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Press Release on Economic and Monetary Conditions for December 2006 and Year 2006

The overall economy in December 2006 was driven mainly by exports while domestic demand continued to moderate.

On the **supply side**, agricultural production improved from the previous month following the moderation of effects from the floods. Farm income expanded at a higher rate as a result of the improvement in both production and crop prices. Nevertheless, manufacturing production decelerated from the previous month. On the services side, tourism continued to expand satisfactorily as December was the high season for tourism, especially along the Andaman coast.

Overall economic stability was at a satisfactory level. The current account continued to be in surplus and international reserves remained at a high level. Headline inflation remained at the same level as the previous month while core inflation decreased.

For the **year 2006**, overall economic conditions improved slightly from the year 2005. This was mainly a consequence of high export growth and a slowdown in imports, causing the trade balance to return to surplus. Moreover, the services, income and transfers account also improved following positive changes in the tourism sector. Hence, the current account also returned to a surplus. Despite the slight improvement in private consumption, domestic demand decelerated from the previous year primarily due to the slowdown in private investment in line with the slowdown in imports. On the supply side, farm income grew at a higher rate compared to the year 2005 mainly because of continued price increase. Moreover, agricultural production has also expanded this year. On the other hand, manufacturing production decelerated from the previous year because of the adverse impacts of high oil prices and the slowdown in domestic demand. Nonetheless, manufacturing production for exports grew satisfactorily while the services and tourism sector improved significantly after the detrimental impacts from the Tsunami had dissipated.

Overall economic stability was at a satisfactory level. There were considerable increases in the current account surplus and international reserves. Headline inflation and core inflation averaged at higher levels as compared to the year 2005 but there were clear signs of subsiding price pressure in the second half of the year.

Details of the economic conditions **in December 2006 and year 2006** are as follows:

1. Manufacturing Production. Manufacturing Production Index (MPI with 76 product categories) rose by 7.0 per cent year-on-year, decelerating from last month following the reduced production in the leather and petroleum industries. However, production for export in the electronics sector continued to expand well while the beverages sector saw an accumulation of inventory in preparation for end-of-year festivities. The **capacity utilization rate** (with 69 product categories) in December 2006 was at 74.5 per cent, increasing from last month's level.

For the **year 2006**, the **Manufacturing Production Index** grew at 7.4 per cent, slowing down from the previous year's growth rate of 9.1 per cent. Product categories which saw a decrease in production include leather products, household electrical appliances and steel products. On the other hand, production in the electronics and food and beverages categories expanded well. The **capacity utilization rate** increased from the year 2005 to attain a level of 74.2 per cent due primarily to production in the electronics and food and beverages categories.

2. Domestic Spending. The **Private Consumption Index (PCI)** rose by 1.3 per cent from the same period in 2005, rising slightly when compared to the 1.1 percent in the previous month. This increase was in line with the household electricity usage, value-added tax at 1995 prices, import of consumer goods at constant prices and benzene and gasohol usage, as a consequence of the reduction in retail oil prices. In contrast, passenger car sales and motorcycle sales decreased, partly as a result of the floods in many areas. The **Private Investment Index (PII)** (preliminary figure) grew by 1.2 per cent from the same period last year,

following the sales of commercial cars, which reverted to an expansion in this month, and the improvement in domestic cement after the effects of floods began to dissipate. On the other hand, import of capital goods at constant prices decreased.

For the year 2006, the **Private Consumption Index** grew by 1.3 per cent, increasing from the previous year's growth of 0.6 per cent. This was in line with the slight improvement in passenger car sales and benzene and gasohol usage as the upward adjustment in the average retail price of benzene was lower than the year 2005. At the same time, other private consumption indicators slowed down from the previous year as consumers were more cautious to spend as a result of sustained high inflation and interest rates. The **Private Investment Index (PII)** increased by 1.3 per cent, decelerating from 8.5 per cent in the previous year and in line with the Business Sentiment Index (BSI). Indicators in the equipment category, especially commercial car sales and imports of capital goods at constant prices, decelerated. Furthermore, both indicators in the construction category, namely, construction areas permitted in municipal zones and domestic cement sales, also decreased following the slowdown in the real estate sector.

3. Fiscal Position. In December 2006, gross government revenue collection totaled 108.2 billion baht, increasing by 9.0 per cent year-on-year. Tax revenue rose by 6.0 per cent, a slowdown from the previous month. This was led by a decrease in tariff collection and a slowdown in tax collection from consumption base following the deceleration in value-added tax collection partly because of baht appreciation. However, both the personal income tax and the corporate income tax increased in this month. Non-tax revenue collection also grew by 50.8 per cent mainly due to income remittance from the Electricity Generating Authority of Thailand. The government's cash balance registered a surplus of 6.9 billion baht, thus increasing the treasury reserves to 91.8 billion baht at the end of December.

For the **first quarter of fiscal year 2007**, gross government revenue collection totaled 351.7 billion baht or grew by 14.8 per cent. In the same period, the government's cash balance registered a deficit of 25.5 billion baht.

4. External Sector. In December 2006, the **trade balance** continued to be in surplus by 0.7 billion US dollars following the previous month's surplus of 1.3 billion US dollars. **Export** value totaled 10.8 billion US dollars, expanding by 16.4 per cent year-on-year following export growth in industries such as computer, vehicles, steel products, chemical products and petroleum industries. **Import** value was at 10.1 billion US dollars, growing at a decelerated rate of 6.5 per cent year-on-year mainly as a result of the decrease in the import of raw materials, capital goods and vehicles and parts. Moreover, Thai Airways International (Public Company) imported an airplane valued at 143.9 million US dollars in this month. The **services, income and transfers account** recorded a surplus of 0.5 billion US dollars, rising from the previous month due primarily to the tourism revenue which grew by 32.3 per cent. Consequently, the **current account** recorded a surplus of 1.2 billion US dollars while the **balance of payments** registered a surplus of 3.2 billion US dollars. **International reserves** as of end-December 2006 stood at 67.0 billion US dollars with a net forward position of 6.9 billion US dollar.

For the **year 2006**, the **trade balance** registered a surplus of 2.2 billion US dollars, reverting from a deficit of 8.5 billion US dollars in the year 2005. This was a result of an expansion in **export** value of 17.4 per cent year-on-year, equivalent to 128.2 billion US dollars, following the exports of high-tech products which continued to expand well from the previous year. Over the same period, **import** value totaled 126.0 billion US dollars, increasing by 7.0 per cent following the slowdown in domestic demand. The **services, income and transfers account** was in surplus by 1.0 billion US dollars, rising from previous year's surplus of 0.7 billion US dollars, as a consequence of an increase in tourism receipts. The **current account** recorded a surplus of 3.2 billion US dollars, compared to a deficit of 7.9 billion US dollars in the year 2005. In conclusion, the **balance of payments** was in surplus by 12.7 billion US dollars, increasing from the previous year's surplus of 5.4 billion US dollars.

5. Prices. In December 2006, **headline inflation** was at 3.5 per cent, unchanged from the previous month. This was mainly due to the short-term rise in food price as a consequence of floods. **Core inflation** slowed down from 1.7 per cent in the previous month to 1.5 per cent.

The **Producer Price Index (PPI)** decelerated to 2.7 per cent, primarily as a result of a decrease in the prices of petroleum products.

For the year 2006, **headline inflation** and **core inflation** were at 4.7 per cent and 2.3 per cent respectively. The **Producer Price Index (PPI)** stood at 7.0 per cent, a decrease from 9.0 per cent of the previous year.

6. Monetary Conditions. In December 2006, commercial bank deposits expanded by 5.7 per cent year-on-year and continued to decelerate. **Commercial bank claims on the private sector**^{1/} rose by 2.8 per cent year-on-year, continued to slow down from November. This was partly due to the high base effect as the newly established commercial banks had been included in the banking system during the end of the previous year. Moreover, this was also a result of 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 4.1 per cent year-on-year.

For the **year 2006**, deposits expanded at a high rate during the first half of the year as a consequence of commercial banks' competition to maintain deposit bases by raising interest rates. However, deposit growth slowed down during the second half of the year due to reduced competition among banks. In addition, loans to corporate sector for the whole year remained on a decelerating trend.

Monetary base. At end-December 2006, the monetary base expanded by 2.7 per cent year-on-year. **M2a and M3** expanded by 5.8 and 5.9 per cent year-on-year, respectively. In addition, **broad money**^{2/} increased by 6.2 per cent, decelerating from the previous month, in line with the slowdown in domestic demand.

Money market interest rates. In December 2006, the **1-day repurchase rate** and the **overnight interbank rate** stabilized on the same level as of the previous month due to no change in the policy rate.

For the **year 2006**, money market interest rates moved in line with the policy rate in an upward adjustment path during the in the first half of the year but began to stabilize in the second half of the year. The 1-day repurchase rate and the overnight interbank rate averaged at 4.64 per cent and 4.69 per cent respectively, higher than the previous year's average.

During **1-22 December 2006**, the 1-day repurchase rate and the overnight interbank rate decreased from December 2006 average after the announcement of policy rate reduction after the MPC meeting on 17 January 2007 when the policy rate was changed to **1-day repurchase rate**

7. Exchange Rate. In December 2006, the baht averaged at 35.83 baht per US dollar, appreciating from the average of 36.54 Baht per US dollar in November 2006 following the current account surplus and capital inflows. Up to mid-December, the baht appreciated very quickly against the US dollar and reached 35.23 baht per US dollar, its nine-year high. However, this trend was reversed to depreciation after the Bank of Thailand imposed the reserve requirement on short-term capital inflows. Towards the end of the month, the baht appreciated slightly.

For the **year 2006**, the baht averaged at 37.93 baht per US dollar, appreciating from its average of 40.29 baht per US dollar in the year 2005. Throughout the year, the baht was on an appreciating trend and appreciated especially rapidly in the fourth quarter.

During the period of 1-25 January 2007, the baht averaged at 36.01 baht per US dollar. The baht moved within a narrow range and was relatively stable.

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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 disseminates only the broad money.