



# BANK OF THAILAND NEWS

Communications and Relations Office, Management Assistance Department

Tel. 0-2283-5016-7 FAX 0-2281-5648 www.bot.or.th

No. 4/2006

## Press Release on Economic and Monetary Conditions for December 2005 and Year 2005

In December 2005, the level of **economic indicators** on the demand side remained steady from the previous month. Nevertheless, the growth rate of private consumption and private investment on a year-on-year basis improved from the previous month. In addition, import value decreased from the previous month although import growth year-on-year accelerated due to the unusually low base in the same period of last year.

On the **supply side**, economic indicators slowed from the previous month. Farm income from major crops decelerated mostly due to the diminished output of major crops, especially rubber which was adversely affected by heavy rain and flood. Manufacturing production decelerated from the previous month partly due to temporary factors and the high base in the same period of last year. The services sector continued to improve especially with regards to the increase in the number of foreign tourists in the southern region.

**Overall economic stability remained satisfactory.** International reserves remained at a satisfactory level. The current account improved while pressure on headline inflation abated slightly.

For the **year 2005**, the economy slowed from the previous year in terms of both demand and supply due primarily to natural disasters, a significant rise in oil prices, and a tightening interest rate cycle. In regards to economic stability, the current account balance registered a deficit for the year with a significant deficit in the first half of the year before returning to positive levels in the latter half of the year. Inflation accelerated following the floating of retail oil prices and the rise in fresh food prices. In addition, the year saw a net inflow of capital, satisfactory levels of international reserves which rose steadily, and low unemployment rates.

Details of the economic conditions **in December 2005 and the year 2005** are as follows:

**1. Manufacturing Production.** In December 2005, the **Manufacturing Production Index (MPI with 76 product categories)** grew by 6.1 per cent year-on-year, decelerating from the previous month. The slowdown was partly due to temporary factors affecting certain manufactured product categories such as **foods** which saw diminished sugar production following the later than usual harvest of sugar cane and the ensuing delayed production process as compared to the previous year, and **chemical products** due to the temporary closure of factories for maintenance. In addition, the high bases of **petroleum products** and **tobacco** in the previous year also contributed to the deceleration. Nevertheless, many product categories showed robust expansion. These products include **electronics** which expanded well in line with external demand for integrated circuits and hard disk drives, and **vehicles and parts** due to the introduction of new passenger cars models. The **capacity utilization rate (with 69 product categories)** of the manufacturing sector averaged at 74.3 per cent, increasing from 71.1 per cent in the previous month.

For the **year 2005**, manufacturing production expanded by 9.2 per cent, decelerating from 11.5 per cent in 2006. Product categories that contributed to the deceleration include **vehicles, textiles and textile products, leather products, electrical appliances, and iron and steel products**. Nevertheless, **electronics** expanded considerably. The **capacity utilization rate (with 69 product categories)** of the manufacturing sector averaged at 72.6 per cent, increasing from 70.7 per cent in the previous year. Product categories that saw increased capacity utilization include **paper and paper products and construction materials**.

**2. Domestic Spending.** The **Private Consumption Index (PCI)** grew by 2.3 per cent year-on-year, as compared to a decline of 0.2 per cent in the previous month, mostly due to the acceleration in the growth of **import of consumer goods** at constant prices and **value added tax** at constant prices (in part from the low base in the same period of last year) and **passenger cars** following the introduction of new

models. The **Private Investment Index (PII)** grew by 5.4 per cent year-on-year, accelerating from 1.7 per cent the previous month primarily due to increased **equipment investment** and partly due to considerable increased **import of capital goods** at constant prices aided by a low base in the same period of last year.

For the **year 2005**, **PCI** grew by 0.6 per cent, decelerating from 3.9 per cent in the previous year with respect to both durable and non-durable goods. In particular, the sales volume of passenger cars, gasoline, and gasohol declined from the previous year as a consequence of increased consumer caution amidst high oil prices, accelerating inflation, and rising interest rates. The **PII** grew by 8.6 per cent, decelerating from 10.0 per cent in the previous year in line with the Business Sentiment Index (BSI) which remained below 50 continuously from the previous year. Nevertheless, equipment and machinery investment expanded well while construction investment slowed in tandem with slowdown of the real estate sector.

**3. Fiscal Position.** In December 2005, **government revenue collection** attained 98.7 billion baht, rising by 0.1 per cent year-on-year but decelerating from the previous month. Non-tax revenue decreased by 25.6 per cent as a consequence of state enterprises' remittance falling by 56.1 per cent due to the high base in the same period of last year. Tax revenue increased by 2.7 per cent year-on-year. Tax collection from the consumption tax base improved while tax collection from the income base decelerated from the previous month. The government cash balance was in a deficit of 30.7 billion baht.

For the **first quarter of fiscal year 2006**, government revenue collection grew by 3.4 per cent year-on-year. The government cash balance deficit attained 109.0 billion baht.

**4. External Sector.** In December 2005, the **trade balance** registered a deficit of 176 million US dollars, declining from the previous month's deficit of 201 million US dollars. **Export** value grew by 11.6 per cent year-on-year to attain 9,352 million US dollars due to expansion of manufactured products. Meanwhile, **import** value expanded at a rate of 26.0 per cent (including one imported aircraft), accelerating from 13.7 per cent in the previous month, mostly due to the low base in the previous year to attain 9,528 million US dollars. All import categories registered accelerated growth with the exception of fuel and fuel products. The **services and transfers account** recorded a surplus of 577 million US dollars, decreasing slightly from the previous month's surplus of 643 million US dollars due to the remittance of profits and dividends by foreign companies. Consequently, the **current account** recorded a surplus of 401 million US dollars. The **balance of payments** was in surplus by 942 million US dollars. **International reserves** at end-December was at 52.1 billion US dollars, with a **net forward position** of 3.8 billion US dollars.

For the **year 2005**, the **trade balance** registered a deficit of 8,578 million US dollars, as compared to a surplus of 1,460 million US dollars in the previous year. **Export** value grew by 15.0 per cent year-on-year to attain 109,211 million US dollars due primarily to export of high-tech manufactured products. Meanwhile, **import** value expanded at a rate of 26.0 per cent to attain 117,788 million US dollars. Import categories that registered strong growth include steel, gold, and oil. The **services and transfers account** recorded a surplus of 4,864 million US dollars, decreasing from the previous year's surplus of 5,405 million US dollars due to diminished tourist income following the adverse impact of the tsunami and the increased remittance of profits and dividends in line with strong corporate profits. Consequently, the **current account** recorded a deficit of 3,714 million US dollars primarily due to the trade deficit. The **balance of payments** was in surplus by 5,422 million US dollars.

**5. Prices.** In the month of December, the **Consumer Price Index (CPI)** rose by 5.8 per cent year-on-year, decelerating from the previous month's rate of 5.9 per cent. The deceleration was due to (1) the slowdown in the prices of vegetables and fruits following the recovery of the agricultural sector from flood, and (2) the prices of chicken and eggs which remained steady at a low level as a result of avian flu's adverse impact and the increased sales efforts by producers to reduce stock in anticipation of the downwards trend in prices. However, energy prices increased in line with domestic oil and fuel prices with benzene 95 and 91 being adjusted upwards thrice in December for a total increase of 1.20 baht and diesel prices being adjusted upwards twice for a total increase of 0.80 baht. **Core CPI** grew by 2.6 per cent year-on-year, primarily due to retail tobacco prices which were adjusted upwards following the tobacco excise tax increase.

The **Producer Price Index (PPI)** increased by 8.0 per cent year-on-year, increasing from the previous month's growth rate of 7.8 per cent in line with the prices of mining products and manufactured products as a result of heightened production costs amidst high fuel and oil prices.

In the **year 2005**, CPI, core CPI, and PPI grew by 4.5, 1.6, and 9.2 per cent, respectively.

**6. Monetary Conditions.** In December, **commercial bank deposits** decreased by 26.0 billion baht from the previous month while expanding by 8.4 per cent year-on-year partly due to the establishing of newly upgraded commercial banks. Excluding the changes in deposits due to the establishing of the newly upgraded commercial banks, commercial bank deposits in December would rise by 4.8 percent year-on-year, accelerating from the middle of the year partly due to the rise in deposit rates which increased the incentive to save. **Commercial bank credits to the private sector** (including holding of private securities) rose by 8.1 per cent year-on-year. If the rise in credits due solely to the newly established commercial banks were excluded, commercial bank credits in December would rise by 4.0 per cent year-on-year, accelerating as compared to mid-2005 and consistent with the increase in economic activity.

For the **year 2005**, excluding the changes in deposits due to the establishing of the newly upgraded commercial banks, commercial bank deposits expanded slowly in the beginning of the year while commercial bank credits to the private sector continued to decelerate. However, from the middle of the year onwards, commercial bank deposit growth accelerated partly due to the rise in deposit interest rates which increased the incentive to save. Meanwhile, the growth of commercial bank credits to the private sector accelerated.

In December 2005, **money base** grew by 5.2 per cent year-on-year. **Broad money M2, M2a** and **M3** grew by 8.2, 5.3 and 6.2 per cent, respectively, and maintaining an acceleration trend.

**Money market interest rates.** In December, **the 1-day repurchase rate** and **the overnight interbank rate** both averaged at 3.85 per cent per annum, respectively, rising from the previous month in line with the upwards adjustment of the Bank of Thailand's policy rate by 25 basis points.

For the **year 2005**, money market interest rates rose continuously following the upwards cycle in the policy rate. The policy rate was adjusted upwards six times in 2005 from 2.00 per cent to 4.00 per cent per annum.

**7. Exchange Rate.** In December, the baht averaged at 41.07 baht per US dollar, appreciating from the previous month's rate of 41.12 baht per US dollar due to the announcement of better-than-expected GDP figures in the third quarter, the deceleration in headline inflation between November and December, and diminished confidence in the US dollar.

For the **year 2005**, the baht averaged at 40.29 baht per US dollar, comparable to 40.28 baht per US dollar in the previous year.

During the period of 1-24 January 2006, the baht, on average, appreciated relative to the US dollar due to the inflow of capital for purchases of shares on the stock market as well as diminished confidence in the US dollar.

Bank of Thailand  
31 January 2006

Contact person: Ms. Kuntip Trongthamakit  
Tel: +66 (0) 2283 6184  
e-mail: [kuntipt@bot.or.th](mailto:kuntipt@bot.or.th)