



BANK OF THAILAND NEWS

Communications and Relations Office, Management Assistance Department

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No. 18/2006

Press Release on Economic and Monetary Conditions for April 2006

In April 2006, economic indicators on the demand side with respect to private consumption and private investment decelerated from the previous month. Nevertheless, government revenue and export values continued to expand.

On the supply side, farm income continued to improve due to the substantial rise in prices while output continued to expand. Manufacturing production moderated from the previous month primarily due to a slowdown in domestic demand. Regarding the services sector, the number of foreign tourists increased considerably from the same period of last year partly due to the low base in the same period of last year.

Overall economic stability. Inflation and current account pressure increased. The headline inflation rate and the core inflation rate both increased from the previous month. The current account registered a deficit this month. However, international reserves remained at a satisfactory level and the unemployment rate remained low.

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

1. Manufacturing Production. In April 2006, the Manufacturing Production Index (MPI with 76 product categories) moderated from the previous month and grew at 7.2 per cent year-on-year. **Electronic products** expanded considerably due to strong external demand. However, deceleration occurred in certain sectors such as **vehicles** due to the slowdown in domestic demand, and **foods** owing to the end of the sugar cane cultivating season. In addition, **electrical appliances, iron and steel, and tobacco products** declined as a result of the decelerated in domestic demand. The **capacity utilization rate (with 69 product categories)** of the manufacturing sector in April 2006 was at 71.3 per cent, decreasing from 80.5 per cent in the previous month primarily due to seasonal factors.

2. Domestic Spending. The **Private Consumption Index (PCI)** increased by 0.8 per cent year-on-year, decreasing from 3.7 per cent in the previous month. Most components of the PCI moderated from the previous month except for the number of motorcycles sold which accelerated from the previous month. The **Private Investment Index (PII)** grew by 1.5 per cent year-on-year, decelerating from 2.2 per cent in the previous month due to the slowdown in equipment investment. However, sales of domestic equipment at a constant price expanded well. **Construction investment** continued to decline in line with the slowing real estate sector.

3. Fiscal Position. In April 2006, government revenue collection attained 127.4 billion baht, growing by 12.7 per cent year-on-year primarily as a result of non-tax revenue from state enterprises. Tax revenue expanded by 3.3 per cent, moderating from the previous month, mainly due to the slowdown in corporate income tax and VAT. The government cash balance was in a surplus of 10.6 billion baht for the first time in the fiscal year 2006.

4. External Sector. In April 2006, the **trade balance** registered a deficit of 520 million US dollars as export growth moderated from the previous month. **Export** value increased at 11.8 per cent year-on-year and attained 9,122 million US dollars. Products that registered decelerated growth included electrical appliances, computers and parts, and vehicles and parts. Meanwhile, **import** value attained 9,642 million US dollars, fell by 2.1 per cent year-on-year. Products that contributed particularly to the decline included vehicle and parts, equipments, steel and chemical products. Nevertheless, oil import grew substantially in terms of both price and volume. The **services and transfers account** recorded a surplus of 238 million US dollars, decreasing slightly from the previous month's surplus of 298 million US dollars. This was mainly due to increased investment income payment and elevated tourism payments. Consequently, the **current account** recorded a deficit of 283 million US dollars while the **balance of**

payments was in surplus by 811 million US dollars. **International reserves** at end-April were at 57.2 billion US dollars, with a **net forward position** of 5.1 billion US dollars.

5. Prices. In April, the **Consumer Price Index (CPI)** rose by 6.0 per cent year-on-year. The acceleration was caused by the upward adjustment in raw food price, especially the price of vegetables and fruits. Energy slightly decelerated from the previous month in line with the gasoline and diesel domestic price. **Core inflation** increased from the previous month's rate to attain 2.9 per cent year-on-year, due to the upward adjustment in prices of consumable food outside the household, public transportation and telecommunication.

Producer Price Index (PPI) increased by 8.7 per cent year-on-year principally owing to the rising prices of agricultural products.

6. Monetary Conditions. In April, **commercial bank deposits** rose by 93.0 billion baht from the previous month, expanding 12.8 per cent year-on-year as a result of the sustained competition among commercial banks in attracting deposits as reflected by new products with higher deposit rates. **Commercial bank claims to the private sector**¹ rose 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 April would have risen by 6.5 per cent year-on-year, which is comparable to that of the previous month.

Money base grew by 6.1 per cent year-on-year. **M2, M2a, and M3** grew by 12.9, 9.1 and 9.3 per cent year-on-year, respectively, continuously accelerating since mid-2005. **Broad money**² increased by 9.5 per cent mainly due to banking deposits, particularly time deposits.

Money market interest rates. In April, **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.

During the period of 1-26 May 2006, money market interest rates moved within the narrow band, which was similar to the policy rate at 4.75 per cent per annum.

7. Exchange Rate. For the entire period of April 2006, the baht appreciated at an accelerated rate and ultimately attained its strongest value in the past six years at 37.47 baht per US dollar at the end of the month. This was mainly due to the improved political conditions resulting in the significant inflow of foreign capital for the purchases of shares in regional stock markets. The baht averaged at 37.99 baht per US dollars, appreciating from the previous month's average rate by 2.5 per cent.

During the period of 1-26 May 2006, the baht depreciated from the first half of this month in line with regional currencies and non-US dollar major currencies. The depreciation was due to investors reducing the exposure of their investments to emerging market risk.

Bank of Thailand

31 May 2006

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Vision : *A dynamic organization commanding public trust and respect*

¹ It means commercial bank credits to the private sector (including holding of private securities).

² 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.