sale volume declined following an increase in excise tax for tobacco in December 2005 and the prohibition of cigarette displays at sale points since September 2005. Moreover, the improvement was also led by accelerated production in the second half of the year in anticipation of further rise in excise tax from 79 percent to 80 percent, following the cabinet's decision on 28 August 2007. Overall, the capacity utilization rate in 2007 stood at 53.7 percent, up from 50.0 percent in 2006.

**Textile** production declined from the preceding year due to the loss of competitiveness to countries with cheaper production cost, namely China and Vietnam. However, spinning production expanded in line with external demand, particularly from China and Vietnam, to support their garment production.

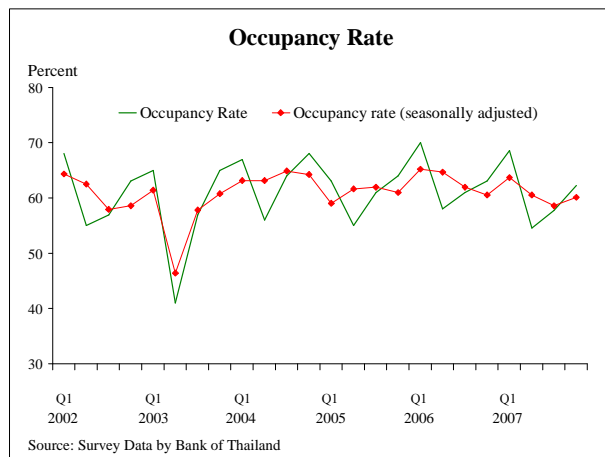
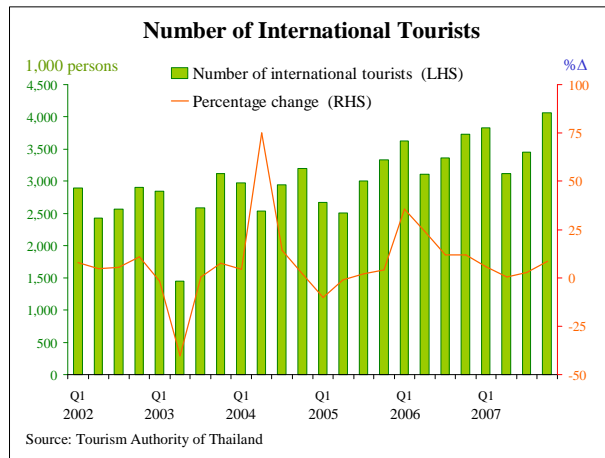
**Furniture** production decreased continuously due to shortage of raw materials, especially high-priced rubber wood. Together with an intensified price competition with China and Vietnam, the capacity utilization rate, therefore, declined to 52.5 percent from 60.2 percent in the previous year.

Production of **construction materials, iron and steel products** declined from last year in line with the slowdown in the real estate sector and the lack of government's large-scale investment projects. The capacity utilization rate of these sectors dropped from 81.6 and 58.9 percent in 2006, to 78.4 and 56.2 percent in 2007, respectively.

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## 2.3 Services

### 2.3.1 Tourism and Hotel Industry



#### International Tourists Classified by Country of Residence

Country	$\Delta$ (%)		Market Share (%)	
	2006	2007	2006	2007
East asia	18.7	0.5	57.5	55.2
- Malaysia	17.7	-1.7	11.4	10.7
- China	35.6	-2.9	7.5	6.9
- Japan	9.4	-3.4	9.4	8.6
- Korea	35.0	-2.4	8.0	7.4
Europe	23.6	11.1	24.0	25.5
USA	11.5	-0.9	6.0	5.7
Oceania	25.0	16.6	4.5	5.1
Middle East	33.5	11.8	2.9	3.1
Others	18.2	13.0	5.1	5.5

Source: Tourism Authority of Thailand

The **Tourism and Hotel Industry** in 2007 continued to expand, though at a slower rate compared to the previous year. This was due to several negative factors, including bombings in Bangkok area during the New Year's Eve festivities, smoke problem in the upper northern provinces, seven explosions in Had Yai area, and political uncertainties in Thailand.

For the entire year, the number of foreign tourists totaled 14.5 millions, increasing by 4.6 percent from 2006. The hotel occupancy rate averaged at 60.8 percent, declining from 63.0 percent in 2006 in which there was the Royal Flora Festival in Chiang Mai at the end of year.

In the southern area along the Andaman coastline, the tourism industry expanded substantially in 2007. This was in tandem with the increase in the number of quality tourists as a result of the strategic campaign by the Tourism Authority of Thailand (TAT) as well as the augmentation of direct flights by domestic airlines. Meanwhile, in the lower southern part of Thailand, the tourism industry contracted due largely to the prolonged unrest. The number of international tourists who entered Thailand from southern ports of entry increased by 8.1 percent from the previous year. The hotel occupancy rate in the southern region increased from 53.8 percent in 2006 to 55.2 percent in 2007.

The average room rate in 2007 increased moderately by 5.3 percent. Overall, tourism revenue from foreigners amounted to 537.3 billion baht, increasing by 6.1 percent from the previous year.

In 2007, the number of foreign tourists from East Asian countries—the tourist group that was sensitive to security factors—as well as that from North and South America dwindled from the previous year. Meanwhile, the number of foreign tourists from Europe, which has been the main market for Thai tourism, and from Oceania and the Middle East, which were the new targets, continued to expand considerably, with steady increase in market shares. Nevertheless, the structure of foreign tourists in 2007 did not change significantly from the previous year. Tourists from East Asia continued to account for the largest share at 55.2 percent of the total number of foreign tourists, followed by those from Europe which accounted for 25.5 percent.

The tourism activities in 2008 was expected to continue improving in line with the rising number of foreign tourists, especially those from Europe, Oceania, and the Middle East, which have exhibited high growth and increasing

market shares, whereas the effect of baht appreciation had been minimal. In addition, the TAT has laid out a strategy to attract tourists attending the 2008 Olympic Games in China to extend their trip to Thailand. Furthermore, the TAT has also aimed to expand the market for quality tourists in order to attain continuous and sustainable growth in revenue from the tourism industry.

Nevertheless, the prolonged unrest in certain areas in Thailand remained a risk factor to the country's tourism industry which would adversely affect traveling decisions of both foreign and Thai tourists.

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#### Tourism Indicators

	2006 Year	2007 <sup>P</sup> Year	2007			
			Q1 <sup>P</sup>	Q2 <sup>P</sup>	Q3 <sup>P</sup>	Q4 <sup>P</sup>
1. Number of foreign tourist (million persons)	13.8	14.5	3.8	3.1	3.5	4.1
%Δ	20.0	4.6	5.8	0.4	2.7	8.8
2. Income from tourism (billion baht)	506.4	537.3	148.9	107.2	119.1	162.2
3. Occupancy rate (percent)	63.0	60.8	68.6	54.5	57.7	62.2
4. Room rates (baht)	1,369	1,442	1,607	1,339	1,301	1,520

Note: P = Preliminary data

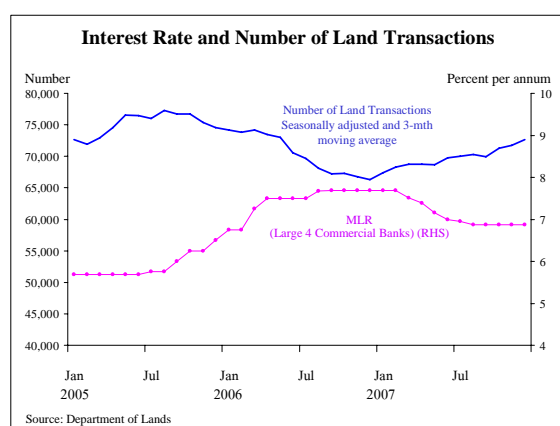
%Δ represents percentage change from the same period last year

Sources: Tourism Authority of Thailand and Bank of Thailand



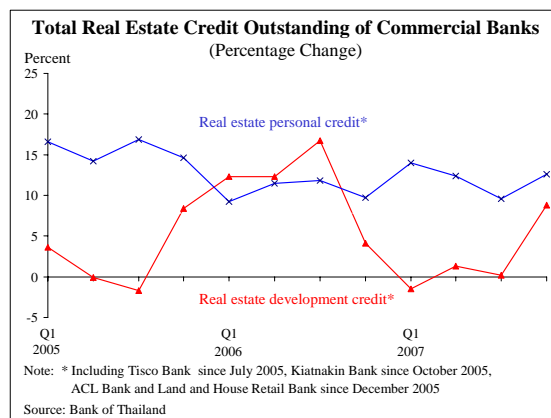
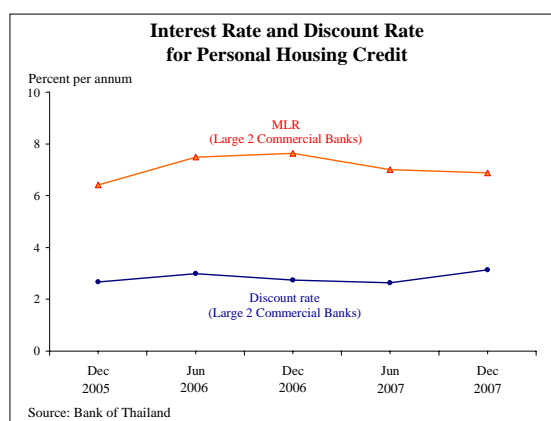
## 2.3.2 Real Estate

During the first half of 2007, overall real estate market continued to slow down from 2006. This was largely due to the lack of confidence of consumers and real estate developers regarding economic and political conditions. In addition, the cost of living was also rising through out the year in line with the oil prices. Nevertheless, real estate activities started to revive gradually in the second half of the year.



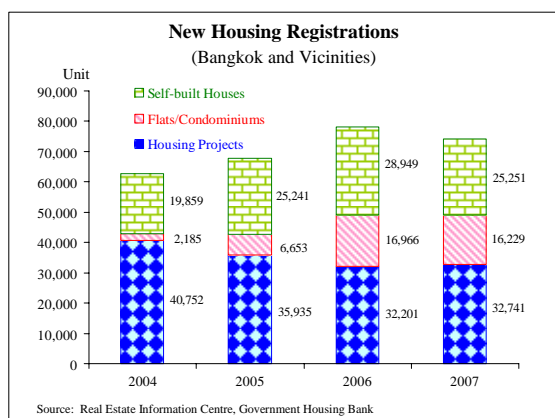
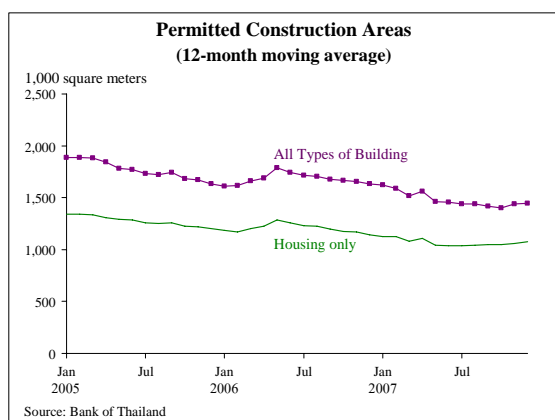
With regards to the **demand-side** indicators, the number of land and building transactions in the first half of 2007 improved marginally from the fourth quarter of 2006, though still contracted from the same period last year. However, during the second half of 2007, the number of land and building transactions accelerated continuously, particularly in the fourth quarter, due to a continuous flow of real estate events and exhibitions as well as sale promotions and campaigns throughout the year. In addition, there was a rush towards year-end to complete transactions on the second-hand houses before the abolition of measures to reduce property transfer fees on 31 December 2007 and prior to the enforcement of the new land appraisal price on 1 January 2008. Interest rates on

housing credits were also accommodative owing to an intense competition among financial institutions. This was reflected in the commercial banks' credit outstanding for real estate, which increased by 12.6 percent in 2007. This was in line with the increased market share of commercial banks relative to the specialized financial institutions, as well as the increased credits for vacant land purchases.



On the **supply side**, most indicators decelerated continually since the beginning of 2007. The large expansion of housing supply during 2004-2006 resulted in the slowdown of new supply during 2007, reflecting in a drop in the permitted construction areas in the municipal areas for the whole kingdom by 11.3 percent, as well as a decline in the new housing registrations in Bangkok and vicinities

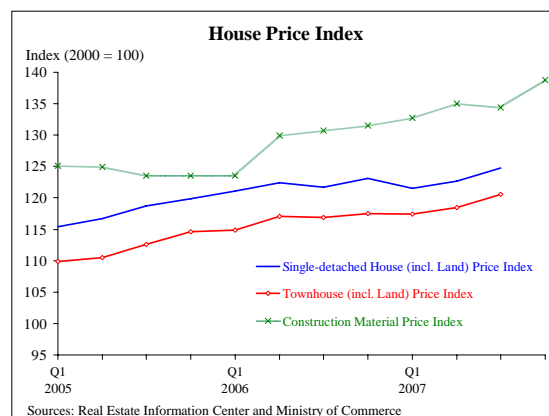
area by 5.0 percent. Likewise, domestic cement sales also dropped by 5.0 percent in 2007.



Furthermore, real estate developers were also confronted with the rising cost of construction materials since early 2006. Thus, they were forced to adjust by switching to cheaper decoration materials while relying more on semi pre-fabrication system in order to shorten the construction time. In addition, they also emphasized more on expanding the existing projects rather than starting the new ones as well as shifted to build-to-order houses in order to mitigate risks in the case of demand slump. Meanwhile, developers also competed more on the medium to low price condominiums in response to a strong demand in this particular segment and the decline in consumer purchasing power. Not

only there was a decline in private housing construction, but the public constructions were also moderate due to the delay of the government's large-scale investment projects. These resulted in the slow down of the overall constructions in 2007.

The continuous slowdown of new supply in the real estate market in 2007 resulted in the contraction of commercial banks' credit for housing development by 2.6 percent from the previous year. However, the overall real estate development credit outstanding of commercial banks rose by 8.8 percent from the previous year, owing largely to credit expansion for the development of both apartments and serviced apartments.



With regards to pricing aspect, though the construction costs had increased in line with the wholesale price of construction materials, which increased by 4.9 percent from last year, the dwelling prices increased only marginally. During the first nine months of 2007, price indices for single-detached house with land and townhouse with land increased by only 1.0 and 2.2 percent, respectively, due to an intense competition among developers and remaining supply from the previous year.

**Outlook for 2008**

Overall demand for the real estate market was expected to improve moderately in 2008 due to 1) the consumer confidence which improved after an establishment of the new government, 2) the interest rate which still remained at an accommodative level, and 3) the new government's economic stimulus package which re-enforced the tax reduction measures on property transfer as well as the reduction of mortgage registration fees from 2 percent and 1 percent, respectively, to 0.01 percent. However, amidst the high cost of living, the demand for dwellings remained clustered in the medium to low price segments.

Supply in the real estate market was expected to slowdown slightly due to an intense competition among real estate developers. In addition, heightened cost pressure was expected due to 1) the rising cost

of construction materials, 2) the increasing cost in compliance with the environment regulations, and 3) an increasing financial cost when the regulation on escrow accounts becomes effective. Nonetheless, the economic stimulus package introduced by the new government to reduce specific business tax from 3.3 percent to 0.1 percent should somewhat relieve burdens of the real estate developers.

The dwelling price in 2008 was expected to edge up in line with the rising cost of construction materials and the new land appraisal prices, which became effective on 1 January 2008. Moreover, the developers could transfer some burdens from environmental development and financial costs onto customers.

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## Real Estate Indicators

	2006	2007				
		Year	Q1	Q2	Q3	Q4
<b>Land Transaction Value</b> <sup>1/</sup> (Million Baht)	<b>617,930</b>	<b>595,483</b>	<b>128,362</b>	<b>141,579</b>	<b>148,208</b>	<b>177,334</b>
%Δ	0.5	-3.6	-24.8	-0.6	2.0	11.3
<b>Juristic Act and Right Registration Fee 2%</b> <sup>2/</sup> (Million Baht)	<b>11,096</b>	<b>11,118</b>	<b>2,454</b>	<b>2,632</b>	<b>2,776</b>	<b>3,256</b>
%Δ	-5.6	0.2	-10.1	-1.9	4.3	7.7
<b>Juristic Act and Right Registration Fee 0.01%</b> <sup>3/</sup> (Million Baht)	<b>6.3</b>	<b>3.8</b>	<b>0.6</b>	<b>0.8</b>	<b>0.9</b>	<b>1.5</b>
%Δ	83.2	-40.3	-83.5	-2.9	-23.0	76.7
<b>Number of Land Transactions</b> (Unit)	<b>835,095</b>	<b>842,680</b>	<b>206,227</b>	<b>212,096</b>	<b>206,674</b>	<b>217,683</b>
%Δ	-7.6	0.9	-7.5	-1.1	4.0	9.4
<b>Permitted Construction Areas</b> (1,000 square meters)	<b>19,570</b>	<b>17,360</b>	<b>3,677</b>	<b>4,858</b>	<b>4,134</b>	<b>4,690</b>
%Δ	-0.3	-11.3	-27.0	-13.4	-8.9	6.9
<b>- Permitted Housing Construction Areas</b> <b>Municipality area</b> (1,000 square meters )	<b>13,692</b>	<b>12,915</b>	<b>2,769</b>	<b>3,474</b>	<b>3,240</b>	<b>3,432</b>
%Δ	-5.2	-5.7	-19.7	-14.0	3.6	11.5
<b>- Permitted Housing Construction Areas</b> <b>Bangkok area</b> (1,000 square meters )	<b>8,236</b>	<b>7,656</b>	<b>1,324</b>	<b>2,187</b>	<b>1,891</b>	<b>2,255</b>
%Δ	-10.1	-7.0	-38.5	-13.4	-3.8	41.6
<b>New Housing Registrations</b> <b>(Bangkok and Vicinities)</b> (Unit)	<b>78,116</b>	<b>74,221</b>	<b>15,631</b>	<b>16,572</b>	<b>21,875</b>	<b>20,143</b>
%Δ	8.4	-5.0	0.3	-20.6	-9.9	15.3
- Housing Projects	32,201	32,741	5,527	6,708	9,364	11,142
- Flats/Condominiums	16,966	16,229	2,872	3,558	6,716	3,083
- Self-built Houses	28,949	25,251	7,232	6,306	5,795	5,918
<b>Cement Sale</b> (1,000 Metric tons)	<b>29,156</b>	<b>27,690</b>	<b>7,599</b>	<b>6,634</b>	<b>7,033</b>	<b>6,423</b>
%Δ	0.7	-5.0	-3.0	-7.7	-3.0	-6.7
<b>Single-detached House Price Index</b> <b>(Including Land)</b> (2000 = 100)	<b>122.1</b>	<b>123.0</b> <sup>4/</sup>	<b>121.5</b>	<b>122.7</b>	<b>124.8</b>	<b>n.a.</b>
%Δ	3.7	1.0	0.4	0.2	2.6	n.a.
<b>Town House Price Index</b> <b>(Including Land)</b> (2000 = 100)	<b>116.6</b>	<b>118.8</b> <sup>4/</sup>	<b>117.4</b>	<b>118.5</b>	<b>120.6</b>	<b>n.a.</b>
%Δ	4.2	2.2	2.2	1.3	3.1	n.a.
<b>Construction Material Price Index</b> (2000= 100)	<b>128.9</b>	<b>135.2</b>	<b>132.7</b>	<b>135.0</b>	<b>134.4</b>	<b>138.8</b>
%Δ	3.7	4.9	7.5	3.9	2.9	5.6

Note: %Δ represents the percentage change from the same period last year.

<sup>1/</sup> Derived from the amount of the Juristic Act and Right Registration Fee.

<sup>2/</sup> The Juristic Act and Right Registration Fee for immovable property is charged at a rate of 2 percent, in accordance with Ministerial Regulation No. 47 (B.E. 2541), which was issued under the Land Code Amendment Act B.E. 2497 Article 2(7).

<sup>3/</sup> The Juristic Act and Right Registration Fee for immovable property is charged at a rate of 0.01 percent as specified by the Cabinet.

<sup>4/</sup> Average of the first three quarters

Sources: Department of Lands, Government Housing Bank, Ministry of Commerce, and Bank of Thailand

## Real Estate Indicators (Cont.)

	2006	2007				
		Year	Q1	Q2	Q3	Q4
<b>Real Estate Development Credit Outstanding</b> <sup>5/</sup> (Billion Baht)	<b>313.8</b>	<b>341.4</b>	<b>312.9</b>	<b>319.2</b>	<b>324.1</b>	<b>341.4</b>
% $\Delta$	4.1	8.8	-1.5	1.3	0.2	8.8
<b>- Housing Development Credit</b> <sup>5/</sup> (Billion Baht)	<b>181.7</b>	<b>177.0</b>	<b>182.2</b>	<b>188.6</b>	<b>182.5</b>	<b>177.0</b>
% $\Delta$	-5.3	-2.6	-4.0	-2.2	-7.0	-2.6
<b>- Other Real Estate Credit</b> <sup>5/</sup> (Billion Baht)	<b>132.0</b>	<b>164.4</b>	<b>130.7</b>	<b>130.7</b>	<b>141.5</b>	<b>164.4</b>
% $\Delta$	20.7	24.5	2.1	6.7	11.3	24.5
<b>Real Estate Personal Credit Outstanding</b> <sup>5/</sup> (Billion Baht)	<b>690.9</b>	<b>777.6</b>	<b>704.2</b>	<b>725.0</b>	<b>745.5</b>	<b>777.6</b>
% $\Delta$	9.7	12.6	14.0	12.4	9.6	12.6
<b>- Housing Personal Credit</b> <sup>5/</sup> (Billion Baht)	<b>685.2</b>	<b>771.0</b>	<b>698.4</b>	<b>718.7</b>	<b>739.0</b>	<b>771.0</b>
% $\Delta$	9.7	12.5	14.0	12.4	9.4	12.5
<b>- Other Real Estate Personal Credit</b> <sup>5/</sup> (Billion Baht)	<b>5.7</b>	<b>6.6</b>	<b>5.7</b>	<b>6.3</b>	<b>6.6</b>	<b>6.6</b>
% $\Delta$	8.6	15.3	13.6	6.7	37.9	15.3
<b>Property Fund</b> <sup>6/</sup> (Million Baht)	<b>42,679</b>	<b>49,549</b>	<b>43,758</b>	<b>46,533</b>	<b>49,157</b>	<b>49,549</b>
% $\Delta$	126.0	16.1	127.7	127.1	136.9	16.1

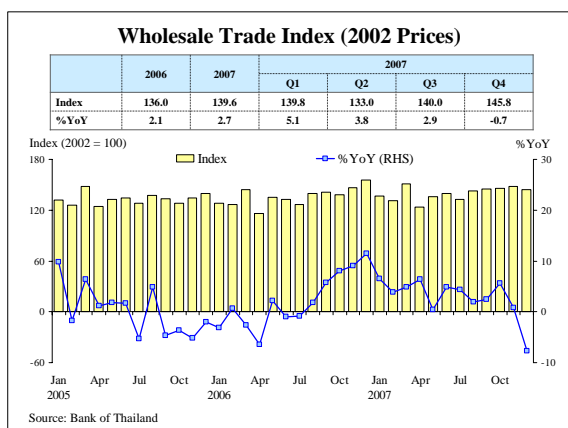
Note: % $\Delta$  represents the percentage change from the same period last year.

<sup>5/</sup> Credits extended by commercial banks (excluding foreign branches of Thai commercial banks) at end period.

<sup>6/</sup> Market value of property funds at end-period

Sources: Bank of Thailand and the Stock Exchange of Thailand

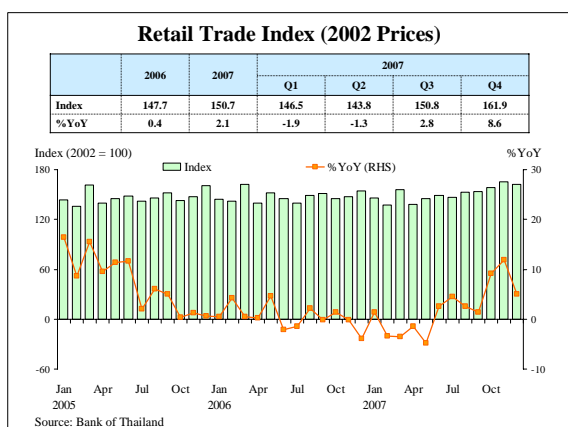
### 2.3.3 Trade



**Overall trading activities in 2007** expanded slightly from the preceding year amid the higher cost of living and the weak consumer confidence resulted from economic and political uncertainties, which caused the spending behavior to remain conservative.

**Wholesale trade** continued to expand, particularly the sales of necessary goods such as textiles, garments, and footwear, foods and beverages, and tobacco products. In addition, the sales of metal and mineral products, chemical products, and farm-related products remained satisfactory.

**Retail trade** in 2007 also expanded from the previous year due to the expansion of the sales from supermarkets and department stores as well as the sales of necessary products including fresh food, fruits, and vegetables. However, the sales from vendors, fresh-food markets, mail orders, and garage sales contracted this year.



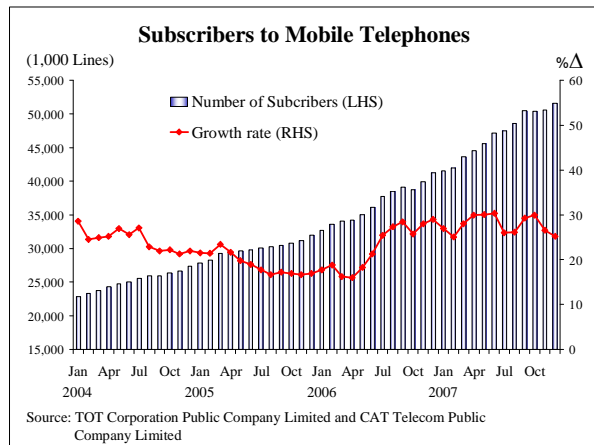
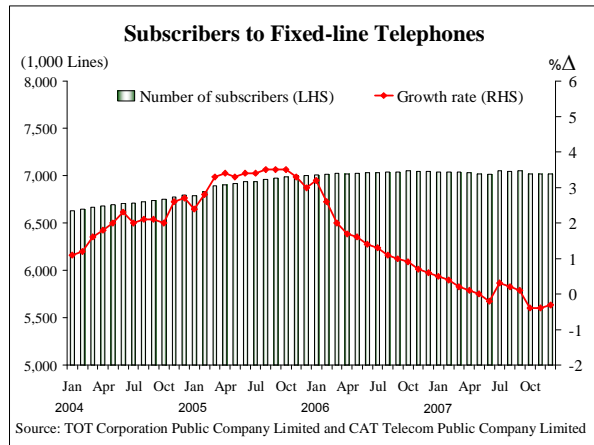
#### Outlook for 2008

The trading sector in 2008 was expected to ameliorate amid an improving domestic demand and the recovery of consumer confidence as political uncertainties abated.

Supply Side Policy Team

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## 2.3.4 Telecommunication



Telecommunication Services						
(Million Lines)	2006	2007	2007			
			Q1	Q2	Q3	Q4
Fixed-line Telephones <sup>1/</sup>	7.05	7.02	7.04	7.02	7.05	7.02
%Δ	0.6	-0.3	0.2	-0.2	0.1	-0.3
Mobile Phones <sup>1/</sup>	41.2	51.6	43.6	47.2	50.5	51.6
%Δ	28.7	25.2	28.0	30.4	29.2	25.2

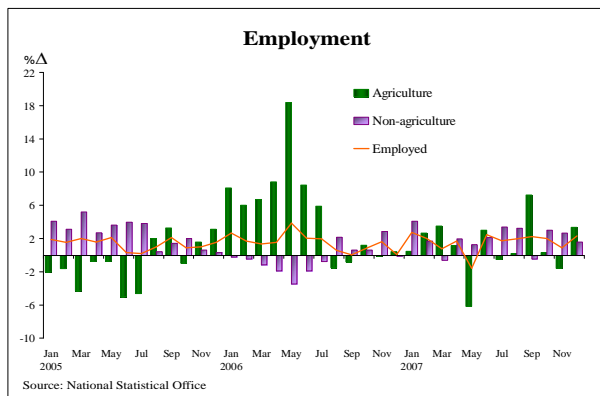
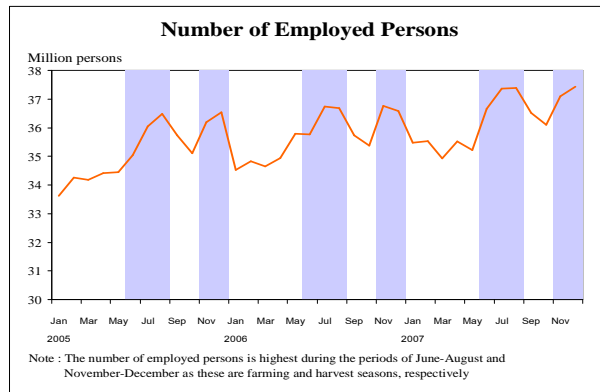
Note: <sup>1/</sup> Data as of end-period  
 %Δ represents percentage change from the same period last year.  
 Source: TOT Corporation Public Company Limited and CAT Telecom Public Company Limited

In 2007, fixed-line telephone services remained broadly unchanged throughout the year. The number of fixed-line service subscribers slightly decreased by 0.3 percent from 2006, in line with the saturated market and the lack of new customers following the slowdown in the real estate sector.

Mobile telephone services continued to exhibit high growth from the previous year, notwithstanding the fact that the service providers could not allocate adequate new numbers to customers during mid-2007. The service providers aimed to attract more clients in the north and the northeast regions, where the occupied rate was relatively low compared to that in the central region. Moreover, after the new regulations on the usage and linkage of telecommunication network, which regulated service and network fees, became effective in 2006, the service providers, thus, scaled back their price-cutting strategy, and competed more in terms of quality and customer satisfaction. This resulted in the total number of mobile service subscribers in 2007 of around 51.6 million lines, increasing by 10.4 million lines or 25.2 percent from the previous year.

**As for the 2008 outlook,** fixed-line telephone services were expected to remain unchanged, with the number of telephone users remaining approximately at the same level as in 2007. Some expansion would occur outside the Bangkok metropolitan area. As for mobile telephone services, further expansion were also expected mostly from suburban areas as the occupied rate was still low and the average age of customers would be lowered. The service providers would continue to compete on service quality and offer more complementary services to their customers in order to boost the average revenue per user (ARPU), which was still low.

## 2.4 Labour Market Conditions

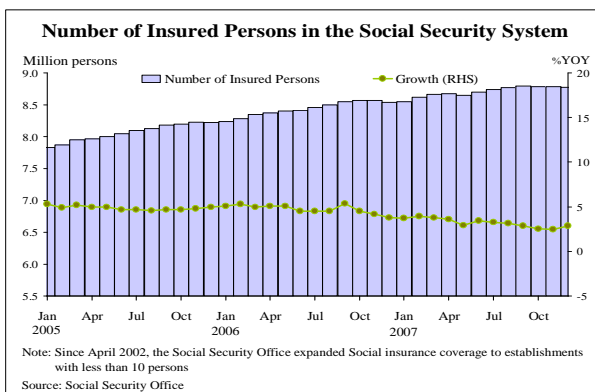


### Labour Market Conditions by Sector and Region

(Unit: Percent)	Share of Employed Persons		Growth Rate of Employed Persons	
	2006	2007	2006	2007
Agriculture	39.7	39.5	4.1	1.0
Non-agriculture	60.3	60.5	-0.6	2.0
Manufacturing	15.4	15.5	-1.5	2.1
Wholesale and retail trade	15.5	15.4	-0.7	1.1
Construction	6.0	5.9	1.0	-0.1
Service	22.4	22.7	-0.3	3.1
Others	1.0	1.0	-0.4	3.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>1.2</b>	<b>1.6</b>

(Unit: Percent)	Share of Employed Persons	Growth Rate of Employed Persons		Unemployment Rate	
	2007	2006	2007	2006	2007
Central region	26.0	5.5	2.2	1.4	1.4
Bangkok	10.9	-7.7	1.7	1.5	1.1
Northern region	18.0	-0.3	0.6	1.4	1.3
Northeastern region	31.5	0.9	1.2	1.7	1.4
Southern region	13.6	4.4	2.3	1.5	1.3
<b>Whole Kingdom</b>	<b>100.0</b>	<b>1.2</b>	<b>1.6</b>	<b>1.5</b>	<b>1.4</b>

Source: National Statistical Office



In 2007, the number of employed persons increased by 1.6 percent from the previous year. The employment growth in the agricultural sector moderated from 4.1 percent last year to 1.0 percent. The non-agricultural sector observed employment growth in most components. In particular, employment in the service sector registered the highest growth rate of 3.1 percent. Nonetheless, the construction sector experienced a decline in the employment caused by the lackluster real estate market.

The northeast of Thailand exhibited the largest share of employed persons compared to other regions. This was mainly due to the investment promotion of the Board of Investment of Thailand (BOI), which attracted investment in labour-intensive industries such as textiles and agricultural processing products. Employment in the central and the southern regions continued to grow, though at a slower pace. This was in line with an expansion of the cultivation areas in response to a rise in price of major crops, particularly rubber. At the end of December 2007, the number of persons covered in the social security system totalled 8.78 million, increasing by 2.9 percent from the previous year. This reflected a continuous growth in employment in the formal sector.

**Unemployment rate** remained low, falling slightly from 1.5 percent in 2006 to 1.4 percent. This indicated a rather tight labour market, following a substantial growth of employment in the manufacturing and service sectors. The northeastern region registered the largest decline in unemployment rate, corresponding to its highest share of employed persons.

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## 2.5 Price Level

In 2007, the consumer price index (CPI) rose by 2.3 percent, decelerating slightly from the previous year's rate of 4.7 percent. This was a result of a deceleration in the prices of food and beverages as well as non-food items, while energy prices had declined during the first three quarters of the year. Core CPI (excluding raw food and energy prices) rose by 1.1 percent, decelerating from 2.3 percent in the previous year and remaining within the policy target range of 0-3.5 percent.

Factors that contributed to the deceleration of inflation in 2007 from 2006 are as follows:

(1) Retail oil prices declined during the first three quarters, as world oil prices increased modestly while the baht appreciated concurrently.

(2) The increase in prices of raw food, especially vegetables and fruits, slowed down as production firmed up from last year. Meat prices, especially those of swine and fishing

products, declined from rising production as well.

(3) Prices in the housing and furnishing category decelerated slightly, as electricity cost declined in line with oil prices.

(4) Prices of public transportation services rose at a slower pace compared to last year, following oil price trend. The deceleration in the prices in this category contributed significantly to a decline in core inflation.

Nevertheless, while the annual average inflation in 2007 decelerated from the previous year, inflationary pressure began to mount during the last quarter of the year from sharp pickup in oil prices, causing headline inflation to accelerate after moderating for three consecutive quarters. Moreover, the hike in world commodity prices such as rice, wheat, milk, energy crops and metals (iron and lead), partly caused by stronger demand from China and India, sent cost of production rising. In the context of a pickup in domestic demand, producers managed to pass on the cost to retail prices.

### Consumer Price Index

(Percentage change from the same period last year)

	Weight (Per cent)	2006	2007	2007			
				Q1	Q2	Q3	Q4
<b>Headline Consumer Price Index</b>	<b>100.0</b>	<b>4.7</b>	<b>2.3</b>	<b>2.4</b>	<b>1.9</b>	<b>1.6</b>	<b>2.9</b>
Food and beverages	36.1	4.8	4.0	5.1	4.2	4.3	2.7
Non-food and beverages	63.9	4.6	1.2	0.9	0.4	0.0	3.0
Energy	9.1	15.0	2.4	-1.0	-0.2	-1.4	12.7
Raw food	15.0	7.5	6.5	8.9	7.2	7.4	3.2
<b>Core Consumer Price Index</b>	<b>75.9</b>	<b>2.3</b>	<b>1.1</b>	<b>1.4</b>	<b>0.9</b>	<b>0.8</b>	<b>1.1</b>

Source: Bureau of Trade and Economic Indices, Ministry of Commerce

The **Producer Price Index** (PPI) increased by 3.3 percent in 2007, decelerating from the previous year's 7.0 percent on the back of a deceleration of agricultural and manufactured product prices, which expanded by 13.7 and 1.7 percent, respectively, compared to the previous year's 18.0 and 5.0 percent. Meanwhile, prices of mining products declined by 5.8 percent, compared with the previous year's increase of 15.1 percent.

Agricultural prices accelerated sharply on the back of the increase in the prices of rice, cassava and oil palm, in line with the demand for consumption and raw materials used in energy production.

Price of manufactured products decelerated in accordance with petroleum product prices such as gasoline and rubber and plastic products. However, prices of iron and steel products rose in line with world prices.

In the same vein, prices of mining products decelerated in line with the prices of crude oil and natural gas as well.

### Producer Price Index

(Percentage change from the same period last year)

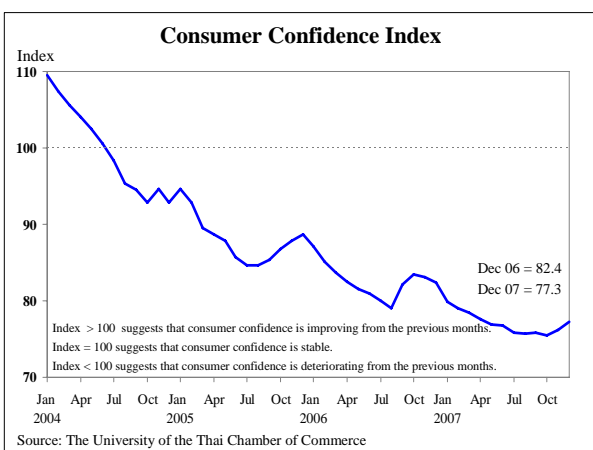
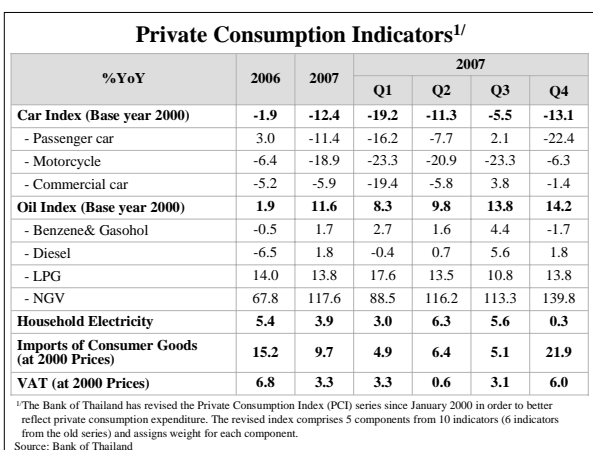
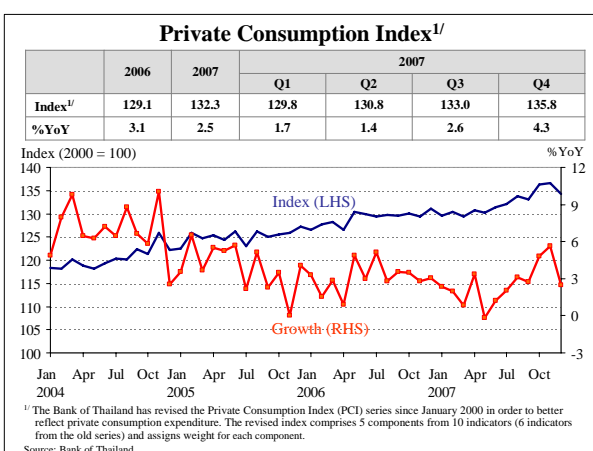
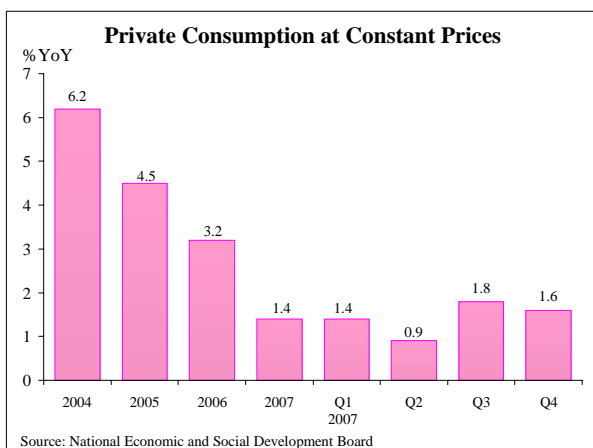
	Weight (Per cent)	2006	2007	2007			
				Q1	Q2	Q3	Q4
<b>Producer Price Index</b>	<b>100.0</b>	<b>7.0</b>	<b>3.3</b>	<b>2.6</b>	<b>1.8</b>	<b>1.5</b>	<b>7.0</b>
Agricultural Products	9.5	18.0	13.7	12.8	17.7	15.8	8.5
Mining Products	2.4	15.1	-5.8	-2.2	-12.4	-8.2	0.7
Manufactured Products	88.1	5.0	1.7	1.0	-0.6	-0.5	7.0

Source : Bureau of Trade and Economic Indices, Ministry of Commerce

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## 2.6 Private Consumption



In 2007, private consumption, according to the actual data released by the NESDB, expanded by 1.4 percent, decelerating from 3.2 percent in the previous year. The slowdown of household spending corresponded to the Consumer Confidence Index, which declined continuously due to the rising cost of living as the retail prices of energy and consumer goods remained at high levels, while political uncertainties still persisted. Nonetheless, in the second half of 2007, private consumption began to exhibit an improving sign, fostered by improving political conditions and low interest rates.

The BOT's Private Consumption Index (PCI)<sup>1/</sup> also slowed down, increasing by 2.5 percent in 2007, compared with 3.1 percent in 2006. However, in the second half of 2007, the index tracked a recovery trend, reflecting the improvement in private spending.

Overall, the deceleration of the index from the preceding year was due to the slowdown in most components. Particularly, sales in the car category decreased from last year in line with the weak demand and eroded purchasing power. The motorcycle market began to saturate after the earlier period of large expansion. Meanwhile, a temporary factor played an important role near the year-end in passenger car market as the tax benefits on alternative energy (E-20) car models, which would be effective on 1 January 2008, induced consumers to postpone purchase decisions.

<sup>1/</sup> The Bank of Thailand has revised the Private Consumption Index (PCI) series since January 2000 in order to better reflect private consumption expenditure. The revised index comprises 5 components from 10 indicators (6 indicators from the old series) and assigns weight for each component. For more information, please consult [http://www.bot.or.th/BOTHomepage/DataBank/Econcond/conind/Leading\\_Inflation/12-28-2007-eng-i/revise-pci-e.pdf](http://www.bot.or.th/BOTHomepage/DataBank/Econcond/conind/Leading_Inflation/12-28-2007-eng-i/revise-pci-e.pdf)

The other indicators still grew from last year, though at a slower pace. In spite of the sluggish expansion during the first three quarters of 2007, imports of consumer goods at constant prices accelerated considerably in the last quarter, following the preparation to accommodate the festive activities near the year-end. Value-added tax (VAT) at constant prices also drove up in the fourth quarter, owing to the VAT collected on both domestic consumption

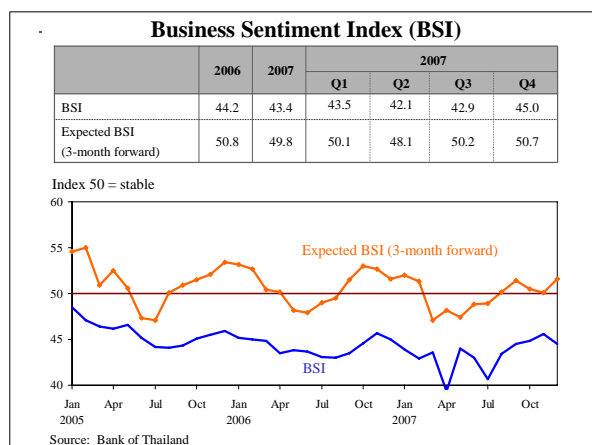
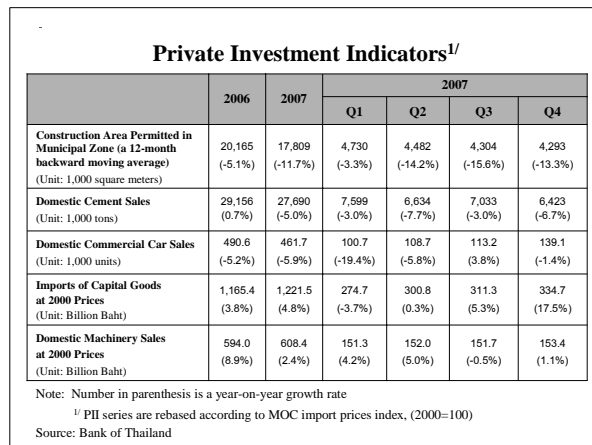
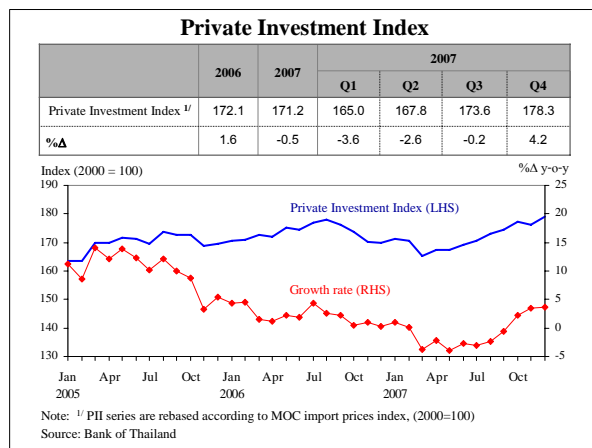
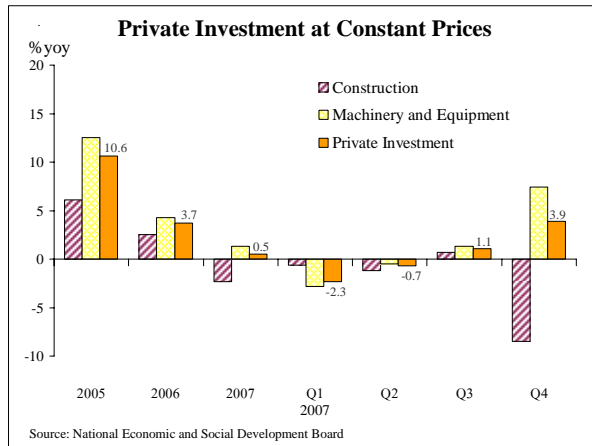
and imports. Household electricity usage decelerated slightly, partly because of the low temperature near the end of year.

Nevertheless, sales in the oil category still rose at a faster rate. This stemmed from the consumption of alternative energy, particularly LPG and NGV, which increased notably, reflecting the adjustment of consumer behavior in response to the high prices of benzene and diesel.

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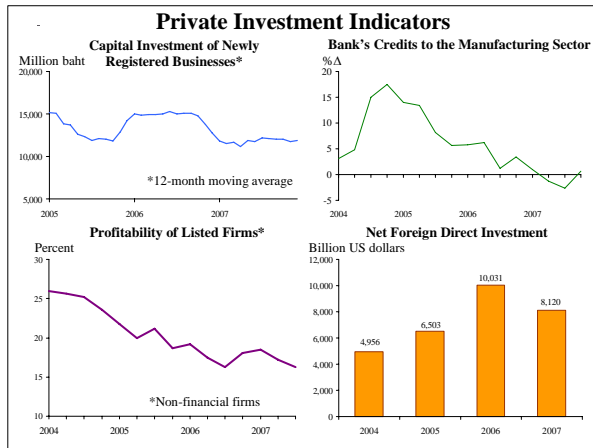
## 2.7 Private Investment



**Private investment** in 2007, according to the actual data released by the NESDB, expanded by 0.5 percent, decelerating from 3.7 percent in the previous year. This was owing to the slowdown in the machinery and equipment as well as the construction categories. However, in the second half of the year, private investment showed notable signs of improvement. This corresponded to the BOT's **Private Investment Index (PII)**, which resumed a positive growth of 2.0 percent in the second half of 2007, after registering a contraction of 3.1 percent in the first half of the year.

In terms of private investment components, the **machinery and equipment category** ameliorated in the second half of 2007, resulting from the increase in imports of capital goods at constant price and domestic commercial car sales. Meanwhile, components in the **construction category**, namely construction area permitted in municipal zone and domestic cement sales, contracted continuously due to the sluggish real estate sector and the effect of high base in the preceding year.

The improvement in private investment in the second half of the year, especially in the machinery and equipment category, were attributed to several favorable factors, including 1) accommodative monetary conditions with low interest rates, 2) improvement in business confidence as suggested by an upward trend in the Business Sentiment Index (BSI) in the latter half of the year, following a more stable political condition, and 3) high level of capacity utilization rate in some industries such as paper, chemical products, petroleum products and cars.



**Investment Promotion Certificates Issued**

	No. of Project		Value (billion Baht)	
	2006	2007	2006	2007
Agriculture	161	172	32.1	44.8
Mining ceramics and metals	23	41	44.2	34.0
Light industry	92	95	9.4	18.2
Metal machinery and equipment	238	252	51.6	72.9
Electronics and electrical products	208	247	78.0	106.8
Chemicals paper and plastic	129	134	150.5	76.7
Services and infrastructure	295	297	69.2	136.1
<b>Total</b>	<b>1,146</b>	<b>1,238</b>	<b>435.0</b>	<b>489.5</b>

Source: Office of the Board of Investment

Other investment indicators also exhibited a decelerating trend. Capital investment of newly-registered businesses and the profitability of SET-listed firms slowed down from last year. Similarly, foreign direct investment (FDI) shared the declining trend from the previous year. Commercial banks' credit to the manufacturing sector also dropped from last year, but it started to pick up towards the year-end. Nevertheless, the number and value of investment projects which received Promotion Certificates Issued by Board of Investment (BOI) in 2007 increased from the preceding year. This indicated the higher investments in the next 1-2 years.

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## 2.8 External Sector

### 2.8.1 World Economy

The world economy in 2007 continued to expand, though at a slower pace than in 2006. As of January 2007, the International Monetary Fund (IMF) projected that the world economy would grow at 4.9 percent in 2007, compared to 5.0 percent in the previous year.

During the first half of 2007, the world economy was driven mainly by the strong growth in the Euro area and Asian economies. However, the growth moderation observed in the second half of 2007 was due to the subprime problem. The US economic indicators suggested an increasing risk of US recession, which could affect the overall world economy. The IMF, thus, revised down the growth rate of the world economy in 2008 to 4.1 percent from 4.4 percent in the October's projection.

In 2007 the **US economy** continued to expand, though at a slower pace. In the first half of 2007, the slowdown was due mainly to the contraction in residential investment. Nevertheless, private consumption continued to expand well due to the favorable employment conditions. In the second half of 2007, the GDP figure showed an improving sign from the first half of 2007 due to improved exports performance contributed by the US dollar depreciation. However, major economic indicators still pointed toward future economic slowdown. In August, the subprime problem started to spread more broadly and led to global money market fluctuations. In addition, tightening credit standards for both businesses and households led to softening private consumption and employment as well as worsening economic confidence. The Chicago Fed National Activity Index, which is a leading indicator of the overall economic

activities, also reflected the increasing risk of recession.

The **Euro area economy** continued to expand vigorously from the previous year and was one of the key drivers of world economic growth in 2007. This strong growth was a result of the acceleration in domestic demand, export performance and investment in durable assets. However, in the last quarter of 2007, the Euro area economy expanded at a slower pace due to the euro appreciation and the noticeable increase in oil prices, coupled with financial market turbulence originated from the US subprime problem.

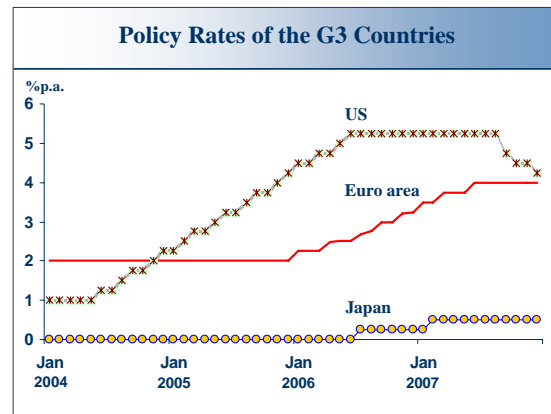
The **Japan economy** expanded moderately at 2.1 percent in 2007, decelerating from 2.4 percent in the previous year. This was in line with the slowdown in private consumption and the contraction in residential investment, while the export sector remained favorable. Although the economic expansion accelerated in the fourth quarter, many economic indicators suggested a future slowdown due to the subdued domestic demand. Moreover, consumer and business confidence were declining due to concerns over the US economy and the increasing cost in line with volatile prices of food and oil.

In the **Asian region**, most of the Asian economies continued to expand well, especially China, due to good export performance and strong domestic demand. During the first half of 2007, continual growth observed in most Asian economies was driven primarily by the strong export sector as well as domestic demand. During the second half of the year, the overall Asian economies still expanded favorably but at a more moderate pace in some countries. This was due to the slowdown in exports owing to the US economic slowdown. Nevertheless,

the strong domestic demand helped mitigate the negative effects from declining external demand.

The **world inflationary pressure** increased mainly from high and volatile oil price and significant increase in non-oil commodity prices, particularly food prices. The movement of US inflation primarily reflected the oil price's fluctuations. In the first nine months of 2007, the average inflation rate stood at a low level around 2.5 percent due to the lower oil price compared to the same period last year. Despite the economic slowdown, the average inflation rate in the fourth quarter of 2007 rose to 4.0 percent due to the surge in oil prices. Meanwhile, the average inflation of the Euro area during the first nine months of 2007 remained within the ECB's target (close but lower than 2 percent) before accelerating to 2.7 percent in the fourth quarter. Likewise, Japan's inflation, which was in the negative zone during the first nine months, rose to 0.5 percent in the fourth quarter of 2007 due to the increase in oil and food prices. In the Asian region, inflationary pressures also increased significantly, owing mainly to the rising prices of oil and food.

During the first half of 2007, **monetary policy of the G3 countries except the US** still continued to tighten as the economies continued favorable growth. The US Federal Reserve, however, held the policy rate constant as the economy had a tendency to slowdown. The ECB raised the Refinancing rate in response to the concern that inflation might rise above the 2 percent target due to strong economic growth, declining spared capacity, and tightening labour markets. In February 2007, the Bank



of Japan (BOJ) raised the policy interest rate for the second time after the abolishment of its quantitative easing policy in 2006. The BOJ assessed that, going forward, the economy would expand vigorously and inflation would accelerate. In the Asian region, the conducts of monetary policy varied. The People's Bank of China raised the policy rate and the reserve requirement ratio to reduce pressures on the economy and inflation. The Bank of Korea and the Central Bank of the Republic of China (Taiwan) also raised the policy rates to reduce the pressure on domestic prices and to keep domestic interest rates at the appropriate level. However, Bank Indonesia and the Bangko Sentral ng Pilipinas cut their policy rates as inflation declined significantly.

In the second half of 2007, monetary policies in most regional countries were on easing or less tightening paths, especially from August onward when the subprime problem intensified, causing global money market turbulence. Consequently, the Fed started to cut the primary credit discount rate by 0.5 percent in August to lower the cost of borrowing in the money market. This was followed by the Fed Funds rate cuts in September, October and December, totalling 1.0 percent as the Fed assessed that there were clear signals of economic slowdown and increasing risks of recession going forward.



In some countries where high inflationary pressures persisted from increasing oil and commodity prices, their policy rate hikes were postponed owing to the increased concerns over the downside risk on growth from the

US economic slowdown. However, the People's Bank of China continued to tighten its monetary policy to avoid an overheating economy and soften credit expansion.

#### Economic Indicators of Major Economies

	GDP (%yoy)			Headline Inflation (%yoy)		
	2005	2006	2007	2005	2006	2007
<b>G3 Countries</b>						
The United States	3.1	2.9	2.2	3.2	3.4	2.9
Euro area	1.7	2.9	2.6	2.2	2.2	2.1
Japan	1.9	2.4	2.1	-0.3	0.3	0.1
<b>Asian Economies</b>						
China	10.4	11.1	11.4	1.8	1.5	4.8
Hong Kong	7.3	6.8	6.3	1.1	2.0	2.0
South Korea	4.0	5.0	4.9	2.8	2.2	2.5
Taiwan	4.0	4.9	5.7	2.3	0.6	1.8
Indonesia	5.7	5.5	6.3	10.5	13.3	6.4
Malaysia	5.2	5.9	6.3	3.1	3.6	2.0
The Philippines	5.1	5.5	7.3	7.7	6.3	2.8
Singapore	6.6	8.2	7.7	0.5	1.0	2.1

Source: Bloomberg , CEIC

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## 2.8.2 International Trade and the Balance of Payments

Exports continued to expand in 2007, especially exports to new markets which grew at a high rate. This increase in export volume was due to an adjustment of exporters by reducing production cost and diversifying export markets. Continued rising trend of the world oil prices, gold and other commodities brought about higher export prices of both agricultural and industrial products. Prices of imports also increased, especially the oil prices. This led to a greater use of alternative energy as reflected in a decline in the import volume of oil compared to the previous year. Nevertheless, the overall import value continued to expand from 2006. The import value of consumer goods and capital goods, in particular, increased in line with the improving domestic consumption and investment during the second half of the year. However, with exceptionally high export growth, the trade balance in 2007 recorded a large surplus. This trade balance surplus, together with the increased surplus in services, income and transfer account, resulted in a large surplus in the current account. Despite the negative net inflow of capital, the overall balance of payments recorded a higher surplus compared to last year.

### Exports

Export value totaled 151.1 billion US dollars, expanding by 18.1 percent (or 7.7 percent in baht terms). The expansion of exports in terms of volume and price was at 11.8 and 5.7 percent, respectively. This increase in exports was mainly attributed to the sustained export growth of high-technology manufacturing products.

Details of Thailand's major export items are as follows:

**Agricultural products.** Export value of agricultural products expanded by 15.8 percent, in both volume and price. This was in line with the expansion of major agricultural export items such as rice, rubber, tapioca products, and fresh and frozen fowls. The value of rice export, in particular, increased substantially due to a fall in rice production by international competitors and the increase of export price in the world market, partly as a result of the rising demand for alternative energy.

**Fishery products.** Export value of fishery products rose by 11.1 percent in both volume and price. Exports of fresh and frozen shrimps, fish, and squid all exhibited satisfactory growth.

**Manufactured products.** Export value of manufactured products grew by 19.1 percent. This accelerated growth from last year was in line with the export growth of high-technology products. Details of manufactured products exports classified by sectors are as follows:

**Labor-intensive products.** Export value of this category increased by 19.2 percent, accelerating from the previous year. This was mainly driven by the expansion of precious stone and jewelry exports. Particularly, the export value of unwrought gold soared sharply, owing to the record-high gold price in the world market. On the contrary, garment exports shrank from the previous year due to intensified export competition.

**High-technology products.** Export value of high-technology products—which accounted for as large as 64.5 percent of total exports—rose by 17.9 percent. This attributed to the favorable overall export performance in 2007. The expansion came mainly from the growth in exports of electronic products, particularly hard disk drives and electrical appliances, following the increase in air-conditioner exports owing to the global warming. Meanwhile, the export of integrated circuits (IC) and parts continued to grow from 2006, though decelerating somewhat especially during the second half of 2007 in tandem with the electronics cycle. The increase in export value of base metal products was driven by the excess supply, as a result of a slowdown in domestic demand. As for petroleum products, a temporary closedown for maintenance of domestic oil refinery resulted in a decline in the export value. Export value of vehicle and parts continued to grow, reflecting increased exports to ASEAN, Australia, and the Middle East. Moreover, the export of high-value machinery used in the private energy sector also contributed, as a temporary factor, to the soaring export value in the second half of the year.

**Resource-based products.** Export value in this category increased by 21.8 percent, in line with the expansion of major export items including (1) **rubber products** especially radial tyres, (2) **canned fished** which increased in both volume and price following exports of canned tuna, (3) **prepared fowls** as substitutes for fresh and frozen fowls, and (4) **sugar** which increased considerably due to an increase in domestic production and the abolishment of export subsidies by the EU under the WTO agreement.

## **Imports**

Import value recorded 139.2 billion US dollar—an increase of 9.6 percent (or 0.1 percent in baht terms), of which 5.4 percent and 4.1 percent were due to growth in price and in volume, respectively. This accelerated growth from the previous year was in tandem with export expansion.

Details of Thailand's major import items are as follows:

**Consumer goods.** Import value of consumer goods rose by 13.8 percent. The increase was observed in imports of both non-durable goods such as food, clothing, footwear, medicines and pharmaceutical products, as well as durable goods in the electrical appliances category, particularly air-conditioners and parts, digital cameras, monitors, and television sets.

**Intermediate goods and raw materials.** Import value in this category increased by 15 percent, accelerating from the previous year. This was in tandem with the growth in imports of animal feed especially soybean meal, metal, chemical products, and electronic parts, which grew in line with rising exports.

**Capital goods.** Import value of capital goods grew by 5.2 percent, following the expansion of imports of non-electrical and electrical machinery in major industries including (1) **automobile industry** which expanded in line with the export, (2) **pulp and paper industry**, and (3) **energy industry** which imported electricity-generating machinery. In addition, there were imports of 3 commercial airplanes and 1 airplane presented to the royal family by the Royal Thai Air Force, with a total value of 515.9 million US dollars. Moreover, there was an import of 8 cars of the sky train, worth 36 million US dollars, under the Airport Link project which

connects Suvarnabhumi International Airport to the Bangkok Mass Transit System (BTS) in the urban areas.

**Vehicle and parts.** Import value of this category increased by 18.0 percent, improving from the previous year owing to the expansion in export which drove up the demand for imported vehicle parts.

**Crude oil.** Thailand imported 276.7 million barrels of crude oil in 2007, a decrease of 8.3 percent in volume compared to 2006. This decrease in import volume was partly offset by the increase of 7.2 percent in import price, resulting in a decline in import value by 1.7 percent from the previous year. The average import price of crude oil in 2007 was at 70.5 US dollars per barrel, rising from 65.8 US dollars per barrel in the previous year. The drop in import volume was due to a temporary closedown of domestic oil refinery for maintenance and a switch to importing alternative energy such as natural gas and coals.

The expansion of imports in 2007 was inclusive of the import of natural gas rigs worth 477 million US dollars in December 2007, which was adjusted into the international trade data according to the balance of payments basis.

### **Trade, Services and Current Account Balances**

**Trade balance.** Trade balance was in surplus by 12.0 billion US dollars, mainly attributed to the trade surplus with major trading partners, including US, EU, and ASEAN. The surplus was brought about by strong export growth in electronic products, vehicles and parts, sugar, canned and processed food. Meanwhile, Thailand experienced trade deficits with certain countries, for instance, South Korea and Taiwan. Deficits from imports of energy occurred in cases

of Myanmar from the import of natural gas, and the Middle East from the import of crude oil. Nevertheless, Thailand was able to maintain trade surpluses with countries with which Thailand had established Free Trade Agreements (FTA) namely, India, Australia, and New Zealand, except for Japan and China with which Thailand continued trade deficits. The Japan-Thailand Economic Partnership Agreement (JTEPA) has already become effective since 1 November 2007.

### **Services, Income and Transfers Account.**

The services, income and transfers account recorded a surplus of 3.0 billion US dollars, increasing from the 2006 level at 1.2 billion US dollars. This increase in surplus was mainly due to the surge of tourism revenue and investment income in the public sector. Tourism revenue rose by 16.2 percent in line with an increase in the number of tourists by 4.6 percent from the previous year. Tourism expenditure grew by 13.8 percent, with 15.2 percent increase in outbound tourists. Investment income increased by 1.8 billion US dollars, or 54.4 percent from the previous year, largely derived from the public sector in tandem with growing foreign exchange reserves. Meanwhile, investment payment increased by 0.9 billion US dollars, or 8.2 percent from the previous year. This was due mainly to remittances of profits and dividends by the private sector. The surpluses in both services, income and transfers account and trade balance resulted in a current account surplus of 14.9 billion US dollars in 2007, rising from a surplus of 2.2 billion US dollar in 2006.

## Net Capital Movement

Net capital movement turned from a surplus in 2006 to a small deficit of 1.1 billion US dollars in 2007, due to a significant drop in net capital inflow in the non-banking sector attributed to the following factors:

1) **The Unremunerated Reserve Requirement (URR) measure**, which resulted in a slowdown in capital inflows especially external loans. However, the URR measure did not apply to foreign equity direct investment (FDI) and foreign equity portfolio investment, thus net capital flow in these two forms remained high.

2) **Relaxation of controls on outflows**, which led to an increase in capital outflow for portfolio investment by Thai investors.

These two measures brought about more balanced capital flows in 2007. Details are as follows:

**Bank of Thailand.** Net capital movement of the BOT registered a deficit of 0.6 billion US dollars due primarily to the sale of the baht-denominated BOT bond by foreign investors in the secondary market.

**Government sector.** Net capital movement of the government sector recorded a deficit of 2.1 billion US dollars. Most of the deficit was in debt securities totaled 1.1 billion US dollars, following foreign investors' selling of baht bonds in the secondary market and the redemption of long-term bonds at maturity (Yankee bonds). In addition, there was an early repayment of 0.6 billion US dollars government long-term loans under the public debt restructuring program.

**Banking sector.** Net capital movement in the banking sector was 0.4 billion US dollars in surplus, reversing from a deficit of 7.4 billion US dollars in 2006. The net capital inflow was mainly

attributed to foreign purchases of recapitalization stocks issued by domestic commercial banks, as well as a reduction of net foreign asset holdings by commercial banks corresponding to foreign exchange forward transactions with Thai residents, particularly exporters and Thai investors investing in foreign securities.

**Other sectors.** Capital flows in other sectors recorded a surplus of 1.2 billion US dollars, mainly from capital flows to non-banking sector; details as follows:

**Non-banking sector.** Net inflow in this sector was 2.3 billion US dollars in surplus, decreasing from a surplus of 13.6 billion US dollars in 2006. **Foreign direct investment** (including reinvested earnings of 3.8 billion US dollars) registered a surplus of 7.5 billion US dollars, due to the net inflow in equity investment following the recapitalization of the wholesale fuel businesses and holding companies. (The slowdown of FDI in 2007 from the 2006 level could be explained by the surge in net inflow in equity investment to a major telecommunication group in 2006. If this bulk of inflow was excluded, then FDI in 2007 would record an increase from 2006.) Meanwhile, net **portfolio investment** registered a deficit of 4.0 billion US dollars as a result of the resident outflow of portfolio investment overseas, mostly in the form of debt securities. Foreign portfolio investment inflow in the form of equity securities increased despite concerns about the subprime problem that adversely affected the Thai stock market at the end of 2007. Net flow of **loans** from non-affiliated companies registered a surplus of 1.3 billion US dollars, while **other investment flows** exhibited a deficit, mostly driven by an increase in trade credits extended by Thai residents to non-

residents, which was more than doubled the previous year's level.

**State-enterprise sector.** Capital flows to this sector recorded a deficit of 1.0 billion US dollars. This was due mainly to purchases of foreign long-term debt securities by some state enterprises and outward investments by affiliated companies, especially in the oil drilling business.

### **Balance of Payments**

The large current account surplus of 14.9 billion US dollars (compared to a surplus of 7.9 billion US dollars in 2006) and a small deficit in the net capital flow resulted in a balance of payments surplus of 17.1 billion US dollars, higher than the previous year's surplus of 12.7 billion US dollars. International reserves rose from 67.0 billion US dollars at end-2006 to 87.5 billion US dollars at end-2007. Net outstanding forward obligations of the BOT stood at 19.1 billion US dollars.

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**Balance of Payments**

(Unit : Million US dollars)

Millions of US\$	2006			2007 <sup>1/</sup>		
	Year	H1	H2	Year	H1	H2
<b>Exports, f.o.b.</b>	<b>127,941</b>	<b>59,429</b>	<b>68,513</b>	<b>151,147</b>	<b>70,096</b>	<b>81,052</b>
(% Δ)	17.0	16.2	17.7	18.1	17.9	18.3
<b>Imports, c.i.f.</b>	<b>126,947</b>	<b>61,450</b>	<b>65,497</b>	<b>139,174</b>	<b>65,538</b>	<b>73,637</b>
(% Δ)	7.9	4.0	11.9	9.6	6.7	12.4
<b>Trade balance</b>	<b>994</b>	<b>-2,021</b>	<b>3,016</b>	<b>11,973</b>	<b>4,558</b>	<b>7,415</b>
Net services income & transfers	1,180	431	749	2,950	1,253	1,697
<b>Current account balance</b>	<b>2,174</b>	<b>-1,591</b>	<b>3,765</b>	<b>14,923</b>	<b>5,810</b>	<b>9,112</b>
<b>Capital movements (net)</b>	<b>5,719</b>	<b>4,722</b>	<b>996</b>	<b>-1,149</b>	<b>-1,970</b>	<b>821</b>
Monetary authorities	416	309	107	-619	-766	147
Government	-567	-202	-364	-2,136	-1,907	-229
Bank	-7,409	-4,146	-3,263	368	-6,052	6,420
Other sectors	13,279	8,762	4,516	1,238	6,755	-5,517
-Non-bank	13,616	8,718	4,898	2,283	6,722	-4,439
Foreign Direct Investment	10,031	6,274	3,757	7,523	4,180	3,343
Equity and Reinvested earnings	8,571	5,124	3,446	7,517	3,648	3,869
Loans from affiliated companies	1,460	1,149	311	6	532	-526
Portfolio Investment	1,642	926	716	-4,045	2,783	-6,828
Foreign	3,205	1,796	1,409	4,472	3,671	801
Equity securities	2,872	1,814	1,058	4,238	3,566	672
Debt securities	333	-18	351	234	105	129
Thai	-1,563	-870	-693	-8,517	-888	-7,629
Other Loans	2,867	1,277	1,590	1,304	422	881
Others	-925	242	-1,166	-2,499	-663	-1,836
- State enterprises	-337	44	-381	-1,045	33	-1,078
<b>Errors and omissions</b>	<b>4,849</b>	<b>1,556</b>	<b>3,293</b>	<b>3,329</b>	<b>1,823</b>	<b>1,505</b>
<b>Overall balance <sup>2/</sup></b>	<b>12,742</b>	<b>4,688</b>	<b>8,054</b>	<b>17,102</b>	<b>5,664</b>	<b>11,438</b>
<b>International Reserves (End of period)</b>	<b>66,985</b>	<b>58,057</b>	<b>66,985</b>	<b>87,455</b>	<b>73,000</b>	<b>87,455</b>
<b>Net Forward Position (End of period)</b>	<b>6,941</b>	<b>4,890</b>	<b>6,941</b>	<b>19,086</b>	<b>9,521</b>	<b>19,086</b>

Note : <sup>1/</sup> Preliminary<sup>2/</sup> Actual

Source: 1. Customs Department

2. Bank of Thailand

## 2.9 External Debt

**External debt** outstanding at end-2007 stood at 61.7 billion US dollars, increasing by 2.1 billion US dollars from end-2006. This rise in external debt was due to the quoting of the outstanding value of external debt in terms of US dollars, which resulted in an increase in external debt equivalent to 2.3 billion US dollars as Thai baht, Japanese yen, and the euro appreciated against the US dollar. The net external debt inflow in 2007 declined by 0.2 billion US dollars from the previous year, owing mainly to the reduction of external debt in the public sector, the Bank of Thailand, and the banking sector. The details can be summarized as follows:

**External Debt Outstanding\***  
(Unit: Million US dollars)

	2005	2006	2007	Dec-07 compared to Dec-06
<b>1. Public Sector</b>	<b>4,519</b>	<b>4,140</b>	<b>2,270</b>	<b>-1,870</b>
Long-term	4,448	4,140	2,267	-1,873
Short-term	71	0	3	3
<b>2. BOT</b>	<b>452</b>	<b>965</b>	<b>394</b>	<b>-571</b>
Long-term	58	223	377	154
Short-term	394	742	17	-725
<b>3. Banks</b>	<b>6,038</b>	<b>6,729</b>	<b>6,361</b>	<b>-368</b>
Long-term	2,982	3,573	2,401	-1,172
Short-term	3,056	3,156	3,960	804
<b>3.1 Commercial Banks</b>	<b>4,244</b>	<b>6,729</b>	<b>6,361</b>	<b>-368</b>
Long-term	2,000	3,573	2,401	-1,172
Short-term	2,244	3,156	3,960	804
<b>3.2 IBFs</b>	<b>1,794</b>	<b>0</b>	<b>0</b>	<b>0</b>
Long-term	982	0	0	0
Short-term	812	0	0	0
<b>4. Other sectors</b>	<b>41,030</b>	<b>47,809</b>	<b>52,672</b>	<b>4,863</b>
Long-term	28,143	33,153	35,041	1,888
Short-term	12,887	14,656	17,631	2,975
<b>4.1 State Enterprises</b>	<b>9,023</b>	<b>8,987</b>	<b>9,380</b>	<b>393</b>
Long-term	9,060	8,924	9,357	433
Short-term	-37	63	23	-40
<b>4.2 Non-banks</b>	<b>32,007</b>	<b>38,822</b>	<b>43,292</b>	<b>4,470</b>
Long-term	19,083	24,229	25,684	1,455
Short-term	12,924	14,593	17,608	3,015
<b>Total Debt (1+2+3+4)</b>	<b>52,039</b>	<b>59,643</b>	<b>61,697</b>	<b>2,054</b>
<b>External Debt/GDP (%)</b>	<b>32.5</b>	<b>32.8</b>	<b>29.3</b>	
Long-term	35,631	41,089	40,086	-1,003
Short-term	16,408	18,554	21,611	3,057
<b>Share (%)</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	
Long-term	68.5	68.9	65.0	
Short-term	31.5	31.1	35.0	

Note: \* Including valuation change

Source: Bank of Thailand

**Government sector.** External debt of the general government sector recorded at 2.3 billion US dollars, down from 2006. The reduction in government external debt was due to foreign investors' selling of baht-denominated securities in the secondary market and securities redemption at maturity. Government external loans have also been repaid constantly.

**Bank of Thailand.** External debt of the Bank of Thailand stood at 0.4 billion US dollars, decreasing from the previous year due largely to foreign investors' selling of baht-denominated BOT securities in the secondary market.

**Banking sector.** External debt of the banking sector registered at 6.4 billion US dollars, a slight drop compared to the previous year's figure, mainly as a result of the repayment of long-term external loans.

**Other sectors.** External debt of other sectors stood at 52.7 billion US dollars, increasing by 4.9 billion US dollars from end-2006 as a result of new debt inflow as well as the valuation in terms of US dollars. Net external borrowing in the non-banking sector increased by 3.0 billion US dollars in tandem with an increase in short-term debt in the forms of trade credits extended to the energy sector and an increase in short-term borrowing within and outside of business groups, while long-term debt increased only slightly. As for the state-enterprise sector, despite the early redemption of debt securities as well as repayment of external loans, external debt outstanding in this sector in terms of US dollars rose from the previous year following the appreciation of Thai baht, Japanese yen, and the euro against the US dollar.



### External debt structure

Short-term debt as of end-2007 accounted for 35.0 percent of total external debt, increasing from 31.1 percent at end-2006 due mainly to the import of loans and trade credits in the non-banking sector and the increase in short-term external debt in the banking sector.

### External debt and vulnerability indicators

All solvency indicators in 2007 pointed to a sound solvency condition in Thailand. The debt to GDP ratio declined from the previous year to 29.4 percent. The ratio of current account to GDP scored as high as 6.1 percent, while the debt service ratio remained low.

Overall, liquidity indicators also exhibited a satisfactory liquidity condition. The size of gross reserves was 4 times the size of short-term external debt, or 7.5 times that of import value. The ratio of short-term debt to total external debt remained low relative to the 1997 level.

External Vulnerability Indicators

	2005	2006	2007	2007			
				Q1	Q2	Q3	Q4
<b>Solvency Indicators</b>							
Current Account <sup>1</sup> /GDP (%)	-4.4	1.0	6.1	8.0	1.9	4.8	9.1
Debt / GDP* (%)	32.5	32.8	29.4	31.9	30.4	30.2	29.4
Debt / XGS <sup>1</sup> (%)	47.3	46.0	40.6	44.5	42.3	42.0	40.6
Debt Service Ratio (%)	10.8	11.3	11.1	18.1	11.2	7.5	8.5
<b>Liquidity Indicators</b>							
Gross Reserves / ST Debt	3.2	3.6	4.0	3.6	3.6	3.8	4.0
Gross Reserves / Import	5.3	6.3	7.5	6.6	6.7	7.2	7.5
ST Debt / Total Debt (%)	31.5	31.1	35.0	33.0	34.6	35.2	35.0

Note: \* The new series of the external debt to GDP was revised by adopting the World Bank's approach: using the averaged quarterly GDP for the last 3 years starting from the GDP of the quarter in question (while the previous approach was calculated by dividing the external debt outstanding of the quarter in question by the average GDP of the same year and the previous 2 years).

<sup>1</sup> Since October 2006 reinvested earnings has been recorded as part of direct investment in financial account, and its contra entry recorded as "investment income" in current account. The series have been revised back to 2001.

Source: Bank of Thailand

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## 2.10 Fiscal Conditions

For fiscal year 2007, the government set a deficit budget after two consecutive years of balanced budget in fiscal year 2005 and 2006. The government budget expenditures for fiscal year 2007 was set at 1,566.2 billion baht with the net revenue of 1,420 billion baht and a deficit of 146.2 billion baht or 1.7 percent of the GDP.

The change in government following the coup on 19 September 2006 resulted in the 3-month delay of budgeting process. According to Article 16 of the Budget Procedure Act B.E. 2502, if the Budget Act is not promulgated in time for the new budget year, the expenditure budget for the past budget year in the meantime shall continue to apply. This resulted in the low budget disbursement in the beginning of the fiscal year. Nevertheless, disbursement rate rebounded from the second quarter onwards, giving budget disbursement totaling 93.9 percent of the total budget.

### Fiscal Position

In fiscal year 2007, government cash balance recorded a deficit of 94.2 billion baht, equivalent to 1.1 percent of GDP. Meanwhile, government net domestic borrowing totaled 140.5 billion baht with net foreign loan repayment totaling 42.1 billion baht. This resulted in an increased treasury reserves to 142.8 billion baht, increasing by 4.3 billion baht from the end of fiscal year 2006.

Fiscal position in **the first quarter of fiscal year 2008** (1 October - 31 December 2007) recorded a cash deficit of 75.2 billion baht. To finance its deficit, the government used treasury reserves as well as net domestic borrowing of 8.5 billion baht with net foreign loan repayment of 6.9 billion baht. Thus, the treasury balance at the end of the first quarter registered at 69.1 billion baht, reduced by 73.7 billion baht from the end of fiscal year 2007.

Treasury Account Position <sup>1/</sup>								
(Unit: Billion baht)								
Fiscal Year								
	2006	2007	2007			2008 <sup>P</sup>		
			H1	H2	Q1 <sup>P</sup>	Oct <sup>P</sup>	Nov <sup>P</sup>	Dec <sup>P</sup>
Revenue <sup>2/</sup>	1,340.3	1,432.7	605.9	826.8	329.9	116.5	116.7	96.7
(%Δ)	(9.2)	(6.9)	(8.3)	(5.8)	(8.7)	(6.0)	(19.9)	(0.3)
Expenditure	1,359.5	1,520.5	715.5	804.9	388.7	155.1	127.0	106.6
(%Δ)	(11.6)	(11.8)	(1.3)	(23.2)	(38.8)	(74.3)	(37.5)	(8.0)
: Disbursement rate (%)	93.2	92.8	42.1	50.7	21.8	9.1	6.9	5.8
Budgetary Deficit (-) or Surplus (+)	-19.1	-87.8	-109.6	21.9	-58.8	-38.6	-10.3	-10.0
Non-Budgetary Deficit (-) or Surplus (+)	23.6	-6.4	-43.5	37.1	-16.4	-1.2	-26.8	11.7
<b>Cash Deficit (-) or Surplus (+)</b>	<b>4.5</b>	<b>-94.2</b>	<b>-153.1</b>	<b>59.0</b>	<b>-75.2</b>	<b>-39.8</b>	<b>-37.1</b>	<b>1.7</b>
: (% of GDP)	(0.1)	(-1.1)	(-3.7)	(1.4)	n.a.			
Financing								
Net Domestic Borrowing	44.9	140.5	107.2	33.3	8.5	-7.8	-0.9	17.1
Net Foreign Borrowing	-15.8	-42.1	-21.9	-20.2	-6.9	-0.7	-0.1	-6.1
Use of Treasury Cash Balance	-33.6	-4.3	67.8	-72.1	73.7	48.3	38.1	-12.7
Treasury Cash Balance (end-period)	138.5	142.8	70.7	142.8	69.1	94.5	56.4	69.1

Note: <sup>1/</sup> Data on revenue remitted to the Treasury and expenditures are from Fiscal Policy Office, adjusted to cash basis by Bank of Thailand  
<sup>2/</sup> %Δ represents percentage change from the same period last year  
n.a. = no data available  
P = Preliminary data

Source: The Comptroller's General Department, Ministry of Finance  
Data Management Department, Bank of Thailand

**Government Revenue**

In fiscal year 2007, the government's revenue collection totaled 1,703.7 billion baht, up by 7.7 percent from the previous fiscal year. After excluding tax deducted items, the government net revenue was equal to 1,444.4 billion baht, up by 7.8 percent. This was higher than the 1,420 billion baht revenue initially estimated in the budget document by 24.4 billion baht, due partly to the special income from dissolving the Exchange Rate Equalization Fund of 36.9 billion baht. Excluding this special income, revenue collection totaled 1,666.8 billion baht, increasing by 5.4 percent from the previous fiscal year. This was equivalent to the net revenue of 1,407.5 billion baht (lower than that appeared in the budget document).

**Tax revenue** increased by 4.9 percent. This was lower than the previous fiscal year due to various factors, including; 1) The baht appreciation which resulted in lower import value in baht term, despite an increased import volume. This in turn affected import duty as well as VAT and excise tax on imports. 2) The slowdown in investment and durable goods consumption due to political uncertainty. 3) The reserve provisions of financial institutions in compliance with IAS 39, which resulted in lower profit-based corporate tax collection. 4) An excise tax reduction for telecommunication businesses to zero percent, effective from 27 February 2007.

**Non-tax revenue** collection registered at 206.7 billion baht, accelerating by 34.2 percent from the previous fiscal year due partly to the special income from dissolving the Exchange Rate Equalization Fund. Excluding this special income, non-tax revenue totaled 169.7 billion baht, up by 10.2 percent from the previous fiscal year. Note that, fiscal year 2007 was the first time that state enterprises with calendar-year accounting period were required to remit their income twice a year. The first remittance was in October 2006 and the second remittance would be after the verification of the Office of the Auditor General of Thailand.

As for the first quarter of fiscal year 2008, the government's revenue collection registered at 374.4 billion baht, up by 5.9 percent from the previous fiscal year. This was due to an increase in income tax by 11.7 percent, consumption tax by 3.7 percent, and tax on international trade by 7.1 percent, while non-tax revenue was up by 2.7 percent.

<b>Government Revenue*</b>						
(Unit: Billion baht)						
	<i>Fiscal Year</i>					
	<b>2006P</b>	<b>2007P</b>	<b>2008 P</b>			
			<b>Q 1</b>	<b>Oct 07</b>	<b>Nov 07</b>	<b>Dec 07</b>
<b>Total Revenue</b>	<b>1,581.5</b>	<b>1,703.7</b>	<b>374.4</b>	<b>132.7</b>	<b>133.1</b>	<b>108.6</b>
(%Δ)	(7.3)	(7.7)	(5.9)	(9.7)	(7.1)	(0.4)
<b>Taxes</b>	<b>1,427.5</b>	<b>1,497.1</b>	<b>327.0</b>	<b>104.9</b>	<b>119.1</b>	<b>103.0</b>
(%Δ)	(7.6)	(4.9)	(6.4)	(4.2)	(10.2)	(4.6)
<b>- Income base</b>	<b>601.3</b>	<b>643.1</b>	<b>102.9</b>	<b>30.8</b>	<b>43.0</b>	<b>29.1</b>
(%Δ)	(16.1)	(7.0)	(11.7)	(6.1)	(14.3)	(14.5)
Personal income tax	170.1	192.8	43.1	14.9	13.1	15.1
(%Δ)	(15.4)	(13.4)	(9.9)	(9.1)	(6.4)	(13.9)
Corporate income tax	374.7	384.6	57.4	15.9	28.4	13.2
(%Δ)	(13.7)	(2.7)	(13.5)	(7.4)	(17.7)	(12.8)
<b>- Consumption base</b>	<b>722.5</b>	<b>755.9</b>	<b>197.2</b>	<b>65.0</b>	<b>67.0</b>	<b>65.3</b>
(%Δ)	(4.5)	(4.6)	(3.7)	(2.8)	(8.2)	(0.5)
Value added tax	417.8	434.3	116.9	38.8	39.3	38.8
(%Δ)	(8.3)	(3.9)	(9.5)	(6.8)	(14.7)	(7.3)
Excise tax	274.1	287.2	71.0	23.2	24.8	23.1
(%Δ)	(-1.9)	(4.8)	(-4.4)	(-4.2)	(0.3)	(-9.1)
<b>- International trade base</b>	<b>93.9</b>	<b>88.5</b>	<b>24.4</b>	<b>8.2</b>	<b>8.5</b>	<b>7.8</b>
(%Δ)	(-12.4)	(-5.8)	(7.1)	(6.6)	(8.3)	(6.3)
<b>Other Incomes</b>	<b>154.0</b>	<b>206.7</b>	<b>47.4</b>	<b>27.8</b>	<b>14.0</b>	<b>5.6</b>
(%Δ)	(4.4)	(34.2)	(2.7)	(37.1)	(-13.5)	(-42.3)

Note: \* Revenue on a collection basis is defined differently from revenue on a cash basis shown in the treasury account positions.

Differences are from time-overlapping and the deduction from the collection basis set aside for tax rebates and export duties compensation.

%Δ represents percentage change from the same period last year

P = Preliminary data

Source: Fiscal Policy Office, Ministry of Finance

Data Management Department, Bank of Thailand

## Expenditure

The fiscal year 2007 budget expenditure (including foreign loan repayment) classified by economics (current year plus carry-over expenditure) totaled 1,575.0 billion baht, up by 12.8 percent from the previous fiscal year. This was comprised of current expenditure 1,240.1 billion baht (increased by 17.2 percent) and capital expenditure 334.2 billion baht (decreased by 0.2 percent).

The government current-year expenditure, classified by types of expenditure, i.e., personnel, operations, investments, subsidies, and others, totaled 1,472.5 billion baht, increasing by 15.9 percent from fiscal year 2006. The disbursement rate was 93.9 percent, compared with 93.4 percent in fiscal year 2006 and the target of 93 percent. Such acceleration in expenditure was due mainly to the government policy to accelerate disbursement.

Unit: Billion baht	Disbursement according to GFS classification			Disbursement Rate (Percent)		
	2549	2550	Q 1/ 2551	2549	2550	Q 1/ 2551
<b>1. Current Year</b>	<b>1,270.8</b>	<b>1,470.9</b>	<b>358.2</b>	<b>93.4%</b>	<b>93.9%</b>	<b>21.6%</b>
% Δ	11.7	15.7	38.9	2.7	0.5	31.1
Current Expenditure	1,007.3	1,208.1	303.5	102.7%	99.5%	23.4%
% Δ	10.0	19.9	27.5	6.3	-3.2	19.5
Capital Expenditure	263.4	262.7	54.7	69.4%	74.6%	15.0%
% Δ	18.8	-0.3	176.4	-0.1	0.1	166.4
Miscellaneous items	-	0.1	0.0	-	-	-
% Δ	-	-	-	-	-	-
<b>2. Carry over</b>	<b>125.1</b>	<b>104.1</b>	<b>35.4</b>	<b>73.8%</b>	<b>66.7%</b>	<b>23.6%</b>
% Δ	18.7	-16.8	-16.1	0.2	-0.1	-12.7
Current Expenditure	50.9	32.0	14.8	78.4%	68.5%	25.8%
% Δ	101.8	-37.2	-2.3	4.6	-12.6	-20.7
Capital Expenditure	71.4	71.5	20.0	70.6%	66.1%	22.2%
% Δ	13.4	0.1	-25.0	18.1	-6.5	-10.0
Miscellaneous items	2.9	0.7	0.6	78.7%	52.4%	24.9%
% Δ	-83.4	-76.8	54.2	19.8	-33.3	-24.0
<b>3. Total Expenditures</b>	<b>1,395.9</b>	<b>1,575.0</b>	<b>393.7</b>	<b>91.3%</b>	<b>91.4%</b>	<b>21.8%</b>
% Δ	12.3	12.8	31.2	3.9	0.2	24.9
Current Expenditures	1,058.2	1,240.1	318.3	101.2%	98.3%	23.5%
% Δ	12.5	17.2	25.7	5.5	-2.8	17.2
Capital Expenditure	334.8	334.2	74.7	69.7%	72.6%	16.4%
% Δ	17.6	-0.2	60.8	-0.1	4.2	62.7
Miscellaneous items	2.9	0.7	0.6	78.7%	56.4%	24.9%
% Δ	-83.4	-75.1	54.6	19.7	-28.3	-23.8

Note: \* Government Fiscal Management Information System

Source: The Comptroller's General Department, Ministry of Finance

For the first quarter of fiscal year 2008, government expenditure totaled 393.7 billion baht, up by 31.2 percent, in line with disbursement accelerating strategy. Major expenditures were for education (90.6 billion baht), economic policy application (86.7 billion baht), and universal health care (39.8 billion baht). This resulted in the disbursement rate in the first quarter of fiscal year 2008 of 21.6 percent of total budget, compared to 16.5 percent in the previous fiscal year in which the budget promulgation was delayed.

### Current-year Expenditures By Types

Unit: Million baht

	Disbursement		
	2006	2007 <sup>P</sup>	Q1 2008 <sup>P</sup>
<b>Current-year Budget</b>	<b>1,270,682</b>	<b>1,472,527</b>	<b>358,252</b>
(% Δ)	(11.2)	(15.9)	(39.0)
- Personal	389,046	429,192	110,793
(% Δ)	(10.0)	(10.3)	(12.9)
- Operations	130,987	147,554	31,022
(% Δ)	(19.5)	(12.6)	(41.3)
- Investments	98,686	107,901	13,173
(% Δ)	(22.2)	(9.3)	(43.2)
- Subsidies	348,103	371,727	118,585
(% Δ)	(14.4)	(6.8)	(86.1)
- Others	303,859	416,152	84,679
(% Δ)	(3.0)	(37.0)	(30.6)

Note: P = Preliminary data

Source: Fiscal year 2005 data from Bank of Thailand

Data since fiscal Year 2006 are according to GFMS from the Technology and Communication Centre, Ministry of Finance (As of 12 December 2007)

## State Enterprises

In fiscal year 2007, the retained income of state enterprises<sup>1/</sup> registered at 160.8 billion baht, up by 3.0 percent from the previous fiscal year. Meanwhile, state enterprises' capital expenditure totaled 210.0 billion baht, closed to that of the previous fiscal year. This was partly because state enterprises were still waiting for more explicit government policy. Other negative factors included: 1) the insufficient information and delay in submitting data for the additional budget proposals, 2) the delayed construction of the home for the poor project, 3) the delay of large-scale investment project, in particular, the mass transit project as auctions were behind schedule, and 4) the holding back of some state enterprises in waiting for explicit counter trade and barter trade policies. Such decrease in capital expenditure disbursement (74 percent compared to the target of 90 percent) resulted in state enterprises' deficit of 49.2 billion baht or 0.6 percent of GDP, close to that of the previous fiscal year.

State Enterprises' Balances		
(Unit: Billion baht)		
	Fiscal Year	
	2007 P/	2008 P/
Retained Income	156.1	160.8
(%Δ)	(9.0)	(3.0)
Capital Expenditure	206.2	210.0
(%Δ)	(-11.4)	(1.8)
State Enterprises' Balances	-50.1	-49.2
(% of GDP)	(-0.7)	(-0.6)

Note: Δ% represents percentage change from the same period last year

P = Preliminary data

Source: National Economic and Social Development Board (NESDB)

## Public Debt

At the end of fiscal year 2007, total public debt registered at 3,179.4 billion baht or 37.9 percent of GDP, decreasing from 41.3 percent of GDP at the end of fiscal year 2006. Public debt comprised of direct government borrowing 2,051.4 billion baht (24.5 percent of GDP), guaranteed and non-guaranteed non-financial public enterprise debt 506.8 billion baht (6.0 percent of GDP) and 400.5 billion baht (4.8 percent of GDP), respectively. Meanwhile, debt outstanding for the Financial Institution Development Fund (FIDF) registered at 185.2 billion baht (2.2 percent of GDP) and other government agency debt (village fund and oil fund) accounted for 35.6 billion baht (0.4 percent of GDP).

Overall fiscal position in fiscal year 2007 was stable and in line with the fiscal sustainability framework, both in terms of public debt to GDP ratio and debt service ratio.

Public Debt			
(Unit: Billion baht)			
	Fiscal Year		
	2006	2007 P/	Q1 2008 P/
<b>1. Debt incurred from direct borrowing</b>	<b>1,967.7</b>	<b>2,051.4</b>	<b>2,051.1</b>
(% GDP)	(25.1)	(24.4)	(24.5)
1.1 foreign debt	191.9	107.9	93.1
1.2 domestic debt	1,775.8	1,943.5	1,958.0
<b>2. Debt of non-financial state enterprises</b>	<b>911.5</b>	<b>907.3</b>	<b>939.3</b>
(% GDP)	(11.6)	(10.8)	(11.2)
2.1 government-guaranteed debt	522.3	506.8	539.8
foreign debt	195.1	171.1	169.8
domestic debt	327.2	335.7	369.9
2.2 non-government-guaranteed debt	389.2	400.5	399.5
foreign debt	119.1	134.3	136.2
domestic debt	270.1	266.2	263.3
<b>3. Financial Institutions Development Fund (FIDF)</b>	<b>273.5</b>	<b>185.2</b>	<b>166.6</b>
(% GDP)	(3.5)	(2.2)	(2.0)
3.1 government-guaranteed debt	0.0	0.0	73.8
3.2 non-government-guaranteed debt	273.5	185.2	92.8
<b>4 Other state organizations</b>	<b>80.4</b>	<b>35.6</b>	<b>26.8</b>
(% GDP)	(1.0)	(0.4)	(0.3)
4.1 government-guaranteed debt	29.3	18.0	18.0
4.2 non-government-guaranteed debt	51.1	17.6	8.8
<b>5. Total (1+2+3+4)</b>	<b>3,233.1</b>	<b>3,179.4</b>	<b>3,183.8</b>
(% GDP)	(41.3)	(37.9)	(38.0)

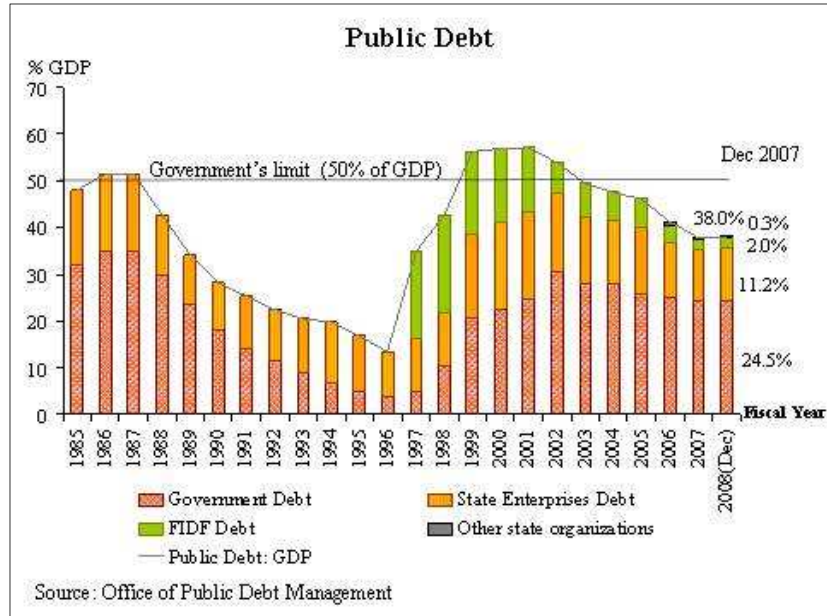
Note: P = Preliminary data

Source: Office of Public Debt Management

<sup>1/</sup> State enterprises' data from the NESDB's survey (not including some state enterprises such as PTT)

As of end-December 2007, public debt to GDP ratio recorded at 38.0 percent or 3,183.8 billion baht, comprising of direct government borrowing 2,051.1 billion baht (24.5 percent of GDP), non-financial public enterprise debt 939.3

billion baht (11.2 percent of GDP), FIDF debt 166.6 billion baht (2.0 percent of GDP), and other government agency debt (village fund and oil fund) 26.8 billion baht (0.3 percent of GDP).



Public Finance Team  
Tel. 0-2283-5628

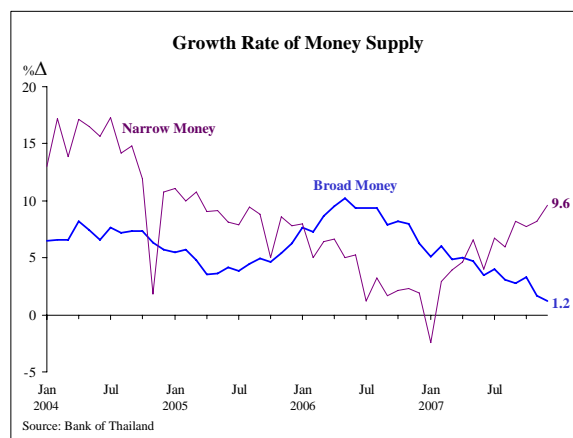
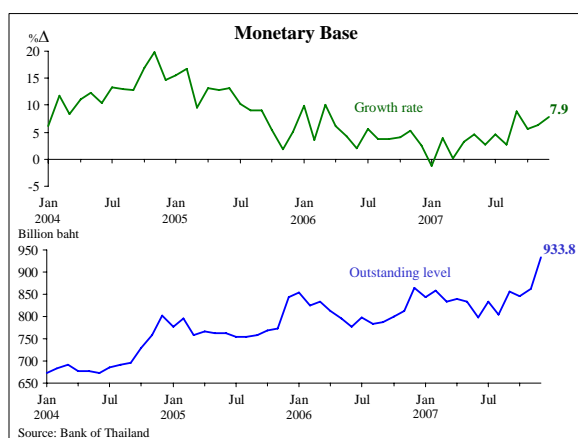
## 2.11 Monetary Conditions

### Monetary Base and Money Supply

At the end of 2007, **monetary base** totaled 933.8 billion baht, expanding by 7.9 percent from end-2006. The growth of cash held by the private sector, a component of the monetary base, had been accelerating, especially during the second half of 2007, which was in line with the recovery in private consumption.

Important developments regarding the supply of the monetary base in 2007 were (1) continued increase in net foreign assets of the Bank of Thailand, which was in line with the buildup of international reserves; (2) increase in the Bank of Thailand's net claims on the government from larger holding of government bonds as well as lower government deposits at the Bank of Thailand; and (3) a decline in the Bank of Thailand's net claims on financial institutions, as financial institutions' investment in the repurchase market as well as their holding of the Bank of Thailand bonds increased.

At end-2007, **broad money** registered at 8,317.5 billion baht, expanding by 1.2 percent year-on-year and decelerating from 6.2 percent in the previous year. The deceleration was due to commercial banks' issuance of bills of exchange in lieu of conventional deposits. Since bills of exchange are not included in the definition of either broad money or commercial bank deposits, broad money growth was unusually low. In addition, the downward deposit interest rate cycle, which followed policy interest rate, helped contribute to the slowdown in the growth of deposits at commercial banks, and consequently to that of broad money.





## Exchange Rate, Interest Rates, and Government Bond Yields

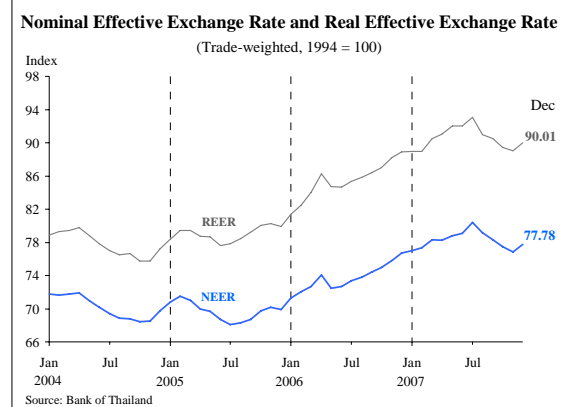
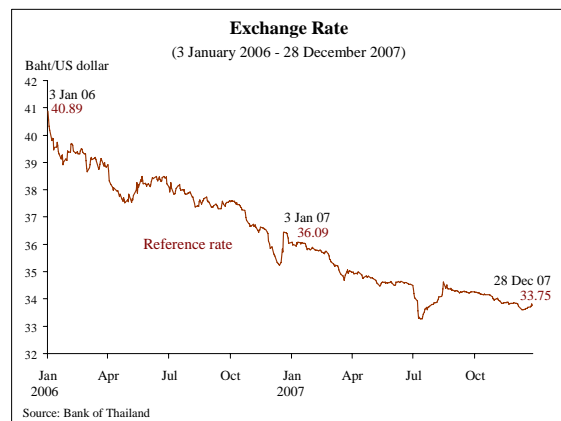
### 1) Exchange rate

In 2007, the exchange value of the baht fluctuated between 33.27-36.09 baht per US dollar. The exchange rate averaged at 34.56 baht per US dollar, appreciating consistently from the average of 37.93 baht per US dollar in 2006. Factors that helped lift the baht in 2007 were: (1) US dollar decline, consequent of weak sentiment in the currency on the back of large current account deficit and clearer signs of softening economic growth. (2) pressure from Thailand's current account surplus, as exporters sold foreign currency receipts in exchange for the baht. (3) Occasional surges of capital flow into the stock market, for instance in early July. Meanwhile, the easing of capital control measures, which allowed for more balanced flows, and Bank of Thailand's intervention in the foreign exchange market helped slow the appreciation pace. Moreover, during July and August, foreign investors' concern about the subprime problem in the US mounted, leading to diversification away from regional markets and into assets with relatively low risk, e.g. US Treasury bonds. This action caused the baht to depreciate somewhat.

While the annual average baht-US dollar exchange rate appreciated by 9.7 percent year-on-year in 2007, the **nominal effective exchange rate** (NEER), which was calculated as a weighted average of bilateral exchange rates against Thailand's major trading partners' currencies, averaged at 78.22, appreciating by 6.2 percent from the average level of 73.69 in 2006. The NEER appreciation reflected the fact that the baht had gained against major

trading partners' currencies, but the gain came at a more moderate pace than that made against the US dollar, which depreciated against an index of major currencies. It was noticeable that the bilateral baht-US dollar exchange rate and the NEER had moved in the same direction from the beginning of 2007 to August. However, from September to November, the baht appreciated less against the US dollar than other major and regional currencies, resulting in a decline in the NEER.

The **real effective exchange rate** (REER), which took into account inflation and therefore reflected Thailand's export price competitiveness, continued to rise from the average at 85.42 in 2006 to 90.54 in 2007, an appreciation of 6.0 percent. The REER gained less than the NEER, as Thailand's inflation rate was slightly lower than those of its major trading partners.



The average baht per US dollar in December appreciated by 6.3 percent from the same period last year, while the baht NEER and REER appreciated by only 1.4 and 1.3 percent, respectively, over the same period. This reflected a broad decline in the US dollar as well as the fact that Thailand's export price competitiveness had not been eroded. Moreover, the volatility of the baht-US dollar exchange rate in 2007 averaged at 3.2, well below those of most regional currencies.

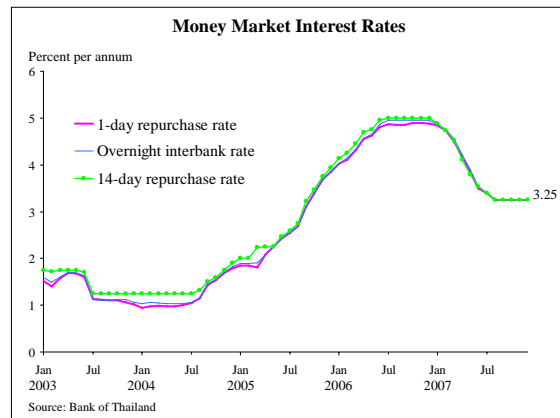
Exchange Rates in the Region

As of Dec 2007	% change from Dec 06			Actual volatility (compared with US dollar) <sup>2</sup>
	NEER <sup>1/</sup>	REER <sup>1/</sup>	with US dollar <sup>2/</sup>	Jan-Dec 2007
PHP	14.2	14.0	18.7	6.8
INR	6.9	6.8	12.0	5.1
CNY	1.6	5.1	6.2	1.6
MYR	1.6	0.3	6.7	4.1
THB	1.4 <sup>2/</sup>	1.3 <sup>2/</sup>	6.3	3.2
SGD	1.2	1.4	6.2	3.4
JPY	-0.6	-4.2	4.4	8.8
TWD	-4.6	-3.8	0.4	2.7
HKD	-5.2	-5.6	-0.3	0.6
KRW	-5.7	-5.9	-0.6	4.1
IDR	-7.4	-4.4	-1.7	7.7

Source: <sup>1/</sup> BIS calculation  
<sup>2/</sup> BOT calculation

## 2) Money market interest rates

**Short-term money market rates** in 2007 averaged downward from the previous year, in line with policy interest rate<sup>1/</sup>. The 1-day repurchase and interbank rates averaged at 3.77 and 3.79 percent per annum, respectively, declining from the averages of 4.64 and 4.69 percent per annum in 2006.



During the first half of 2007, the MPC decided to cut policy interest rate five times from 5.0 percent per annum at the end of December 2006 to 3.25 percent per annum at end-July 2007, on account of its assessment that risks to Thailand's economic growth, particularly domestic demand, had increased while risks to inflation had decreased and core inflation was projected to remain within the target range. Short-term money market rates adjusted downward in line with the adjustments of the policy rate.

As for the second half of 2007, the MPC decided to keep the policy interest rate steady at 3.25 percent per annum at three consecutive meetings from August to December, after assessing that despite the risks to growth from the global economy, especially the subprime crisis and high world oil prices, the Thai economy had gained momentum from domestic demand recovery. Inflationary pressures, however, started to mount toward the end of the year.

<sup>1/</sup>As of 17 January 2007, the policy interest rate was changed from the 14-day repurchase rate to the 1-day repurchase rate.

### 3) Government bond yields

In 2007, **government bond yields** were lower and, on average, fluctuated more than last year. During the first half of the year, both short- and long-term government bond yields declined notably in line with the policy interest rate cuts. However, at the end of May, medium- to long-term government bond yields rose markedly as the market expected that the downward policy interest rate cycle would soon come to an end. During the second half of 2007, government bond yields adjusted upward, due to a number of factors, such as market expectation of an upward policy rate shift in response to rising inflation as well as lower investor appetite for bond toward the end of the year, which was a seasonal pattern.

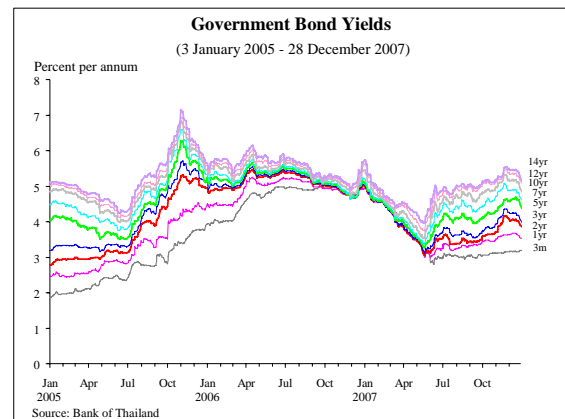
Movements of government bond yields in each quarter are summarized as follows:

In 2007 **Q1**, government bond yields trended down from end-2006. The yield curve became less steep, reflecting market expectation that interest rates would continue to fall.

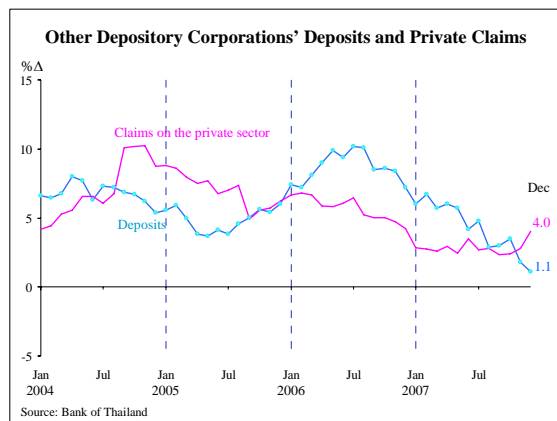
In 2007 **Q2**, government bond yields, while continuing on a downward trend, were also quite volatile. However, in May, the yield curve became steeper, on expectation of an imminent end to policy interest rate cut. In fact, investors began to sell government bonds, pushing up the yields, at the end of May.

In 2007 **Q3**, medium and long-term government bond yields gradually rose; partly from the diversification away from government bonds into equity of mutual funds, and also from low bid-coverage ratio at primary government bond auctions, which reflected the market's view of excess bond supply. Meanwhile, short-term yields fluctuated narrowly in line with the stable policy interest rate, widening the spreads between the long, medium, and short-term yields.

In 2007 **Q4**, medium and long-term government bond yields rose at the beginning, following the rise in US government bond yields, higher domestic inflationary expectation and investors' closing of positions toward end-year. However, bond yields dropped toward the end of December as rumor started to circulate that the Bank of Thailand would curtail its swap transactions to drain baht liquidity.



## Other Depository Corporation Deposits and Claims <sup>2/</sup>

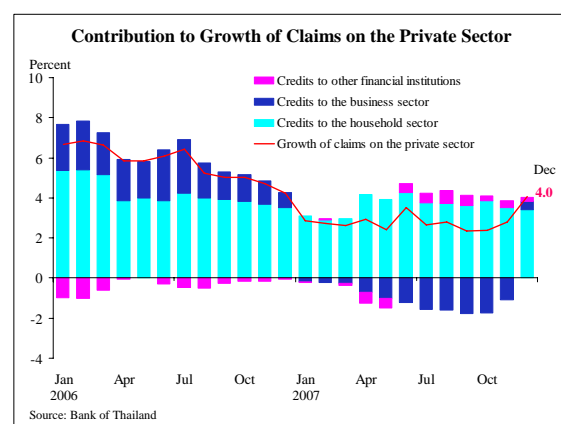


### 1) Other depository corporations deposits

In the first half of 2007, deposits at other depository corporations (ODC) grew at a weaker pace than the rate at the end of last year. This deceleration in growth started when commercial banks ceased to raise interest rates to compete for deposits during mid-2006. Moreover, some depositors did not find low interest rates enticing, prompting them to look for alternative saving options, such as bonds and mutual funds. Nevertheless, deposit growth accelerated sporadically when government budget, awaiting disbursement, was deposited at commercial banks.

In the second half of 2007, the growth of deposits continued to weaken, as (1) commercial banks increasingly acquired

cheaper funding through issuance of bills of exchange, which were not counted as deposits under the current definition of commercial bank deposits; and (2) depositors found saving alternatives through BOT and FIDF saving bonds, issued in September and November 2007, respectively. As a result, at end-2007, other depository corporations' deposits expanded by 1.1 percent year-on-year. Had the bills of exchange been included, however, overall ODC's deposits would have expanded by 7.0 percent year-on-year.



### 2) Other depository corporations claims on the private sector

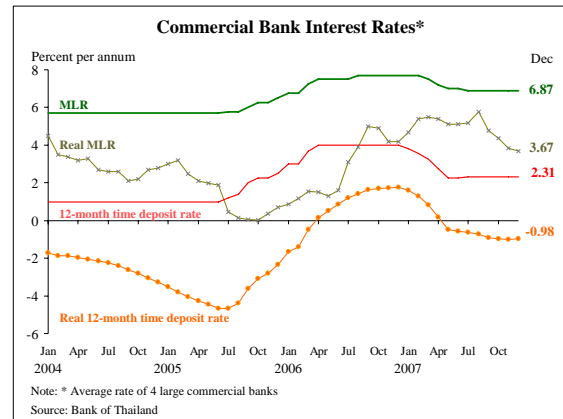
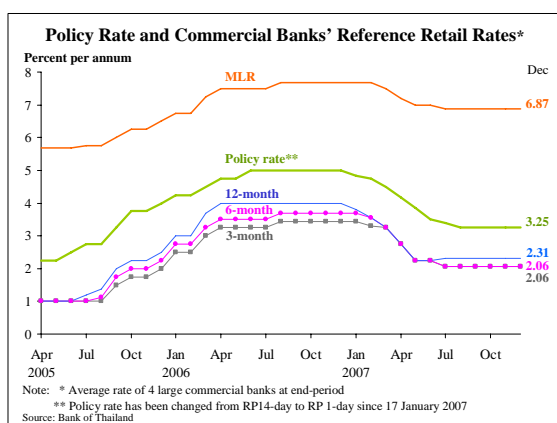
In 2007, the growth of ODC's claims on the private sector continued at a low rate from mid-2006. The low growth rate was mainly due to the contraction of credit extended to the business sector, specifically that for investment purposes, which was in line with weak domestic demand. Meanwhile, credit to the household sector expanded well and became the main driver of overall credit growth, which dipped to as low as 2.4 percent in September before edging up in November on the back of business credit recovery following domestic demand improvement. At end-2007, overall credit to the private sector expanded by 4.0 percent year-on-year, with credit to the business sector increasing for the first time since January 2007.

<sup>2/</sup> Other Depository Corporations comprise commercial banks registered in Thailand, branches of foreign banks, international banking facilities, finance companies, specialized financial institutions (Government Saving Bank, Bank for Agriculture and Agricultural Cooperatives, Government Housing Bank, Export-Import Bank of Thailand (EXIM Bank), SME Bank, and Islamic Bank of Thailand), saving cooperatives, and money market mutual funds.

### 3) Commercial bank interest rates

During the first half of 2007, commercial banks had lowered both the reference deposit and lending rates, following the policy interest rate direction taken since January. In this adjustment process, the pace at which commercial banks reduced the lending rates was slower than the pace of deposit rate reduction, as it took time for term deposits that were quoted at existing interest rates to mature. In this context, commercial banks tried to maintain their net interest income and earnings by postponing lending rate cuts until after interest rates on term deposits could be lowered.

After the MPC decided to maintain the policy interest rate at 3.25 percent per annum in August, most commercial banks did not make additional adjustment to their reference interest rates. As of August, and indeed until end-year, the 3-month and 6-month deposit rates at four large commercial banks remained at an average of 2.06 percent per annum while the 12-month deposit rate averaged at 2.31 percent per annum. In the meantime, MLR averaged at 6.87 percent per annum.



The decline in deposit interest rates at commercial banks from January to July resulted in a fall in real 12-month deposit rate<sup>3/</sup> as well. Moreover, even though, commercial banks had not lowered deposit rates since July 2007, real 12-month deposit rate continued to fall in the second half of the year as the 12-month-ahead inflation forecast, a proxy for expected inflation, rose in line with rising inflationary pressure. At end-2007, real 12-month deposit rate was at -0.98 percent per annum. Real MLR<sup>4/</sup> also trended downward and remained somewhat volatile from month to month following current inflation rate with which it was deflated. At end-2007, real MLR stood at 3.67 percent per annum.

<sup>3/</sup> Real deposit rate = 12-month deposit rate  
 – average 12-month-ahead  
 inflation forecast

<sup>4/</sup> Real lending rate = MLR - current inflation rate

## Performance of Commercial Banks

In 2007, commercial banks' net interest income rose by 9.1 percent from last year. Even though credit extended to the business sector contracted in line with weak domestic investment condition, credit extended to households continued to expand well, boosting overall interest incomes of commercial banks. Interest payment expenses also increased, but at a lesser extent as term deposits that received higher interest rates in the previous periods gradually matured. In addition, commercial banks also turned more toward short-term debt securities as a source of fund as they were cheaper than conventional deposits.

**Non-interest income** of commercial banks remained close to that in the previous year. Income from investment in securities declined from last year, as some commercial banks made losses from US subprime-related Collateralized Debt Obligations (CDOs). Besides, **non-interest expenses** of commercial banks also rose from increase in personnel and operational expenses, realized impairment of assets which awaited sale, and for some commercial banks, loss of goodwill from merger and acquisitions.

In summary, therefore, even though commercial banks' net interest income rose in 2007, their non-interest expenses also increased, making overall operating profit decline modestly from the previous year to 156.2 billion baht.

After accounting for loan loss provision and tax and special items, at 103.7 and 30.2 billion baht, respectively, commercial banks' net profit totaled only 22.4 billion baht, decreasing from 46.4 billion baht in 2006. Most of the loan loss provision that swelled in 2007 came from the application of the International Accounting Standard (IAS 39), which required banks to account for risk from asset impairment; for example, banks had to make full provision immediately against loans that became non-performing (NPLs). Commercial banks also had to make higher provision for loan loss from NPLs that arose from loans made to businesses that were affected by domestic demand slowdown and world financial market volatility.

Overall performance of commercial banks in 2007 was still strong. The BIS ratio averaged at 15.4 percent, significantly above the 8.5 percent stipulated by the BOT, in part because some commercial banks were recapitalized during the year.

### Performance of the Banking System

Unit: Billion Baht	2006	2007 <sup>P</sup>	%Δ	2007 <sup>P</sup>		%Δ	
				Thai Banks	Foreign Banks	Thai Banks	Foreign Banks
1. Interest income	463.2	489.4	5.6	430.6	58.8	5.5	6.5
2. Interest payment	203.9	206.3	1.2	175.0	31.3	0.5	5.2
<b>3. Net interest income</b> (3) = (1) – (2)	<b>259.3</b>	<b>283.1</b>	<b>9.1</b>	<b>255.6</b>	<b>27.5</b>	<b>9.3</b>	<b>8.0</b>
4. Non-interest income	104.3	104.4	0.1	84.8	19.6	-4.6	27.1
5. Operating expense	206.5	231.2	11.9	207.1	24.0	11.9	12.4
<b>6. Operating profits</b> (6) = (3) + (4) – (5)	<b>157.1</b>	<b>156.2</b>	<b>-0.5</b>	<b>133.2</b>	<b>23.0</b>	<b>-3.2</b>	<b>18.3</b>
7. Loan loss provision and Debt restructuring loss	-67.8	-103.7	53.1	-98.9	-4.8	51.6	92.6
8. Tax and special items	-20.5	-30.2	47.1	-25.7	-4.5	44.0	68.0
<b>9. Net profits</b> (9) = (6) – (7) – (8)	<b>68.8</b>	<b>22.4</b>	<b>-67.5</b>	<b>8.6</b>	<b>13.7</b>	<b>-84.2</b>	<b>-4.0</b>

P = Preliminary Data as of 25 March 2008

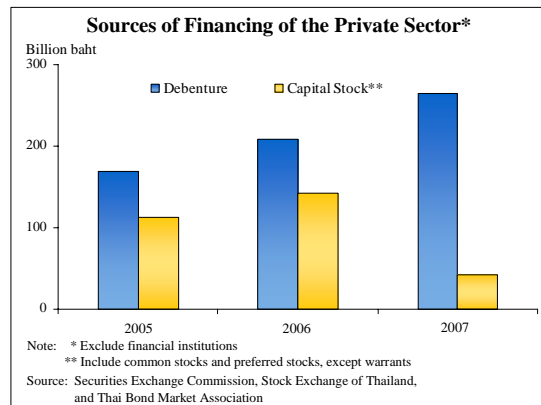


## 2.12 Capital Market

### Sources of corporate and household sectors financing

In 2007, capital raising activities of the corporate and household sectors moderated in line with the slowdown in domestic demand. Details of the sources of financing are as follows:

#### 1) Sources of corporate sector financing



In 2007, firms in the non-financial corporate sector raised 264.2 billion baht through debt securities and debenture issuance, increasing by 26.6 percent from the previous year. This increase was due partly to the declining cost of debentures in line with government bond yields, following cuts in policy interest rate. As financial institutions tightened loan standards somewhat, corporations with access to the debt market started to issue more debentures. These corporations were in the property, communication, and energy sectors.

Capital raising through equity securities declined sharply in 2007 as firms postponed their investment activities when the economy weakened and the political condition became uncertain. This slowdown was reflected by the decrease in the number of initial public offerings (IPO) in the Stock Exchange of Thailand, which fell from 36 and 12 in 2005 and 2006, respectively, to 7

in 2007. Moreover, non-financial corporate primary offering<sup>1/</sup> declined from 112.6 and 142.8 billion baht in 2005 and 2006, respectively, to 41.8 billion baht in 2007. Firms that tapped the equity market were mainly in the property and communication sectors.

#### 2. Sources of household financing

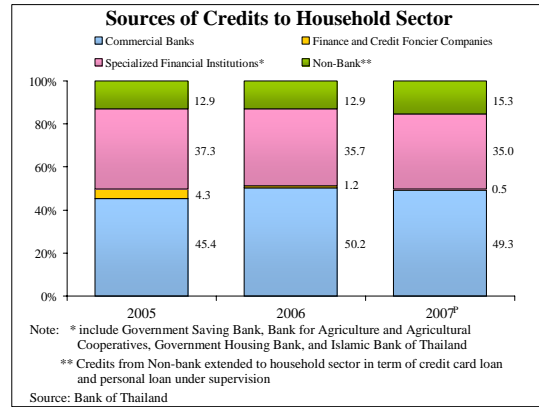
In 2007, credit to the household sector from various financing sources<sup>2/</sup> expanded by 10.3 percent, decelerating from 16.1 percent in the previous year since households had been more cautious in their spending while consumer confidence declined.

Among various sources of credits to the household sector, commercial banks remained the most important, even though their share of total credit to the household sector started to decline, from 50.2 percent in 2006 to 49.3 percent in 2007. Meanwhile, the role of non-bank financial institutions had increased, as reflected by their rising share, from 12.9 percent in 2006 to 15.3 percent in 2007. This gain came from both credit card and personal loans under supervision, especially those extended to low- to medium-income households. On the other hand, the

<sup>1/</sup> Includes Initial Public Offering (IPO), Public Offering (PO), Private Placement (PP), and Right Offering

<sup>2/</sup> Credits to household sector provided by commercial banks, finance and credit foncier companies, specialized financial institutions (Government Saving Bank, Bank for Agriculture and Agricultural Cooperatives, Government Housing Bank, and Islamic Bank of Thailand), and Credits from Non-bank extended to household sector in term of credit card loan and personal loan under supervision.

share of specialized financial institutions in total credit extended to the household sector declined slightly to roughly 35 percent, while finance and credit foncier companies's share had been much diminished as they had been merged or transformed into commercial or retail banks since 2004, in accordance with the Thailand Financial Master Plan, which aimed to improve the efficiency of the financial system over the long run.



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### Section 3: Important Policies and Measures

Monetary Measures	Parties Involved	Main Points	Effective Date	Source
<p><b>Interest Rate Policy</b></p> <p><b>1. Policy rate</b></p> <p>MPC decisions on the following dates:</p> <ul style="list-style-type: none"> <li>• 17 January 2007</li> <li>• 28 February 2007</li> <li>• 11 April 2007</li> <li>• 23 May 2007</li> <li>• 18 July 2007</li> </ul> <ul style="list-style-type: none"> <li>• 29 August 2007</li> <li>• 10 October 2007</li> <li>• 4 December 2007</li> </ul>		<p>The MPC decided to lower the 1-day repurchase rate five times from 4.9375 percent per annum at end-2006 to 3.25 percent per annum at end-July 2007 since the economic growth was still at risks. However, inflationary pressures were expected to be on a downward trend and core inflation should remain within the target range for the next eight quarters.</p> <p>The MPC decided to maintain the 1-day repurchase rate at 3.25 percent per annum at three consecutive meetings from August to December 2007 since there were improvements in economic momentum but increased risks of upward price pressure.</p> <p>Nevertheless, core inflation should remain within the target range for the next eight quarters.</p>	<p>17 January 2007 28 February 2007 11 April 2007 23 May 2007 18 July 2007</p> <p>29 August 2007 10 October 2007 4 December 2007</p>	<p>BOT News No.2/2550, 10/2550, 17/2550, 22/2550 and 32/2550, respectively</p> <p>BOT News No.43/2550, 49/2550, and 60/2550, respectively</p>
<p><b>2. Other interest rates</b></p> <p>Issuance of the Bank of Thailand's regulation on financial markets operations services related to purchase of debt instruments to adjust end-of-day</p>	<p>- All financial institutions (excluding securities companies and international banking</p>	<p>The BOT amended the compensation fee charged on purchases of debt instruments for end-of-day liquidity adjustment with repurchase agreement, from policy interest rate plus 1.5 percent per annum to policy</p>	<p>17 January 2007</p>	<p>BOT Circular No. FRD.(1) C. 1/2550 dated 12 January 2007</p>



Monetary Measures	Parties Involved	Main Points	Effective Date	Source
<p><b>2. Foreign Exchange Controls</b></p> <p>2.1 Relaxation of regulations regarding capital outflows and foreign currency holding</p>	<ul style="list-style-type: none"> <li>- Commercial banks</li> <li>- Specialized financial institutions</li> </ul>	<p>(1) Increasing the limit of direct investment or lending to a business entity abroad by a Thai resident individual or juristic person, which holds shares or has ownership in that business entity abroad of not less than 10%, from not exceeding 10 million US dollars per person per year to not exceeding 50 million US dollars per person per year.</p> <p>(2) Allowing up to 20 million US dollars direct investment or lending per Thai juristic person per year to a business entity abroad which holds shares or has ownership in the Thai juristic person of not less than 10%.</p> <p>3) Allowing Thai residents to deposit foreign currencies, originating from abroad without future obligations, with financial institutions in Thailand with an outstanding balance not exceeding 2 million US dollars for a juristic person or 50,000 US dollars for an individual.</p> <p>(4) Allowing certain types of institutional investors to invest in foreign securities up to the outstanding balances of 50 million US dollars per institution within the aggregate</p>	<p>15 January 2006</p>	<p>BOT Circular No. ECD (02) C. 18/2550 dated 12 January 2007</p>

Monetary Measures	Parties Involved	Main Points	Effective Date	Source
2.2 Relaxation of the 30% Unremunerated Reserve Requirement (URR)	- Commercial banks - Specialized financial institutions	limit permitted by its regulator and committee or authorized person.		
		(5) Relaxing the regulations regarding the exchange control on direct investment abroad, foreign currency-denominated account, transferring fund abroad on specified purpose, institutional investment on foreign security markets and time limit of sell or deposit with foreign currency receipts from abroad.	24 July 2007	BOT Circular No. ECD (02) C. 82/2550 dated 24 July 2007
		(1) The 30% Unremunerated Reserve Requirement (URR) waive in the case of fully-hedged foreign currency loans, packing credits, and other capital inflows without speculative purpose	1 February 2007	BOT Circular No. ECD (02) C. 39/2550 dated 29 January 2007
		(2) The 30% URR waive in the case of fully-hedged investment in debt securities and unit trusts	15 March 2007	BOT Circular No. ECD (02) C. 376/2550 dated 1 March 2007
		(3) The 30% URR waive in the case of Thai residents wishing to convert foreign currency funds from a foreign currency deposit account into baht, providing that those foreign currency funds were earlier obtained by purchasing from or exchanging Thai baht with onshore financial institutions	9 August 2007	BOT Circular No. ECD (02) C. 85/2550 dated 9 August 2007

Monetary Measures	Parties Involved	Main Points	Effective Date	Source
		<p>(4) The 30% URR waive in the case of investment in equity of ETFs listed on the Stock Exchange of Thailand.</p> <p>(5) The 30% URR waive in the cases of the investment in newly-issued investment units of existing property funds by existing unit holders and foreign currency loan with contract amount not exceeding 1 million US dollars and with the maturity of at least 1 year.</p>	<p>6 September 2007</p> <p>18 December 2007</p>	<p>BOT Circular No. ECD (02) C. 90/2550 dated 5 September 2007</p> <p>BOT Circular No. ECD (02) C. 112/2550 dated 17 December 2007</p>
<p>2.3 Relaxation of retail remittance transactions to countries bordering Thailand.</p>	<ul style="list-style-type: none"> <li>- Commercial banks</li> <li>- Specialized financial institutions</li> </ul>	<p>Relaxing the regulations regarding the submission of documents in the cases of remitting Thai baht into Nonresident baht account, and purchasing, exchanging, or withdrawing currencies of countries bordering Thailand, for remittance to such countries.</p>	<p>18 October 2007</p>	<p>BOT Circular No. ECD (02) C. 99/2550 dated 17 October 2007</p>
<p><b>3. Measures to prevent Thai baht speculation</b> Allowing financial institutions to purchase baht-denominated debt securities issued and sold by nonresidents (NRs) permitted by the Ministry of Finance (MOF)</p>	<ul style="list-style-type: none"> <li>- Commercial banks</li> <li>- Finance companies</li> <li>- Specialized financial institutions</li> </ul>	<p>The BOT allows onshore financial institutions to purchase baht-denominated debt securities issued and sold by NRs permitted by the MOF to issue baht bonds or debentures in Thailand in accordance with the MOF notification dated 11 April B.E.2549 (Prior to this, financial institutions were allowed to purchase only baht-</p>	<p>22 November 2007</p>	<p>BOT Circular No. BOT.ECD. (02) C. 2256/2550 dated 22 November 2007 (This notification has now been revoked</p>

Monetary Measures	Parties Involved	Main Points	Effective Date	Source
		denominated debt securities issued and sold by international financial institutions, financial institutions of foreign governments, foreign governments or juristic persons located in ASEAN+3 countries permitted by the MOF.		while the content has been placed in BOT Circular No. BOT.ECD.(02) C. 371/2551 dated 29 February 2008)
<b>Payment System Measures</b> <b>1. Rules and notification of the Bank of Thailand about the payment system</b>	- Members of BATHNET	<p>The BOT issued regulations on Multilateral Funds Transfer (MFT) as follows:</p> <p>(1) BOT Notification No. ITG. 4/2550 on service for MFT among BAHTNET service users (Amendment No.1)</p> <p>(2) BOT Notification No. ITG. 4/2550 on penalty fee of MFT among BAHTNET service users</p> <p>(3) BOT Regulation No. ITG. 6/2550 on electronic cheque clearing system in Bangkok area (Amendment No.5)</p> <p>(4) BOT Notification No. ITG. 7/2550 on penalty fee of MFT among BAHTNET service users (Amendment No.1)</p>	15 October 2007	BOT Circular No. PSD.(12) C. 100/2550 dated 9 October 2007



Monetary Measures	Parties Involved	Main Points	Effective Date	Source
<b>2. Transferring money to Thailand' neighboring countries</b>	- Commercial banks - Specialized financial institutions	The BOT eased the rules on presenting proof of transferring Thai baht to non-resident baht account and purchasing, exchange, or withdrawal of Thailand's neighboring countries currency to be transferred to those countries.	18 October 2007	BOT Circular No. ECD.(02) C. 99/2550 dated 17 October 2007
<b>3. Repeal of BOT Regulation on Media Clearing and related notifications</b>	- Members of SMART	The BOT ceased its role on SMART: System for Managing Automated Retail Funds Transfer, and appointed National ITMX to be an authorized media clearing house.  The BOT thus issued the notification No. ITG. 8/2550 on the repeal of BOT regulation on media clearing and related notification.	15 October 2007  11 January 2008	BOT Circular No. PSD.(12) C. 106/2550 dated 18 October 2007
<b>4. Change on reference of the BAHTNET</b>	- Members of BATHNET	The BOT changed the BAHTNET reporting format from referring a date to referring a day, by setting the beginning of each bi-weekly reference on Wednesday and end on Tuesday in two weeks later.  The BOT thus issued rules and notifications to the BAHTNET users for their preparation as follows:  (1) BOT Rules No. ITG. 10/2550 on BAHTNET services B.E. 2549 (Amendment No.1)	-  24 October 2007	BOT Circular No. PSD.(12) C. 115/2550 dated 6 November 2007

Monetary Measures	Parties Involved	Main Points	Effective Date	Source
		<p>(2) BOT Notification No. ITG. 8/2550 on maintaining day-to-day liquidity and proportion of transferring through BAHTNET</p> <p>(3) BOT Notification No. ITG. 9/2550 on service fee of BAHTNET (Amendment No.1)</p> <p>(4) BOT Notification No. ITG. 10/2550 on using the net clearing position between commercial banks in Bangkok area. (Issue 2) (Amendment No.1)</p>	<p>21 November 2007</p> <p>21 November 2007</p> <p>21 November 2007</p>	
<p><b>Financial Institutions Supervision and Development Measures</b></p> <p><b>1. Determining distressed asset and rules for AMCs</b></p>	<p>- Asset Management Company: AMC</p>	<p>The BOT assigned rules for the AMC to act upon as follows:</p> <p>(1) Allowing the AMC to buy or receive transferring assets from financial institution with discontinued or revoked operating license, including insurance of those assets. The AMC was also allowed to take a role of outsourcer for managing those distressed assets.</p> <p>(2) Amending the definition of financial institution to include Secondary Mortgage Corporation: SMC and Government Saving Bank.</p>	<p>27 March 2007</p>	<p>BOT Circular No. BOT.PPD. (21) C.1946/2550 dated 3 October 2007</p>

Monetary Measures	Parties Involved	Main Points	Effective Date	Source
<b>2. Expansion of the scope and revision of the rules on commercial banks' financial transaction</b>	- Commercial banks (excluding retail banks)	<p>(1) Allowing commercial banks to operate in structured notes</p> <p>(2) Allowing commercial banks can operate in collateralized debt obligation.</p> <p>(3) Expanding the scope of commercial banks' financial transaction to be able to operate in embedded derivatives of capital and debenture under the supervision of BOT.</p>	-  7 July 2007	<p>BOT Circular No. PPD. (21) C. 178/2550 and 179/2550 dated 16 November 2007</p> <p>BOT Circular No. PPD. (21) C.1248/2550 and 1249/2550 dated 10 July 2007</p>
<b>Financial Assistance to Priority Economic sectors</b> <b>1. Financial assistance for entrepreneurs in the three southernmost provinces</b>	- Commercial banks - Specialized financial institutions	The BOT granted the official financial assistance about 5,000 million baht through financial institutions, to financially support entrepreneurs, who are operating in Yala, Pattani, and Narathiwat. This program was extended to 2010.	4 June 2007	BOT Circular No. ECD. (22) C. 1006/2550 dated 4 June 2007
<b>2. Financial assistance for small and medium entrepreneurs (SMEs) impacted by the appreciation of Thai baht</b>	- Commercial banks registered in Thailand (only the members of Thai Bankers' Association)	The BOT launched financial assistance program through commercial banks with the amount of 5,000 million baht. This program will end on 31 December 2010.	3 August 2007	BOT Regulations No. FOG. 10/2550 dated 3 August 2007

**Note:** Specialized financial institutions include the Islamic Bank of Thailand, Small and Medium Enterprise Development Bank of Thailand (SME Bank), Export and Import Bank of Thailand (EXIM Bank), Bank for Agriculture and Agricultural Cooperatives, Government Saving Bank and Government Housing Bank..