



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. 31 /2006

Press Release on Economic and Monetary Conditions for July 2006

In July 2006, the overall economy expanded at a slower pace similar to the previous month. Both the Manufacturing Production Index and the Private Consumption Index picked up with moderate growth. Nevertheless, export and import values continued to expand robustly and the trade balance registered a deficit while the current account remained in surplus this month.

On the **supply side**, crop production firmed up while prices remained high but softened from the previous month, causing farm income to grow less rapidly. Manufacturing production grew at a slightly lower rate compared to June. As for the services sector, the number of tourists increased by 9.2 per cent from the same period last year.

Overall economic stability. Pressure on inflation and the current account declined during this month. Headline inflation moderated while the unemployment rate stayed low. International reserves remained at a high level.

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

1. Manufacturing Production. The Manufacturing Production Index (MPI with 76 product categories) expanded by 6.1 per cent, softening slightly from the previous month. The growth slowdown was due to the contraction in **textiles** production because some manufacturers shifted production base to neighbouring countries for cost reasons. Production of **electrical appliances** also contracted, following the decline in domestic and external demand for television sets. Moreover, a number of petrochemical and steel plants were closed for maintenance. On the other hand, **electronic products** expanded satisfactorily following robust export of hard disk drive and integrated circuit. Likewise, the production of **beverages** accelerated owing to the 2006 World Cup festival.

The **capacity utilization rate (with 69 product categories)** of the manufacturing sector in July 2006 registered at 73.9 per cent, declining from 75.4 per cent in the previous month. Meanwhile, the capacity utilization rate (seasonally adjusted) stayed at 75.6 per cent, decreasing slightly from 75.9 per cent in the previous month.

2. Domestic Spending. The **Private Consumption Index (PCI)** rose by 2.6 per cent year-on-year. The expansion this month was partly due to last year's low base, especially in benzene and gasohol usage and the import of consumer products at 1995 prices. Nevertheless, every private consumption indicator (seasonally adjusted) decreased when compared to the previous month, except for electricity usage which still expanded. The **Private Investment Index (PII)** (preliminary figure) grew by 3.3 per cent year-on-year, improving slightly from the previous month. Machinery and equipment investment improved slightly from last month, due chiefly to the increase in the value of capital goods import at 1995 prices. Meanwhile, construction investment edged up moderately even though it was trending downwards.

3. Fiscal Position. In July 2006, government revenue collection totalled 101.1 billion baht, declining by 2.5 per cent year-on-year. Collection from the income tax base, growing by 9.5 per cent, decelerated mainly as a result of a slowdown in corporate income tax collection. In addition, collection from the consumption tax base grew by 10.5 per cent, slowing from VAT collection, which decelerated in line with domestic demand, as well as the collection of excise tax from the reduced production of tobacco and commercial vehicles last month. Additionally, non-tax income decreased noticeably from the previous month because of a delay in revenue remittance by state enterprises. The government cash balance registered a deficit of 16.5 billion baht.

4. External Sector. In July 2006, the **trade balance** registered a deficit of 0.2 billion US dollars. **Export** value registered 11.0 billion US dollars, firming up by 18.1 per cent year-on-year on the back of high-technology product groups and agricultural products, including electronics, steel products, petroleum products, rice and rubber. **Import** was valued at 11.3 billion US dollars, increasing by 16.3 per cent year-on-year. The increase was mainly due to the import of crude oil, which rose by 29.1 per cent as a result of

continual increase in price. Moreover, import of raw materials and capital goods namely, metal, electronic parts and machinery, also rose. The **services and transfers account** recorded a surplus of 0.5 billion US dollars, due largely to the increase of revenue from tourists. Consequently, the **current account** recorded a surplus of 0.3 billion US dollars while the **balance of payments** was in surplus by 0.5 billion US dollars. **International reserves** at end-July 2006 stood at 58.8 billion US dollars, with a **net forward position** of 5.1 billion US dollars.

5. Prices. In July 2006, headline inflation dampened to 4.4 per cent year-on-year as a result of the deceleration in raw food prices, especially vegetables and fruits and the prices of chicken and eggs, following increasing supply. Moreover, energy prices weakened from the same period last year after the initial floating of diesel price. **Core inflation** declined to 2.0 per cent as price level was high in July 2005 after increases of public transportation fare, consumable food prices both within and outside the household and rent.

The **Producer Price Index (PPI)** continued to decelerate to 9.2 per cent year-on-year from 10.7 per cent in the previous month because the prices of agricultural products and manufactured products had slowed down.

6. Monetary Conditions. In July 2006, commercial bank deposits expanded from the previous month by 119.6 billion baht after a reduction during the account closing period in the first half of the year. This is a year-on-year expansion of 11.1 per cent, a modest slowdown partly because of last year's high base. After excluding the newly established commercial banks, commercial bank deposits expanded by 8.5 per cent year-on-year. Meanwhile, **commercial bank claims on the private sector**^{1/} rose by 6.5 per cent, decelerating from the previous month, partly resulting from the decrease in loans to other financial institutions and partly because of the slightly higher base last year. Excluding the effect of the newly established commercial banks and adding back debt write-offs and net transfers to AMCs, commercial bank claims expanded by 6.6 per cent year-on-year.

Monetary base. At end-July 2006, monetary base stood at 796.9 billion baht, expanding by 5.7 per cent year-on-year and accelerating from the previous month. In addition, **M2, M2a, M3, and broad money**^{2/} expanded by 10.0, 8.0, 9.0, and 9.3 per cent year-on-year respectively, close to the previous month.

Money market interest rates. Both the 1-day repurchase rate and the overnight interbank rate averaged at the same levels as those at the end of the previous month because there was no change to the policy rate during the Monetary Policy Committee meeting on 19 July 2006, which maintained the 14-day repurchase rate at 5.0 per cent.

During the period of 1-24 August 2006, the money market rates continued to remain at stabilised levels.

7. Exchange Rate. In July 2006, the baht averaged at 38.00 baht per US dollar, fluctuating between 37.80 – 38.30 baht per US dollar in accordance with equilibrating foreign currencies' demand and supply. Nevertheless, the baht appreciated from the average value of 38.35 baht per US dollar in June 2006, in line with market expectation that the Federal Reserve would not raise rates during the meeting in August as well as the more stable condition of the global money market.

During the period of 1-24 August 2006, the baht appreciated and averaged at 37.64 baht per US dollar as a result of foreign investors' demand for baht assets, especially during the first half of the month.

Bank of Thailand
31 August 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

^{1/} Commercial bank claims on the private sector is defined as commercial bank credits to the private sector (including holding of private securities).

^{2/} Broad money is defined as 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>. From January 2007, the Bank of Thailand will disseminate only the broad money.