



# BANK OF THAILAND NEWS

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**No. 15 /2006**

## **Press Release on Economic and Monetary Conditions for March 2006 and the first quarter of 2006**

**In March 2006, the overall economy** continued to expand from the previous month despite the upward adjustment in oil prices and concerns over political uncertainty. On **the demand side**, the Private Consumption Index (PCI) improved from the last month. Export value still expanded continuously while import value grew at a slow rate, resulting in a trade surplus. Nevertheless, the Private Investment Index (PII) grew at a decelerated rate from the previous month.

On the **supply side**, farm income continued to improve due to the substantial increase in crop output. Manufacturing production grew at a slower rate from the previous month, due to the closure of factories for maintenance and upgrading as well as the slowdown in the construction sector. Regarding the services sector, the overall number of foreign tourists, was similar to the previous month and increased considerably from the same period of last year.

**Overall economic stability remained satisfactory.** International reserves remained at a satisfactory level. The current account registered a continued surplus and the unemployment rate remained low. The core inflation rate slightly decreased from the previous month due primarily to a decline in the price of consumable food within the household. However, the headline inflation rate rose mainly as a result of the upward adjustment in the price of vegetables and fruits.

**In the first quarter of 2006**, the economy expanded at a satisfactory rate. On **the demand side**, export grew satisfactorily as compared to the previous quarter. Private consumption expanded at a rate comparable to that of the previous quarter while private investment moderated. On **the supply side**, both the agricultural and the manufacturing sectors expanded at a higher rate than the previous quarter. The services sector improved consistently. Overall economic stability remained satisfactory on both internal and external fronts. International reserves remained at a satisfactory level while the current account surplus increased. The headline inflation rate decreased slightly from the previous quarter while the core inflation rate increased marginally from the last quarter.

Details of the economic conditions **in March 2006 and the first quarter of 2006** are as follows:

**1. Manufacturing Production.** In March 2006, the **Manufacturing Production Index (MPI with 76 product categories)** continued to increase, growing at 8.2 per cent year-on-year and moderating from the previous month. **Vehicle and electronic products** expanded due to strong external demand. However, **petroleum products** decelerated owing to the closure of some refinery plants for maintenance. **Steel and steel products** decreased due to the slowdown in demand from the construction sector. The **capacity utilization rate (with 69 product categories)** of the manufacturing sector in March 2006 was at 79.8 per cent, increasing from 72.4 per cent in the previous month, partly due to the higher number of work days.

**In the first quarter of 2006**, manufacturing output increased by 8.8 per cent year-on-year, accelerating from the previous quarter's rate of 7.2 per cent. This was because of the acceleration in industries exporting less than 30 per cent of their production in line with the expansion in petroleum industries following their resumption of operations. The industries exporting more than 60 per cent of production continued to expand but at a moderated rate, in line with the slowdown in the production of the electronics and electrical appliance sectors. The capacity utilization rate in this quarter was at 75.2 per cent, higher than its average of 72.3 per cent in the same quarter of last year.

**2. Domestic Spending.** The **Private Consumption Index (PCI)** grew by 3.6 per cent year-on-year. Many components of the PCI, particularly the number of the passenger cars and motorcycles sold and the electricity consumed, accelerated from the previous month. The **Private Investment Index (PII)**

(preliminary figure) grew by 1.4 per cent year-on-year, decelerating from 5.3 per cent in the previous month, due to the slowdown in the equipment investment in line with the reduction in the number of commercial car sold. **Construction investment** continued to decline in tandem with the construction area permitted in the municipal area and domestic sales of cement which still decreased continuously.

**In the first quarter of 2006, the private consumption index (PCI)** grew by 1.2 per cent year-on-year, as compared to 1.0 per cent in the previous quarter, mainly due to an increase in housing electricity and the number of passenger cars sold. Nevertheless, the quantities of gasoline and gasohol consumed and the number of motorcycles sold still fell from the same period of last year. The **Private Investment Index (PII)** (preliminary figure) increased by 1.4 per cent, decelerating from 5.0 per cent in the previous quarter, mainly due to the continuous decrease in construction investment. Meanwhile, equipment investment decelerated.

**3. Fiscal Position. In March 2006,** government revenue collection attained 122.9 billion baht, growing by 9.4 per cent year-on-year primarily as a result of the non-tax revenue from state enterprises. Tax revenue expanded by 4.6 per cent, slowing from the previous month. Tax collection from income tax base grew at a comparable rate to that of the previous month and the corporate income tax base still expanded well. Nevertheless, tax collection from the excise tax fell, particularly in the tobacco and the oil excise tax. Meanwhile, value-added tax (VAT) collection still grew continuously. In addition, tariff tax collection continued to fall, partly due to the downward adjustment of custom duty rates to boost the competitiveness of some industries. The government cash balance was in a deficit of 2.3 billion baht.

**In the second quarter of the fiscal year 2006,** government revenue collection grew 7.5 per cent year-on-year and the government cash balance was in a deficit of 28.8 billion baht.

**4. External Sector. In March 2006,** the **trade balance** registered a surplus of 187 million US dollars. **Export** value attained 10,859 million US dollars, increasing at a rate of 16.2 per cent year-on-year due to expansion in all products, in particular, manufactured products such as electronics, vehicle and parts, plastic products as well as petroleum products. **Import** value attained 10,672 million US dollars, expanding at a rate of 2.0 per cent year-on-year, owing to the import of all products except raw materials. Meanwhile, the import value of fuel and lubricant rose mainly due to increased prices. However, the quantities of crude oil import decreased from the same period of last year. The **services and transfers account** recorded a surplus of 298 million US dollars, decreasing from the previous month's surplus of 690 million US dollars. This was mainly due to increased investment income payments, partly because the month of March was the closing financial period of Japanese companies. Consequently, the **current account** recorded a surplus of 485 million US dollars, decreasing from the previous month's surplus of 666 million US dollars. The **balance of payments** was in surplus by 764 million US dollars, decreasing from the previous month's surplus of 1,611 million US dollars. **International reserves** at end-March were at 55.3 billion US dollars, with a **net forward position** of 4.1 billion US dollars.

**In the first quarter of 2006,** the **trade balance** registered a deficit of 224 million US dollars. Export value attained 29,091 million US dollars, growing at a rate of 17.9 per cent year-on-year. Import value attained 29,316 million US dollars, expanding at a rate of 5.4 per cent year-on-year, partly due to accelerated imports of steel, gold, and oil in the same period of last year. **The services and transfer account** recorded a surplus of 1,881 million US dollars. **The current account** recorded a surplus of 1,656 million US dollars and **the balance of payments** registered a surplus of 2,999 million US dollars.

**5. Prices. In March 2006,** the **Consumer Price Index (CPI)** rose by 5.7 per cent year-on-year, increasing slightly from the previous month's rate of 5.6 per cent. The slight acceleration was caused by the upward adjustment in raw food prices, especially the prices of vegetables and fruits. Energy prices rose at decelerated rate from the previous year despite the fact that benzene and diesel prices were adjusted upward thrice in the month of March 2006, for a total increase of 1.20 baht. **Core inflation** decreased slightly from the previous month's rate to attain 2.6 per cent year-on-year, due to the reduction in the prices of consumable food within the household and cleaning products as compared to the previous month. Meanwhile, the price of sugar increased by 3 baht per kilogram, resulting in the upward adjustment in the price of condiment.

The **Producer Price Index (PPI)** increased by 7.5 per cent year-on-year, decelerating from the previous month's growth of 9.0 per cent, primarily due to decelerated growth in the prices of agricultural products and manufactured products such as petroleum products.

**In the first quarter of 2006**, the consumer price index, the core consumer price index and the producer price index increased by 5.7, 2.6, and 8.7 per cent year-on-year, respectively.

**6. Monetary Conditions. In March 2006, commercial bank deposits** expanded by 11.6 per cent year-on-year, due to increased competition among commercial banks in attracting deposits as reflected by new products with higher deposit rates. **Commercial bank credits to the private sector** (including holding of private securities) grew by 7.9 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 March would have risen by 7.4 per cent year-on-year, decelerating slightly from the previous month. This was mainly due to a decline in private securities holdings.

**Money base** grew by 10.0 per cent year-on-year. In addition, **M2, M2a, and M3** expanded by 11.9, 8.4, and 8.5 per cent year-on-year, respectively, continuously accelerating from the previous month. Broad money<sup>1</sup> grew by 8.8 per cent following accelerated deposit growth due to increased interest rates, particularly time deposits.

**Money market interest rates.** Both **the 1-day repurchase rate and the overnight interbank rate** rose in line with the upward adjustment of the Bank of Thailand's policy rate as well as the occasionally tightening of liquidity in the commercial banking system driven by the shift of customers' deposits.

**In the first quarter of 2006**, the 1-day repurchase rate and the overnight interbank rate continued to increase from the previous quarter's rate by a total increase of 50 basis points, to attain 4.15 and 4.16 per cent per annum, respectively. This was due to the twice upward adjustment of the Bank of Thailand's policy rate by 25 basis points, in January and March 2006.

**During the period of 1-24 April 2006**, the 1-day repurchase rate and the overnight interbank rate increased from the previous month by similar magnitudes to the upward adjustment of the Bank of Thailand's policy rate by 25 basis points on 10 April 2006.

**7. Exchange Rate. In March 2006**, the baht averaged at 38.98 baht per US dollar, appreciating from the previous month's average rate of 39.41 baht per US dollar in line with regional currencies as foreign investors saw investment potential in the region. In addition, there was foreign capital inflow for the purchases of shares in Thailand.

**In the first quarter of 2006**, the baht averaged at 39.32 baht per US dollar, appreciating from the previous quarter's average rate of 41.04 baht per US dollar. This was mainly due to (1) weaker confidence in US dollars resulting in the continued inflow of foreign capital for the purchase of shares in regional stock markets, and (2) the inflow of foreign capital for the purchases of shares in Thailand.

**During the period of 1-24 April 2006**, the baht averaged at 38.12 baht per US dollar, appreciating in line with regional currencies. The baht on 24 April 2006 was at 37.66 baht per US dollar, attaining the strongest value in the past 6 years.

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28 April 2006

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<sup>1</sup> It is the monetary aggregate which has a broader coverage than M3, as it includes deposits or deposit substitutes of other depository corporations (ODCs) other than commercial banks, finance companies and Specialized Financial Institutions (SFIs). To compile the broad money data, the BOT follows Monetary and Financial Statistics Manual (MFSM2000) of the International Monetary Fund. Details of definition, guideline and methodology are shown in <http://www.bot.or.th/bothomepage/databank/EconData/EconFinance/download/MS06T.doc>. Since January 2007, the Bank of Thailand will disseminate only the broad money.