



# BANK OF THAILAND NEWS

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## Press Release on Economic and Monetary Conditions for March 2007 and the first quarter of 2007

The **overall economy in March 2007**. On the **demand side**, both private consumption and private investment indicators continued on a declining trend whereas export growth remained strong. On the **supply side**, farm income from major crops expanded at a decelerated rate due primarily to the slowdown in prices albeit a slight increase in production. Similarly, manufacturing production growth also decelerated from the previous month. Meanwhile, the tourism sector continued to grow. **Overall economic stability** was satisfactory. International reserves remained at a high level while the inflation rate decelerated from the previous month.

**In the first quarter of 2006**, domestic demand was rather subdued throughout the period while exports maintained substantial growth as the main driver of the economy. On the **supply side**, farm income continued to expand well, bolstered by the increase in production and prices which continued to grow at high rates. Manufacturing production, however, rose at a slower rate compared to the year 2006. The tourism sector saw consistent growth mainly due to the high season of tourism in the Andaman areas. **Overall economic stability**, on both the internal and external fronts, in the first quarter was satisfactory.

Details of the economic conditions **in March 2007 and the first quarter of 2007** are as follows:

**1. Manufacturing Production.** The **Manufacturing Production Index (MPI)** with 76 product categories) (preliminary) rose by 4.0 per cent year-on-year, decelerating from last month's growth of 5.2 per cent. This deceleration was due to production in the vehicles and construction categories as a result of the slowdown in domestic demand. Nonetheless, electronics production still grew satisfactorily despite a slight slowdown. Leather goods production expanded consistently during the recent months due to special orders from the US. Additionally, the increased production in the food category was driven by sugar production.

The **capacity utilization rate** (with 69 product categories) in March was at 80.1 per cent, higher than the previous month's level due to the greater number of working days in this month. Furthermore, there were maintenance closures in the pulp and paper products categories in February. Nonetheless, the seasonally adjusted capacity utilization rate in March was lower than that of February.

**In the first quarter of 2007**, the Manufacturing Production Index (preliminary) rose by 6.1 per cent year-on-year, moderating slightly from the previous quarter's growth of 6.8 per cent, in line with the production of industries that produce largely for the domestic market. On the other hand, production in the export-oriented categories continued to increase at a high level. The capacity utilization rate was at 76.4 per cent.

**2. Domestic Demand. Private Consumption Index (PCI)** (preliminary) decreased by 1.4 per cent from the same period of last year. In particular, indicators in the durables category (passenger car sales and motorcycle sales) contracted consecutively in the recent months. As for indicators in the non-durables category, household electricity consumption rose substantially, mainly due to the warmer weather relative to the same period of the previous year. Other indicators, namely benzene and gasohol usage, imports of consumer goods at constant price, and value-added tax at constant price, grew at decelerated rates. **Private Investment Index (PII)** (preliminary) decreased by 2.9 per cent year-on-year. Almost all of the indicators contracted compared to the previous year, in particular commercial car sales and import of capital goods at constant price which saw continuous decline.

**In the first quarter of 2007**, **Private Consumption Index (PCI)** (preliminary) decreased from the first quarter of 2006 by 0.5 per cent, mainly due to the reduced sales of passenger cars and motorcycles, as consumers delayed their purchases owing to several domestic factors. Nevertheless, other indicators continued to expand, reflecting the consumers' ability to purchase essential items for day-to-day life. The **Private Investment Index (PII)** (preliminary) decreased by 2.9 per cent year-on-year. This was a result of the continued deceleration of investment in both the machinery and equipment category and the construction category, in line with business sentiments which worsened from the previous quarter.

**3. Fiscal Position.** In March 2007, gross government revenue collection totaled 120.5 billion baht, decreasing by 1.9 per cent year-on-year, primarily due to the decline of remittances of state enterprises compared to the same period of last year. In any case, income tax revenue continued to increase as a result of a 14.6 per cent rise in personal income tax collection. However, corporate income tax collection contracted in line with the slowdown of economic conditions. Tax revenue from the consumption base continued to increase, supported by excise tax collection growth, which stemmed from tax on tobacco, and tax on specific businesses which rose in line with tax collection from financial institutions. Moreover, value-added tax collection grew at a slightly slower pace, corresponding to import tariff collection. The government's **cash balance** registered a deficit of 41.4 billion baht while the treasury cash balance registered 70.7 billion baht at the end of February 2007, increasing from the previous month by 26.2 billion baht.

**In the second quarter of Fiscal Year 2007**, government revenue collection increased from the same period last year by 2.1 per cent. The government's **cash balance** registered a deficit of 127.5 billion baht.

**4. External Sector in February 2007.** Exports rose by 18.4 per cent year-on-year with a total value of 11,161 million US dollars. Imports grew by 6.3 per cent year-on-year with a total value of 10,042 million US dollars. As a result, the **trade balance** recorded a surplus of 1,119 million US dollars. After including the services, income and transfers account surplus, the **current account** in February registered a surplus of 1,660 million US dollars. In addition, **net capital flows** in February was in deficit by 880 million US dollars, mainly from the outflows resulting from the increase of foreign assets by commercial banks. This was in spite of 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 834 million US dollars.

As for **March 2007**, the **trade balance** recorded a surplus of 2,201 million US dollars. **Exports** rose by 19.0 per cent year-on-year with a total value of 12,926 million US dollars, boosted by the export of electronics, vehicles and iron products. **Imports** value totaled 10,726 million US dollars, growing by 0.5 per cent year-on-year and slowed down in line with major imports such as oil, machinery, and consumer goods. The **services, income and transfers account** recorded a surplus of 56 million US dollars, decreasing from a surplus of 541 million US dollars in the previous month due to the increase of payments on investment income due to this period being the usual time for the payment of investment income and dividends. Moreover, surplus from the tourism sector was smaller than January's level. The **current account** in March registered a surplus of 2,257 million US dollars and the **balance of payments** registered a surplus of 2,339 million US dollars. **International reserves** as of end-March 2007 stood at 70.9 billion US dollars with a net forward position of 8.5 billion US dollars.

**In the first quarter of 2007**, the **trade balance** recorded a surplus of 4,127 million US dollars. **Exports** rose by 18.5 per cent year-on-year with a total value of 34,460 million US dollars. **Imports** grew by 3.5 per cent year-on-year with a total value of 30,332 million US dollars. After including the services, income and transfers account which was in surplus by 1,325 million US dollars, the **current account** registered a surplus of 5,453 million US dollars. The **balance of payments** registered a surplus of 3,321 million US dollars.

**5. Prices. In March 2007, headline inflation** was at 2.0 per cent, decelerating from the previous month's rate of 2.3 per cent. This was mainly due to the fall of prices in the food and beverages category, coupled with lower prices in the energy category compared to the previous year. Meanwhile, **core inflation** was at 1.3 per cent, a slight reduction from the previous month. Similarly, the **Producer Price Index (PPI)** slowed down from the previous month.

**In the first quarter of 2007**, headline inflation, core inflation and producer price index expanded at a decelerated pace by 2.4, 1.4 and 2.6 per cent, respectively.

**6. Monetary Conditions. In March 2007, deposits of other depository corporations<sup>1/</sup>** expanded by 5.7 per cent year-on-year, decelerating from February. This was because depositors tried to secure higher interest rates for longer-term deposits in February due to the expectation that interest rates would be on a

<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.

decreasing trend in the future. **Other depository corporations' claims on the private sector** rose by 2.6 per cent year-on-year and slowed down compared to February's growth rate. Nevertheless, the level of claims on the private sector in March was higher than in February, due to the increase of loans extended to the household sector.

**Monetary base.** At end-March 2007, the **monetary base** expanded by 0.1 per cent year-on-year but contracted when compared to February's level due to the seasonal increase of cash in the hands of the public during the Chinese New Year celebration in February. Meanwhile, **broad money** expanded at a slower pace of 4.9 per cent year-on-year compared to the previous month, in line with the slowdown of domestic demand and inflation during the recent months.

**Money market interest rates.** In March 2007, the **1-day repurchase rate** and the **overnight interbank rate** adjusted downwards from February's levels to average at 4.50 and 4.55 per cent per annum, respectively in tandem with the declining trend in the policy rate.

**In the first quarter of 2007**, the **1-day repurchase rate** and the **overnight interbank rate** averaged at 4.69 and 4.73 per cent per annum, respectively, decreasing from the previous quarter's averages of 4.89 and 4.95 per cent per annum, respectively.

During **1-24 April 2007**, the **1-day repurchase rate** and the **overnight interbank rate** decreased further to average at 4.21 and 4.26 per cent per annum, respectively, following a further policy rate reduction by the Monetary Policy Committee on 11 April 2007.

**7. Exchange Rate and Nominal Effective Exchange Rate (NEER).** In March 2007 the baht averaged at 35.06 baht per US dollar, appreciating from February. The baht was on an appreciating trend during the whole period, partially due to traders' concerns over the rapid appreciation of the baht as manifested in their selling of large volumes of US dollars. Towards the end of the month, the baht weakened slightly. The NEER continued to adjust upwards from the level of 77.4 in February to 78.3 in March, due mainly to baht appreciation against the US dollar.

**In the first quarter of 2007**, the baht strengthened continuously and averaged at 35.59 baht per US dollar, equal to an appreciation of 2.8 per cent from 36.60 baht per US dollar in the previous quarter.

**During 1-24 April 2007**, the baht moved within a narrow range and averaged at 34.90 baht per US dollar. During this period, the supply and demand of the US dollar was relatively balanced.

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