



**Thailand's Economic and Monetary Conditions
in 2006**

Monetary Policy Group

March 2007

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Part 1: Economic Performance in 2006

1.1 Executive Summary

The Thai Economy in 2006

In 2006, Thailand's economic growth accelerated slightly from the previous year. The main growth engine of the economy in 2006 was high export expansion. The growth in domestic demand, which was the main driver in 2005, decelerated throughout the year. This was a consequence of several negative factors during the course of the year, including oil price hikes in the first three quarters, unrest in the southern region of Thailand, prolonged and severe floods, and political uncertainty. Nevertheless, the current account returned to a surplus in 2006. This was attributed to better export performance, a slowdown in imports due to decelerated growth of domestic demand, and considerable expansion in the tourism sector.

As for the agricultural sector, growth of farm income from major crops in 2006 accelerated from the previous year and rose by 30.3 per cent year-on-year. Favorable weather conditions and adequate water during the earlier half of the year were important factors contributing to crop production growth, especially for the first three quarters. Moreover, agricultural prices saw continuous growth throughout the year. However, agricultural production during the fourth quarter was adversely affected by severe floods in many areas. Meanwhile, manufacturing production in 2006 continued to expand well, especially in the electronics sector. The Manufacturing Production Index (MPI) grew by 7.4 per cent, decelerating slightly from the growth of 9.1 per cent in 2005. This reflected the burden of higher production costs as well as increased competition on both domestic and external fronts. In addition, capacity utilization averaged at 74.2 per cent. The service sector improved from the previous year and the number of tourists increased by 20.0 per cent from 2005. This improvement was due to the recovery of tourism in the Andaman region from the impacts of the Tsunami in 2004.

Private consumption in 2006 rose by 3.1 per cent, slowing down from 4.3 per cent in the previous year. The slower growth was due to higher oil prices and high inflation

and interest rates, all of which collectively contributed to more cautious consumer spending. Furthermore, consumption of durable goods declined by 0.8 per cent year-on-year. In 2006, the private investment increased at a slower pace of 3.9 per cent, compared to 10.9 per cent in the previous year. This was in line with the decline in the Business Sentiment Index (BSI) and the decelerated Private Investment Index (PII) growth. The slowdown came from investment in both the machinery and equipment category and the construction category. Moreover, private sector sentiments were negatively affected by floods and political uncertainties.

On the external front, exports rose by 17.4 per cent, accelerating from 15.0 per cent in 2005. On the other hand, imports decelerated to a growth of 7.0 per cent, following the slowdown in domestic demand. Consequently, the trade balance was in surplus by 2.2 billion US dollars in 2006, after registering a deficit of 8.5 billion US dollars in the previous year. The services, income and transfers account also recorded a surplus of 1.0 billion US dollars, increasing from the previous year's 0.7 billion US dollars. The main contribution came from tourism receipts which improved from the previous year. Hence, the current account returned to a surplus of 3.2 billion US dollars (excluding reinvested earnings, the current account would register a surplus of 7.4 billion US dollars), from a deficit of 7.9 billion US dollars in the previous year.

With regards to fiscal conditions, the government pursued a balanced budget in fiscal year 2006. Net revenue was recorded at 1,339.4 billion baht, increasing from the previous year by 5.9 per cent but lower than previously estimated in the government's budget document (1,360 billion baht). This was mainly due to the reduction in the petroleum tax, lower-than-expected import tariff revenue because of the appreciation in the baht, and the higher-than-expected tax rebates. On the expenditure side, the government's disbursement rate was higher than the previous year in line with measures to accelerate the disbursement of funds. For the fiscal year 2006, the government's cash

balance registered a surplus of 4.5 billion baht, equivalent to 0.06 per cent of GDP.

Regarding monetary conditions, interest rates in the money market as well as the deposit and loan rates of commercial banks rose, following the upward adjustments in the BOT's policy rate in the first half of the year 2006.^{1/} However, during the second half of the year, the aforementioned interest rates stabilized as BOT maintained the same policy rate until the end of the year. Furthermore, real deposit rates turned positive in April. In addition, commercial banks raised deposit rates during the first half of the year due to the strong competition within the sector to maintain customer base. As a result, commercial banks' private deposits grew at an accelerated rate in the first half of the year. However, commercial banks' deposit growth for the whole year slowed down from the previous year. Throughout the year, the growth in commercial banks' claims on the private sector also decelerated, in line with the slowdown in private investment and the decline in private sector confidence.

In 2006, the baht averaged at 37.93 baht per US dollar, appreciating from the average of 40.29 baht per US dollar in 2005. The real effective exchange rate (REER), an indicator of the price competitiveness of Thai exports, was also on an appreciating trend and strengthened rapidly at the end of the year. The important domestic factors that contributed to the rapid appreciation were (1) a large current account surplus and (2) considerable capital inflows for direct investment and purchases of assets in the stock and bond markets. Nevertheless, the appreciation of the baht slowed down after authorities imposed the unremunerated reserve requirement measure on short-term capital inflows on 18 December 2006.

Overall economic stability in 2006 was satisfactory. Internal stability remained sound. Core inflation stayed within the policy target range of 0 – 3.5 per cent and averaged at 2.3 per cent for the whole year. Moreover, headline inflation showed a declining trend

after the first half of the year, despite the slight price pressure on the prices of raw food and agricultural products as a result of the floods. Unemployment and public debt were also at low levels. External stability was also satisfactory. The current account was continuously in surplus throughout the year and the ratio of international reserves to short-term debt remained on a high level, despite a slight increase in total external debt from the same period last year.

Economic Outlook for 2007

The economy in 2007 should grow at a rate similar to that of the year 2006. The key underlying assumptions were: (1) decelerated world economic growth as compared to the previous year, in line with the slowdown of the US economy, (2) a decrease in oil prices from price levels in 2006 and (3) an amelioration in the domestic situation and, in turn, the confidences of consumers and investors. In addition, net export should remain the principal driver of the economy in 2007. Export volume was expected to continue expanding satisfactorily, due to sustained world economic growth despite the slowdown of the US economy. Similarly, the tourism sector was expected to enjoy favorable growth. As for private investment, it was expected to recover in the second half of the year despite its current decelerating trend. Public investment from fiscal budget deficit expenditure would also act as a positive stimulus for private investment. Furthermore, private consumption was also expected to grow at a pace close to that of 2006, given the declining trends in interest rates and inflation

Going forward, the external risks to growth included the lower-than-expected trading partners' economic growth and volatile oil prices. Domestic risks included a decline in the confidences of consumers and investors due to domestic political uncertainty.

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Bank of Thailand

March 2007

^{1/} During the first half of 2006, the Bank of Thailand adjusted the policy rate upwards four times, increasing the policy rate from 4.00 per cent per annum at the beginning of the year to 5.00 per cent per annum in June.

1.2 World Economy

The world economy continued to expand in 2006 though at a slower pace than in 2005. As of September 2006, the International Monetary Fund (IMF) projected that the world economy would grow at 4.9 per cent in 2006, compared to 5.1 per cent in the previous year. In addition, the IMF forecasted that the world economic growth would decelerate in 2007, compared to 2006, mainly from the US economic slowdown.

During the first half of 2006, the world economy continued to be driven mainly by the US expansion, especially in the first quarter due to economic recovery from hurricane damages at the end of 2005. In addition, world economic growth was supported by economic recovery in the Euro and Japanese economies, and continued economic growth in Asia, especially in China. However, risks from persistently volatile oil prices and the US economic slowdown still remained.

During the second half of 2006, the US economy decelerated significantly in the third quarter. The Japanese economy also expanded at a slower pace whereas the Euro economy showed clear signs of recovery. Moreover, in the fourth quarter, the strong economic growth of China and India, as well as more stable oil prices, contributed significantly to world economic expansion.

The **US economy** continued to expand satisfactorily in 2006 as compared to the previous year. In the first quarter of 2006, economic growth was supported by the recovery from the hurricanes, Katrina and Rita. In contrast, the economy decelerated significantly in the second and third quarters due to the slowdown of personal consumption expenditure, the downturn in the housing market, high oil prices, and rising interest rates. Meanwhile, business investment in some

sectors remained subdued. Nevertheless, in the fourth quarter, the economy rebounded and became more stable due to the upturn in private consumption as a result of better wage income and labor market conditions as well as more stable oil prices. Although the current account deficit problem still remained, the fiscal condition improved due to the increase in revenues. The high volatility of oil prices continued to be the key source of inflationary pressure.

The **Euro area economy** recovered noticeably and was an important driver of world economic growth in 2006. This recovery resulted mainly from increased domestic demand in the Euro area, especially Germany, improved export performance and a rise in fixed investment. In addition, the confidence of consumers and producers improved continuously, partially due to positive employment conditions in the manufacturing and service sectors and the acceleration of private spending before the 2007 VAT increase in Germany. The unemployment rate declined to 8 per cent, close to the Non-accelerating Inflation Rate of Unemployment (NAIRU).

The **Japan economy** expanded continuously in 2006, especially in the first quarter as a result of domestic demand and export expansion which reflected continuous economic recovery and improved consumer confidence. Meanwhile, in the second and third quarters, the economy expanded at a slower pace due to subdued domestic demand, which can be attributed to unclear signs of economic recovery and lack of wage growth. As a result, consumer spending reflected greater caution. However, in the fourth quarter, the economy rebounded due to the acceleration of export and private investment.

In the **Asian region**, most economies, especially China, expanded continuously due to the good export performance. During the first half of 2006, most economies continued to expand satisfactorily from the previous year due to an improvement in domestic private consumption and acceleration in the export sector which was a result of the increase in global demand for electronics.

However, most Asian countries expanded at moderate paces in the second half of 2006 due to the slowdown in domestic private consumption and trading partners' economies. In contrast, Indonesia's economic growth continued to accelerate, partly due to the continuous reduction of the policy interest rate.

In 2006, the IMF expected **world trade volume** to expand by 7.6 per cent, decreasing from 8.9 per cent in the previous year. This deceleration corresponded to the projection of world economic slowdown, compared to the previous year's.

The increase in **world inflationary pressure** resulted mainly from high and volatile oil prices. The movement of US inflation primarily reflected oil price volatility. Meanwhile, inflation pressure in the Euro area and Japanese economy was due to both high oil prices and economic recovery. Moreover, since May 2006, Japan's inflation rate returned to the positive range, reflecting the end of the deflationary period. In the Asian region, inflation pressure resulted mainly from the prices of energy and food. Nevertheless, world inflation remained

under control, partly owing to the tightening of monetary policies and more stable oil prices in the fourth quarter of 2006.

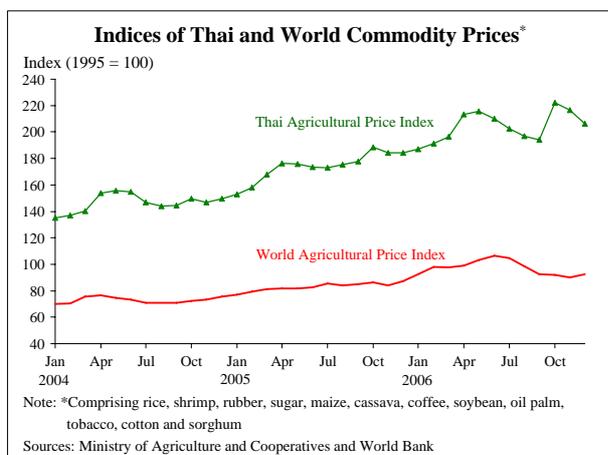
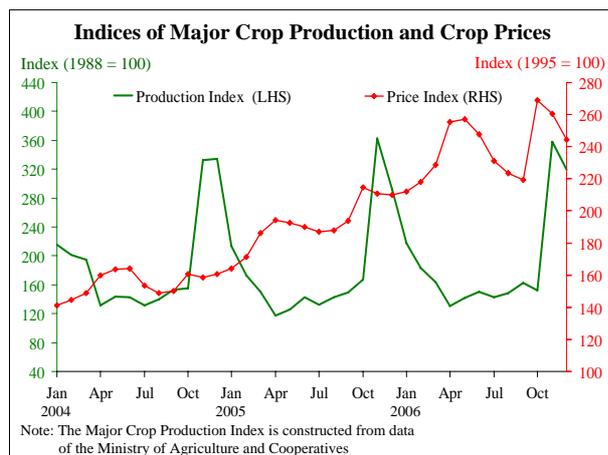
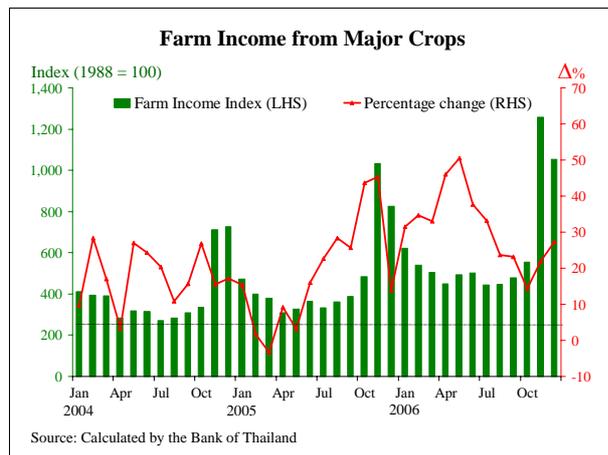
During the first half of 2006, **world interest rates** continued on the upward trend following the previous year. The Federal Funds rate was raised by 25-basis-point increments 4 times to attain 5.25 per cent per annum in June 2006. Thereafter, the US Federal Reserve left the policy rate on hold at 5.25 per cent per annum for the rest of the year. In 2006, the ECB raised the Refinancing rate 5 times in increments of 25 basis points to attain 3.50 per cent per annum, due to pressure from high oil prices and the attendant second round effects. The Bank of England raised the Base rate twice in increments of 25 basis points to attain 5.0 per cent per annum due to the pressure from high oil prices and the robust economic conditions. In March 2006, the Bank of Japan ended its quantitative easing policy and changed its operating target from the outstanding balance of current accounts at the central bank to the uncollateralized overnight call rate. In addition, in June 2006, the Bank of Japan raised the policy interest rate from 0 per cent per annum to 0.25 per cent per annum. In the Asian region, most countries raised their policy interest rates in the first half of 2006 to maintain price stability in the face of inflationary pressure from high oil prices. However, in the second half of 2006, the conduct of monetary policy across the Asian economies largely reflected their differing respective economic fundamentals.

Section 2: Economic Conditions by Sector

2.1 Supply-side

2.1.1 Agricultural Sector

$\Delta\%$	2005	2006				
		Total	Q1	Q2	Q3	Q4
Farm Income	18.3	30.3	32.5	44.4	26.6	23.0
Crop Production	-4.7	4.6	4.9	9.5	6.8	1.0
Crop Prices	24.1	24.5	26.3	31.9	18.6	21.8



Overall Development in 2006

Farm income from major crops increased by 30.3 per cent year-on-year, accelerating by almost twice, due to the expansion of major crops which had contracted in the previous year. Major crops production increased by 4.6 per cent supported by favorable climate and an increase in water levels in all major reservoirs, resulting in an abundant supply of major crops such as the production of paddy during the second crop season, rubber, cassava, sugar cane, and oil palm. However, severe floods in several areas of the country in late 2006, particularly in the central area and the lower part of the northern region, resulted in a reduction of paddy (first crop season) production. Additionally, the production of maize decreased as farmers reduced areas for maize cultivation and switched to other crops with higher returns such as cassava, sugar cane, and rubber. Furthermore, price of major crops, particularly the prices of rubber, Hom Mali paddy, and glutinous paddy, expanded by 24.5 per cent, close to that of the previous year, on the back of external demand. The price of fruits and vegetables increased as production was damaged from flood, while the price of cassava and oil palm declined due to increased supply.

Farm income from livestock decelerated from the previous year. The **price of livestock** contracted significantly by 7.5 per cent due to the abundant supply of broilers, egg laying hens, and swine following the absence of the avian influenza outbreak in Thailand for eight consecutive months (November 2005 – July 2006). Thus, Thai producers anticipated that they could resume exporting frozen fowls as before, which led to the expansion of broiler farming. Moreover, farmers also expanded swine farming areas in response to the favorable price last year.

Farm income from fishery declined from the previous year following an increase in fishery costs due to high oil prices. As a result, a number of fishermen decided to discontinue sea fishing, which led to the continuous decline in fishery products since last year (2005). **Fishery price** increased by 13.4 per cent, mainly from the increase in the price of shrimp in line with favorable shrimp exports. At the same time, the price of freshwater animals and other brinish products increased only slightly.

World agricultural price (covering only 12 commodities particularly important to the Thai economy) increased by 17.2 per cent year-on-year, accelerating mainly from the increase in the prices of rubber, cane sugar, maize, and oil palm, in line with sustained demand. However, the price of cassava declined due to increased supply.

Major Commodities

Paddy. Paddy production increased slightly from the previous year led by the increase in the production of paddy during the second crop season. This was due to abundant rainfall and an increase of water in all major reservoirs to levels sufficient for crop cultivation. In addition, the increase in the price of paddy and the high price guaranteed by the government induced farmers to expand their cultivation area and increase the yield per rai. The first crop production, on the other hand, declined as compared to the previous year due to flood during the end of 2006 (land used for rice cultivation accounted for 70 per cent of the affected areas). The price of non-glutinous paddy and glutinous paddy continued to increase, particularly Hom Mali paddy and glutinous paddy, mainly due to strong external demand.

In 2006, Thailand's export of rice amounted to 97,623 million baht in value terms, increasing by 5.0 per cent in line with accelerated growth in the prices of Hom Mali and glutinous rice. The export volume of rice totaled 7.4 million metric tons, declining merely by 0.8 per cent from the previous year. This was due to a decline in export volume of white rice and parboiled rice

following the relatively high price of Thai white rice, which caused some importers to switch to Thailand's competitors. The export volume of Hom Mali rice, however, accelerated, which resulted in only a slight decline of the overall rice export volume for the whole year.

Cassava. Cassava production increased significantly from the previous year, growing by 55.1 per cent year-on-year as a result of the high price of cassava, which induced farmers to expand cultivation areas by switching from maize, which was associated with higher costs and difficult maintenance, to cassava. Moreover, higher production was supported by favorable climate condition, good maintenance as well as productive strains, which resulted in higher yield per rai. Additionally, the drought since late 2004 until mid-2005 also resulted in the replanting of cassava to compensate for damaged crops. As a result, most of the production for that harvest season was shifted to the beginning of 2006. The significant rise of cassava production thus led to the decline in the price of cassava. However, export of cassava during the year still expanded satisfactorily, both in volume and value terms.

Rubber. The production of natural rubber increased by 3.0 per cent following higher rubber tapping in all regions, particularly the northeastern region. However, yield per rai remained close to that of 2005. In the first half of 2006, rubber price rose continuously and reached its historical high in June 2006 at 93.45 baht per kilogram, in line with the price of rubber in the international futures exchange market. Notwithstanding the slowdown of price during the second half of the year, the average price for the whole year of 2006 remained favorably high at 68.19 baht per kilogram, or increasing by 30.7 per cent.

Sugar cane. Sugar cane production increased by 25.9 per cent as a result of higher yield per rai. This was because of good maintenance and favorable climate condition. Additionally, the settlement of the preliminary sugar cane price for the 2005/2006 harvest season

at 800 baht per ton and financial support from cane sugar factories for the expansion of planted areas also encouraged farmers to switch from maize and upland rice to sugar cane cultivation.

Broilers. The year 2006 saw only one outbreak of avian influenza which occurred among native chickens and egg laying hens in July. The impact on consumer confidence was quite small as most producers had already shifted to the closed evaporative chicken farming system, which resulted in a strong increase in the production volume of broilers. At the same time, domestic consumption was still low while the European Union, Thailand's major importer, also extended its banning period of frozen fowls from Thailand to 31 December 2007.

Swine. The high price of swine during the previous year (2005) induced farmers to expand swine farming, resulting in an over-supply of swine in the market. Meanwhile, domestic demand and export growth expanded slightly which resulted in the decline in the price of swine from the previous year.

Shrimp. The favorable growth of shrimp exports during the previous year induced farmers to expand farming area, resulting in an increase of shrimp production, in particular the white leg shrimp as opposed to the jumbo tiger prawn. This was due to the white leg shrimp's favorable growing rate, high survival rate and a higher yield per rai compared to the jumbo tiger prawn. The price of shrimp increased in line with the continuous growth of exports, in terms of both volume and value.

Prospects in 2007

Farm income from major crops was expected to expand at a decelerating rate as a result of the price factor. Meanwhile, major crops production was expected to grow at a higher rate than the previous year due to favorable climate conditions despite the warning from Meteorological Department of an El Nino drought. However, it was expected that drought would not severely affect

major crops production because the water levels in all major reservoirs at the end of 2006 were high. In addition, the government also introduced measures to cope with the anticipated problem. Crop production which was expected to rise included the first crop season paddy, rubber, cassava, sugar cane, oil palm, and maize. Meanwhile, price of major crops was expected to decelerate in line with the world farm price, particularly the price of rubber, which was unusually high during the previous year.

Price of livestock was expected to decline at a somewhat slower rate than the previous year as farmers reduce the supply of livestock to meet demand. Moreover, this was also benefited from government's measures to manage the supply condition by registering the number of livestock farmers for future planning and managing the production of livestock. In addition, the export of frozen fowls was still expected to expand despite EU import quotas on processed fowls from Thailand. The quotas were expected to be implemented around mid-2007. **The price of fishery** was expected to increase continuously due to the expected decline in the supply of fishery products as a result of high oil prices and restrictions on natural fishing areas. At the same time, the price of shrimp was expected to increase in line with the strong growth of exports to US and EU, Thailand's major markets for shrimp.

The world agricultural price (covering only the 12 commodities particularly important to the Thai economy) was expected to slowdown from the previous year following the decline in the prices of rubber and cane sugar. This was due to the exceptionally high price of cane sugar and rubber last year as well as the expectation of an excess supply of cane sugar in the world market. On the other hand, the prices of rice and maize were anticipated to accelerate due to declining supply as well as the continuous demand for maize as an alternative energy source.

Major Crop Production, Trade, and Consumption^{1/}

(Unit: Million tonnes)

Thai Crops	2002/03	2003/04	2004/05	2005/06^{P/}	2006/07^{E/}	Δ%
Paddy	27.99	29.47	28.54	30.29	29.43	-2.8
First crop	21.57	23.14	22.65	23.54	22.90	-2.7
Second crop ^{2/}	6.43	6.33	5.89	6.75	6.53	-3.3
Rubber	2.63	2.86	3.01	2.98	3.07	3.0
Maize	4.23	4.18	4.22	3.89	3.65	-6.1
Cassava	19.72	21.44	16.94	22.58	25.29	12.0
Sugarcane	77.52	67.92	52.24	50.40	62.85	24.7
Mungbean	0.22	0.18	0.13	0.11	0.11	1.2
Soybean	0.26	0.23	0.22	0.23	0.22	-0.5
Oil palm	4.00	4.90	5.18	5.00	6.24	24.7
Coffee	0.05	0.06	0.06	0.05	0.06	18.9
World Crops	2002/03	2003/04	2004/05	2005/06^{P/}	2006/07^{E/}	Δ%
Grains						
Production	1,820.2	1,862.3	2,043.4	2,014.0	1,973.2	-2.0
Trade	242.4	234.4	244.2	250.3	247.8	-1.0
Rice (milled)						
Production	377.5	391.8	400.5	416.3	415.3	-0.2
Trade	27.6	27.2	29.0	27.7	29.2	5.6
Maize						
Production	603.0	625.7	712.3	695.6	692.4	-0.5
Trade	78.4	79.2	76.5	82.9	84.0	1.3
Soybean						
Production	196.8	186.5	215.7	217.9	228.4	4.8
Trade	61.2	55.8	64.5	64.4	69.6	8.1
Rubber						
Production	7.5	8.0	8.7	8.9	9.2 ^{3/}	3.2 ^{3/}
Consumption	7.6	8.0	8.5	8.9	9.2 ^{3/}	2.7 ^{3/}

Note: P = Preliminary

E = Estimated

^{1/} Estimated as of January 2006.^{2/} Second crop production of 2006/2007 is the production obtained during 1 January - 31 December 2007.^{3/} Figures from January-December 2006 and percentage change over the same period last year.

Source: Office of Agricultural Economics

*World Production, Market and Trade Reports, Foreign Agriculture Service, United States Department of Agriculture**LMC Commodity Bulletin, January 2007*

Thai Farm Prices

(Unit: Baht/tonne)

	2005	2006				
		Year	Q1	Q2	Q3	Q3
Farm Price Index (1995 =100)	174.0	204.4	191.5	213.1	197.9	215.0
Δ%	18.8	17.5	20.0	21.7	12.8	15.8
1. Crop Price Index (1995 =100)	191.8	238.9	219.5	253.4	224.6	257.9
Δ%	24.1	24.5	26.3	31.9	18.6	21.8
Hom Mali Paddy	7,680	8,180	7,821	8,085	8,536	8,276
Δ%	-7.0	6.5	1.3	4.0	11.7	9.1
Paddy Class 1 (5%)	6,662	6,496	6,559	6,283	6,666	6,478
Δ%	19.3	-2.5	1.2	-5.9	-0.7	-4.4
Rubber	52,190	68,187	69,012	82,727	69,487	51,523
Δ%	17.1	30.7	66.1	73.0	16.2	-13.6
Maize	4,874	5,165	4,767	5,422	4,954	5,518
Δ%	-1.9	6.0	-4.3	10.9	1.3	16.4
Cassava	1,352	1,088	1,352	1,054	945	1,003
Δ%	42.3	-19.5	-3.0	-24.3	-29.1	-22.3
2. Livestock Price Index (1995 =100)	148.1	137.0	142.4	141.7	133.4	130.5
Δ%	13.2	-7.5	0.1	-7.4	-12.6	-9.7
3. Fishery Price Index (1995 =100)	143.4	162.5	152.1	156.8	177.5	163.7
Δ%	5.0	13.4	15.1	9.7	15.3	13.3
4. Wood Price Index (1995 =100)	115.1	122.2	120.8	121.6	123.1	123.1
Δ%	1.2	6.1	5.4	6.1	7.5	5.5

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 Agricultural Prices

(Unit: US dollar/tonne)

	2005	2006 ^{P/}				
		Year	Q1	Q2	Q3	Q4
World Agricultural Prices * (1995 = 100)	83.0	97.3	96.0	103.0	98.7	91.5
Δ%	13.9	17.2	21.2	25.6	16.2	6.6
Rice 5%	286	305	299	308	312	301
Δ%	20.4	6.5	3.0	5.3	10.9	6.8
Shrimp	10,338	10,238	10,472	10,472	10,472	9,535
Δ%	1.2	-1.0	1.7	0.0	1.9	-7.5
Rubber	1,478	2,084	1,999	2,433	2,168	1,736
Δ%	15.5	41.0	61.0	78.7	31.3	4.8
Sugar	218	326	375	365	306	257
Δ%	37.9	49.6	91.2	89.6	39.3	-2.2
Cassava	251	222	228	220	209	230
Δ%	33.3	-11.7	-9.1	-21.9	-14.0	0.3
Maize	99	122	105	109	117	156
Δ%	-11.8	23.5	8.5	13.5	15.3	56.0
Oil palm	422	478	436	439	493	546
Δ%	-10.3	13.3	5.6	4.0	18.7	24.5

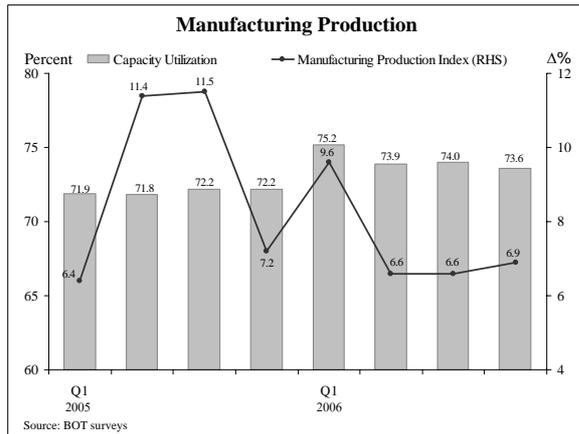
Note: * Only 12 commodities particularly important to the Thai economy are included, namely, rice, shrimp, rubber sugar, maize, cassava, coffee, soybean, oil palm, tobacco, cotton and sorghum.

Δ% represents percentage change from the same period last year

P = Preliminary

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

2.2 Manufacturing Sector



Manufacturing Production Index*
(Percentage change)

Industry	Weight :000	2004	2005	2006 ^P		
				H1	H2	Year
Textiles	12.23	6.6	2.2	6.2	-1.0	2.5
Electronics	10.31	31.4	39.7	22.1	25.0	23.7
Petroleum Products	9.48	8.4	-0.4	2.2	2.6	2.4
Vehicles and Equipment	6.85	20.4	6.3	11.5	-0.8	5.0
Food	6.82	-1.2	-0.3	6.7	9.2	7.7
Beverages	5.11	5.2	2.9	9.1	19.4	14.1
Electrical Appliances	5.05	8.8	1.8	-4.3	-11.9	-8.1
Leather and Leather	2.79	16.8	-10.2	-24.4	-30.2	-26.9
Chemical Products	2.36	3.8	3.5	4.8	-3.7	0.4
Iron and Steel Products	2.21	10.4	-3.6	-3.6	-3.0	-3.3
Construction Materials	1.84	10.5	11.3	5.4	5.8	5.6
Others	10.62	3.3	4.4	0.7	-0.2	0.3
Total*	75.68	11.7	9.1	8.1	6.7	7.4

Note: *Covering 76 products with 75.7 per cent of the overall value added in the manufacturing sector
P = Preliminary data
Source: BOT surveys

Capacity Utilization*
(Percentage change)

Industry	Average 1995-1996	2004	2005	2006 ^P		
				H1	H2	Year
Electronics	77.1	65.0	67.0	73.0	78.9	76.0
Petroleum Products	88.6	85.5	85.2	86.6	87.9	87.2
Vehicles and Equipment	74.7	77.7	75.9	79.7	78.7	79.2
Beverages	69.0	60.1	66.6	75.9	78.4	77.2
Electrical Appliances	87.1	72.4	74.6	69.2	66.9	68.2
Food	40.4	54.1	54.0	65.0	54.3	59.6
Leather and Leather Products	-	61.2	55.0	47.0	33.4	40.2
Chemical Products	91.4	96.4	94.7	95.0	94.2	94.6
Iron and Steel Products	58.1	68.8	60.2	61.3	54.6	57.9
Construction Materials	87.9	71.1	78.1	82.9	81.7	82.3
Pulp and Paper Products	77.6	87.4	93.4	98.1	99.9	99.0
Rubber and Rubber Products	73.1	61.3	67.1	66.7	65.9	66.3
Others	81.8	69.1	67.9	65.2	63.5	64.4
Total *	76.7	71.5	72.0	74.5	73.8	74.2

Note: *Covering 69 products with 59.1 per cent of the overall value added in the manufacturing sector
P = Preliminary data
Source: BOT surveys

Manufacturing production in 2006 expanded satisfactorily, particularly in electronics and beverage industry. This was in accordance with the National Economic and Social Development Board (NESDB), which reported that the manufacturing sector in 2006 expanded by 6.1 per cent, accelerating from 5.2 per cent mainly from the high growth of office machinery industry (electronics and computers) and beverage industry.

Nevertheless, **Manufacturing Production Index (MPI)** in 2006 expanded by 7.4 per cent, moderating from 9.1 per cent in the previous year, in line with the production of key exports such as hard disk drive, television sets, air-conditioners, and leather products. The slowdown was due to higher production cost from oil price, interest rate, and raw materials as well as intensified competition in both domestic and foreign markets. In addition, a more rapid appreciation of the baht relative to other currencies, especially those of Thailand's trade competitors, also affected export-oriented industries quite substantially, particularly those sectors which use a larger share of domestic raw materials for production.

Capacity utilization rate of the manufacturing sector averaged at 74.2 per cent in 2006, increasing from 72.0 per cent in the previous year.

Leather and leather products. Production declined continuously due to competition from China, which had lower production costs. Consequently, the sector's capacity utilization rate declined from 55.0 per cent in the previous year to 40.2 per cent in 2006.

Electrical appliances. Production, most of which was for exports, declined from the previous year. In particular, production of television sets slowed down due to the shift towards higher quality products while air conditioners declined in line with both domestic and external demand. Capacity utilization rate declined from 74.6 per cent in 2005 to 68.2 per cent in 2006.

Furniture. Production declined due the shortage of raw materials, especially rubber wood and intense price competition from China and Vietnam. The sector's capacity utilization rate declined from 74.8 per cent in 2005 to 60.2 per cent in 2006.

Tobacco. Production declined continuously. This was due to the prohibition of cigarette displays at sales points as of September 2005, as well as the excise tax increase from 75 per cent to 79 per cent of ex-factory prices since December 2005. In addition, consumer purchasing power declined due to increased oil prices. The sector's capacity utilization rate declined from 57.6 per cent in 2005 to 50.0 per cent in 2006.

Iron and steel products. Production declined continuously due to soft demand from domestic and foreign markets. This was following the slowdown of construction sector, less number of big investment projects, as well as producers' (hot-rolled and cold-rolled sheet steel) policy to lower inventory accumulation from 6-12 months to 2-3 months. Capacity utilization rate in this sector reduced from 60.2 per cent in 2005 to 57.9 per cent in 2006.

Nevertheless, there were several industries which had high production growth, particularly:

Electronics. Production continued to expand well despite slight deceleration, particularly in the case of hard disk drive and integrated circuits (IC) in line with external demand. Capacity utilization rate in this sector stood at 76.0 per cent, up from 67.0 per cent in the previous year.

Beverage. Production accelerated from the previous year especially during the second half of the year, owing mainly to accelerated production of beer and liquor in anticipation of the excise tax increase. The capacity utilization rate in this sector increased from 66.6 per cent in 2005 to 77.2 per cent in 2006.

Food. Production improved from the previous year. This was following higher production of sugar (especially during the second half of the year), canned pineapple, which enjoyed abundant raw materials from favorable climate condition, and vegetable oils, particularly palm oil, owing to abundant supply and decreased prices. Capacity utilization rate in this sector stood at 59.6 per cent, up from 54.0 per cent in the previous year.

Textiles. Production expanded marginally from the previous year in line with favorable expansion of apparel products, especially during the first half of the year, benefiting from safeguard measures imposed on Chinese textile exports to US and EU.

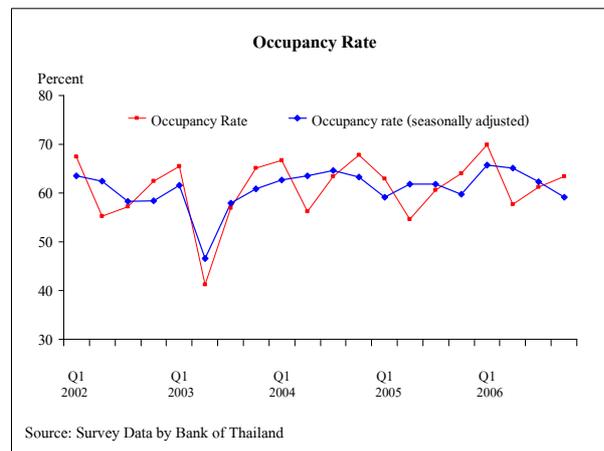
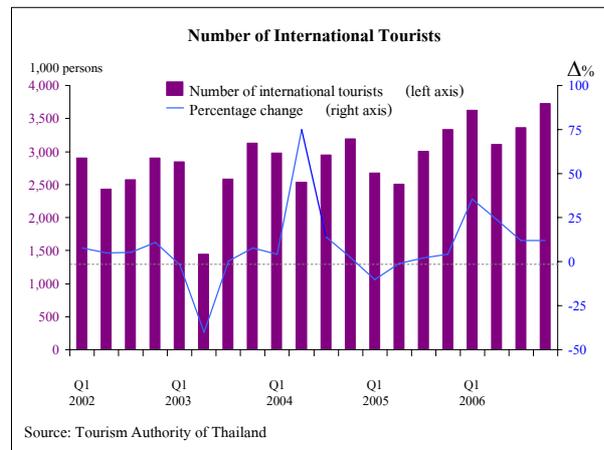
Vehicle and transportation equipment. Production decelerated slightly from the previous year, expanding by 5.0 per cent, in line with several new car models being launched during the year. In addition, production of commercial cars expanded in line with domestic and foreign demand, especially during the first half of the year. However, in the second half of the year, production of commercial cars and motorcycles contracted as a result of soft domestic demand due to the floods. Capacity utilization rate in this sector stood at 79.2 per cent, up from 75.9 per cent in the previous year.

Petroleum. Production improved from 2005 as fewer plants were closed for maintenance during the year. Consequently, the capacity utilization rate of petroleum industry stood at 87.2 per cent, up from 85.2 per cent in the previous year.

Footwear. Production expanded well, especially during the second half of the year, in line with the production of leather footwear, which benefited from EU anti-dumping measures on footwear products from China and Vietnam. The capacity utilization rate in this sector stood at 47.1 per cent, up from 42.8 per cent in the previous year.

2.3 Services

2.3.1 Tourism and Hotel Industry



The Tourism and Hotel Industry in 2006 continued to expand from the previous year despite various negative factors, namely, the unrest in the southernmost provinces, the floods in many areas, political uncertainties and a coup. The tourism activities exhibited growth in all regions and especially in the six southern provinces which had recovered from the effects of the tsunami in 2004.

For the entire year, the number of foreign tourists totaled 13.8 millions, soaring by 20.0 per cent from 2005. The hotel occupancy rate averaged at 63.0 percent, rising from 60.6 per cent in the previous year. Moreover, the political uncertainties and a coup in mid-September only adversely affected the hotel occupancy rate in Bangkok for a short period.

In the southern area, the tourism industry continued to revive and gradually improved. The number of international tourists who entered Thailand from southern ports of entry increased by 38.9 percent from the previous year. The hotel occupancy rate in the southern region returned its the normal level by climbing from 42.3 percent in 2005 to 53.9 percent in 2006.

Furthermore, the average room rate increased moderately by 7.0 percent year-on-year. Overall, tourism revenue from foreigners in 2006 amounted to 470.6 billion baht, a 22.0 percent boost from the previous year.

The number of foreign tourists from every country groups grew markedly from the previous year. This was partly due to the low base of the number of foreign tourists in 2005 as a consequence of the Tsunami aftermath. Nevertheless, the structure of foreign tourists in 2006 did not change significantly. Tourists from East Asia continued to account for the largest share, or 55.2 percent, of all foreign tourists,

International Tourists Classified by Nationality

Country	Δ (%)		Market Share (%)	
	2548	2549	2548	2549
East Asia	-3.6	19.1	55.6	55.2
- Malaysia	-2.2	15.8	11.9	11.5
- China	6.4	22.2	6.7	6.9
- Japan	-1.3	9.6	10.4	9.5
- Korea	-9.2	33.9	7.1	7.9
Europe	-0.1	22.5	24.7	25.3
USA	1.2	10.7	7.2	6.7
Oceania	6.5	26.2	4.5	4.7
Middle East	7.4	34.1	2.5	2.8
Others	7.5	18.1	5.5	5.4

Source: Tourism Authority of Thailand

followed by those from Europe and the US, accounting for 25.3 and 6.7 percent, respectively.

In 2007, the tourism activities in every region are expected to improve as the number of foreign tourists is on an increasing trend. Whist tourists from Europe would continue to be one of the major tourist base, a high-growth in the number of tourists from Oceania and East Asia is expected.

Nevertheless, the prolonged unrest in certain areas remains a risk factor to Thailand's tourism industry. The government's ability to keep the situation within bounds, couple with a continued effort to promote tourism in Thailand, would contribute to an uninterrupted expansion of Thailand's tourism and hotel industry in 2007.

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Tourism and Hotel Industry Indicators

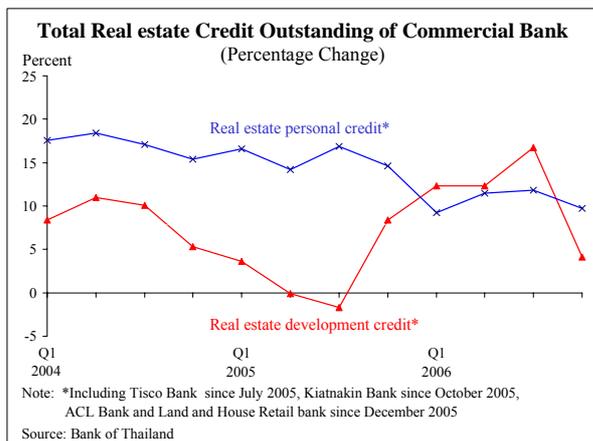
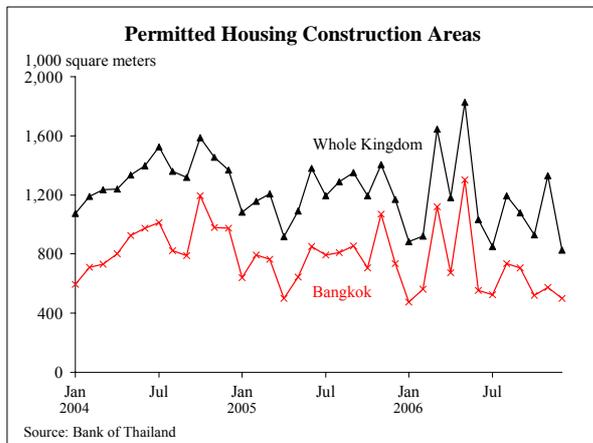
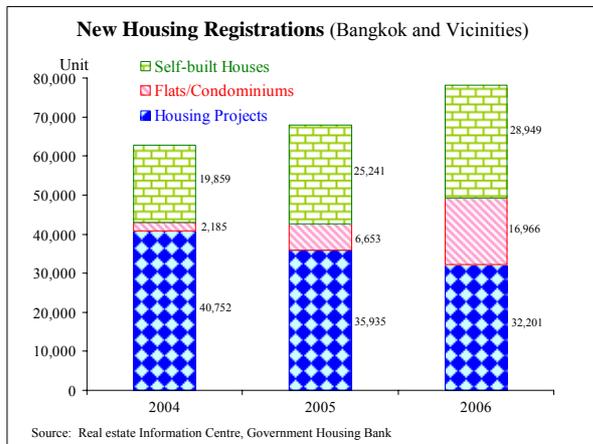
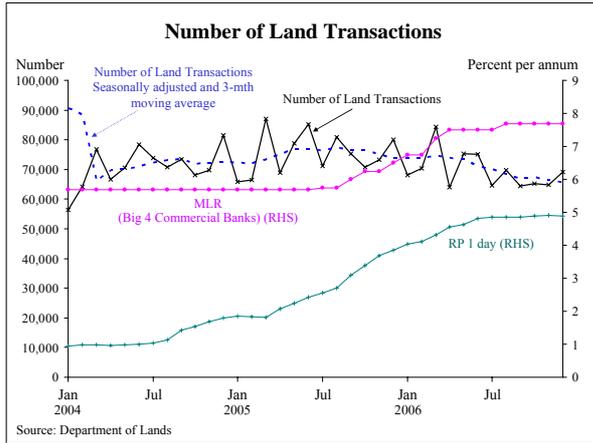
	2548	2549 ^P	2549			
	Year	Year	Q1 ^P	Q2 ^P	Q3 ^P	Q4 ^P
1. Number of foreign tourist (million persons)	11.5	13.8	3.6	3.1	3.4	3.7
$\Delta\%$	-1.1	20.0	35.5	24.1	11.8	12.0
2. Income from tourism (billion baht)	385.7	470.6	129.9	100.4	112.0	128.3
3. Occupancy rate (percent)	60.6	63.0	69.8	57.7	61.2	63.4
4. Room rates (baht)	1,277	1,367	1,510	1,251	1,260	1,446

Note: P = Preliminary data

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

Sources: Tourism Authority of Thailand and Bank of Thailand

2.3.2 Real Estate

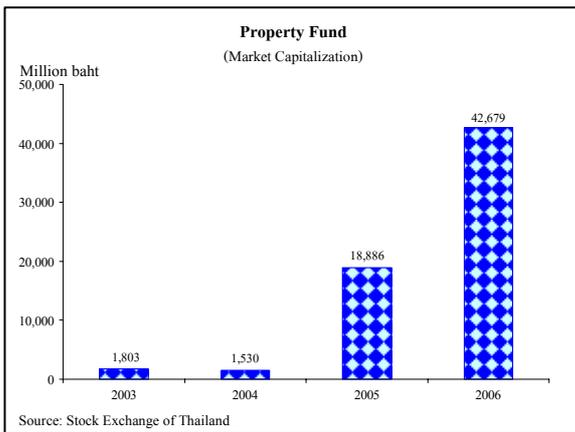
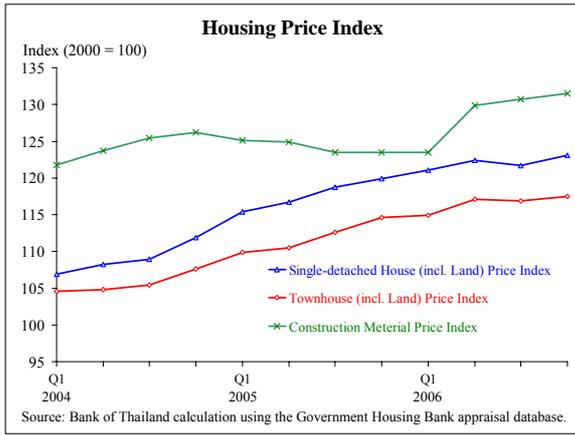


In 2006, overall real estate activities slowed down from the previous year in line with a weaker demand, mainly as a result of rising oil prices, inflation and interest rate hikes in the first half of the year, as well as political uncertainties. Consequently, consumer confidence declined and potential home buyers postponed their purchases as reflected in a decline of 7.6 percent in the number of land transactions.

With declining purchasing power, real estate developers switched to building smaller and cheaper condominium units, particularly those in the city, to meet increased demand for housing close to work. This caused the number of newly-completed and registered condominium units in Bangkok and its greater metropolitan area to rise sharply to 16,966 units, an increase of 155 percent from the previous year (of which 6,291 units were the government's Baan Aua Arthorn project).

Meanwhile, the increase in the number of newly-completed and registered housing units was mainly within the existing projects where houses were built phase by phase. Consequently, the number of newly-completed housing units dropped to 32,201 units, a decline of 10.4 percent. The decline in newly-completed housing units was greatest for houses in the middle and high price ranges. Despite the acceleration of housing construction application before the enforcement of the New Bangkok Town Plan on 17 May 2006, permitted residential housing construction areas dropped by 5.2 percent from the previous year. Meanwhile, permitted commercial and industrial construction areas continued to increase, in line with the expansion of shopping malls and manufacturing factories.

The growth of personal housing and real estate development credits of commercial banks slowed down to 9.7 and 4.1 percent, respectively, compared to 14.6 and 8.4 percent increases in the previous year. The decline in credit growth this year was a result of slowing demand, conservative credit extension by commercial banks and the base effect due to the upgrade of three non-bank financial institutions into commercial banks in Q4 2005.



The single-detached house and townhouse (including land) price indices rose 3.7 and 4.2 percent, respectively. This was a decline from the previous year as a result of smaller construction units and higher competition among real estate developers. Higher construction costs, rising competition and the ensuing difficulty in raising prices were expected to affect the future performance of real estate developers.

In 2006, four newly registered property funds opened in the fourth quarter. The market value of the property funds increased from 18,886 million in 2005 to 42,679 million baht. These funds are a part of property developers' strategy to reduce fund-raising costs. The funds' investments included Samui airport, office buildings, apartments and shopping malls for rental purposes.

Outlook in 2007

At the beginning of 2007, the property sector is expected to slow down as a result of several risk factors which caused a short-term decline in consumers' and investors' confidence. These included the political uncertainties and policy measures such as the unremunerated reserve requirement and the amendment of the Foreign Business Act.

Nevertheless, during the second half of 2007, real estate activities are expected to improve as a result of relaxation of the reserve requirement measures, decreased inflationary pressures which led to a more accommodative monetary policy, and a clearer mass transit development plan. The supply of new condominium units should increase as several new housing projects had been started in the previous year. Future housing projects, including condominium units in the city and single houses on the outskirts, will be concentrated along the planned mass transit routes. The housing price index has a tendency to increase following increases in land prices along the planned mass transit routes. However, a significant price increase will be unlikely given moderate demand growth.

Real Estate Indicators

	2005	2006				
		Year	Q1	Q2	Q3	Q4
Land Transaction Value ^{1/} (Million Baht)	614,837	617,930	170,786	142,459	145,343	159,342
Δ%	-11.5	0.5	21.4	-6.3	-9.7	-1.1
Juristic Act and Right Registration Fee 2% ^{2/} (Million Baht)	11,749	11,096	2,728	2,683	2,663	3,022
Δ%	10.6	-5.6	0.9	-7.1	-11.4	-4.1
Juristic Act and Right Registration Fee 0.01% ^{3/} (Million Baht)	3.4	6.3	3.4	0.8	1.2	0.8
Δ%	-78.9	83.2	530.6	8.7	13.3	-22.5
Number of Land Transactions (Unit)	903,451	835,095	222,988	214,412	198,701	198,994
Δ%	6.3	-7.6	1.7	-7.8	-12.6	-11.3
Permitted Construction Areas (1,000 square meters)	19,633	19,577	5,032	5,608	4,539	4,397
Δ%	-13.5	-0.3	6.5	21.6	-15.3	-10.9
- Permitted Housing Construction Areas Municipality area (1,000 square meters)	14,447	13,701	3,450	4,039	3,126	3,086
Δ%	-10.3	-5.2	0.2	19.3	-18.5	-18.4
- Permitted Housing Construction Areas Bangkok area (1,000 square meters)	9,162	8,236	2,153	2,525	1,965	1,593
Δ%	-12.9	-10.1	-2.0	26.6	-20.0	-36.6
New Housing Registrations (Bangkok and Vicinities) (Unit)	67,829	78,116	15,584	20,874	24,276	17,382
Δ%	8.0	15.2	-6.7	33.0	37.2	-2.0
- Housing Projects	35,935	32,201	7,861	7,137	10,069	7,134
- Flats/Condominiums	6,653	16,966	748	5,983	6,512	3,723
- Self-built Houses	25,241	28,949	6,975	7,754	7,695	6,525
Cement Sale (1,000 Metric tons)	28,966	29,156	7,834	7,191	7,248	6,883
Δ%	6.5	0.7	-6.6	0.8	6.6	3.7
Single-detached House Price Index (Including Land) (2000 = 100)	117.7	122.1	121.1	122.4	121.7	123.1
Δ%	8.0	3.7	5.0	4.9	2.5	2.6
Town House Price Index (Including Land) (2000 = 100)	111.9	116.6	114.9	117.1	116.9	117.5
Δ%	6.0	4.2	4.5	6.0	3.8	2.6
Construction Material Price Index (2000= 100)	124.3	128.9	123.5	129.9	130.7	131.5
Δ%	0.0	3.7	-1.3	4.0	5.9	6.4

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

^{1/} Regarding the estimation for overall land transactions nationwide, the Bank of Thailand derives the figures from the amount of the Juristic Act and Right Registration Fee, separately classified into 2 percent and 0.01 percent categories

^{2/} 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 (BE 2541), which was issued under the Land Code Amendment Act B.E. 2497 article 2(7).

^{3/} The Juristic Act and Right Registration Fee for immovable property is charged at a rate of 0.01 percent as specified by the Cabinet (please contact the Department of Lands for more detail on other possible cases of, as well as extension of period eligible for reduced fee rate).

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

Real Estate Indicators (Cont.)

	2005	2006				
		Year	Q1	Q2	Q3	Q4
Real Estate Development Credit Outstanding^{4/} (Billion Baht)	301.3	313.8	317.7	315.3	323.5	313.8
$\Delta\%$	8.4	4.1	12.3	12.3	16.7	4.1
- Housing Development Credit^{4/} (Billion Baht)	191.9	181.7	189.7	192.8	196.3	181.7
$\Delta\%$	12.4	-5.3	10.2	13.4	19.3	-5.3
- Other Real Estate Credit^{4/} (Billion Baht)	109.4	132.0	127.9	122.5	127.1	132.0
$\Delta\%$	2.0	20.7	15.6	10.8	12.9	20.7
Real Estate Personal Credit Outstanding^{4/} (Billion Baht)	629.6	690.9	617.6	645.1	680.5	690.9
$\Delta\%$	14.6	9.7	9.2	11.5	11.8	9.7
- Housing Personal Credit^{4/} (Billion Baht)	624.4	685.2	612.6	639.1	675.7	685.2
$\Delta\%$	14.7	9.7	9.4	11.7	12.3	9.7
- Other Real Estate Personal Credit^{4/} (Billion Baht)	5.3	5.7	5.0	5.9	4.8	5.7
$\Delta\%$	1.5	8.6	-8.2	-5.7	-34.2	8.6
Property Fund^{5/} (Million Baht)	18,886	42,679	19,214	20,486	20,750	42,679
$\Delta\%$	1,134.4	126.0	438.2	254.0	4.3	126.0

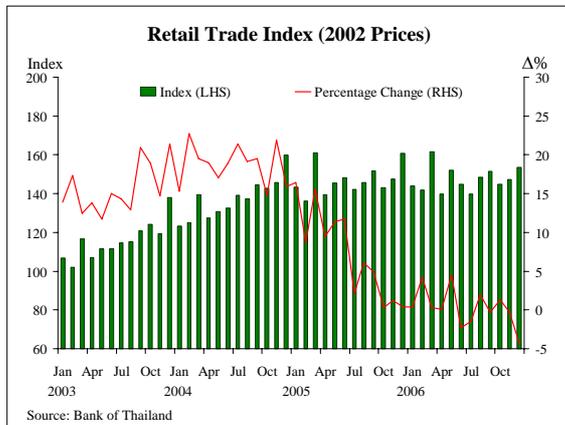
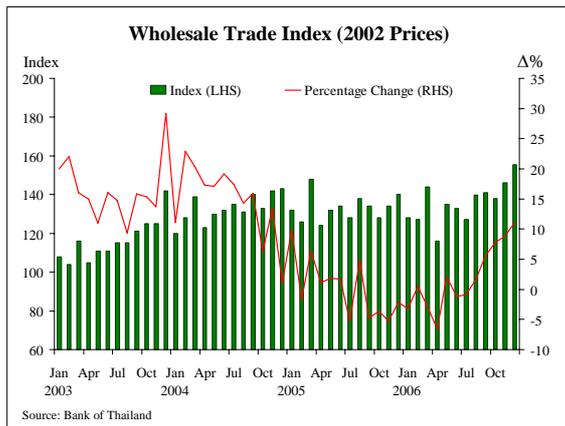
Note: $\Delta\%$ represents the percentage change from the same period last year.

^{4/} Including credit extended by commercial banks (excluding foreign branches of Thai commercial banks) and newly established commercial banks, namely TISCO Bank since July 2005, Kiatnakin Bank since October 2005, ACL Bank and Land and House Retail Bank since December 2005.

^{5/} Market value of property fund at end-period

Source: Bank of Thailand and Stock Exchange of Thailand

2.3.3 Trade



Trading sector's activities continued to slow down in 2006 as a result of high levels of inflation and interest rates in the first three quarters, causing an erosion of domestic purchasing power, more conservative spending behaviour and lower demand for imports. Trading activities that continued to perform well included shopping mall sales (due to all-year sales promotion), construction-related products, electrical appliances and lightings (a part of these are for the reconstruction in the aftermath of floods), wholesale chemical products and tobacco products. However, the sales of radio and television, household appliances, liquid and solid fuels, and cosmetics and perfumes decelerated this year.

Despite a decline in inflationary pressure, an improvement in minimum wage and decreasing oil prices, the trading sector's outlook for 2007 was expected to improve only slightly due to several risk factors. These included unrest in the three southernmost provinces, a series of bombings in Bangkok during New Year's Eve and political uncertainties, all of which will likely cause a further decline in consumer confidence and spending.

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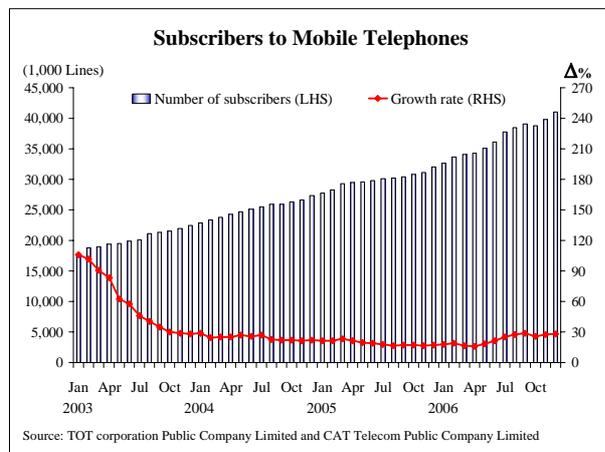
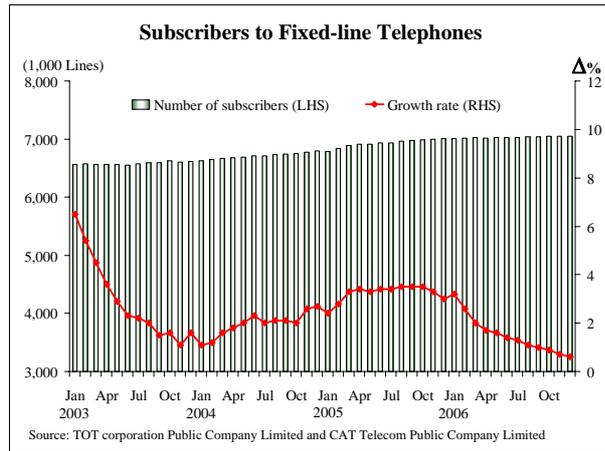
	2005	2006	2006			
			Q1	Q2	Q3	Q4
Wholesale Trade Index (2002 = 100)	133.2	135.8	132.9	128.0	135.9	146.5
Δ%	0.1	1.9	-1.9	-1.8	2.1	9.3
Retail Trade Index (2002 = 100)	147.0	147.4	149.1	145.4	146.5	148.5
Δ%	7.1	0.3	1.6	0.8	0.0	-1.3

Notes: E = Estimated

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

Source: Bank of Thailand

2.3.4 Telecommunication



Telecommunication Services						
(Million Lines)	2005	2006				
		Year	Q1	Q2	Q3	Q4
Fixed-line Telephones ^{1/}	7.0	7.0	7.0	7.0	7.0	7.0
Δ %	3.0	0.6	2.0	1.4	1.0	0.6
Mobile Phones ^{1/}	32.0	41.1	34.1	36.2	39.1	41.1
Δ %	16.9	28.2	16.3	21.3	28.5	28.2

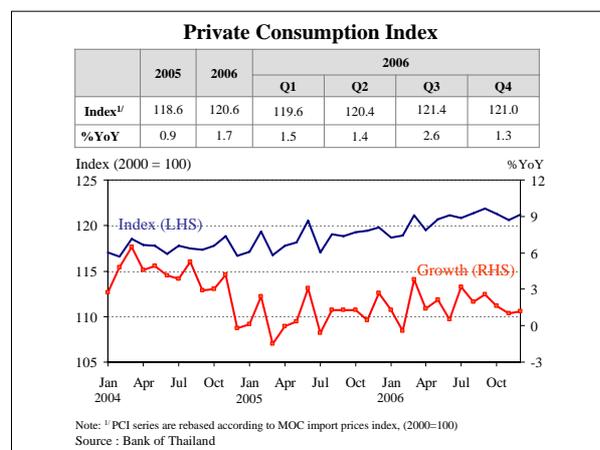
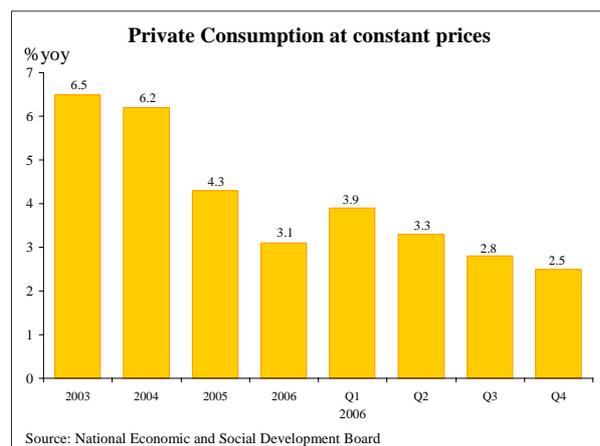
Note: ^{1/} Data as of end-period
 Δ% = represents percentage change from the same period last year.
 Source: TOT Corporation Public Company Limited and CAT Telecom Public Company Limited

In 2006, fixed-line telephone service activities decelerated since the beginning of the year. The number of fixed-line service users increased by 42,000 numbers or 0.6 percent this year, compared to an increase of 200,000 numbers or 3 percent in 2005. The increase occurred mainly in the provincial areas.

Mobile telephone service activities accelerated from 2005 due to price-cutting strategy of service providers (e.g. charging low service fee or charging service fee per call) to attract both new customers and customers from other companies and to maintain their own customer bases. The competition to attract customers was a result of new regulations from the National Telecommunications Commission (NTC) regarding the determination of service and network usage fees. Consequently, there was a rise in the number of mobile service users to 41 million numbers, an increase of 9 million numbers or 28.2 percent from the previous year. However, the price-cutting strategy had resulted in lower profits for service providers. With clearer directions regarding the telephone network usage fee, service providers began to scale down their price-cutting strategy in the fourth quarter and competed more on the basis of service quality and other complimentary services.

Outlook for 2007: Fixed-line telephone service activities will continue to decelerate and the number of telephone users will probably remain approximately at the same level as in 2006, with expansion occurring mostly outside the Bangkok Metropolitan Area. Mobile telephone service activities will also slowdown in 2007 due to the large customer base in the previous year. In 2007, service providers are likely to scale back their price-cutting strategy and compete more in terms of the quality of services and other complementary internet services as the newly imposed telephone network usage fee has caused an increase in minimum operating cost. The expansion of the telecommunication sector this year will occur mainly in areas outside provincial areas which attracted the service providers' attention, thanks to the low ratio of mobile telephone users to the population, as opposed to Bangkok.

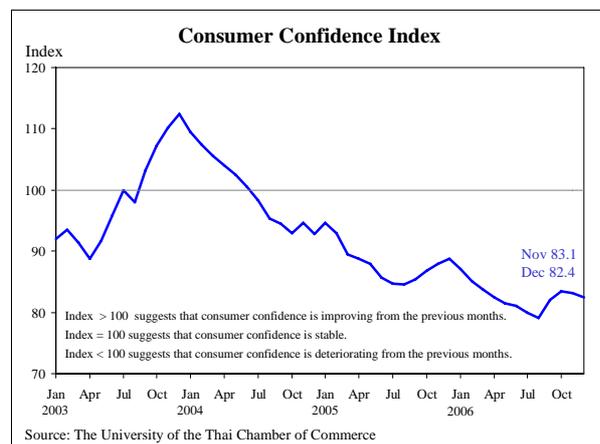
2.4 Private Consumption



Private Consumption Indicators

	2005	2006	2006			
			Q1	Q2	Q3	Q4
Passenger Car Sales (Unit: 1,000 units)	185.8 (-11.2%)	191.4 (3.0%)	44.8 (6.0%)	49.3 (4.3%)	44.7 (11.8%)	52.6 (-6.0%)
Motorcycle Car Sales (Unit: 1,000 units)	2,053.0 (4.5%)	1,920.6 (-6.4%)	512.2 (-1.3%)	501.6 (0.6%)	477.7 (0.0%)	429.1 (-23.0%)
Sales of Benzene and Gasohol (Unit: million liters)	7,247.8 (-5.4%)	7,215.1 (-5.0%)	1,772.7 (-2.9%)	1,807.9 (-2.8%)	1,771.7 (-0.6%)	1,863.0 (4.6%)
Household's Usage of Electricity Power (Unit: billion kilowatts)	25.5 (4.1%)	26.9 (5.3%)	6.2 (6.1%)	7.2 (0.4%)	6.9 (6.0%)	6.7 (9.7%)
Imports of Consumer Goods at 2000 Prices (Unit: million USD)	7,387.3 (10.0%)	8,427.0 (14.1%)	1,987.9 (13.4%)	2,111.7 (15.1%)	2,212.4 (19.2%)	2,115.1 (8.8%)
VAT at 2000 prices (Unit: billion baht)	352.9 (11.5%)	376.9 (6.8%)	92.5 (6.9%)	95.8 (8.3%)	93.4 (6.7%)	95.3 (5.3%)

Note: Number in parenthesis is a year-on-year growth rate.
Source: Bank of Thailand



Private consumption expanded at 3.1 per cent in 2006, slowing from 4.3 per cent growth in 2005. This was due to the higher prices of both oil and goods which decreased the purchasing power of consumers. The deceleration was in line with the declining trend in consumers' confidence observed since the beginning of the year. Political uncertainty and higher costs of living contributed to the lower confidence levels.

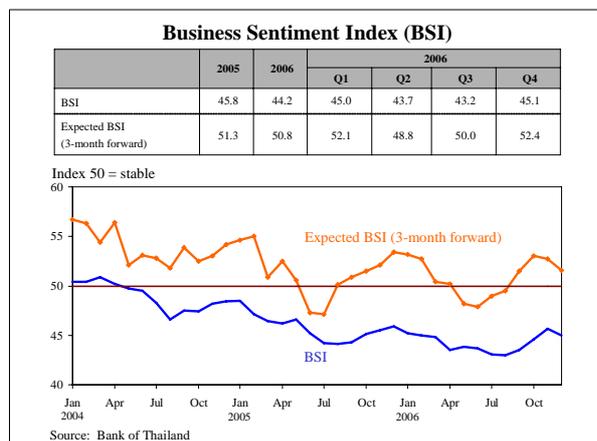
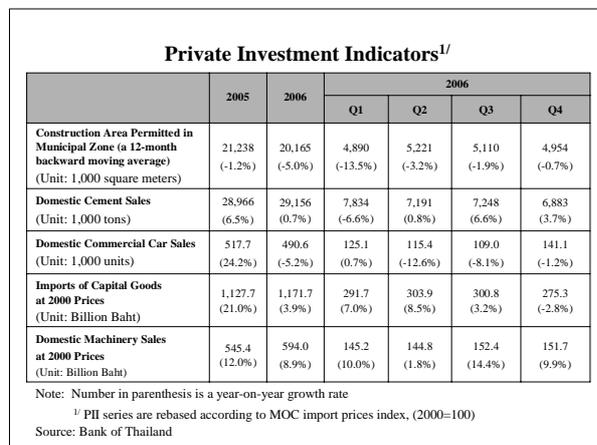
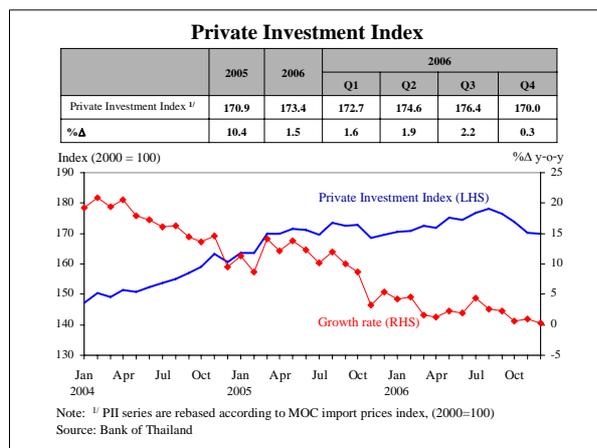
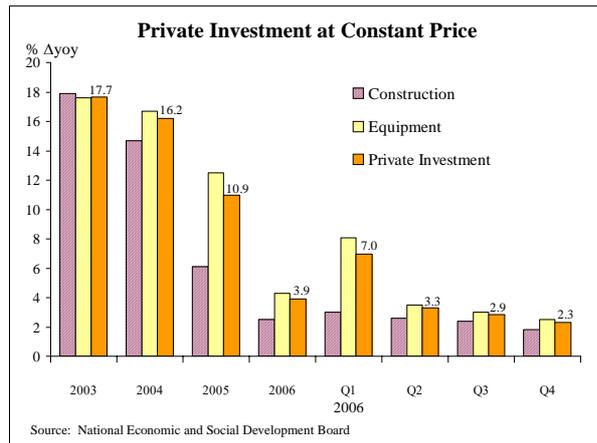
The BOT's Private Consumption Index (PCI), constructed using 6 indicators, expanded by 1.7 per cent, accelerating slightly from 0.9 per cent in 2005. The main reason for the lower growth in 2005 was the acceleration in oil prices, especially benzene prices which increased by 25.4 per cent. Consequently, passenger car sales for the year were lower than its usual trend. Moreover, in 2006, the growth in import prices decelerated in line with world prices and contributed to the growth of the imports of consumer goods at constant prices.

Nevertheless, the second half of the year 2006 saw private consumption growing in line with the PCI. PCI in 2006Q4 rose by 1.4 per cent, slowing down from 2.5 per cent in Q3 despite the improvement in consumer confidence in the beginning of the quarter following the decline in political uncertainty. The slowdown in private consumption growth showed that consumer still exercised caution in their spending due to concerns over the costs of living and floods in many areas.

Main indicators that contributed to the slowdown of the PCI in the fourth quarter were motorcycle sales and passenger car sales. The reason for the decrease of motorcycle sales was the impacts of floods in many areas; the decrease in passenger car sales stemmed from the substantially high sales volume in 2005Q4 because of the release of new models during the period. Furthermore, imports of consumer goods at constant prices also decreased.

On the other hand, other indicators, namely value-added tax at constant prices and household electricity usage, continued to expand from the same period last year. Consumption of benzene and gasohol also accelerated in Q4 due to the decrease in oil prices towards the end of the year, despite a period of contraction in the first half of the year.

2.5 Private Investment

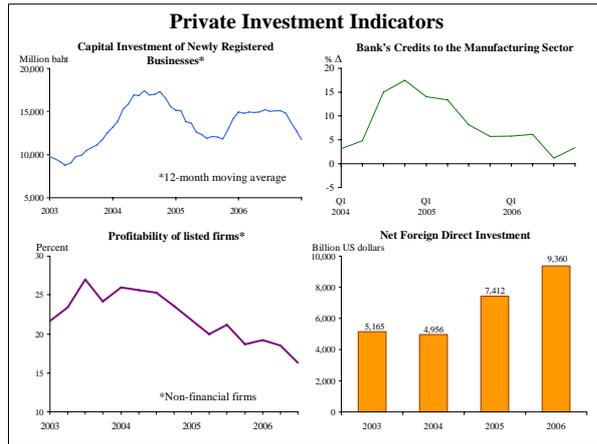


Private investment growth in 2006 was at 3.9 per cent, decelerating from 10.9 per cent in the previous year. This was partly attributed to higher oil prices, especially in the first half of the year, higher interest rates, and continual deterioration of business confidence. This slowdown was mainly caused by the deceleration of investment in the machinery and equipment category.

In the fourth quarter of 2006, private investment decelerated in line with the Private Investment Index (PII) in the same quarter which expanded by 0.3 per cent, slowing down from 2.2 per cent in previous quarter. In addition, the Business Sentiment Index (BSI) exhibited a downward trend from the beginning of 2006, despite some improvement later on in the year when the costs of production began to fall.

Comparing the different indicators of PII, the components in the machinery and equipment category, especially commercial car sales and import of capital goods at constant prices, displayed significant deceleration trends. The growth in the import of capital goods was in line with domestic demand which expanded at a slower pace amid the environment of higher oil prices, higher interest rates, and political uncertainty. In addition, private investment indicators in the construction category, namely, construction area permitted in municipal zones and domestic cement sales, also slowed down. The growth trends of both indicators were in line with the passive growth observed in the real estate sector.

Other indicators also reflected the deceleration in the growth of private investment. For instance, the value of investment projects in receipt of promotion certificates by the Board of Investment (BOI) decreased. Capital investment of newly-registered businesses and profitability of SET-listed firms also slowed. Moreover, commercial bank credit to the manufacturing sector grew at a much slower pace, although foreign direct investment increased from the previous year, especially in the telecommunication sector.



The decline in investor confidence prompted by the rise in political uncertainty had a significant adverse impact on private investment in 2006 and the beginning of 2007. As a result, the recovery of private investment was delayed. Nevertheless, high levels of capacity utilization and the downward cycle in interest rates indicated that private investment should recover once the constraints on investor confidence are removed.

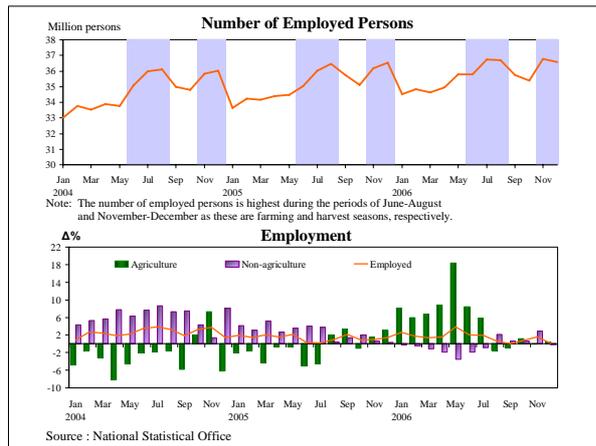
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Investment Promotion Certificates Issued

($\Delta\%$ YoY)	2005		2006	
	No. of Projects	Value	No. of Projects	Value
Agriculture	-6.3	-11.4	-17.1	-20.2
Mining ceramics and metals	42.3	73.9	-35.1	41.5
Light industry	28.2	7.2	-8.0	-36.9
Metal machinery and equipment	-6.7	101.7	0.4	-63.6
Electronics and electrical products	23.3	-37.3	-1.4	42.3
Chemicals paper and plastic	10.7	13.7	-10.3	142.4
Services and infrastructure	12.2	128.4	39.8	-63.2
Total	7.6	43.4	1.1	-18.3

Source: Office of the Board of Investment

2.6 Labour Market Conditions

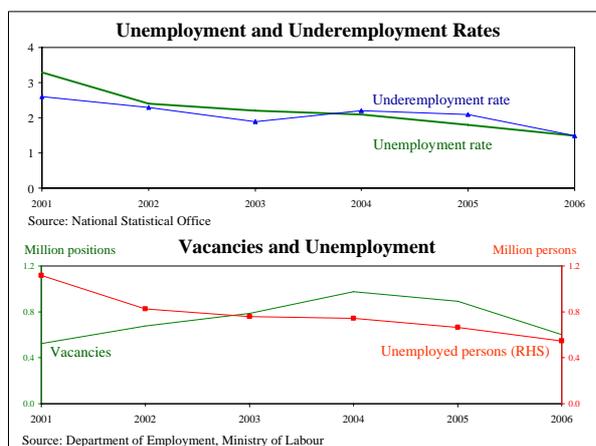
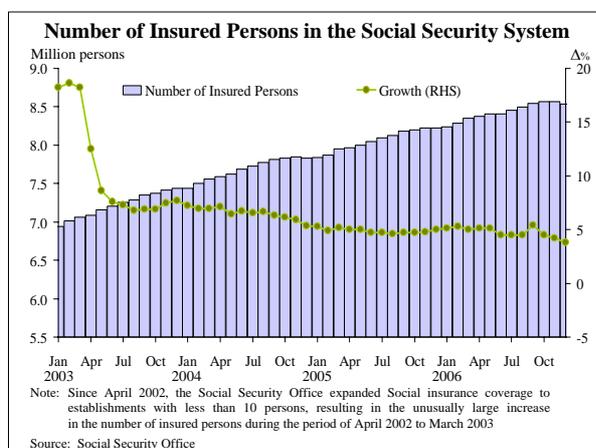


Labour Market Conditions by Sector and Region
(Unit: Percent)

	Share of Employed Persons		Growth Rate of Employed Persons	
	2005	2006	2005	2006
Agriculture	37.7	38.9	-0.7	4.6
Non-agriculture	62.3	61.1	2.6	-0.4
Manufacturing	16.7	16.3	2.3	-0.9
Wholesale and retail trade	15.7	15.3	0.3	-0.8
Hotel and restaurant services	6.7	6.5	4.0	-2.4
Construction	6.0	6.0	1.9	1.2
Others	17.2	17.0	4.9	0.8
Total	100.0	100.0	1.3	1.5

	Share of Employed Persons	Growth Rate of Employed Persons	Unemployment Rate	
	2006	2005	2006	2005
Central region	10.9	4.8	5.5	1.6
Bangkok	25.8	-6.9	-7.7	1.8
Northern region	18.2	0.5	-0.3	1.9
Northeastern region	31.6	2.1	0.9	2.1
Southern region	13.5	3.9	4.4	1.7
Whole Kingdom	100.0	1.3	1.5	1.8

Source : National Statistical Office



In 2006, the number of employed persons increased by 1.5 per cent from the previous year. Once the effects of drought on the agricultural sector had dissipated, employment in the agricultural sector rose by 4.6, compared to a reduction of 0.7 per cent in 2005. Nonetheless, part of this increase was due to the flow of labour from the non-agricultural sector which registered a decrease in employment of 0.4 per cent, in contrast to the growth of 2.6 per cent in 2005. In addition, the decline in employment was observed in most of the key sectors.

Employment rose significantly in the central and southern regions of Thailand. This stemmed from the favourable growth of both prices and production in the agricultural sector. The south of Thailand, in particular, saw a substantial rise in the price of natural rubber. In addition, employment growth in these two regions partly resulted from the flow of labour out of Bangkok as well as the north and northeast of Thailand.

At the end of 2006, the number of persons covered in the social security system totalled 8.24 million, rising by 3.8 per cent from the end of previous year. This reflected satisfactory employment growth in the formal private sector.

Despite the investment slowdown, the unemployment rate declined from 1.8 per cent in 2005 to 1.5 per cent in 2006. The underemployment rate also fell. These indicators reflect a tight labour market which may adversely affect business activities in the future. Nevertheless, there were factors that kept pressures on wage level increases and labour demand relatively under control, namely, the flexible movement of labour between the agricultural and non-agricultural sectors and employers' adjustments to labour demand as reflected in the low number of job vacancies.

2.7 Price Level

In 2006, the **consumer price index** (CPI) rose by 4.7 per cent, accelerating slightly from the previous year's rate of 4.5 per cent, as a result of a 4.8 per cent increase in food and beverage prices and a 4.6 per cent increase in non-food and non-beverage prices. **Core CPI** (excluding raw food and energy prices) rose by 2.3 per cent, accelerating from the previous year's rate of 1.6 per cent but still remaining within the policy target range of 0 - 3.5 per cent. The acceleration can be traced back to the pass-through of increased production costs to prices of other goods and services, following the high oil prices during the first half of the year. This was especially so for public transportation costs.

Factors that contributed to the acceleration of inflation in 2006 included:

(1) Retail oil prices that increased continuously during the first half of the year;

(2) Higher energy costs which led to an overall upward adjustment in public transportation costs of 17.9 per cent. This included various modes of transportation such as local and regional bus, motorcycle, motor tricycle, train, and airplane. Moreover, electricity charges also increased;

(3) Raw food prices - especially prices of vegetables and fruits - that rose significantly towards the end of the year due to the damages of the floods on crops.

Although the annual average headline inflation increased from the previous year, headline inflation during the second half of the year declined noticeably after oil prices began to decline continuously as a result of both lower world crude oil prices and a stronger baht. Meanwhile, core inflation gradually slowed down as a result of the reduced pass-through from supply-side factors and lower demand pressure in line with the softening domestic demand.

Consumer Price Index
(Percentage change from the same period last year)

	Weight (Per cent)	2005	2006	2006			
				Q1	Q2	Q3	Q4
Headline Consumer Price Index	100.0	4.5	4.7	5.7	6.0	3.6	3.3
Food and beverages	36.1	5.0	4.8	4.1	5.3	3.3	5.7
Non-food and beverages	63.9	4.3	4.6	6.8	6.5	3.8	1.8
Core Consumer Price Index	75.95	1.6	2.3	2.6	2.8	1.9	1.7

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

The **Producer Price Index (PPI)** increased by 7.0 per cent in 2006, decelerating from the previous year's increase of 9.2 per cent. This was a result of a deceleration of prices in every category, namely agricultural, mining, and manufactured products, which rose by 18.0, 15.1 and 5.0 per cent, respectively, compared with the previous year's rates of 21.2, 17.4 and 7.2 per cent, respectively. Agricultural prices slowed down in line with world farm

prices, particularly those of livestock and fish and other fishing products which declined from the previous year in line with world prices.

Meanwhile, manufactured product prices declined, following a marked deceleration in the prices of petroleum products. Prices of appliances and electrical goods also declined in line with the electronic cycle. Moreover, prices of mining products slowed down as a result of lower crude oil and natural gas prices.

Producer Price Index

(Percentage change from the same period last year)

	Weight (Per cent)	2005	2006	2006			
				Q1	Q2	Q3	Q4
Producer Price Index	100.0	9.2	7.0	8.7	10.3	6.2	3.4
Agricultural Products	9.5	21.2	18.0	20.0	23.3	13.1	16.2
Mining Products	2.4	17.4	15.1	23.2	27.2	13.4	-0.9
Manufactured Products	88.1	7.2	5.0	6.5	7.6	4.8	1.4

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

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2.8 International Trade and the Balance of Payments

In 2006, exports continued to expand from 2005. The increase in export volume was due to the continued favourable economic expansion of major trading partners, especially the US and other regional countries. Meanwhile, rising world prices of commodities such as oil, iron, gold, copper, rice, and rubber brought about higher production cost and higher prices for exports and imports, compared to the previous year. Nevertheless, baht appreciation in 2006 relative to 2005 resulted in low expansion in export income in terms of baht. Moreover, imports growth in 2006 did not accelerate in tandem with the baht appreciation. Such circumstance was due to the domestic demand slowdown and the aforementioned uncertainties of world prices. These factors caused the trade balance to turn from a large deficit in 2005 into surplus in 2006. Taking into account the increased surplus in **services, income and transfer account**, the resulting **current account** thus turned into surplus in 2006. Although the net inflow of capital in 2006 was smaller than that in 2005, the overall balance of payments registered a higher surplus compared to 2005.

Exports

Exports value totaled 128.2 billion US dollars, equivalent to a 17.4 per cent year-on-year growth (or 10.2 per cent growth in baht terms). The expansion of both volume and price¹ from 2005 was at 11.6 and 5.2 per cent, respectively. Export growth was mainly attributed to high-technology manufacturing products e.g. electronics, vehicle and parts, petroleum products, base metal products, and chemical products.

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

Agricultural products. Export value of agricultural products expanded by 30.3 per cent year-on-year, both in volume and price, in line with the expansion of major export items such as rice, rubber, tapioca products, and fresh and frozen chicken.

Fishery products. Export value of fishery products rose by 13.5 per cent, mainly from the growth in price basis. The key contributor to this growth came from the export of **fresh and frozen shrimps**, which expanded well in the major markets namely, the US, Japan, the EU and South Korea.

Manufactured products. Export value growth of manufactured products grew by 16.4 per cent year-on-year, close to the rate in 2005 following exports in high-technology products. Details of manufactured product exports classified by sectors are as follows:

Labour-intensive products. Export value in this category rose by 6.8 per cent, slowed down from 2005 and consistent with the softening of exports in **precious stone and jewelry exports**, which were affected by the rise of gold price in 2005. Meanwhile, **garment** exports continued to expand, partly because the US had imposed import quotas on garments from China.

High-technology products. Export value of high-technology products rose by 18.0 per cent year-on-year. The expansion came mainly from the growth in **computers and parts**, which was in line with the growth of hard disk exports, as well as **integrated circuits (IC) and parts** that continued to expand from 2005 despite a slight slowdown in the second half of 2006 due to the electronic down-cycle. Meanwhile, export of **electrical appliances** recorded higher growth owing to export growth in television sets, air-conditioners and refrigerators. Export value of

^{1/} Such indices were calculated from the Ministry of Commerce (MOC)'s export and import prices indices. The Bank of Thailand discontinued its export and import prices indices since January 2007 and replaced such indices with the MOC's (the Bureau of Trade and Economic Indices) indices from 2007 onwards, with the data dated back to the year 2000.

base metal products, chemical products and petroleum products were also higher than those in 2005 due to excess supply that resulted from domestic demand slowdown and capacity utilization expansion. Export value of **vehicle and parts** also registered an expansion, following higher exports to several destinations in the EU, Australia and the Middle East.

Resource-based products. Export value in this category increased by 14.3 per cent year-on-year, in line with the expansion of major export items, including 1) **rubber products** especially radial tyres, 2) **canned fish**, mainly increased in volume growth following exports in canned tuna, 3) **prepared fowls** as substitutes for fresh and frozen fowls to the EU, and 4) **sugar**, which increased from higher export price relative to 2005, while the volume of sugar export declined.

Imports

Imports value recorded 126.0 billion US dollar, grew by 7.0 per cent year-on-year (or 0.7 per cent growth in baht terms), of which 6.5 per cent was growth in price and 0.5 per cent was growth in volume. This was in line with the weakened domestic demand, both in public and private consumption.

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

Consumer goods. Import value of consumer goods rose by 14.2 per cent year-on-year, in line with imports of electrical appliances, particularly import of parts for digital television sets export production. This was in tandem with export expansion in 2006. Nonetheless, imports for domestic consumption declined, especially in **food and beverages** sector, namely whisky, milk powder etc., that slowdown from 2005 following the domestic demand slowdown.

Intermediate goods and raw materials. Import value in this category increased by 5.1 per cent year-on-year, moderated from 2005 mainly

from (1) the decrease in imports of **woods, iron, and steel**, due to the softening domestic demand, particularly in the domestic property and real estate sector, and the slowdown of the government's mega projects such as the mass transit project, (2) imports in electronic parts moderated, in line with the slowdown of integrated circuits (IC) exports, and (3) slowdown in imports of **animal feeds**, especially soybean meal.

Capital goods. Import value of capital goods rose by 2.9 per cent, slowed down from 2005 and in line with imports of non-electrical and electrical machinery in major industries, including (1) **electricity industry** where the Independent Power Producers (IPPs) imported more machinery in addition to other large-scale machinery for generating electricity that was installed earlier in 2005, (2) **petrochemical industry**, where substantial investment by private investors was observed in 2005. This was in line with the exports of chemical products which expanded satisfactorily in 2006, (3) **automobile industry which** slowed down in 2006 following the weakened domestic demand, and (4) **telecommunication industry**, where imports of equipments decelerated from 2005. Moreover, a total of 4 **commercial airplanes** with a total value of 571.4 million US dollar were imported this year (lower than the import of 8 commercial airplanes in 2005). Imports of gas pipes, on the other hand, continued to rise from 2005.

Vehicle and parts. Import value of vehicle and parts declined by 6.4 per cent, year-on-year, following the slowdown in imports of vehicle parts in passenger cars and trucks, due mainly to weakened domestic demand.

Crude oil. Import value of crude oil increased by 17.6 per cent, moderated as compared to the previous year. This was because the import volume was decreased to 301.8 million barrels, down by 6.1 per cent. In contrast, crude oil price rose by 25.2 per cent from 2005,

averaging at 65.8 US dollars per barrel, higher from the average of 52.5 US dollars per barrel in 2005.

Trade, Services and Current Account Balances

Trade balance. Trade balance was in surplus by 2.2 billion US dollars, mainly attributed to trade surplus with major trading partners, including the US, the EU, the ASEAN and Hong Kong. The surplus was concentrated in major export items such as rubber, petroleum products, metal products, computers and parts, vehicle and parts, and integrated circuits (IC) and parts. Meanwhile, Thailand experienced trade deficits with certain countries, for instance, from the imports of metal and chemical products from Japan, electronics from South Korea and Taiwan, and crude oil from the Middle East. Nevertheless, Thailand was able to maintain trade surpluses with countries that Thailand had established Free Trade Agreements (FTA) with (except China) namely, India, Australia and New Zealand.

Service, Income and Transfers Account

The services, income and transfers account recorded a surplus of 1.0 billion US dollar, higher than the surplus of 0.7 billion US dollar in 2005. This was in line with tourism revenue, which rose by 29.9 per cent following an increase in the number of tourists by 20.0 per cent, year-on-year. Tourism expenditure grew by 21.8 per cent, year-on-year, with 10.6 per cent year-on-year increase in outbound tourists compared to 2005. Investment income increased by 1.0 billion US dollars, equivalent to 39.2 per cent year-on-year growth with the contribution from both private and public sectors. Meanwhile, investment payment increased by 0.8 billion US dollars, equal to 7.8 per cent year-on-year growth, due to profit remittances and dividend payments of the private sector. Consequently, the current

account adjusted for reinvested earnings or R.E.^{2/} in 2006 turned from a deficit of 7.9 billion US dollars in 2005 to a surplus of 3.2 billion US dollars, equivalent to 1.5 per cent of GDP.

The data on “**Reinvested Earnings: R.E.**” was first introduced and incorporated in the balance of payments data in 2006. R.E. was recorded as credit (debit) to the direct investment item in the capital and financial account, while the same amount would be counter-recorded as debit (credit) to the investment income item in the current account. For example, reinvested earnings of foreign companies in Thailand would increase foreign direct investment inflows in the capital and financial account, and at the same time lower investment income in the services, income and transfers account. This can be regarded as outflows in the latter account which is later reinvested in the country and recorded in the former account. Such accounting practice would lower the current account but raise the capital and financial account by the same amount. Hence, the overall balance of payments and cash flows were not affected. These were mere accounting adjustments which were made to improve the coverage of the Balance of Payments statistics, in accordance with the international standard as stated in the IMF’s Balance of Payments Manual: 5th Edition (BPM5).

Net Capital Movement

In 2006, net capital movements recorded a surplus of 8.9 billion US dollars, declined from a surplus of 12.6 billion US dollars in 2005, owing to higher net capital outflow in the banking sector compared to the previous year. On the contrary, net capital inflow to non-banking sector increased from 2005, partially due to the equity investment sell-off of major communication

^{2/} Since October 2006, Bank of Thailand recorded “reinvested earnings” as part of direct investment item in capital and financial account as well as as recorded the same amount as the contra entry in the investment income item in current account, such data was revised backward since 2001 data.

companies to foreign investors. In addition, there was a large increase in capital inflows in the form of investment in the stock exchange and in the form of other loans. Details of net capital movements in 2006 are as follows:

Government sector. Net capital movements of the government sector recorded a deficit of 0.6 billion US dollars, lower than in 2005. The smaller deficit was due to debt restructuring of the government sector and the redemptions of government securities. The latter was mainly a result of domestic commercial banks' repurchase of long-term public debt securities issued abroad and foreign investors' selling back baht-denominated securities in the secondary market, including the redemption of public securities that were due.

Banking Sector. Capital flows in the banking sector registered a deficit of 8.6 billion US dollars, reversing from a surplus of 0.3 billion US dollars in 2005. The net capital outflow in this sector was mainly attributed to a 9.3 billion US dollars increase in net foreign assets of domestic commercial banks, which was due to the selling of forward contracts of foreign currencies to residents, and sterilization of the baht using sell-buy swap transactions by the Bank of Thailand. As a result, net capital outflow was observed in the banking sector. Such outflow was also due to a 1.3 billion US dollars repayment of short-term and long-term debts by the Bangkok International Banking Facilities (BIBFs).

Other Sectors. Capital flows in other sectors recorded a large surplus of 18.0 billion US dollars, mainly from capital flows to non-banking sector. Details of net capital movements in 2006 are as follows:

Non-banking Sector's net inflow accounted for 17.2 billion US dollars, with a net inflow for almost every category as follows: (1)

foreign direct investment registered a surplus of 9.5 billion US dollars (including reinvested earnings of 4.3 billion US dollars), due to the net inflow in **equity investment**, especially those of a major telecommunication group, (2) **portfolio investment** recorded a surplus of 4.8 billion US dollars, higher than the net inflow of 2.6 billion USD in 2005, partly due to the recapitalization in oil refinery and beverage companies, (3) **other loans** registered a net inflow of 3.3 billion US dollars, reversed from a deficit of 1.3 billion US dollars in 2005. The majority of such loans were inflows to the car-leasing companies as well as the holding companies.

State-enterprise Sector. Capital flows to state-enterprise sector recorded a surplus of 0.8 billion US dollars, lower than the net inflow of 2.3 billion US dollars in 2005. The reduction of net inflow in 2006 was due to lower long-term loans and a decline in the issuance of long-term securities abroad. Furthermore, the net inflow was partially attributed to the double-entry of import deposit items according to the Balance of Payments accounting basis.

Balance of Payments

The **current account** (including reinvested earnings) turned to a surplus of 3.2 billion US dollars from a deficit of 7.9 billion US dollars in 2005. In addition, the net capital flow registered a surplus of 8.9 billion US dollars. As a result, the **balance of payments** was in surplus by 12.7 billion US dollars in 2006, compared to a surplus of 5.4 billion US dollars in 2005. International reserves rose from 52.1 billion US dollars at end-2005 to 67.0 billion US dollar at end-2006, equivalent to 6.4 months of imports. Net outstanding forward obligations of the BOT stood at 6.9 billion US dollars.

Balance of Payments

(Unit: Million of US\$)

Millions of US\$	2005			2006 ^{1/}		
	Year	H1	H2	Year	H1	H2
Exports, f.o.b.	109,193	51,102	58,091	128,220	59,684	68,536
(% change)	15.0	13.5	16.4	17.4	16.8	18.0
Imports, c.i.f.	117,722	59,067	58,655	125,975	61,613	64,363
(% change)	25.9	31.0	21.2	7.0	4.3	9.7
Trade balance	-8,530	-7,966	-564	2,245	-1,929	4,174
Net services income & transfers	677	160	518	996	337	659
Current account balance	-7,852	-7,806	-46	3,240	-1,592	4,832
Capital movements (net)	12,558	7,043	5,514	8,866	5,886	2,980
Monetary authorities	0	0	0	0	0	0
Government	-952	-656	-295	-558	-196	-362
Bank	290	259	31	-8,609	-4,901	-3,708
Other sectors	13,220	7,441	5,778	18,033	10,983	7,050
-Non-bank	10,969	5,495	5,474	17,195	10,507	6,688
Foreign Direct Investment	7,412	3,626	3,786	9,450	5,978	3,473
Portfolio Investment	2,645	1,412	1,233	4,784	2,501	2,283
Other Loans	-1,308	-1,161	-147	3,313	1,813	1,500
Others	2,220	1,618	603	-354	215	-569
-State enterprises	2,251	1,947	304	838	476	362
Errors and omissions	716	1,859	-1,143	635	393	242
Overall balance	5,422	1,097	4,325	12,742	4,688	8,054

Note: ^{1/} Preliminary^{2/} Actual

Source: 1. Customs Department

2. Bank of Thailand

2.9 External Debt

External debt outstanding stood at 59.9 billion US dollars at end-2006, increasing from 52.0 billion US dollars at end-2005. External debt to GDP ratio^{1/} at end-2006 registered at 33.1 per cent, slightly increased from the end of 2005 at 32.5 per cent. The net external debt inflow was at 6.0 billion US dollars. Coupled with the appreciation of Thai baht, Japanese yen and euro against US dollar over the year, the outstanding value of external debt in terms of US dollars rose by 7.9 billion US dollars. The details can be summarized as follows:

Government sector. External debt of the general government sector was recorded at 4.1 billion US dollars, down from 2005. The reduction in government external debt was

due to the repurchase of long-term public debt securities issued abroad by domestic commercial banks from non-residents, foreign investors' selling baht-denominated securities in the secondary market and securities redemption at maturity. Over the year, government external debt has been repaid consistently, resulting in a net government debt repayment of 0.5 billion US dollars in total. Coupled with the effects of currency appreciation against the US dollar mentioned earlier, the outstanding value of external debt of public sector declined by 0.4 billion US dollars.

Banking sector. External debt of the banking sector stood at 6.7 billion US dollars. Net debt flow of commercial banks registered at 1.5 billion US dollars, while those of the Bangkok International Banking Facilities (BIBFs), which were terminated in September 2006, repaid its short and long-term external debt totaling 1.3 billion US dollars. Including the effects of currency appreciation against the US dollar, the outstanding external debt for the banking sector increased by 0.7 billion US dollars from 2005.

Other sectors. External debt of other sectors stood at 48.2 billion US dollars. Main contributors were (1) net debt inflow of 6.3 billion US dollars, which were mainly loans to non-affiliates (other loans) in the energy sector and loans to affiliates of the telecommunication businesses and (2) slight increase in net external borrowing by state enterprises for goods settlements. Nonetheless, with the appreciation of Thai baht, Japanese yen and the euro against the US dollar, external debt outstanding in this category in terms of US dollar rose by 7.6 billion US dollars from 2005.

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

	2004	2005	2006	Dec-06 compared to Dec-05
1. Public Sector	5,779	4,518	4,140	-378
Long-term	5,491	4,518	4,140	-378
Short-term	288	0	0	0
2. BOT (Long-term)	0	0	0	0
3. Banks	7,069	6,038	6,729	691
Long-term	4,384	2,982	3,564	582
Short-term	2,685	3,056	3,165	109
3.1 Commercial Banks	3,043	4,244	6,729	2,485
Long-term	1,733	2,000	3,564	1,564
Short-term	1,310	2,244	3,165	921
3.2 BIBFs	4,026	1,794	0	-1,794
Long-term	2,651	982	0	-982
Short-term	1,375	812	0	-812
4. Other sectors	38,464	41,484	49,066	7,582
Long-term	29,263	28,526	33,891	5,365
Short-term	9,201	12,958	15,175	2,217
4.1 State Enterprises	9,151	9,024	8,987	-37
Long-term	9,151	8,990	8,924	-66
Short-term	0	34	63	29
4.2 Non-Banks	29,313	32,460	40,079	7,619
Long-term	20,112	19,536	24,967	5,431
Short-term	9,201	12,924	15,112	2,188
Total Debt (1+2+3+4)	51,312	52,040	59,935	7,895
External Debt / GDP (%)	35.7	32.5	33.1	-0.01
Long-term	39,138	36,026	41,595	5,569
Short-term	12,174	16,014	18,340	2,326
Share (%)	100.0	100.0	100.0	
Long-term	76.3	69.2	69.4	
Short-term	23.7	30.8	30.6	

Note: * Including valuation change

^{1/}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).

Source: Bank of Thailand

External debt structure

Short-term debt as of end-2006, accounted for 30.6 per cent of total external debt, decreasing slightly from 30.8 per cent at end-2005 due to the increases of long-term loans in the banking sector, loans to non-affiliates and debt securities of the non-banking sector.

2.10 Fiscal Conditions

For fiscal year 2006, government continued to maintain a balanced budget policy for the second consecutive fiscal year. The budget was initially set at 1,360 billion baht.

The fiscal year 2006 budget was set to strengthen macroeconomic fundamentals and stability and maintain a balanced budget path. To this end, the government allocated the budget to meet strategic goals in accordance with governmental policy and the Administrative Plan. The Administrative Plan requires government agencies, state enterprises, and other public agencies to prepare and submit budgets in accordance with governmental policy and integrating three dimensions of strategic framework namely, agenda, area, and function. Furthermore, the budget allocation will help enhance income distribution in the economy by fine-tuning balance among manufacturing sector, agricultural sector and natural resource and environmental management.

Despite the balanced budget policy in fiscal year 2006, government's commitment to budget disbursement acceleration policy occasionally caused liquidity problems. The government therefore issued new treasury bills in the amount of 80 billion baht to strengthen short-term liquidity management as approved by cabinet synopsis on November 29, 2005. As a result, the treasury bill ceiling was expanded to 250 billion baht from 170 billion baht by the end of fiscal year 2004.

Fiscal Position

In fiscal year 2006, the government cash balance recorded a surplus of 4.5 billion baht, equivalent to 0.06 per cent of GDP. Meanwhile, government net domestic borrowing totaled 44.9 billion baht with net foreign loan repayment totaling 15.8 billion baht, resulting in a surge of 33.6 billion baht in treasury reserves. Treasury reserves therefore increased from 104.8 billion baht by the end of fiscal year 2005 to 138.5 billion baht.

For fiscal year 2007, the government economic policy was set in accordance with His Majesty the King's Sufficiency Economy philosophy. As such, policy implementation will follow the principles of moderation, reasonableness, and the need for self-immunity against shocks. Consequently, the government planned a budget deficit to foster continued economic growth. The planned budget comprises of 1,566.2 billion baht of budget expenditure and 1,420 billion baht of net revenue. The budget deficit was set at 146.2 billion baht, equivalent to 1.7 percent of GDP. It is worth noting that some of budget has been allocated for repayment in arrears incurred by the previous government.

In addition, the fiscal position in the first quarter of fiscal year 2007 recorded a cash deficit of 25.5 billion baht. In this regard, government used treasury reserves to finance its deficit and also paid for net domestic repayment and net foreign repayment in the amounts of 1.1 billion baht and 20.1 billion baht, respectively. Thus, the treasury balance at the end of first quarter registered 91.8 billion baht, reduced by 46.6 billion baht from the end of fiscal year 2006.

Treasury Account Position^{1/}								
(Unit: Billion baht)								
<i>Fiscal Year</i>								
	2005	2006	2006		2007 ^P			
			H1	H2	Q1 ^P	Oct ^P	Nov ^P	Dec ^P
Revenue ^{2/}	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
(Δ%)								
Expenditure	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
(Δ%)								
: Disbursement rate (%)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Budgetary Deficit (-) or Surplus (+)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Non-Budgetary Deficit (-) or Surplus (+)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Cash Deficit (-) or Surplus (+)	16.9	4.5	-137.9	142.4	-25.5	-12.4	-20.0	6.9
: (% of GDP)	(0.2)	(0.1)	(-3.6)	(3.7)	(-1.2)			
Financing								
Net Domestic Borrowing	-38.5	44.9	68.3	-23.4	-1.1	-0.3	-0.4	-0.4
Net Foreign Borrowing	-20.8	-15.8	-11.5	-4.3	-20.1	-0.6	-19.1	-0.4
Use of Treasury Cash Balance	42.4	-33.6	81.0	-114.7	46.6	13.3	39.5	-6.1
Treasury Cash Balance (end-period)	104.8	138.5	23.8	138.5	91.8	125.2	85.7	91.8

Note: ^{1/}The data has been compiled following the E-government system (Government Fiscal Management Information System: GFMS) since FY2005. Thus, complete fiscal position cannot be displayed during this period.

^{2/}Revenue remitted to Treasury (Cash basis)

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 2006, the government revenue collection totaled 1,581.5 billion baht, up by 7.3 per cent from the previous fiscal year. After excluding tax deducted items, the government net revenue equaled to 1,339.4 billion baht, up by 5.9 percent. However, it should be noted that this revenue amount was lower than the estimate of 1,360 billion baht in the budget document by 20.6 billion baht. This is due partly to higher-than-expected tax deducted items proposed to the Revenue Department, the imposed tax rate cut on diesel oil prices in the beginning of this fiscal year, and baht appreciation. Nevertheless, main increases in tax revenues were from personal income tax and corporate income tax, rising by 15.4 and 13.7 percent from fiscal year earlier, respectively. In addition, value-added tax (VAT) increased by 8.3 percent. (VAT would have grown by 12.4 percent from previous fiscal year after excluding the 14.1 billion baht collected from cross-selling of electricity among electricity generators in the previous fiscal year that was later claimed for refunds.) Excise tax shrank slightly by 1.9 percent due to reform in motor vehicle tax, tax rate cut in diesel oil price, and the negative impact on tobacco consumption from tobacco tax increase.

Non-tax revenue collection registered at 154.0 billion baht, decelerating by 4.4 percent from the previous fiscal year in line with a 6.0 per cent fall in income from state enterprises owing to the lateness in the privatization of state enterprises.

Nevertheless, government could partly offset the delayed privatization revenue through 1) ordinary income remittances contributed by state enterprises that await privatization 2) the new practice of earlier income remittances implemented since this fiscal year.

As for the first quarter of fiscal year 2007, government collected revenue totaled 352.3 billion baht, up by 15.0 percent from the previous fiscal year. This was due mainly to tax increases in the consumption and income bases by 11.7 and 7.2 per cent from last fiscal year, respectively. Meanwhile, tax on international trade base dropped by 11.7 percent. Furthermore, non-tax revenue grew significantly; in particular, income from state enterprises as government applied the new practice of having state enterprises whose accounting followed calendar year remit their income twice a year. As a result, a surge in income remittance by state enterprises can be observed remarkably in October 2006. Furthermore, the Electricity Generating Authority of Thailand remitted income in arrears after failing to privatize on schedule.

Government Revenue*						
(Unit: Billion baht)						
	Fiscal Year		2007 ^P			
	2005	2006	Q1	Oct	Nov	Dec ^P
Total Revenue	1,474.4	1,581.5	352.3	122.0	121.8	108.5
(Δ%)	(14.3)	(7.3)	(15.0)	(27.5)	(9.3)	(9.3)
Taxes	1,326.9	1,427.5	307.7	100.7	108.6	98.4
(Δ%)	(15.0)	(7.6)	(7.9)	(10.4)	(7.3)	(6.3)
- Income base	518.0	601.3	92.1	29.0	37.6	25.4
(Δ%)	(20.8)	(16.1)	(7.2)	(12.7)	(1.4)	(10.4)
Personal income tax	147.4	170.1	39.2	13.7	12.3	13.2
(Δ%)	(9.0)	(15.4)	(12.2)	(15.1)	(2.9)	(19.0)
Corporate income tax	329.5	374.7	50.6	14.8	24.1	11.7
(Δ%)	(25.8)	(13.7)	(3.6)	(14.4)	(-2.0)	(3.6)
- Consumption base	691.4	722.5	190.6	63.2	62.4	65.0
(Δ%)	(13.0)	(4.5)	(11.7)	(13.1)	(14.2)	(8.0)
Value added tax	385.7	417.8	107.2	36.3	34.7	36.2
(Δ%)	(22.0)	(8.3)	(7.2)	(8.5)	(8.3)	(4.8)
Excise tax	279.4	274.1	74.3	24.2	24.7	25.4
(Δ%)	(1.3)	(-1.9)	(18.0)	(20.1)	(22.4)	(12.1)
- International trade base	107.2	93.9	22.8	7.7	7.8	7.3
(Δ%)	(3.2)	(-12.4)	(-11.7)	(-10.1)	(-9.9)	(-15.2)
Other Incomes	147.5	154.0	44.7	21.3	13.3	10.1
(Δ%)	(8.7)	(4.4)	(108.6)	(376.1)	(29.5)	(50.8)

Note: * Revenue on a collection basis is defined differently from revenue on 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 Group, Bank of Thailand

State Enterprises

In fiscal year 2006, the state enterprises' retained income totaled 217.9 million baht, up by 52.2 percent from the previous fiscal year. This was partly due to 1) delayed income remittance by certain state enterprise which did not privatize on schedule and 2) delayed disbursement capital set aside for constructing new plants in certain state enterprise due to insufficient project information.

In the meantime, the state enterprises' capital expenditure totaled 206.2 billion baht, down by 11.5 percent from the previous fiscal year. The decrease in capital expenditure disbursement was caused by the delay in mega project investment, in particular, investment in mass transit system. Moreover, certain state enterprises postponed their investment pending more details on policy regarding the counter trade and barter trade policies.

State Enterprises' Balances		
(Unit: Billion baht)		
	<i>Fiscal Year</i>	
	2005^{P/}	2006^{P/}
Retained Income	143.2	217.9
(Δ%)	(-20.1)	(52.2)
Capital Expenditure	232.9	206.2
(Δ%)	(72.8)	(-11.5)
State Enterprises' Balances	-89.7	11.7
(% of GDP)	(-1.3)	(0.2)

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 2006, total public debt stood at 3,233.1 billion baht or 41.3 percent of GDP, down from 46.1 percent of GDP at the end of fiscal year 2005. Public debt comprising of direct government borrowing amounted to 1,967.7 billion baht, while guaranteed and non-guaranteed non-financial public enterprise debt totaled 522.3 and 389.2 billion baht, respectively. Meanwhile, debt outstanding for the Financial Institutions Development Fund (FIDF) registered at 273.5 billion baht, whereas other government agency debt (village fund debt and oil fund debt) accounted for 80.4 billion baht.

The drop in public debt to GDP ratio was due partly to the prepayment of foreign debt resulting from the decline in debt service and

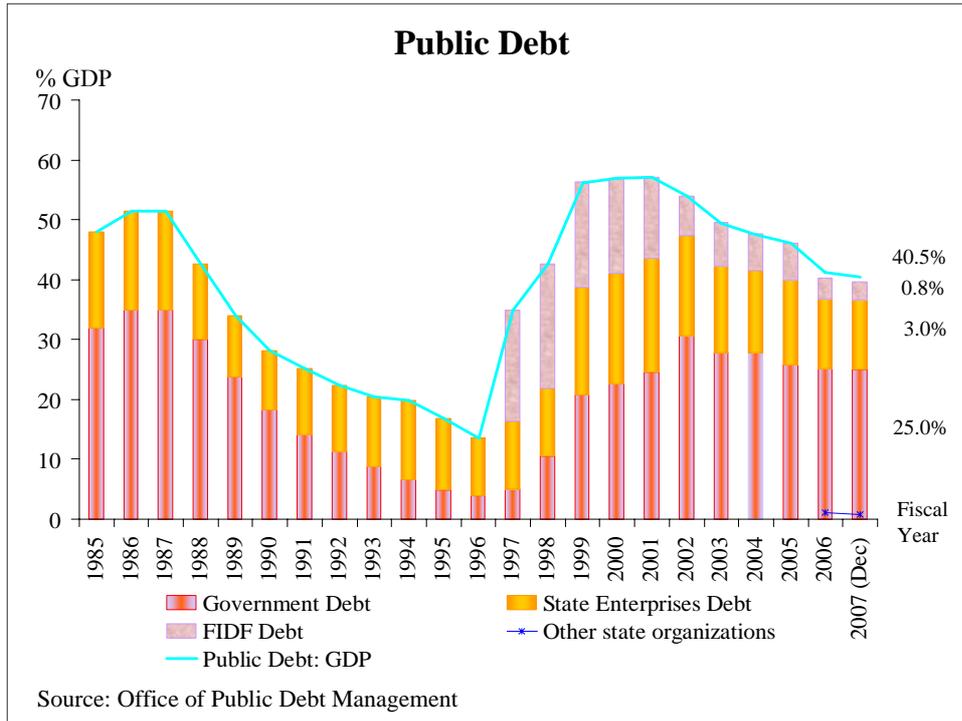
interest. Overall, fiscal position in fiscal year 2006 was stabilized and sustained in line with fiscal sustainability framework for public debt to GDP ratio and debt service to budget ratio.

At the end of December 2006, the public debt-to-GDP ratio stood at 40.5 percent or 3,162.1 billion baht, comprising of direct government borrowing debt for 1,954.1 billion baht (25 percent of GDP), non-financial public enterprise debt for 914.5 billion baht (11.7 percent of GDP), FIDF debt for 232.0 billion baht (3.0 percent of GDP), and other government agency debt (village fund debt and oil fund debt) for 61.5 billion baht (0.8 percent of GDP).

Public Debt			
(Unit: Billion baht)			
<i>Fiscal Year</i>			
	2005	2006 P/	Q1 2007 P/
1. Debt incurred from direct borrowing	1,827.0	1,967.7	1,954.1
(% GDP)	(25.7)	(25.1)	(25.0)
1.1 foreign debt	250.8	191.9	156.6
1.2 domestic debt	1,576.2	1,775.8	1,797.5
2. Debt of non-financial state enterprises	1,012.8	911.5	914.5
(% GDP)	(14.3)	(11.6)	(11.7)
2.1 government-guaranteed debt	660.7	522.3	503.6
foreign debt	247.5	195.1	184.9
domestic debt	413.2	327.2	318.7
2.2 non-government-guaranteed debt	352.1	389.2	411.0
foreign debt	102.2	119.1	133.1
domestic debt	249.9	270.1	277.8
3. Financial Institutions Development Fund (FIDF)	437.7	273.5	232.0
(% GDP)	(6.2)	(3.5)	(3.0)
3.1 government-guaranteed debt	40.0	0.0	0.0
3.2 non-government-guaranteed debt	397.7	273.5	232.0
4. Total (1+2+3)	3,277.5	3,233.1	3,162.1
(% GDP)	(46.1)	(41.3)	(40.5)

Note: P = Preliminary data

Source: Office of Public Debt Management



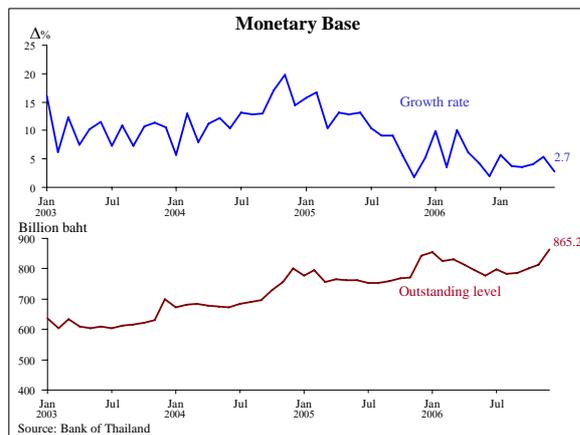
Public Finance Team
Tel. 0 2283 5628

2.11 Monetary Conditions and the Exchange Rate

1. Monetary Base and Money Supply

In 2006, **monetary base** expanded by 2.7 per cent year-on-year, slowing down from the rate of 5.2 per cent in the same period last year. This was partly due to the high base effect at end-2005 and the slowdown in cash demand for transaction purposes which was in line with domestic demand. At end-2006, monetary base outstanding reached 865.2 billion baht, an increase from 842.5 billion baht at end-2005.

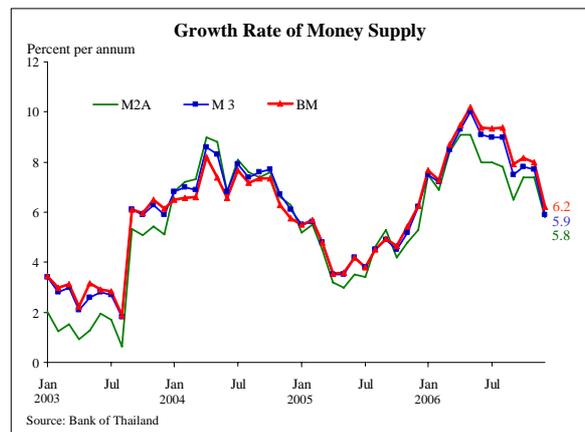
Important factors contributing to the changes in supply of monetary base were (1) a continued increase in net foreign assets of the BOT, in line with a surplus in the balance of payments, (2) a decrease in the BOT's net claims on the government as a result of an increase in government deposits at the Bank of Thailand, and (3) a decline in the BOT's net claims on financial institutions due to greater investment in the repurchase market as well as an increased holding of the BOT bonds.



Money aggregates M2A and M3 at end-2006 expanded by 5.8 and 5.9 per cent, respectively, compared to 5.3 and 6.2 per cent growth in the previous year. At end-2006, M2A and M3 stood at 6,885.5 and 8,184.8 billion baht, respectively.

In 2006, broad money^{1/} expanded by 6.2 percent year-on-year comparable to 6.3 percent growth in the previous year. At end-2006, broad money stood at 8,218.9 billion baht.

Monetary aggregates accelerated noticeably in the second half of 2005 and continued to do so at the beginning of 2006. This was due to a subsequent increase in deposit rates which attracted more deposits. However, in the second half of 2006, the growth of monetary aggregates slowed down due to stabilized interest rates, the high base effect as well as a slowdown in private credits.



^{1/} currency in circulation + all types of deposits of money holders held at commercial banks and specialized banks + P/N issued by finance companies held by money holders. From 2007 onwards, the Bank of Thailand will publish broad money in place of other money aggregates.

2. Exchange rate, interest rates, and government bond yields

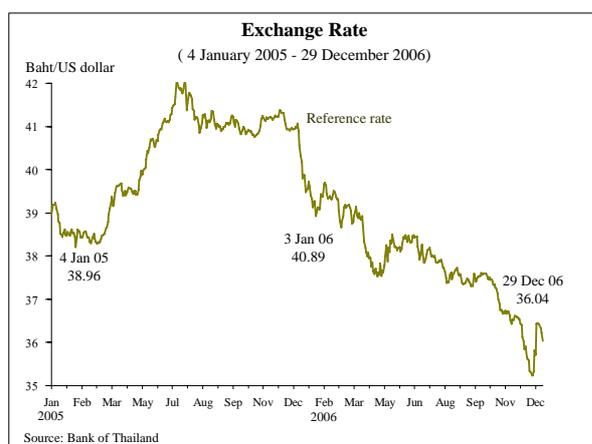
2.1 Exchange rate

In 2006, the baht fluctuated between 35.23-40.89 baht per US dollar and averaged at 37.93 baht per US dollar, which is an appreciation compared to the average in 2005.

Throughout 2006, the baht was on an appreciating trend, which continued from the second half of 2005. Both internal and external factors had contributed to the strength of the baht.

On the external front, the following factors were important: 1) the continued depreciation of the US dollar due to the loss of confidence in the US economy and its currency, and 2) robust growth in regional economies which attracted steady streams of capital inflows, resulting in appreciation of regional currencies.

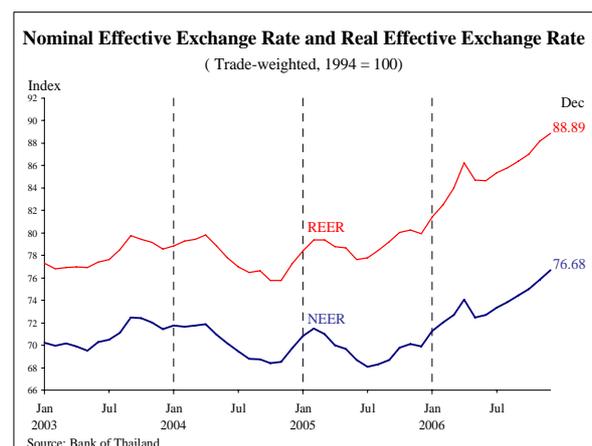
The following domestic factors contributed to the strength of the baht: 1) capital inflows for mergers and acquisitions, 2) raising of foreign funds by the beverages and communication groups, and 3) inflows for portfolio investment in stocks and shares, both inside and outside the stock market, as well as investment in mutual funds and property funds.



With regard to nominal effective exchange rate (NEER), which was calculated as a weighted average of bilateral exchange rates between the baht and major trading partners' currencies, the figures showed that the NEER in 2006 averaged at 73.69, higher than the average of 69.71 in 2005, equivalent to a 5.7 per cent appreciation over the period. This reflected that, on average, the value of baht had appreciated relative to the overall trading partners' currencies. On the other hand, the baht appreciated 6.2 per cent against the US dollar during the same period.

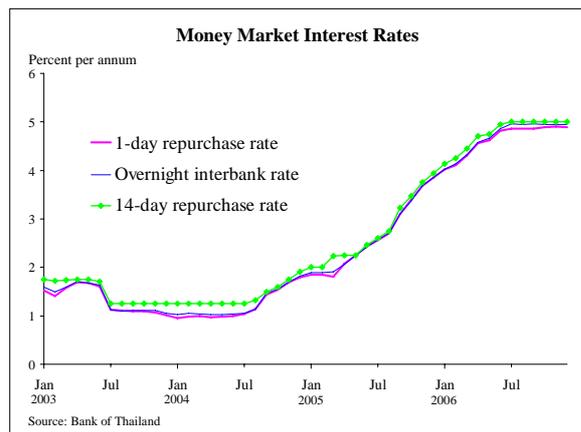
The real effective exchange rate, deflated by relative prices to reflect Thailand's price competitiveness, continued to appreciate from the average of 79.00 in 2005 to 85.43 in 2006, equivalent to a 8.1 per cent appreciation. This suggested lower Thailand's price competitiveness in 2006 as a result of baht appreciation and higher level of inflation in Thailand as compared to trading partners.

The rapid appreciation of the baht, particularly in 2006 Q4, and its strength that went beyond the regional currencies prompted the Bank of Thailand to implement the Unremunerated Reserve Requirement (URR) measure on short-term capital inflows on 18 December 2006 to prevent speculative inflows. Appreciating momentum was broken after the implementation.



2.2 Money market interest rates

The average short-term money market rates continued to rise throughout 2005, in line with the direction of the policy interest rate^{2/}. The 14 day repurchase rate and interbank rate averaged at 5.00 and 4.69 per cent per annum in 2006, respectively, higher than the previous year's averages of 2.63 and 2.64 per cent per annum, respectively.



In the first half of 2006, the MPC increased the policy rate 4 times, from 4.0 per cent per annum as of end-2005 to 5.0 per cent per annum at end-2006. This came as a result of MPC's assessment that inflationary pressures still remained in the economy. Consequently, short-term money market rates continued to rise throughout the year, in line with the adjustments of the policy rate.

In the second half of 2006, inflationary pressures moderated, but uncertainties remained, especially with regards to oil prices and the future upward adjustments of prices. The MPC, therefore, held the policy rate steady at 5.0 per cent per annum and assessed that this level of policy rate was appropriate and would allow the corporate sector and consumers to gradually adjust.

^{2/} As of 17 January 2007, the policy interest rate was changed from the 14 day repurchase rate to the 1 day repurchase rate.

2.3 Government bond yields

In 2006, the overall government bond yields rose from the previous year, but fell slightly over the course of the year. In addition, the yield curve for government bonds flattened, as shown in the continuous narrowing of the differential between long-term yields and short-term yields. However, in the second half of December, the yield curve tilted upwards after the implementation of the BOT's reserve requirement on short-term capital inflows, along with the expectation of a large supply increase of long-term government bonds.

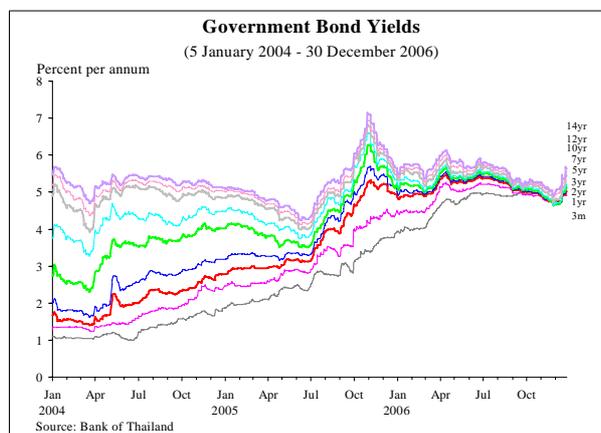
Movements of government bond yields in each quarter can be summarized as follows:

In the first quarter of 2006, the yield curve was flatter when compared to end-2005, with yields fluctuating within a narrow range in the first two months of the year. Later on, however, long-term yields fell following concerns over a reduction in the supply of long-term government bonds. In the second half of March, yields on government bonds for all maturities adjusted upward, as the demand for short-term mutual funds had moderated. This was partly due to competition among commercial banks to attract deposits towards the end of the first quarter, which led to a rise in deposits of commercial banks.

Overall, the yields on short-term government bonds rose in the second quarter of 2005, in line with the increase in policy interest rates which began at the end of the previous quarter. However, this was not so during the month of June, which saw an unusual amount of rise of demand of short-term government bonds, as financial institutions tried to reduce their deposits base in order to lower the fees paid to the Financial Institutions Development Fund (FIDF). At the same time, medium-term yields adjusted downwards in line with the increase in demand, partly due to market expectations of an end to the upward cycle of policy interest rates. This led to a fall in yields compared to the end of the previous quarter.

In the third quarter, yields on long-term bonds fell continuously from the second quarter, as inflation began to show clear signs of moderation. Short-term yields remained stable, in line with the policy rate and short-term money market rates, which remained relatively stable. This led the yield curve to flatten continuously, with the differential between 10 year and 2 year government bonds narrowing to a historical low at 0.09 per cent towards the end of September 2006, before widening slightly to 0.13 per cent per annum at the end of the third quarter.

Government bond yields fluctuated somewhat in the fourth quarter of 2006. At the beginning of the quarter, the yield curve shifted downwards due to an increase in demand for Thai baht assets given the baht's appreciation trend, coupled with expectations of a cut in the policy rate, which made investment in bonds more attractive. Towards the second half of December, the yield curve rose rapidly, particularly towards the long-end. This was after the BOT introduced the requirements for non-residents to hold government bonds, treasury bills and the BOT bonds for longer than 3 months, and the reserve requirement on short-term capital inflows. These measures raised the cost of investment and led to a noticeable decline in the demand for bonds. Later, a further decline also resulted from expectations of a large increase in the supply of long-term government bonds in the primary market.



3. Commercial bank deposits and claims

3.1 Commercial bank deposits

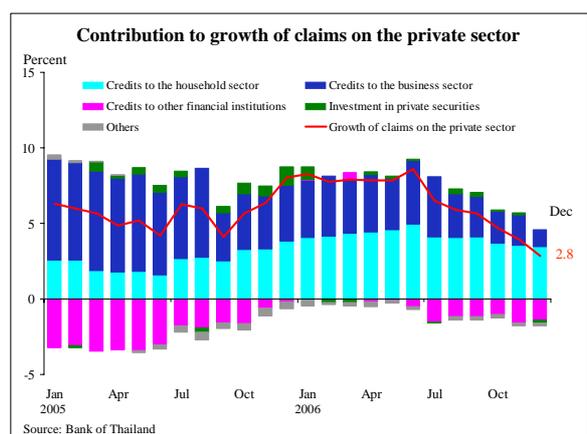
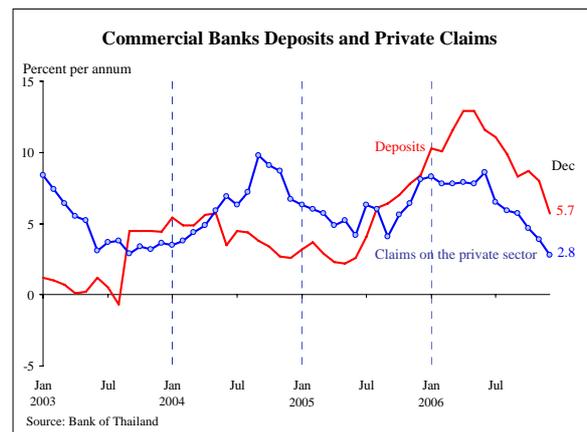
Commercial bank deposits grew at an accelerated pace in the first half of the year as commercial banks increased deposit rates competitively to attract deposits. Particularly from April through May, commercial banks issued special deposit accounts with higher returns, leading to a 12.9 per cent expansion of commercial bank deposits compared to the previous. However, in the second half of the year, competition for deposits eased off as the policy rate remained steady. This led to a deceleration of deposits which expanded by 5.7 per cent per annum at the end of 2006. In addition, the rapid growth of deposits in the first half of the year was also due to mergers and the status upgrading of a number of financial institutions to commercial banks. Thus, high year-on-year growth rates were observed in the first 12 months of such mergers or upgrades. Excluding the effect of these new deposits due to mergers and status upgrading of the financial institutions, deposits of commercial banks as of end-2006 grew by 5.5 per cent, accelerating from growth at end-2005, which registered 4.8 per cent per annum. As for the period between April and May which saw high deposits expansion, deposits would rise by 7.9 per cent per annum if the impact of mergers and status upgrades of the financial institutions were excluded.

3.2 Commercial banks claims on the private sector (including investment in private securities)

In the first half of 2006, commercial banks claims on the private sector continued to grow at a rate of 7.8-8.6 per cent per annum, close to the growth rate at the end of the previous year. However, this high rate of growth was due partly to the mergers and status upgrades of financial institutions, leading to high growth rates in the first 12 months of such mergers or upgrades. Moreover, commercial

bank credits to the household sector also grew at a rapid pace.

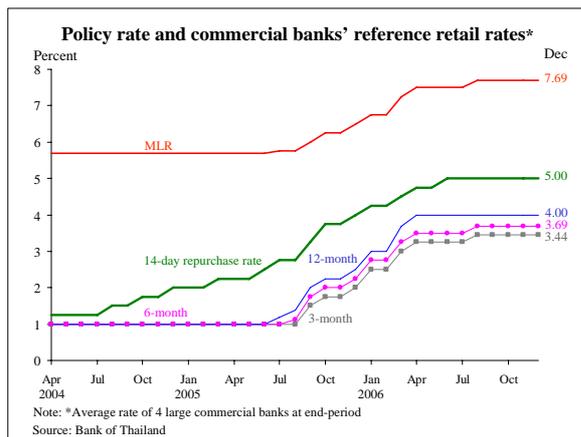
In the second half of 2006, claims on the private sector grew at a slower pace, following the continued moderation in domestic demand, particularly private investment. This led to a slowdown in the growth momentum of commercial bank credits to the business sector. In addition, the base effect stemming from mergers and status upgrades of financial institutions, which had completed a twelve-month cycle, also played a part. Hence, at end-2006, private claims decelerated and registered a 2.8 per cent growth, down from 8.1 per cent growth in 2005. Excluding the effects of newly-established commercial banks that have been in the system for less than 12 months and adding back debt write-offs and net transfers to AMC's, claims on the private sector grew by 4.6 per cent per annum, down from the previous year's growth of 8.1 per cent per annum at the end of 2005.



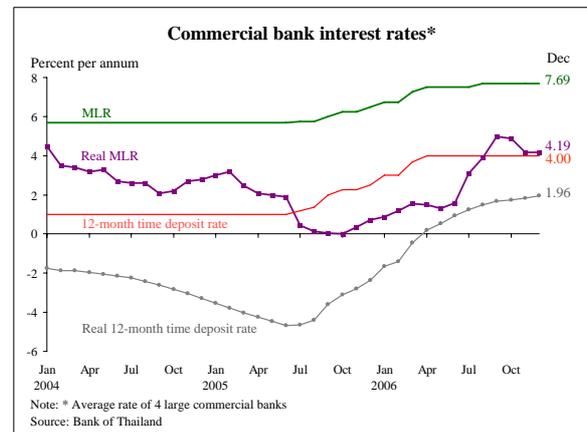
3.3 Commercial banks interest rates

During the first half of 2006, commercial banks' reference rates were rapidly adjusted upward, both deposit and lending rates, following continuous hikes in the policy rate since August 2004. Particularly during April and May 2006 when, commercial banks were in intense competition for deposits, interest rates were raised at a faster pace than the policy rate hikes. Despite high liquidity in the banking system, commercial banks could still afford to raise interest rates. This was because the money market returns were adjusted upward higher than the costs of raising deposits and thus enabled commercial banks to invest deposits in the money markets.

In the second half of 2006, commercial banks' interest rates stabilized in line with the policy rate. Some commercial banks adjusted both deposit and lending rates only once more in August. At end-2006, the 12-month fixed deposit rates and the minimum lending rates (MLRs) of the four largest Thai commercial banks^{3/} averaged at 4.00 and 7.69 per cent per annum, respectively, rose from 2.50 and 6.50 per cent per annum, respectively, at end-2005.



Gradual upward adjustments in commercial banks' interest rates in 2006 and the slowdown of inflation expectation during end-2006 together caused real interest rates of commercial banks to adjust upward and the real 12-month deposit rate to turn positive after remaining below zero since 2003. At end-2006, real 12-month deposit rate^{4/} and real MLR^{5/} of the four largest Thai commercial banks averaged at 1.96 and 2.83 per cent per annum, respectively. Moreover, the positive real deposit rates will help prevent long-term structural distortion arising from insufficient saving and excessive debt accumulation by the household sector.



^{3/} 4 largest banks refer to Bangkok Bank, Krungthai Bank, Kasikorn Bank and Siam Commercial Bank.

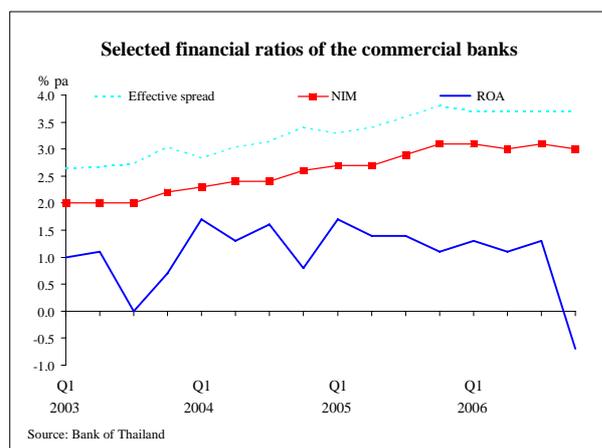
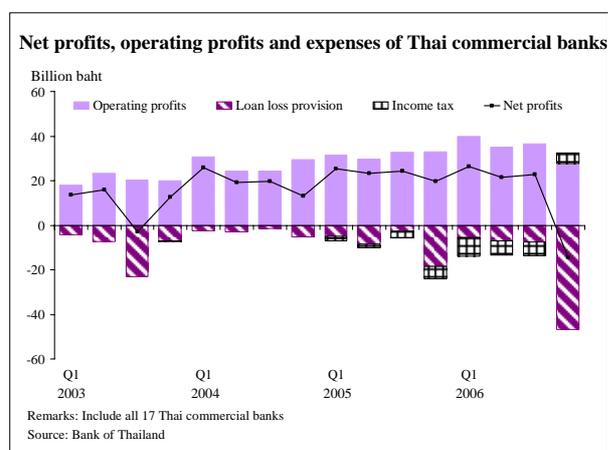
^{4/} Real deposit rate = 12-month deposit rate – average inflation forecasts (12-month forward)

^{5/} Real lending rate = MLR – headline inflation

4. Performance of Commercial Banks

Performance of the banking system							
Billion baht	2005	2006	% Δ (yoy)	2006		% Δ (yoy)	
				Thai banks	Foreign banks	Thai banks	Foreign banks
1. Interest income	314.1	454.7	44.8	408.0	46.7	46.9	28.3
2. Interest payment	94.7	196.1	107.1	174.1	22.0	118.2	47.7
3. Net interest income (3) = (1) - (2)	219.4	258.6	17.9	233.9	24.7	18.1	14.8
4. Non-interest income	94.4	108.1	14.5	89.0	19.1	21.8	-10.7
5. Operating expense	169.6	206.0	21.5	185.1	20.9	28.6	-18.4
6. Operating profits (6) = (3) + (4) - (5)	144.2	160.7	11.4	137.8	22.9	8.4	32.4
7. Loan loss provision	-24.8	-67.9	-117.4	-64.9	-3.0	-119.1	-20.0
8. Tax and special items	-15.9	-19.2	-20.8	-16.1	-3.1	-37.3	35.5
9. Net profits (9) = (6) - (7) - (8)	103.5	73.6	-28.9	56.8	16.8	7.8	58.5

Source: Bank of Thailand



In 2006, there were 34 commercial banks in the banking system, comprising of 17 Thai registered commercial banks and 17 foreign bank branches.

All commercial banks registered operating profits, amounting to 160.7 billion baht, an 11.4 per cent increase from the previous year. Profit growth of foreign bank branches was higher than that of domestic banks. The main contributing factors of the increase in the operating profits of all commercial banks were as follows:

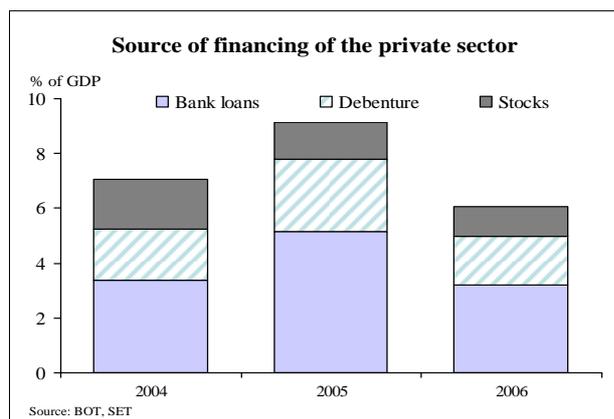
(1) Effective spread of interest rates remained at a high level. Although interest payment costs had gradually increased in line with an upward trend of commercial bank's deposit interest rates during 2005H1 to 2006H1, interest income from banks' credit continued to grow satisfactorily.

(2) Net interest margin improved slightly as a result of continued credit extension to the household sector and the small and medium enterprises (SMEs). In addition, security investments also brought higher returns.

(3) Non-interest incomes rose mainly from fees and foreign exchange profits.

Nonetheless, net profits of the banking system fell by 28.9 per cent from the previous year. This was primarily due to the considerable amount of loan loss provision of Thai commercial banks, in compliance with the International Accounting Standard (IAS 39). The Bank of Thailand required all commercial banks to adopt this new standard from December 2006 onwards. Furthermore, in the first three quarters of 2006, the commercial banks registered higher income tax owing to the termination of tax benefit from loss carry forward. In 2006, return on assets (ROA) of the entire banking system declined slightly from the previous year, due to higher expenditure in 2006Q4.

2.12 Capital market

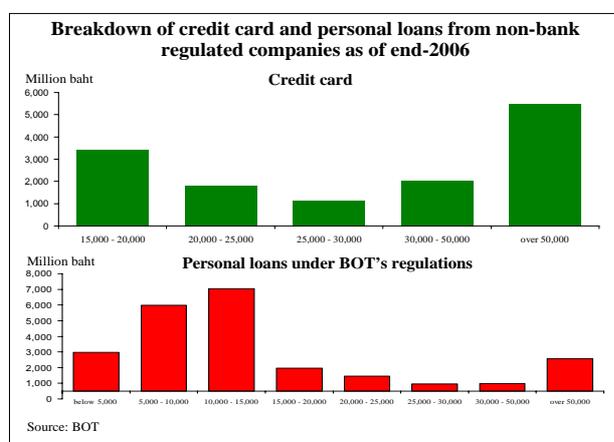


Credits extended by non-banks financial institutions

Change in the outstanding sum (billion baht)	2005	2006	2006			
			Q1	Q2	Q3	Q4
Non-bank financial institutions	101.5	46.6	36.3	-41.1	34.5	16.9
Government Saving Bank (GSB)	50.4	66.6	26.4	13.5	18.9	7.8
Government Housing Bank (GHB)	78.2	70.8	18.6	18.5	15.4	18.3
Bank for Agriculture and Agricultural Cooperatives (BAAC)	61.9	7.4	3.1	-2.4	3.0	3.9
Finance companies	-119.2	-103.1	-15.4	-70.7	-4.4	-12.5
Others*	30.2	4.9	3.6	0.0	1.6	-0.6

Remark: * Include credit foncier companies, life insurance companies, the Export-Import Bank of Thailand (EXIM Bank), and the Small and Medium Enterprises Development Bank of Thailand (SME Bank)

Source: BOT



In an overview, although commercial banks were the most important source of financing for household and corporate sectors, non-bank financial institutions and the capital market have become increasingly important as alternative funding sources. In 2006, the main sources of financing for corporate and household sectors besides the commercial banks were as follows:

Sources of Corporate Sector Financing

Equity and debt securities issuance. In 2006, non-financial corporate sector raised funds by issuing equity and debt securities, amounting to 137.6 and 86.2 billion baht, respectively, a decline from the previous year in tandem with the economic slowdown. The majority of businesses that tapped funds from the capital market concentrated in the manufacturing, real estate

development, telecommunication, and energy sectors. It was noted that the corporate sector have turned to short-term debt securities to raise working capital as it was more accessible than bank loans. The short-term debt securities outstanding stood at 85.5 billion baht at end-2006, rising by 46.0 per cent from 58.4 billion baht in the previous year. In addition, some companies acquired foreign funding via the issuance of bonds abroad. For example, one of the telecommunication holding companies issued overseas debentures of 20 billion baht abroad for its network expansion.

Sources of Household Sector Financing

1. Credits extended by specialized financial institutions (SFIs). At the end of 2006, the credits from the Government Saving Bank, the Government Housing Bank, and the Bank for Agriculture and Agricultural Cooperatives to the household sector increased by 144.8 million baht from the previous year. This expansion was in line with the government policy measures which aimed to provide greater financial access for the household sector, especially in the low-income group.

2. Credit extended by finance companies declined from the previous year. This was because of the closure of two finance companies; one merged with a commercial bank and one was upgraded to a retail bank. The household sector, to some extent, can be said to have relied on credits from finance companies, although these credits were transferred to the commercial bank system

3. Credits extended by non-bank financial institutions e.g. credit card loans and personal loans (without collateral) under the BOT's regulation continued to expand, both in the forms of credit value and number of clients. The credit card loans rose by 20.7 per cent from the previous year. Meanwhile, personal loans under BOT's regulation ascended by 118.0 per cent from the previous year. Interestingly, a bigger share of non-bank's credit card companies' loans were extended to customers whose monthly income is more than 50,000 baht (since 2002, the BOT has imposed the minimum income of 15,000 baht per month on credit card holders), whereas personal loans under the BOT's regulation were primarily given to those with income below 15,000 baht. This also indicated that non-bank credit card companies and non-bank personal loans providers had different groups of customers.

Section 3: Important Policies and Measures

3.1 Monetary Measures	Parties Involved	Main Points	Effective Date	Source
<p>1. Interest Rate Policy</p> <p>1.1 Policy rate</p> <p>MPC decisions on the following dates:</p> <ul style="list-style-type: none"> • 18 January 2006 • 8 March 2006 • 10 April 2006 • 7 June 2006 • 19 July 2006 • 6 September 2006 • 18 October 2006 • 13 December 2006 		<p>The MPC decided to raise the 14-day repurchase rate 4 times from 4.0 per cent per annum at end-2005 to 5.0 per cent per annum in June 2006 due to the continued acceleration in inflation. At the same time, it was deemed that the increases in policy rate would bring the policy interest rate to the levels appropriate for achieving economic stability which would facilitate sustainable growth in the long run.</p> <p>The MPC decided to maintain the 14-day repurchase rate at 5.00 per cent per annum in 4 consecutive meetings between July and December 2006. The MPC viewed that the existing level of the policy rate was appropriate for the economic situation in the same period and that the Thai economy still continued to expand. However, going forward, the momentum of private investment had to be monitored closely. In addition, price pressures remained in the economy even though they had moderated somewhat.</p> <p>To further enhance the efficiency of the Bank of Thailand's monetary policy implementation as well as to facilitate continued development of the Thai financial markets, the MPC decided to change the policy rate to the 1-day repurchase rate, instead of the 14-day repurchase rate, effective from the MPC meeting on 17 January 2007 onwards.</p>	<p>18 January 2006 8 March 2006 10 April 2006 7 June 2006</p> <p>19 July 2006 6 September 2006 18 October 2006 13 December 2006</p>	<p>BOT News No.2/2006, 7/2006, 10/2006 and 21/2006, respectively</p> <p>BOT News No.26/2006, 33/2006, 38/2006 and 49/2006, respectively</p>

3.1 Monetary Measures	Parties Involved	Main Points	Effective Date	Source
<p>1.2 Other interest rates</p> <p>1) Rate on bond repurchase agreements with financial institutions to maintain end-of-day liquidity</p>	<p>– All financial institutions (excluding securities companies and IBFs)</p>	<p>The BOT raised the interest rate on bond repurchase agreements with financial institutions for end-of-day liquidity maintenance 3 times, following the policy rate hikes. The repurchase rates were calculated as the policy rate plus 1.50 per cent per annum. The hikes were as follows:</p> <ul style="list-style-type: none"> - to 5.75 per cent per annum - to 6.00 per cent per annum - to 6.25 per cent per annum 	<p>18 January 2006 8 March 2006 10 April 2006</p>	<p>BOT Circular No.FR.D.(1) C. 2/2549, 6/2549 and 7/2549 dated 18 January, 8 March and 10 April 2006, respectively</p>
<p>2) Rates on debt instrument repurchase agreements with members to maintain end-of-day liquidity</p>	<p>– All financial institutions (excluding securities companies and IBFs)</p>	<p>The BOT set the debt instrument repurchase rates pursuant to the BOT regulation on repurchase agreements and BOT regulation on end-of-day facility B.E. 2549 at the policy rate plus 1.50 per cent per annum.</p>	<p>15 May 2006</p>	<p>BOT Circular No.FR.D. (1) C. 8/2549 dated 3 May 2006</p>
<p>2. Money Market Measures</p> <p>2.1 BOT regulation amendments to facilitate the Ministry of Finance's Bond Market Development Plan II (2005-2014)</p>	<p>– Counterparties in outright trading of bonds</p> <p>– All financial institutions (except securities companies and IBFs)</p>	<p>The BOT amended existing regulations and announced new regulations regarding transactions as follows:</p> <p>(1) Announcement of the BOT regulation on money market services in purchase and sale of debt instruments with Primary Dealers via electronic method (e-Outright) B.E. 2549</p> <p>(2) Announcement of the BOT regulation on purchase and sale of debt instruments with repurchase agreement B.E. 2549</p> <p>(3) Announcement of the BOT regulation on purchase and sale of bonds to maintain end-of-day liquidity with repurchase agreement B.E. 2549</p>	<p>1 March 2006</p> <p>15 May 2006</p> <p>15 May 2006</p>	<p>BOT Circular No.FR.D. (1) C. 5/2549,8/2549, 11/2549 and 17/2549 dated 17 February 2006 3, 4 and 10 May 2006, respectively</p>

3.1 Monetary Measures	Parties Involved	Main Points	Effective Date	Source
	<ul style="list-style-type: none"> - Counterparties in repurchase transactions in Bilateral Repo - Counterparties in debt instrument outright transactions 	<p>(4) Further amendments on BOT regulation on money market services on purchase and sale of bonds with Primary Dealers with repurchase agreement via electronic method (e-Bilateral Repo) B.E. 2546</p> <p>(5) Further amendments on BOT regulation on purchase and sale of bonds with repurchase agreement for Primary Dealers' position adjustment B.E. 2546</p>	<p>15 May 2006</p> <p>15 May 2006</p>	
<p>2.2 Foreign Exchange Controls</p> <p>1) Business coverage expansion of foreign exchange offices</p> <p>2) Rules and practices regarding currency exchange (No. 2, 3 and 4)</p>	<ul style="list-style-type: none"> - Commercial banks registered in Thailand - Commercial banks - SFIs 	<p>The Minister of Finance allowed foreign exchange offices to expand their business coverage in general, for example, domestic money transfer service (by cash) without the need for both transferring and receiving ends to have accounts with commercial banks.</p> <p>In addition, the Minister of Finance allowed commercial banks' foreign exchange offices, which were authorized to provide electronic money services, to sell and provide other services related to electronic cards issued by the commercial banks of concern or other commercial banks.</p> <p>The BOT revised rules and practices regarding currency exchange as follows:</p> <p>(1) Foreign investors were allowed to buy or exchange foreign currency to facilitate remittance of margins or profits from trading in the Thailand Futures Exchange (TFEX). A letter certified by the broker shall be required.</p>	<p>23 February 2006</p> <p>22 September 2006</p> <p>3 April 2006</p>	<p>BOT Circular No.BOT. PPD. (21) C. 241/2549, 1329/2549 dated 23 February 2006 and 22 September 2006, respectively</p> <p>No. ECD (02) C.12/2549, 23/2549 and 25/2549 dated 15 March, 10 and 19 May 2006, respectively</p>

3.1 Monetary Measures	Parties Involved	Main Points	Effective Date	Source
2.4 Measures to prevent Thai baht speculation	<ul style="list-style-type: none"> - Commercial banks - Finance companies - Securities companies - SFIs 	<p>The BOT revised measures to prevent Thai baht speculation and appropriate for the economic and money market conditions. For example, the BOT sought cooperation from financial institutions not to issue and sell bills of exchange in baht of any maturity to non-residents and laid down clearer regulations regarding derivative transactions.</p>	15 November 2006	No. BOT.ECD (02) C.1593/2006, 1832/2549, 70/2549, 73/2549, 2014/2549 and 2015/2549 Dated 3 November, 4, 18 and 22 December 2006 respectively
	<ul style="list-style-type: none"> - Commercial banks (excluding international banking facilities) - Specialized financial institutions 	<p>The BOT tightened measures to prevent speculation of Thai baht and sought cooperation from financial institutions in (1) refraining from selling and buying all types of debt securities through sell and buy-back transactions for all maturities; (2) undertaking transactions with non-residents in bonds only for investments exceeding 3 months; and (3) borrowing baht from non-residents, including through sell-buy swap transactions when there is no underlying trades and investments in Thailand only for maturities exceeding 6 months (an increase from 3 months).</p>	4 December 2006	
		<p>As appreciation pressure on the baht increased, the BOT issued stricter measures through the reserve requirement on short term capital inflows, whereby financial institutions were required to withhold 30% of foreign currencies bought or exchanged against the Thai baht. Guidelines on the refund of those required reserves were also imposed.</p>	19 December 2006	

3.1 Monetary Measures	Parties Involved	Main Points	Effective Date	Source
	<ul style="list-style-type: none"> - Securities companies - Futures brokers 	<p>The reserve requirement on short-term capital flows was relaxed for equity investment in companies listed in the Stock Exchange of Thailand and Market for Alternative Investment (excluding mutual funds and warrants), investment in the Thai Futures Exchange (TFEX), and investment in the Agricultural Futures Exchange of Thailand (AFET).</p> <p>Authorized financial institutions were requested to ensure that the funds destined for these investments were deposited in the Special Non-resident Baht Account for Securities (SNS) and withdrawn for the aforementioned investments only.</p>	22 December 2006	
<p>3. Credit Measures</p> <p>3.1 The revision of regulations on supervising credit card business</p>	<ul style="list-style-type: none"> - Commercial banks - Financial institutions and non-deposit taking operators of credit card businesses 	<p>The BOT raised the ceiling on the interest rate and other service charges on credit cards issued by financial institutions and operators of credit card businesses by 2% per annum to 20% per annum. Transactions made prior to 1 December 2006 would be exempted; i.e. operators could earn interest, penalty fees, service charges, and other fees totaling no more than 18% per annum until 30 June 2007.</p>	1 December 2006	BOT Circular No. PPD.(21) C. 184/2549 and 185/2549 dated 28 November 2006
<p>4. Financial Institutions Supervision and Development Measures</p> <p>4.1 Maintenance of foreign exchange positions for retail banks and relevant report forms</p>	<ul style="list-style-type: none"> - Retail banks 	<p>Retail banks were required to maintain an aggregate currency position (aggregate limit) at the end of each day at a rate of not exceeding 20 per cent of their capital fund or USD 2 million, whichever is greater.</p>	14 March 2006	BOT Circular No. BOT. PPD. (21) C. 348/2549 dated 14 March 2006

3.1 Monetary Measures	Parties Involved	Main Points	Effective Date	Source
<p>4.2 Policy guidelines on the limit on retail banks' credit extension, investment, and liabilities</p>	<ul style="list-style-type: none"> - Retail banks 	<p>Retail banks could extend credits, invest in businesses, or incur liabilities for third parties, to a limit of no more than 11.05 per cent of first tier capital, minus the amount of transactions of similar nature to credit extension (such as leasing activities).</p>	<p>7 February 2006</p>	<p>BOT Circular No. PPD. (21) C. 29/2549 Dated 30 January 2006</p>
<p>4.3 Revised guidelines on commercial banks' liquid assets</p>	<ul style="list-style-type: none"> - Commercial banks - Commercial banks - Finance companies - Credit Foncier Companies 	<p>The BOT revised guidelines on commercial banks' liquid assets to include debentures, bonds, and unencumbered debt securities issued by Bank Commercial Asset Management Co., Ltd. and Sukhumvit Asset Management Co., Ltd. as liquidity assets.</p> <p>Subsequently, the guidelines on financial institution's liquid assets holding were further revised, as follows:</p> <p>(1) For commercial banks, revised reserve maintenance periods would start on a Wednesday and end on the second Tuesday thereafter, totaling 14 days in each period. Commercial banks were allowed to include all types of debt securities issued by the BOT as part of the liquid asset requirement.</p> <p>(2) For finance companies and credit foncier companies, the reserve maintenance period was revised from a weekly average to a bi-weekly period, starting on a Wednesday and ending on the second Tuesday thereafter, totaling 14 days in each period.</p> <p>In addition, promissory notes issued under the notes exchange program with the clients of 56 finance companies would be excluded from eligible assets under the liquid asset requirement.</p>	<p>23 July 2006</p> <p>17 January 2007</p>	<p>BOT Circular No. BOT. PPD. (21) C. 965/2549 193/2549, 194/2549 and 195/2549 dated 17 July and 27 December 2006, respectively</p>

3.1 Monetary Measures	Parties Involved	Main Points	Effective Date	Source
<p>4.4 Relaxation of conditions for opening of regional branches by commercial banks</p>	<p>– Commercial banks registered in Thailand</p>	<p>The Minister of Finance allowed commercial banks to gradually reduce the proportion of credit extension based on conditions for opening regional branches, as follows:</p> <p>(1) the requirement that loans of no less than 60% of the total value of deposits of a bank's regional branch must be made to the region where the branch is located would be gradually reduced to no less than 40% and 20% in 2006 and 2007, respectively.</p> <p>(2) the requirement that loans to the agricultural sector must be no less than 20% of deposits outstanding (for banks that were permitted to operate from 1975-1986) would be gradually reduced to no less than 15% and 10% in 2006 and 2007, respectively.</p> <p>All conditions would be removed in 2008.</p>	<p>10 April 2006</p>	<p>BOT Circular No. BOT. PPD (21) C. 504/2549 dated 10 April 2006</p>
<p>4.5 Expansion of commercial banks' business scope</p>	<p>– Commercial banks (excluding IBFs)</p>	<p>BOT expanded commercial banks' scope for conducting business as follows:</p> <p>(1) retail banks are given permission to undertake domestic factoring businesses.</p> <p>(2) commercial banks are given permission to undertake transactions in borrowing, lending and short sale of securities.</p> <p>(3) commercial banks are given permission to issue bills of exchange to borrow funds from the public.</p> <p>(4) commercial banks are given permission to undertake forward transactions.</p>	<p>13 April 2006</p> <p>13 April 2006</p> <p>31 August 2006</p> <p>25 November 2006</p>	<p>BOT Circular No. PPD (21) 90/2549, 91/2549, 89/2549 and 115/2549 dated 20 April, 6 September, 6 and 14 December 2006, respectively</p> <p>BOT Circular No. PPD. (22) C. 122/2549 dated 17 October 2006</p>

3.1 Monetary Measures	Parties Involved	Main Points	Effective Date	Source
		<p>(5) commercial banks are given permission to provide supporting services to other parties.</p> <p>(6) commercial banks are given permission to conduct securitization transactions.</p>	<p>25 November 2006</p> <p>14 October 2006</p>	
<p>5. Financial Assistance to Priority Economic Sectors</p> <p>5.1 Financial assistance to poultry farmers and poultry breeder entrepreneurs affected by avian flu</p>	<ul style="list-style-type: none"> - Commercial banks - Specialized financial institutions 	<p>The BOT extended the time period in providing financial assistance to poultry farmers and poultry breeder entrepreneurs affected by avian flu further by two years.</p>	<p>11 March 2006</p>	<p>BOT Circular No. BOT.ECD (22) C. 40/2549 dated 12 January 2006</p>
<p>5.2 Financial assistance to the three southern border provinces</p>	<ul style="list-style-type: none"> - Commercial banks - Specialized financial institutions 	<p>The BOT extended the time period in providing financial assistance to businesses in the three southern border provinces further by 1 year, and extended assistance to new recipients or current recipients that required further financial assistance, as well as entrepreneurs who purchased or transferred ownership of businesses in the affected areas.</p>	<p>6 November 2006</p>	<p>BOT Circular No. BOT.ECD (22) C. 1601/2549 and 1602/2549 dated 6 November 2006</p>
<p>5.3 Credit line with promissory notes in connection with small and medium enterprises as collateral</p>	<ul style="list-style-type: none"> - Commercial banks - Specialized financial institutions - Finance companies 	<p>The BOT issued Bank of Thailand regulation (B.E. 2550) regarding credit lines with promissory notes in connection with small and medium enterprises as collateral, to replace the previous regulation (B.E. 2546). Under the new regulation, the BOT would provide credit in conjunction with financial institutions at a ratio of 50:50. Loans are limited to no more than 20 million baht per counterparty, for a period not more than 3 years, and at the market interest rate.</p>	<p>1 January 2007</p>	<p>BOT Circular No. BOT.ECD (22) C. 1843/2549 dated 6 December 2006</p>

Remark: Specialized financial institutions include (1) Small and Medium Enterprise Development Bank of Thailand (SME Bank), (2) Export-Import Bank of Thailand (EXIM), (3) Bank for Agriculture and Agricultural Cooperatives (BAAC), (4) Islamic Bank of Thailand, and (5) Government Savings Bank (GSB)