



# BANK OF THAILAND NEWS

Communications and Relations Office, Management Assistance Department

Tel. 0-2283-5016-7 FAX 0-2281-5648 www.bot.or.th

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

**In August 2006, macroeconomic indicators** showed decelerated growth from the previous month with the expansion of domestic expenditure slowing slightly from the previous month. Meanwhile, export and import values continued to grow significantly, causing the trade balance to return to a surplus in this month.

On the **supply side**, the growth of crop production and crop prices slowed, causing farm income to grow less rapidly this month. Nevertheless, manufacturing production and tourism continued to expand satisfactorily.

**Overall economic stability** remained satisfactory. The current account continued to be in surplus and international reserves remained at a high level. Inflation decelerated significantly and the unemployment rate stayed low.

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

**1. Manufacturing Production. The Manufacturing Production Index (MPI with 76 product categories)** expanded by 7.4 per cent year-on-year, increasing slightly from the previous month primarily due to the production of electronics and food products for export. At the same time, the vehicles also expanded as a result of the production of new models of passenger and commercial cars for both domestic and foreign markets. In addition, the beverages category saw accelerated beer production for beer inventory accumulation.

The **capacity utilization rate (with 69 product categories)** in August 2006 registered at 74.1 per cent, close to 74.0 per cent last month.

**2. Domestic Spending.** The **Private Consumption Index (PCI)** rose by 1.3 per cent year-on-year, decelerating from the previous month following the decrease in benzene and gasohol usage and the slowdown in quantity of consumer goods imported and passenger car sales. The **Private Investment Index (PII)** (preliminary figure) grew by 0.6 per cent from the same period last year. Machinery and equipment investment ascended at a slower rate in accordance with the quantity of capital goods imported. Meanwhile, sales of commercial cars resumed expansion in this month. In addition, investment indicators in the construction category improved slightly from the last month due to the increase in the quantity of cement sold domestically.

**3. Fiscal Position. In August 2006,** government revenue collection totalled 220.2 billion baht, increasing by 18.0 per cent year-on-year. Collection from the income tax base, which grew by 19.5 per cent, accelerated chiefly due to corporate income tax and petroleum tax collection as this was the period in which corporate net income taxes for the first half of 2006 were due. Furthermore, collection from the personal income tax base also accelerated, largely as a result of interest income tax collection. Consumption tax collection expanded at a slightly slower rate in comparison to the same period in the previous year, in line with the deceleration of value-added tax collection. Non-tax income accelerated from last month, growing by 136.1 per cent year-on-year, mainly due to the remittance of petroleum royalty tax which was last remitted in July of last year. This month, the government cash balance registered a deficit of 8.8 billion baht.

**4. External Sector. In August 2006,** the **trade balance** registered a surplus of 0.3 billion US dollars, improving from the previous month which saw a deficit. **Export** value totalled 11.7 billion US dollars, growing by 17.0 per cent year-on-year on the back of the export of electronics, vehicles, petroleum products and steel products. **Import** was valued at 11.4 billion US dollars, growing by 11.2 per cent year-on-year due primarily to the import of crude oil, machinery and electronic parts. The **services and transfers**

**account** recorded a surplus of 0.5 billion US dollars, largely due to the increase in the number of tourists. Consequently, the **current account** recorded a surplus of 0.8 billion US dollars while the **balance of payments** was in surplus by 0.5 billion US dollars. **International reserves** at end-August 2006 stood at 59.4 billion US dollars, with a **net forward position** of 5.8 billion US dollars.

**5. Prices. In August 2006, headline inflation** fell to 3.8 per cent year-on-year as a result of the deceleration in energy prices which was in line with the fuel oil price. The retail price of benzene was reduced by 1.30 baht this month. Moreover, prices in the raw food category moderated following the prices of vegetables and fruits as supply expanded. **Core inflation** declined to 1.9 per cent in line with the prices of consumable food both within and outside the household.

The **Producer Price Index (PPI)** continued to decelerate, rising at 6.6 per cent year-on-year compared to 9.2 per cent in the previous month because of the downturn of the prices of agricultural products and petroleum products.

**6. Monetary Conditions. In August 2006, commercial bank deposits** expanded from the same period in 2005 by 9.9 per cent. After excluding the newly established commercial banks, commercial bank deposits expanded by 7.3 per cent year-on-year. Meanwhile, **commercial bank claims on the private sector**<sup>1/</sup> rose by 5.9 per cent from the same month last year but decelerated from July due to the decrease in loans to other financial institutions and the slowdown in loans to the corporate sector. 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 5.8 per cent year-on-year. Additionally, many commercial banks had increased the 3-6 months time-deposit rate and loan rate by 0.25 per cent in this month.

**Monetary base. At end-August 2006,** the monetary base stood at 782.7 billion baht, expanding by 3.8 per cent from end-August 2005. In addition, **M2, M2a, M3, and broad money**<sup>2/</sup> expanded by 9.7, 7.8, 9.0, and 9.4 per cent year-on-year respectively, comparable to the previous month.

**Money market interest rates. In August 2006** and up until the period of 1-22 September 2006, both the **1-day repurchase rate** and the **overnight interbank rate** averaged at levels close to those seen at the end of the previous month as there was no changes in the policy rate during the previous two meetings of the Monetary Policy Committee (19 July and 6 September 2006). The 14-day repurchase rate stood at 5.0 per cent per annum.

**7. Exchange Rate. In August 2006,** the baht averaged at 37.64 baht per US dollar, appreciating from the average of 38.00 Baht per US dollar in July 2006. This was a consequence of foreign investors selling US dollars in considerable amounts especially during the first half of the month when there was a likelihood that the interest rate hike in the US would be soon come to an end. Nevertheless, during the third week of August, the baht depreciated somewhat due to concerns over the investigation of nominee companies in the Stock Exchange of Thailand. However, the baht appreciated again at the end of the month.

**During the period of 1-22 September 2006,** the baht appreciated and averaged at 37.41 baht per US dollar. However, there were slight fluctuations after the coup d'état on 19 September when foreign investors suddenly increased their demand for US dollars and caused baht to depreciate quickly to 37.95 baht per US dollar. After the situation had been evaluated as non-violent, the baht appreciated slightly.

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

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<sup>1/</sup> Commercial bank claims on the private sector is defined as commercial bank credits to the private sector (including holding of private securities).

<sup>2/</sup> 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.