



# 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 February 2007

The **overall economy in February 2007**. On the **demand side**, both private consumption and private investment indicators continued to decelerate from the previous month. On the **supply side**, farm income from major crops expanded well albeit at a decelerated rate compared to the previous month due to a slowdown in both prices and production. Manufacturing production growth also moderated from the previous month. On the other hand, the tourism sector improved, especially along the Andaman Coast.

**Overall economic stability** was satisfactory with international reserves remaining at a high level while the inflation rate declined from the previous month's level.

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

**1. Manufacturing Production.** The **Manufacturing Production Index** (MPI with 76 product categories) rose by 5.5 per cent year-on-year, decelerating from last month. One important contribution came from the contraction of the vehicles category, which saw a decrease in the production of passenger cars as consumers awaited the upcoming release of new models. Moreover, production in the textile products and furniture categories also decreased from the previous year as a consequence of stronger competition. On the other hand, production in the electronic products category expanded well following hard disk drive production. Furthermore, production of air-conditioners for export accelerated this month, following a production delay last month and caused the electrical appliances category to expand. In the food category, expansion was driven by the production of frozen seafood and sugar.

The **capacity utilization rate** (with 69 product categories) in February was at 73.5 per cent, slightly reduced from 76.3 per cent recorded in the previous month due to the smaller number of working days in this month. Additionally, there were maintenance closures in the chemical products and pulp and paper products categories. Nonetheless, after seasonal adjustments, the capacity utilization rate in February was close to January's level.

**2. Domestic Demand. Private consumption** continued to slow down from the previous month, in line with certain private consumption indicators. Passenger car sales and motorcycle sales continued to contract, partly because consumers waited for the upcoming release of new models. Nevertheless, benzene and gasohol usage and value-added tax at constant prices increased year-on-year. **Private investment** exhibited a decelerating trend. This was in line with private investment indicators, namely, commercial car sales and domestic cement sales.

**3. Fiscal Position.** In February 2007, gross government revenue collection totaled 117.3 billion baht, increasing by 3.0 per cent year-on-year. Tax revenue rose by 4.6 per cent from the same period last year, mainly from the growth in the consumption tax base, including value-added tax, specific business tax and excise tax. Moreover, excise tax collection grew mainly from tax on tobacco. On the other hand, income tax collection slowed down following corporate income tax which continued to contract from last month. Nevertheless, personal income tax and petroleum tax still increased. The government's **cash balance** registered a deficit of 97.1 billion baht, resulting in a reduction of the treasury cash balance by 75.3 billion baht to 44.5 billion baht at the end of February 2007.

**4. External Sector in January 2007.** The **trade balance** recorded a surplus of 808 million US dollars. Exports rose by 17.8 per cent year-on-year with a total value of 10,373 million US dollars. Imports grew at a decelerated pace of 4.0 per cent with a total value of 9,565 million US dollars. The slowdown of import was in line with the import of crude oil, chemical products and consumer goods. After including in the services, income and transfers account, the **current account** in January registered a surplus of 1,536 million US dollars. In addition, **net capital flows** in January registered a deficit of 2,430 million US dollars, while in December 2006, net capital flows recorded a surplus of 1,442 million US dollars. This stemmed mainly from the outflows resulting from the increase of

foreign assets by commercial banks. Nevertheless, there was an increase of inflows from other sectors as foreign direct investment and investment in the stock exchange in the same period. Overall, the **balance of payments** registered a surplus of 147 million US dollars.

In February, the Customs Department postponed the release of trade data. The **services, income and transfers account** registered a surplus of 541 million US dollars, declining from last month. This was because of a slowdown in tourism revenue and the increase of private sector's investment income and dividend payments. In February, the **balance of payments** was in surplus by 834 million US dollars. **International reserves** as of end-February 2007 stood at 68.2 billion US dollars with a net forward position of 8.6 billion US dollars.

**5. Prices. In February 2007, headline inflation** was at 2.3 per cent, declining from the previous month's rate of 3.0 per cent. This was mainly due to the fall of prices in the food and beverages, transportation and housing categories. Meanwhile, **core inflation** decreased to 1.4 per cent from 1.6 per cent last month as public transportation price had slowed down. The **Producer Price Index (PPI)** increased to 2.9 per cent from 2.1 per cent in the previous month. This was because of the acceleration in the prices of industrial products, especially rice, venier wood, paper pulp, cement, iron and gold.

**6. Monetary Conditions. In February 2007, deposits of other depository corporations<sup>1/</sup>** expanded by 6.7 per cent year-on-year, accelerating slightly from January. **Other depository corporations' claims on the private sector** rose by 2.7 per cent year-on-year, close to last month's expansion rate. When compared on level-basis, claims on the private sector in February rose from January, following the increase of loans extended to the business sector.

**Monetary base. At end-February 2007, the monetary base** expanded by 4.0 per cent year-on-year but remained on a decelerating trend when compared to January. This expansion primarily resulted from the increase in cash in the hands of the public, following the Chinese New Year celebration in this month. Meanwhile, **broad money** expanded by 6.0 per cent, in line with the increase of deposits in financial institutions.

**Money market interest rates. In February 2007, the 1-day repurchase rate** adjusted downwards from the January's average of 4.84 per annum to an average of 4.74 per cent per annum. Similarly, the **overnight interbank rate** adjusted downwards from January's average of 4.86 per cent per annum to an average of 4.77 per cent per annum. The decrease was in tandem with the reduction in the policy rate.

During **1-23 March 2007**, the 1-day repurchase rate and the overnight interbank rate decreased further to 4.50 and 4.55 per cent per annum, respectively, following a further policy rate reduction by the Monetary Policy Committee on 28 February 2007.

**7. Exchange Rate and Nominal Effective Exchange Rate (NEER). In February 2007, the baht and NEER** appreciated from January's levels because of the continuous surplus in current account. The baht averaged at 35.74 baht per US dollar while NEER adjusted upwards consistently from January's level of 76.98 to 77.36 in this month. This was mainly because baht has strengthened faster than regional currencies.

**During 1-23 March 2007, the baht** continued to appreciate from February's levels to average at 35.07 baht per US dollar. This was a result of both internal and external factors, namely, the depreciation of the US dollar following the news about the higher delinquency rate in the US sub-prime market and the selling of US dollars by domestic exporters which stemmed from the expectation that the Bank of Thailand would lift the unremunerated reserve requirement on short-term capital inflows.

Bank of Thailand  
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Contact person: Punpilas Ruangwisut  
E-mail: [punpilay@bot.or.th](mailto:punpilay@bot.or.th)  
Tel: +66 (0)-283-5648, +66 (0)-283-563

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<sup>1/</sup> 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.