



BANK OF THAILAND NEWS

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Press Release on Economic and Monetary Conditions for January 2007

The **overall economy in January 2007**. On the **demand side**, both private consumption and private investment indicators were trending downwards. On the **supply side**, farm income from major crops continued to grow at a satisfactory pace as crop prices increased although agricultural production expanded at a slower rate. Manufacturing production continued to expand from the previous month following export production. For the service sector, tourism expanded at a slower rate, partly because of an unusually high record last year.

Overall economic stability was satisfactory with the international reserves remaining at a high level while headline inflation slowed down from the previous month's rate and government cash balance was in surplus.

Details of the economic conditions **in January 2007** are as follows:

1. Manufacturing Production. The **Manufacturing Production Index** (MPI with 76 product categories) rose by 7.3 per cent year-on-year, accelerating from last month following production for export, especially in the electronics category. At the same time, the beverages category grew at a higher rate due to an acceleration of beer production which saw inventory accumulation. In addition, production in the tobacco category also increased because of last year's unusually low production on account of plant closure for maintenance. Nevertheless, production in the leather products, household appliances and textiles categories continued to decrease from the previous year.

The **capacity utilization rate** (with 69 product categories) in January 2007 was at 74.3 per cent, declining slightly from 74.7 recorded in the previous month.

2. Domestic Demand. Private consumption slowed down from the previous month, in line with the indicators, which exhibited decelerating trends. These included passenger car sales and motorcycle sales, both of which had continued to decrease. Similarly, household electricity usage slowed down from the previous month. Nevertheless, value-added tax at 1995 prices showed a slight expansion. **Private investment** continued on the decelerating trend; in line with private investment indicators. These indicators included commercial car sales, which declined following the acceleration in December 2006, and domestic cement sales which also decreased.

3. Fiscal Position. In January 2007, gross government revenue collection totaled 116.5 billion baht, increasing by 4.9 per cent year-on-year. Tax revenue rose by 4.7 per cent, mainly from the growth of personal income tax. On the other hand, corporate income tax contracted. With respect to the consumption tax base, both value-added and excise tax collections continued to expand, induced by the growth of petroleum and beer consumption. International trade-related tax collection continued to fall. The government's cash balance registered a surplus of 11.0 billion baht, thus increasing the treasury cash balance to 119.8 billion baht at the end of January 2007.

4. External Sector. Owing to the fact that the Customs Department had to postpone the release of data following the implementation of Harmonized Code 2007 and Paperless Customs (e-Customs), data on international trade in January is unavailable. The **services, income and transfers account** recorded a surplus of 728 million US dollars, increasing from 483 million US dollars in the previous month. The increase arose from tourism surplus (tourism receipts grew by 15.0 per cent year-on-year and tourism payments decreased from the previous month) and the decrease of net payment of returns on investment. The **balance of payments** registered a surplus of 147 million US dollars. **International reserves** as of end-January 2007 stood at 66.8 billion US dollars with a net forward position of 7.7 billion US dollars.

5. Prices. In January 2007, headline inflation was at 3.0 per cent, slowing down from the previous month's rate of 3.5 per cent. This decline was mainly due to the fall of prices in the energy category. Meanwhile, **core inflation** increased from 1.5 per cent in the previous month to 1.6 per cent this month. The main factors contributing to the increase were the upward adjustments of transportation prices, following temporary reduction in the previous month, and prices in the food and beverages category.

The **Producer Price Index (PPI)** decelerated to 2.1 per cent from 2.7 per cent in the previous month. This slowdown was a consequence of industrial product prices, particularly those linked to petroleum prices.

6. Monetary Conditions. In January 2007, deposits of other depository corporations^{1/} expanded by 6.0 per cent year-on-year and was on a decelerating trend. **Other depository corporations claims on the private sector** rose by 2.9 per cent year-on-year, also decelerating from December 2006. This deceleration was partly due to the slowdown in loans extended to the business sector.

Monetary base. At end-January 2007, the monetary base contracted by 1.2 per cent from an irregularly high base last year with the Chinese New Year celebration. Meanwhile, **broad money** expanded by 5.1 per cent, slowing down from the previous month. The slowdown in the quantity of money was in accordance with the slowdown in domestic demand and the inflation conditions during the past few months.

Money market interest rates. In January 2007, the **1-day repurchase rate** and the **overnight interbank rate** adjusted downwards from the levels in December 2006 to average at 4.84 and 4.86 per cent per annum, respectively. The decrease was in tandem with the reduction in the policy rate by the Monetary Policy Committee.

During **1-23 February 2007,** the money market interest rates moved within a narrow range and close to the January 2007 levels.

7. Exchange Rate. In January 2007, the baht averaged at 35.97 baht per US dollar, depreciating slightly from the average of 35.83 baht per US dollar in December 2006.

During 1-23 February 2007, the baht moved within a narrow range and averaged at 35.77 baht per US dollar, thus appreciating slightly from January.

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^{1/} Other Depository Corporations comprises domestically-registered commercial banks, branches of foreign banks, international banking facilities, finance companies, specialized banks, thrift and credit cooperatives, and money market mutual funds.