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Press Release on Economic and Monetary Conditions for May 2007

Overall economy in May 2007. On the supply side, production of major crops expanded at an accelerated rate, resulting in a continued expansion in farm income. The expansion in farm income reflected that the purchasing power of farmers remained at a satisfactory level. Meanwhile, the manufacturing production grew at a rate close to that of the previous month. Tourism growth decelerated slightly, owing to this period being a low season for tourism. On the demand side, exports continued to expand, while domestic demand growth was close to that of the previous month.

Overall economic stability remained sound. International reserves stayed at a high level and there was no inflationary pressure as the headline and core inflation rates remained at low levels.

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

1. Manufacturing Production. The **Manufacturing Production Index** (preliminary) rose by 6.3 per cent year-on-year, led mostly by the export-oriented production. This included the production in the electronics and leather products categories. Textile production also increased because of the external demand. Additionally, the food category expanded well with the increase in sugar production. However, production in some categories decreased, for example, iron and steel products category which slowed down in line with the domestic construction activities. The electrical appliances category also decelerated following the decline of television sets production. This was because manufacturers had switched to producing more LCD television sets, which command higher prices, and the base effect resulting from the high-volume production in response to the demand surge before the 2006 FIFA World Cup.

The **capacity utilization rate** in May 2007 stood at 77.7 per cent, rising considerably from the previous month due to seasonal factors. However, after seasonal adjustments, the capacity utilization rate increased slightly from that of the previous month. Nonetheless, capacity utilization rate in certain product categories decreased in this month. These included the sugar industry, which saw a seasonal decline in the operation of sugarcane mills, as well as the petroleum industry which had plant closures for emergency repair.

2. Domestic Demand. Private Consumption Index (PCI) decreased by 0.4 percent from the same period last year, similar to the previous month. Indicators in the durable goods category saw some improvement as the sales of passenger cars and motorcycles had picked up due to an increase in demand. Meanwhile, the indicators in the non-durable goods category decelerated, following the decrease in VAT at constant price; benzene and gasoline usage also declined as the retail prices of gasoline had risen in this month. On the month-on-month basis, PCI expanded by 1.0 percent. **Private Investment Index (PII)** (preliminary) declined by 3.1 per cent from the same period last year. The deceleration resulted mainly from the decline in the domestic cement sales, an indicator in the construction category. On the other hand, indicators in the machinery and equipment category expanded, owing to the increased import of capital goods at constant prices. Despite this expansion, the growth of capital goods imports slowed down from the previous month due to the high-base effect caused by the import of a satellite last year. On a month-on-month basis, PII increased by 1.0 per cent, a consecutive month-on-month growth from April. This corresponded with the improvement in the Business Sentiment Index components, especially the investment component which rose above the benchmark level of 50 in this month.

3. Fiscal Position. In May 2007, gross government revenue collection totaled 274.3 billion baht, increasing by 10.6 percent from the same period last year. The total income tax collection rose by 7.8 per cent, stemming from the increase in both the personal income tax and the corporate income tax revenues, which increased in line with the corporate profitability performance in the previous year. However, revenue from the consumption tax base was 2.9 per cent lower than the same period last year. This was brought about by the 2.6 per cent decrease in VAT, following the reduced collection of VAT on imports due to the baht appreciation, as well as the slowdown in imports. Non-tax revenue expanded by 118.8 per cent, mainly because certain state enterprises postponed their profit remittance in April to May. The government's **cash balance** registered a deficit of 22.4 billion baht, and the treasury cash balance at the end of May settled at 54.7 billion baht, decreasing by 0.3 billion baht from last month.

4. External Sector in May 2007. The **trade balance** recorded a surplus of 656 million US dollars. This was due to the **export** value of 12,839 million US dollars, equivalent to an increase of 19.9 per cent year-on-year. Export growth

occurred in all categories, including the labor-intensive category which returned to expansion after a contraction in April. The value of **imports** totaled 12,183 million US dollars, growing by 6.2 per cent year-on-year, decelerating from the previous month following a slowdown in all import categories, including the oil products category which continued to decline. The **services, income and transfers account** registered a deficit of 410 million US dollars, owing to this month being the peak period for the transfers of investment income payments of the corporate sector and the decline in net tourism receipts from the previous month. Consequently, the **current account** exhibited a surplus of 246 million US dollars, and the **balance of payments** registered a surplus of 660 million US dollars. **International reserves** as of end-May 2007 maintained the level of 71.1 billion US dollars with a net forward position of 9.8 billion US dollars.

5. In May 2007, headline inflation was at 1.9 per cent, slightly higher from the rate of 1.8 per cent in April. This was in line with the upward adjustment in the prices of raw food, especially the prices of broilers, chicken eggs, and vegetables. With the withdrawal of the Announcement by the Council for Democratic Reform No. 8 on the prohibition of goods hoarding and price adjustments, the prices of milk and dairy products also increased. Moreover, the energy prices rose, corresponding to the upward adjustments of benzene price. Meanwhile, **core inflation** was at 0.7 per cent, decelerating from 1.2 per cent in the previous month. This came mainly from the high-base effect as there was an increase in the public transportation fees during the same period last year. The **Producer Price Index (PPI)** grew at 1.8 per cent, the same rate as of April.

6. Monetary Conditions. After the continual slowdown since mid-2006, **deposits of other depository corporations**^{1/} began to stabilize in May 2007 and expanded by 5.7 per cent year-on-year. Government deposits accelerated in the past 2-3 months as a portion of the fiscal budget was deposited at commercial banks, awaiting subsequent disbursements.

Other depository corporations' claims on the private sector rose by 2.4 per cent year-on-year, decelerating from the previous month's 2.9 per cent. This was ascribed to the continual deceleration of credit extended to the business sector in line with the domestic demand condition. Meanwhile, credit extended to the household sector still expanded well.

Monetary base. At end-May 2007, the **monetary base** increased by 4.6 per cent from the same period last year. **Broad money** expanded by 4.7 per cent from the same period last year, projecting a declining trend consistent with the recent slowdown of domestic demand and inflation rates.

Money market interest rates. In May 2007, the **1-day repurchase rate** and the **overnight interbank rate** reduced from those of April to the averages of 3.85 and 3.89 per cent per annum, respectively. This was in tandem with the downward trend in the policy rate.

During **1-26 June 2007**, the 1-day repurchase rate and the overnight interbank rate adjusted downwards to 3.50 and 3.54 per cent per annum, respectively.

7. Exchange Rate and Nominal Effective Exchange Rate (NEER). In May 2007, the baht averaged at 34.62 baht per US dollar, appreciating slightly from the previous month. This was partly due to the continuous selling of US dollars by exporters as well as the continued increase in investment by foreign investors in the stock market.

In May 2007, **NEER** was at 78.78, a slight increase from the previous month. The baht followed an appreciating path in tandem with other regional currencies. This was due primarily to the increased inflow of foreign capital into the region's stock markets. In addition, the Japanese Yen also depreciated with the expansion in carry trade transactions.

During **1-26 June 2007**, the baht moved within a narrow range and averaged at 34.59 baht per US dollar.

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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.