



# 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. 23/2006**

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

**In May 2006, the overall economy** improved from the previous month. Manufacturing production accelerated from the previous month. The growth of Private Consumption Index (PCI) increased from the previous month while export value and government revenue expanded satisfactorily. Nevertheless, the Private Investment Index (PII) continued to decelerate.

**On the supply side**, farm income continued to expand primarily due to the rise in prices. Farm output, however, decelerated slightly. Manufacturing production rose from the previous month due mainly to the production of new vehicle models and for external demand. As for the services sector, the number of foreign tourists increased satisfactorily from the same period of last year despite the flooding in the northern provinces.

**Overall economic stability.** Pressure on inflation and the current account increased. The headline inflation rate increased slightly from the previous month while the core inflation rate decreased. The service and current accounts were in deficit this month. However, international reserves remained at a satisfactory level.

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

**1. Manufacturing Production. The Manufacturing Production Index (MPI with 76 product categories)** expanded from the previous month and grew at 8.9 per cent year-on-year. **Vehicle products** increased considerably due to the launch of new car models. **Electronic products and textiles** expanded satisfactorily due to strong external demand. However, deceleration occurred in **electrical appliances**, in particular air conditioners, which was the result of the high base in May 2005 due to a special order. The **capacity utilization rate (with 69 product categories, and seasonal adjusted)** of the manufacturing sector in May 2006 was at 75.7 per cent, increasing from 72.7 per cent in the previous month.

**2. Domestic Spending.** The **Private Consumption Index (PCI)** increased by 1.6 per cent year-on-year, improving from the previous month due to several reasons such as the increase in VAT at constant prices, the rise in import value of consumer products at constant prices as well as the rise in the number of passenger cars sold. The **Private Investment Index (PII)** grew by 0.6 per cent year-on-year due to the slowdown in equipment investment, despite the significant rise in values of imported capital goods at constant prices (including one satellite). **Construction investment** continued to decline in line with the real estate sector.

**3. Fiscal Position.** In May 2006, government revenue collection attained 247.9 billion baht, growing by 10 per cent year-on-year primarily as a result of tax revenue. Tax collection from the income tax base expanded by 18.0 per cent, accelerating from the previous month. The corporate income tax and personal income tax collection rose by 10.3 and 14.2 per cent respectively. Meanwhile, tax collection from the consumption tax bases increased by 11.4 per cent. The government cash balance registered a deficit of 6.2 billion baht.

**4. External Sector.** In May 2006, the **trade balance** registered a deficit of 760 million US dollars. **Export** value increased at 19.1 per cent year-on-year and attained 10,708 million US dollars. Nevertheless, import value also accelerated markedly. Export products that registered accelerated growth include electronics, petroleum products and plastic products. In addition, the export value of agricultural products grew substantially due to elevated prices. Meanwhile, **import** value attained 11,468 million US dollars, rising by 9.0 per cent year-on-year (including the import value of one satellite for 101 million US dollars), increasing from the previous month's downward trend, mainly due to the increased prices of imported goods. The **services and transfers account** recorded a deficit of 176 million US dollars. This was

mainly due to the significant increase in remittances of profits and dividend payments due to this month being the scheduled period for remittances. Consequently, the **current account** recorded a deficit of 936 million US dollars while the **balance of payments** was in surplus by 196 million US dollars. **International reserves** at end-May stood at 57.7 billion US dollars, with a **net forward position** of 5.4 billion US dollars.

**5. Prices.** In May, the **Consumer Price Index (CPI)** rose by 6.2 per cent year-on-year. The acceleration was caused by the upward adjustment in energy prices, especially oil prices as compared to the same period of last year. Raw food prices increased at a rate comparable to that of the previous month. **Core inflation** decelerated from the previous month's rate to attain 2.7 per cent year-on-year, primarily due to the deceleration in the growth of public transportation fees.

**Producer Price Index (PPI)** increased by 11.6 per cent year-on-year principally owing to the doubling in the growth rate of the petroleum product prices compared to the previous month.

**6. Monetary Conditions.** In May, **commercial bank deposits** expanded by 12.9 per cent year-on-year. Excluding the effect of the newly established commercial banks, commercial bank deposits expanded by 7.9 per cent, similar to the growth in the previous month. However, the intensity of competition among commercial banks for new deposits moderated from that of March and April 2006. **Commercial bank claims to the private sector**<sup>1</sup> rose by 7.8 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 May would have risen by 6.0 per cent year-on-year, diminishing from the previous month partly due to the deceleration in credits to the private sector.

**Money base** grew by 4.3 per cent year-on-year while decreasing from the previous month by 16.7 billion baht due to the reduced demand for cash following the Songkran festival. **M2, and M2a** grew by 12.7, and 9.1 per cent year-on-year, respectively. Meanwhile, **M3 and Broad money**<sup>2</sup> increased by 10.0 and 10.2 per cent respectively due to the expansion of saving deposits in special financial institutions (SFI).

**Money market interest rates.** In May, the **1-day repurchase rate** and the **overnight interbank rate** accelerated from the previous month. During the month, the money market saw occasional tightening of liquidity as several commercial banks had to prepare liquidity for corporate tax and dividend payments of their customers.

During the period of 1-27 June 2006, money market interest rates moved upwards in line with the 0.25 per cent increase in policy rate to 5.0 per cent per annum announced on 7 June 2006.

**7. Exchange Rate.** The baht averaged at 38.01 baht per US dollar, which was comparable to the previous month's average rate of 37.99 baht per US dollar, but depreciated from the end of the previous month in line with regional currencies. This was due mainly to the significant sales by foreign investors in emerging markets to reduce their risk exposure. Nevertheless the baht appreciated slightly during the last week of this month.

During the period of 1-27 June 2006, the baht depreciated and averaged at 38.35 baht per US dollar. The depreciation was due primarily to improved investor confidence in the US dollar and the increased market expectation that the Federal Reserve would raise the policy rate further.

Bank of Thailand  
30 June 2006

Contact person: Thammanoon Sodsrichai  
E-mail: thammans@bot.or.th  
Tel: +66 (0)-283-5648

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

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

<sup>2</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.