



BANK OF THAILAND NEWS

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Press Release on Economic and Monetary Conditions for June 2006 and the second quarter of 2006

In June 2006, the overall economy slowed down from the previous month. Economic indicators, with regards to the production sector and domestic demand, decelerated from the previous month. Nevertheless, export value still expanded satisfactorily. The trade deficit registered a smaller deficit while the services and transfers account registered a surplus. As a result, the current account returned to surplus this month.

On the **supply side**, farm income from major crops decelerated from the previous month due to the slowdown of crop output and prices. Manufacturing production grew a slower rate from the previous month, due mainly to the slowdown in electronics, and vehicles. As for the services sector, the overall number of foreign tourists expanded favourably from the same period of last year.

Overall economic stability in June. Pressure on inflation and the current account softened from the previous month. Headline inflation decreased from the previous month. International reserves remained at a satisfactorily level while the unemployment rate remained low.

In the second quarter of 2006, the overall economy slowed down from the previous quarter. On the supply side, manufacturing production decelerated from the previous quarter. The agricultural sector (crops) and services sector expanded at a rate comparable to that of the previous quarter. On the demand side, economic indicators with respect to private consumption decelerated slightly from the previous quarter while private investment indicators continued to slow from last year. However, export value in this quarter expanded favourably. Overall economic stability in this quarter saw somewhat increased pressure from inflation and the current account. Headline and core inflation increased slightly from the previous quarter. Meanwhile, the trade balance and current account were in deficit. Nevertheless, international reserves increased and remained at a satisfactory level.

Details of the economic conditions **in June 2006 and the second quarter of 2006** are as follows:

1. Manufacturing Production. The **Manufacturing Production Index (MPI with 76 product categories)** slowed down from the previous month. **Food and beverage** expanded well in line with the exports of frozen seafood and canned pineapple and increased domestic demand during the 2006 World Cup festival. **Electronic products** decelerated as a result of the high base last year while external demand expanded still satisfactorily. Meanwhile **vehicles** slowed down sharply following domestic demand. **Electrical appliances** contracted owing to the inventory rundown as well as the decline of exports in some product categories.

The **capacity utilization rate (with 69 product categories)** of the manufacturing sector in June 2006 was at 75.2 per cent, declining from 76.5 per cent in the previous month. Meanwhile, the capacity utilization rate (seasonally adjusted) stayed at 75.7 per cent, increasing from 75.4 in the previous month.

In the second quarter of 2006, manufacturing output increased by 6.4 per cent year-on-year. Most manufacturing sectors decelerated from the previous quarter, particularly the industries exporting more than 60 per cent of their production. The capacity utilization rate in this quarter was at 73.4 per cent, declining from 75.2 per cent in the previous quarter.

2. Domestic Spending. The **Private Consumption Index (PCI)** decelerated from the previous month and leveled off compared to the same period of last year, particularly with respect to vehicle indicators which slowed down in terms of both the number of passenger cars and motorcycles sold. However, VAT at constant prices and the import value of consumer products at constant prices still expanded. The **Private Investment Index (PII)** (preliminary figure) grew by 0.4 per cent year-on-year.

Equipment investment continued to slowdown, especially in terms of the number of commercial cars sold which declined continuously. Nevertheless, the import value of capital goods continued to expand while construction investment contracted continuously.

In the second quarter of 2006, the Private Consumption Index (PCI) grew by 0.8 per cent year-on-year, slowing down from the previous quarter in line with the continuous decline of the Consumer Confidence Index (CCI). Whereas the **Private Investment Index (PII)** in this quarter grew by 0.4 per cent year-on-year, slowing down from the previous quarter mainly due to the significant slowdown in equipment investment. Meanwhile, construction investment continued to decline.

3. Fiscal Position. In June 2006, government revenue collection attained 119.4 billion baht, growing by 10.9 per cent year-on-year primarily due to the non-tax revenue collection, in particular the significantly increased revenue from the petroleum concession which amounted to 7.8 billion baht. Meanwhile, tax revenue expanded by 10.7 per cent, slowing from the previous month. However, tax collection from the consumption tax base grew by 13.5 per cent following the expansion in excise tax collection from accelerated car manufacturing in the previous month as well as due to the downward adjustment of oil excise tax during the same period of last year. Despite the slowdown of tax collection from the income tax base due to the lack of petroleum income tax during this month, the personal and corporate income tax base expanded well. The government cash balance registered a surplus of 93.5 billion baht.

In the third quarter of the fiscal year 2006, government revenue collection grew by 10.8 per cent year-on-year. Tax revenue and non-tax revenue expanded by 11.0 and 9.8 per cent, respectively. The government cash balance registered a surplus of 97.9 billion baht.

4. External Sector. In June 2006, the **trade balance** registered a deficit of 425 million US dollars. **Export** value attained 10,762 million US dollars, growing by 17.6 per cent year-on-year. In this month, major exporting products which expanded satisfactorily are electronics, vehicle and parts, petroleum products, steel products as well as agricultural exports mainly due to high agricultural prices. **Import** value attained 11,187 million US dollars, expanding at a rate of 2.5 per cent year-on-year, owing to the expansion of all import categories except vehicle and parts as well as fuel and oil products. The **services and transfers account** recorded a surplus of 489 million US dollars, reversing from the previous month's deficit of 176 million US dollars. This was mainly due to the continuous increase of tourism revenue as well as the decline in the remittances of profits and dividend payments of private firms. Consequently, the **current account** recorded a surplus of 65 million US dollars whereas the **balance of payments** was in surplus by 681 million US dollars. **International reserves** at end-June stood at 58.1 billion US dollars, with a **net forward position** of 4.9 billion US dollars.

In the second quarter of 2006, the **trade balance** registered a deficit of 1,705 million US dollars. Export value attained 30,592 million US dollars, growing at a rate of 16.3 per cent year-on-year. Import value attained 32,297 million US dollars, expanding at a rate of 3.2 per cent year-on-year. **The services and transfer account** recorded a surplus of 551 million US dollars. **The current account** recorded a deficit of 1,153 million US dollars while **the balance of payments** registered a surplus of 1,688 million US dollars.

5. Prices. In June 2006, the **Consumer Price Index (CPI)** rose by 5.9 per cent year-on-year, declining from the previous month's rate as a result of the downward adjustment in raw food prices, especially the price of vegetables. At the same time, energy prices accelerated slightly following the upward adjustment in the electricity charge by 3.0 per cent. However, retail oil prices expanded at the decelerated rate from the previous month. **Core inflation** remained unchanged from the previous month, expanding at a rate of 2.7 per cent year-on-year. The prices of consumable food both within and outside the household, alcohol beverages, medical treatments, and personal care increased while the public transportation fare decelerated from the previous month.

The **Producer Price Index (PPI)** grew by 10.7 per cent year-on-year, decelerating from the previous month mainly due to the slowdown in the prices of agricultural products and manufactured products.

In the second quarter of 2006, the headline consumer price index, the core consumer price index and the producer price index increased by 6.0, 2.8, and 10.3 per cent year-on-year, respectively.

6. Monetary Conditions. In June 2006, commercial bank deposits expanded by 11.6 per cent year-on-year, however, declining by 166.0 billion baht from the previous month. This was due to the fact that most commercial banks wanted to reduce the total amount of bank deposits in order to minimize the money remitted to the FIDF. Excluding the effects of the newly established commercial banks, commercial bank deposits expanded by 7.3 per cent year-on-year. Meanwhile **commercial bank claims to the private sector** rose by 8.6 per cent, accelerating from the previous month, partly due to the unusual low base last year. However, the outstanding balance of such claims declined from the previous month following the redemption of promissory notes of AMCs. Excluding the effect of the newly established commercial banks and adding bank debt write-offs and net transfers to AMCs, commercial bank credits would have expanded by 6.9 per cent year-on-year due to the continuous increase in household credits

Money base. At end-June 2006, monetary base was at 776.6 billion baht, expanding by 2.0 per cent year-on-year or declining by 19.1 billion baht from the previous month, in line with the slowdown of domestic demand. In addition, **M2, M2a, M3, and broad money** expanded by 11.4, 8.0, 9.0, and 9.4 per cent year-on-year, respectively, decelerating from the previous month.

Money market interest rates. Both **the 1-day repurchase rate and the overnight interbank rate** increased in line with the upward adjustment of the Bank of Thailand's policy rate by 25 basis points to stay at 5.0 per cent on 7 June 2006.

In the second 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 4.67 and 4.70 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 April and June 2006.

During the period of 1-24 July 2006, the money market rate remained comparable to that of end-June as there was no further upward adjustment in the Bank of Thailand's policy rate during this month.

7. Exchange Rate. In June 2006, the baht averaged at 38.35 baht per US dollar, depreciating from the previous month's average. In this month, the baht was rather stable and fluctuated within the narrow range of 38.10-38.50 baht per US dollar. This was due mainly to the equilibrium of foreign currencies demanded and supplied in the market as well as the subsiding of risk aversion on the part of foreign investors.

In the second quarter of 2006, the baht averaged at 38.13 baht per US dollar, appreciating from the previous quarter's average rate of 39.32 baht per US dollar. The baht appreciated markedly in April in line with regional currencies as well as the unwinding of political uncertainty. This resulted in large capital inflow of foreign capital for the purchases of shares in Thailand. However, the baht then weakened temporarily in May due to the risk aversion of foreign investors before becoming more stable again in June.

During the period of 1-24 July 2006, the baht averaged at 38.04 baht per US dollar, appreciating due to declining sentiments towards the US dollar following the market's expectation that the Federal Reserve would end the interest rate up cycle soon.

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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.