



# BANK OF THAILAND NEWS

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## **Press Release on Economic and Monetary Conditions for January 2006**

**In January 2006, economic indicators**, on overall, decelerated from the previous month. On the demand side, private consumption and private investment grew at a decelerated rate as compared to the previous month. Nevertheless, the external sector expanded well with export value growing continuously and import value increasing slightly from the same period of last year.

On the **supply side**, farm income from major crops improved from the previous month due to the significant rise in prices and the improved production due to favourable weather. Manufacturing production decelerated from the previous month partly due to the closure of factories for maintenance and the slowdown in demand for certain products. Regarding the services sector, the number of foreign tourists on overall and in the southern region improved partly due to the low base in the same period of last year as a result of the tsunami.

**Overall economic stability remained satisfactory.** International reserves remained at a satisfactory level. The current account improved while the headline inflation rate increased slightly from the previous month on the back of rising domestic retail oil prices. The core inflation rate decreased slightly from the previous month.

Details of the economic conditions **in January 2006** are as follows:

**1. Manufacturing Production.** In January 2006, the **Manufacturing Production Index (MPI with 76 product categories)** grew by 5.8 per cent year-on-year, decelerating from the previous month. The slowdown was caused by the diminished output of certain manufactured product categories such as **tobacco** due to the closure of factories for maintenance, **leather products** due to the loss of market share to Chinese products, **foods** which saw diminished sugar production due to the lingering effects of drought, and **electric appliances** as a result of the production upgrade to higher quality television sets. Nevertheless, many product categories saw continued growth in line with external demand such as **electronics, textiles, and vehicles and equipments.** The **capacity utilization rate (with 69 product categories)** of the manufacturing sector averaged at 73.3 per cent, decreasing from 74.2 per cent in the previous month.

**2. Domestic Spending.** The **Private Consumption Index (PCI)** grew by 0.7 per cent year-on-year, slowing from 2.2 per cent growth in the previous month, due to the fall in the number of vehicles sold especially those of motorcycles following the acceleration of purchases in the preceding period. The **Private Investment Index (PII)** grew by 4.7 per cent year-on-year due to increased **equipment investment** despite the slight decrease in the number of commercial cars sold as compared to the same period of last year. **Construction investment** decreased in line with the slowing real estate sector.

**3. Fiscal Position.** In January 2006, **government revenue collection** attained 111.0 billion baht, growing by 5.8 per cent year-on-year and increasing from the previous month in regards to all tax bases. Tax collection from the income base grew by 13.1 per cent primarily from personal and corporate income tax bases. Tax collection from the consumption tax base grew by 7.9 per cent driven by the increase in the value-added tax base. In addition, tax collection from the excise tax base improved following the upwards adjustment in the oil excise tax by 0.50 baht per litre as of 1 December 2005. Nevertheless, non-tax revenue decreased from the same period of last year because of the high base effect from the 3 billion-baht remittance by the Electricity Generating Authority of Thailand. The government cash balance was in a deficit of 13.4 billion baht.

**4. External Sector.** In January 2006, the **trade balance** registered a deficit of 388 million US dollars, as compared to the previous month's deficit of 176 million US dollars. **Export** value grew by 14.5 per cent year-on-year to attain 8,807 million US dollars due primarily to the export of manufactured

products such as electronics, vehicles and parts as well as precious stones and jewellery. Meanwhile, **import** value, expanding at a rate of 0.4 per cent year-on-year, attained 9,195 million US dollars and decelerated from the previous month in line with the decreased import of raw materials and vehicles and parts. In comparison, the previous year saw high imports of steel. The **services and transfers account** recorded a surplus of 893 million US dollars, increasing from the previous month's surplus of 577 million US dollars due to the decreased remittance of profits and dividends together with the satisfactory increase in the income from tourism. Consequently, the **current account** recorded a surplus of 504 million US dollars, increasing from the previous month's surplus of 401 million US dollars. The **balance of payments** was in surplus by 625 million US dollars. **International reserves** at end-January was at 53.2 billion US dollars, with a **net forward position** of 5.9 billion US dollars.

**5. Prices.** In the month of January, the **Consumer Price Index (CPI)** rose by 5.9 per cent year-on-year, accelerating from the previous month's rate of 5.8 per cent. The slight acceleration was due to the increase in energy prices with diesel, benzene 95, and benzene 91 prices being adjusted upwards thrice in January for a total increase of 1.20 baht. **Core inflation** dropped from the previous month's rate to attain 2.5 per cent year-on-year, primarily due to the reduction in the price of telecommunication (i.e. cellular telephone services) and consumable food outside the household.

The **Producer Price Index (PPI)** increased by 9.5 per cent year-on-year, in line with the prices of mining products and manufactured products as a result of heightened production costs amidst high fuel and oil prices.

**6. Monetary Conditions.** In January, **commercial bank deposits** increased by 228.5 billion baht from the previous month while expanding by 10.3 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 January would rise by 6.3 percent year-on-year, accelerating from mid-2005 due to the rise in deposit rates which should increased the incentive to save. **Commercial bank credits to the private sector** (including holding of private securities) rose by 8.3 per cent year-on-year. Excluding the rise in credits due solely to the newly established commercial banks and adding back debt write-offs and net transfers to AMCs, commercial bank credits in January would rise by 8.6 per cent year-on-year, accelerating from the same period of last year.

In January 2006, **money base** grew by 9.9 per cent year-on-year and expanded by 11.8 billion baht from the previous month. The growth was partly caused by the high demand for cash during the Chinese New Year festival. **Broad money M2, M2a and M3** grew by 10.7, 7.5, and 7.5 per cent year-on-year, respectively, maintaining an acceleration trend from mid-2005.

**Money market interest rates.** In January, **the 1-day repurchase rate** and **the overnight interbank rate** both averaged at 4.03 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 on 18 January 2006.

**7. Exchange Rate.** In January 2006, the baht averaged at 39.62 baht per US dollar, appreciating from the previous month's rate of 41.07 baht per US dollar due to the inflow of capital for the purchases of shares on the stock market and the diminished confidence in the US dollar as market participants anticipated that the tightening US interest rate cycle would cease sooner than previously expected.

During the period of 1-22 February 2006, the baht, on average, appreciated relative to the US dollar in line with regional currencies as a result of the continued inflow of foreign capital for the purchases of shares on regional stock markets.

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