



BANK OF THAILAND NEWS

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Press Release on Economic and Monetary Conditions for April 2007

The **overall economy in April 2007** improved from the previous month. This was reflected in the expansion of farm income from major crops, due predominantly to the increase in production. Concurrently, manufacturing production also accelerated from the previous month. The demand side indicators, both the Private Consumption Index and Private Investment Index (preliminary), also displayed positive adjustments in line with the import expansion. Exports accelerated continuously while overall tourism was satisfactory despite the haze in the upper northern region.

Overall economic stability remained sound. International reserves remained at a high level while headline and core inflation rates continued to decline.

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

1. Manufacturing Production. The **Manufacturing Production Index** (preliminary) rose by 6.7 per cent year-on-year, accelerating from the previous month. This was ascribed to the increase in the production of export-oriented product categories. These categories included the electronics category which saw a continuous expansion and leather products category which increased as a result of special orders. Meanwhile, tobacco production accelerated because of the base effect (In 2006, April's production was low after a period of inventory accumulation prior to the excise tax increase.). However, the categories with production for both export and domestic markets still decelerated. Examples include the production of vehicles and iron and steel product categories. The **capacity utilization rate** (with 69 product categories) in April was at 72.0 per cent, declining slightly from the previous month owing to smaller number of working days as a result of Songkran holidays. Nonetheless, capacity utilization of certain product categories with maintenance closures in the previous month, such as petroleum and chemical categories, increased after their operations were resumed. Notably, after seasonal adjustments, the capacity utilization rate in April increased, compared to that of March.

2. Domestic Demand. Private Consumption Index reduced by 0.4 percent year-on-year. Indicators in the category of non-durable goods saw significant improvement. These included consumer goods imports at constant price, VAT at constant price, and household electricity consumption which continued to exhibit high growth since the previous month. However, the indicators in the durables category such as passenger car sales and motorcycle sales continued to contract. At the same time, benzene and gasohol usage increased slightly due to the rise of retail prices of gasoline in this month. **Private Investment Index** (preliminary) showed a decrease of 2.4 per cent from the same period last year. Nevertheless, the index rose compared to the previous month. The increase came from greater positive contributions of indicators in the machinery and equipment category, in particular the imports of capital goods at constant price which returned to an expansion in this month. Meanwhile, indicators in the construction category such as domestic cement sales decelerated, following the deceleration in the real estate sector.

3. Fiscal Position. In April 2007, gross government revenue collection totaled 122.1 billion baht, decreasing by 4.0 percent from the same period last year. This was mainly due to the decrease in non-tax revenue collection because of the profit remittance delay by certain state enterprises in this month. Nevertheless, income tax revenues rose, especially personal income tax which grew at 29.1 per cent because the last day to file personal income tax was postponed to 2 April 2007. Moreover, the rise of the value-added tax, stemming from somewhat-better domestic demand, led to the expansion of consumption tax. Specific business tax also increased in line with the growth in tax collection from financial institutions. On the contrary, excise tax contracted moderately, primarily attributed to the taxation rate reduction of telecommunication sector. The government's **cash balance** registered a deficit of 20.3 billion baht, and the treasury cash balance at the end of April settled at 55.0 billion baht, decreasing by 15.8 billion baht.

4. External Sector in April 2007. The **trade balance** recorded a deficit of 97 million US dollars. This was the first deficit in a period of 9 months and was caused by a large growth in **imports**, rising by 11.2 percent and

totaling 10,725 US dollars in value. Excluding the two imported airplanes (215 million US dollars in value), the value of imports grew by 9.0 per cent. Expansion occurred in all categories except the energy and petroleum products which contracted as a result of low crude oil imports following maintenance closures of oil refineries. **Export** value registered 10,628 US dollars, increasing by 16.5 per cent. This slight deceleration in comparison to the previous month tracked the slowdown of the export of high-tech products and the continuous decline in the export of labor-intensive products. However, exports of other categories still performed well. The **services, income and transfers account** registered a surplus of 141 million US dollars, in accordance with the increase in net tourism receipts. On the other hand, the investment income payments declined from the same period last year due to the lower volume of private sector's profit and dividend transfers. Consequently, the **current account** in April registered a surplus of only 44 million US dollars, and the **balance of payments** registered a deficit of 193 million US dollars. **International reserves** as of end-April 2007 stood at 71.1 billion US dollars with a net forward position of 9.4 billion US dollars.

5. In April 2007, headline inflation was at 1.8 per cent, declining slightly from the rate of 2.0 per cent in March. This corresponded to the slowdown in the prices of raw food, following the deceleration in prices of vegetables and fruits which had a high base in 2006. Meanwhile, **core inflation** was at 1.2 per cent, slightly lower than that of the previous month. The **Producer Price Index (PPI)** increased at a slower rate than last month, chiefly as a result of the deceleration in the prices of petroleum and natural gas.

6. Monetary Conditions. In April 2007, deposits of other depository corporations^{1/} expanded by 6.0 per cent year-on-year, accelerating slightly from March. This was caused by the growth of deposits from the business sector. **Other depository corporations' claims on the private sector** rose by 2.9 per cent year-on-year, as a consequence of the increase in credits extended to the household sector.

Monetary base. At end-April 2007, the **monetary base** expanded by 3.3 per cent year-on-year. The month-on-month expansion was attributed to the increase of cash in the hands of the public, especially in the holiday period. Meanwhile, **broad money** grew by 5.0 per cent from the same period last year, increasing from the previous month as deposits at financial institutions expanded.

Money market interest rates. In April 2007, the 1-day repurchase rate and the overnight interbank rate reduced from those of March to the averages of 4.17 and 4.21 per cent per annum, respectively. This was in tandem with the declining trend of the policy rate.

During **1-25 May 2007**, the 1-day repurchase rate and the overnight interbank rate adjusted downwards to 3.91 and 3.95 per cent per annum, respectively, following a further policy rate cut of 0.5 per cent per annum by the Monetary Policy Committee on 23 May 2007.

7. Exchange Rate and Nominal Effective Exchange Rate (NEER). In April 2007, the baht averaged at 34.87 baht per US dollar, appreciating from the previous month. This was partly due to the selling of US dollars by exporters as well as investment in Thai commercial banks and in the stock market by foreign investors.

In April 2007, NEER stabilized at the level of 78.3. The baht appreciated against the US dollar, the Japanese Yen, and other regional currencies while it depreciated against the Euro and other trading partners' currencies.

During 1-25 May 2007, the baht averaged at 34.62 per US dollar. The baht continued to appreciate from April's level due to capital inflows for investment in the stock market and the selling of US dollar by exporters.

Bank of Thailand
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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.