



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 November 2006

In November 2006, the overall economy stabilized from the previous month. Domestic demand continued to slow down but trade balance registered a higher surplus this month due to the acceleration in export and the slowdown in import. At the same time, the services, income and transfers account continued to be in surplus from the previous month.

On the **supply side**, agricultural production still contracted but improved from last month. Moreover, farm income grew at a higher rate due to the increase in crop prices. Manufacturing production also expanded from the previous month, especially in the production for export. On the services side, tourism continued to expand satisfactorily with the number of tourists going up by 2.4 per cent from the same period last year.

Overall economic stability was at a satisfactory level. The current account continued to be in surplus and international reserves remained at a high level. However, inflation increased from the previous month partly due to the effects of flooding in many parts of the country.

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

1. Manufacturing Production. The Manufacturing Production Index (MPI with 76 product categories) rose by 7.6 per cent year-on-year, accelerating from last month's growth rate of 5.7 per cent following the production in the electronics sector for export and inventory accumulation in the beverages sector in preparation for demand during the end-of-year festive season. In addition, production in the construction sector, steel sector and petroleum sector rose because of the low base of last year.

The **capacity utilization rate (with 69 product categories)** in November 2006 was at 73.0 per cent and remained unchanged from last month's level.

2. Domestic Spending. The **Private Consumption Index (PCI)** rose by 1.1 per cent year-on-year, slowing down from 1.3 percent in the previous month, in line with the fall in the quantities of passenger car sales and motorcycle sales which were partly affected by floods in many areas. Furthermore, import of consumer goods at constant prices also decreased from a high base last year. Indicators that still grew relatively well were value-added tax at 1995 price, household electricity usage and benzene and gasohol usage which expanded due to the continuous reduction in retail oil prices. The **Private Investment Index (PII)** (preliminary figure) grew by 1.3 per cent from the same period last year, mainly due to the improvement in domestic cement sales and quantity of commercial car sales. On the contrary, import of capital goods at constant prices decelerated.

3. Fiscal Position. In November 2006, government revenue collection totaled 121.5 billion baht, increasing by 9.0 per cent year-on-year but slowing down as compared to the previous month. This was mainly because of the effect of last year's high base in both the personal income tax and the corporate income tax. The personal income tax base last year was unusually high because of the income tax payment coming from the equity shares allocated to the employees of the Electricity Generating Authority of Thailand prior to its reform. From the consumption tax base, tax revenue grew at a rate similar to October's with specific business tax and excise tax revenues still expanding well. Furthermore, tariff collection decreased in line with the downward adjustment of custom duty rates. Non-tax revenue collection grew by 29.3 per cent, due primarily to the remittances of state enterprises with accounting period following the calendar year. The government's cash balance registered a deficit of 20.0 billion baht, resulting in a reduction in the treasury reserves to 85.7 billion baht at the end of November.

4. External Sector. **In November 2006, the trade balance** registered a surplus of 1.3 billion US dollars as compared to the previous month's surplus of 0.7 billion US dollars. **Export** value totaled 11.8 billion US dollars, expanding by 21.7 per cent year-on-year following export growth in high-tech industries. **Import** value was at 10.5 billion US dollars, growing at a decelerated rate of 6.3 per cent year-on-year, mainly as a result of the fall in the import of crude oil as compared to last year's volume as well as the decrease in the import in other categories. In addition, Thai Airways International imported 3 airplanes valued at 0.43 billion US dollars in this month. The **services, income and transfers account** recorded a surplus of 0.2 billion US dollars, rising from the

previous month of 0.1 billion US Dollars, as a consequence of the increase in tourism revenue. At the same time, payment on investment returns was less than the previous month's value. This month, the **current account** recorded a surplus of 1.5 billion US dollars while the **balance of payments** was in surplus by 1.1 billion US dollars. **International reserves** at end-November 2006 stood at 64.5 billion US dollars, with a net forward position of 8.5 billion US dollar.

5. Prices. In November 2006, headline inflation rose from 2.8 per cent in October to 3.5 per cent year-on-year this month. This was a result of energy prices such as benzene and diesel prices which rose from the same period last year. Moreover, prices in the fresh food category also increased due to the upward adjustment in fresh vegetables and fruits prices following the effects of floods in many parts of the country. **Core inflation** slowed down slightly to 1.7 per cent as a result of price decreases in many product categories.

The **Producer Price Index (PPI)** accelerated from 3.4 per cent to 4.0 per cent due chiefly to the rise in the prices in the manufactured products category.

6. Monetary Conditions. In November 2006, commercial bank deposits expanded from the same period in 2005 by 8.0 per cent, decelerating from last month's level because banks ceased to compete aggressively to maintain their deposit bases by raising interest rates. After excluding the newly established commercial banks, commercial bank deposits expanded by 7.0 per cent year-on-year. In the same period, **commercial bank claims on the private sector**^{1/} rose by 3.9 per cent, also slowing down from October and earlier period, partly due to the base effect in which the newly established commercial banks had been included in the banking system for one full year. In addition, the deceleration was also because of 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 5.1 per cent year-on-year.

Monetary base. At end-November 2006, the monetary base stood at 812.4 billion baht, expanding by 5.3 per cent from end-November 2005. In addition, **M2, M2a, M3, and broad money**^{2/} expanded by 8.1, 7.4, 7.7 and 8.0 per cent year-on-year, respectively.

Money market interest rates. In November 2006 and up until the period of 1-22 December 2006, the **overnight interbank rate** remained stable on average while the movement of **1-day repurchase rate** was similar to the previous month. During the same period, there was no change in the **14-day repurchase rate**.

7. Exchange Rate. In November 2006, the baht averaged at 36.54 baht per US dollar, appreciating from the average of 37.34 Baht per US dollar in October 2006 due to sustained capital inflows for investment in the stock exchange and government bonds in particular. In addition, there was also pressure on the baht from investors selling large volumes of US dollars, causing the baht to appreciate very quickly against the US dollar towards the end of the month when the baht attained 35.96 baht per US dollar, its most appreciated rate in eight years.

During the period of 1-22 December 2006, the baht was on an appreciating trend and averaged at 35.67 baht per US dollar. Nevertheless, after the announcement of the reserve requirement on short-term capital inflows on 18 December 2006, the baht reverted to a depreciating trend.

Bank of Thailand
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Contact person: Witchuda Chummee
E-mail: witchudc@bot.or.th
Tel: +66 (0)-283-5648, +66 (0)-283-5639

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^{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.