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Press Release on Economic and Monetary Conditions for June 2007 and the second quarter of 2007

Overall economy in June 2007. Domestic demand, with respect to both private consumption and investment, picked up from the previous month. Exports continued to expand considerably. On the supply side, major crops production slowed down from the previous month after experiencing high growth rates in April and May 2007. Manufacturing production grew at a decelerated rate compared to the previous month. Similarly, tourism moderated, owing to concerns over unrests in the country and bombing incidents in the south towards the end of May. **Overall economic stability** remained sound. International reserves stayed at a high level and the inflation rate remained unchanged from the previous month.

In the **second quarter of 2007**, domestic demand showed signs of improvements from the previous quarter while export growth remained robust. On the supply side, major crops substantial growth of major crops production, farm income growth decelerated slightly. Manufacturing production, especially production of exporting goods, grew at a rate close to that of the previous quarter. On the other hand, tourism slowed down from the previous quarter as a consequence of negative factors such as haze in the northern region, tropical depression, political gatherings, and unrests in the south. Nonetheless, internal and external economic stability during the period were satisfactory.

Details of the economic conditions in **June 2007 and the second quarter of 2007** are as follows:

1. Manufacturing Production. The **Manufacturing Production Index** (preliminary) rose by 4.9 per cent year-on-year, decelerating from the previous month due to the slowdown of production in domestic-oriented industries such as iron and steel products and construction materials. In addition, the beverage industry also slowed down due to accumulated inventory; production in the food category also decreased following the reduced production of canned seafood, canned pineapple, and vegetable oil as a result of raw material shortage and higher prices. Nevertheless, production in the export-oriented industries continued to experience satisfactory growth. In particular, **electronic products** expansion was attributed to the hard disk production, **leather products** category saw special orders from the US, and the **electrical appliances** category was boosted by the production of new television set models for markets abroad.

The **capacity utilization rate in June 2007** stood at 76.3 per cent, lower than the previous month. Production in the food category slowed down due to the end-season of sugarcane mills operations. In addition, there were plant maintenance closures in the petroleum, petrochemical, iron and steel, and tobacco industries. Nevertheless, after seasonal adjustments, the capacity utilization rate increased slightly from that of the previous month.

In the **second quarter of 2007**, the **Manufacturing Production Index** grew by 5.8 per cent from the previous year, a rate close to that of the first quarter. This was attributed to the satisfactory growth in the categories of electronics, leather goods, food, and beverages. The **capacity utilization rate** was at 75.2 per cent, decreased from the previous quarter which was at 76.0, primarily because of the production decrease in food products, beverages, rubber products, and construction material categories.

2. Domestic Demand. Private Consumption Index (PCI) increased by 0.7 percent from the same period last year. Several indicators in the non-durable goods and durable goods category picked up from the previous month. These were namely benzene and gasohol usage, household electricity consumption, value-added tax at constant prices, and passenger car sales. The import of consumer goods at constant prices also continued to grow albeit at a decelerated rate compared to the previous month. **Private Investment Index (PII)** (preliminary) declined by 2.7 per cent year-on-year. However, the PII increased from the previous month by 1.0 per cent.

Indicators in the machinery and equipment category picked up following the improvement of the commercial car sales. Indicators in the construction category continued to slow down despite improved domestic cement sales.

In the second quarter of 2007, the **Private Consumption Index (PCI)** remained roughly at the same level as of the same period last year and improved from the first quarter. This was in line with the improvement in many indicators such as household electricity consumption, imports of consumer goods at constant prices, and passenger car sales. The **Private Investment Index** (preliminary) also picked up from the previous quarter, especially for indicators in the machinery and equipment category. Nevertheless, the construction category remained subdued.

3. Fiscal Position. In June 2007, the government's gross revenue collection totaled 121.8 billion baht, increasing by 2.0 percent from the same period last year, primarily ascribed to the growth in tax revenue grew by 6.1 per cent year-on-year. This came mainly from the total income tax collection which saw an increase in both the personal and corporate income tax collections. The personal income tax increase was mainly attributed to the rise of interest income. The increase of corporate income tax collection was a result of increases in service fee, disposed profit and withholding tax. On the other hand, revenue from the consumption tax base contracted following the reduced collection of VAT on imports due to the baht appreciation, as well as the slowdown in imports. Non-tax revenue decreased in this month mainly because the profit remittance of certain state enterprises was made in May. The government's **cash balance** registered a surplus of 87.4 billion baht, and the treasury cash balance at the end of June settled at 109.2 billion baht, increasing by 54.5 billion baht from last month.

In the third quarter of fiscal year 2007, the government's gross revenue collection increased from the same period last year by 5.3 per cent. Tax and non-tax revenues expanded by 5.3 and 4.7 per cent, respectively. The government's cash balance was at 44.8 billion baht.

4. External Sector in June 2007. The **trade balance** recorded a surplus of 1,099 million US dollars. This was due to the continuous high growth in exports. **Exports** value totaled 12,714 million US dollars in June, equivalent to an increase of 18.1 per cent year-on-year and reflecting strong expansion in every export category. **Imports** value totaled 11,616 million US dollars, growing by 3.8 per cent year-on-year. This was a continued deceleration from the previous month, especially for raw materials, capital goods, fuels, and petroleum products. Factoring in the **services, income and transfers account** which was in surplus by 103 million US dollars, the **current account** recorded a surplus of 1,202 million US dollars, and the **balance of payments** registered a surplus of 1,877 million US dollars. **International reserves** as of end-June 2007 registered at 73.0 billion US dollars with a net forward position of 9.5 billion US dollars.

For the second quarter of 2007, the **trade balance** recorded a surplus of 1,489 million US dollars, due to the robust 18.3 per cent export growth, equivalent to 36,182 million US dollars in value. Imports grew by 7.4 per cent and totaled 34,693 million US dollars in value. The services, transfers and income account was in deficit by 166 million US dollars and the **current account** was in surplus by 1,322 million US dollars. The **balance of payments** also registered a surplus of 2,344 million US dollars.

5. In June 2007, headline inflation was at 1.9 per cent, unchanged from May's level. There were upward adjustments in the prices of raw food but the reduction of electricity and benzene prices helped to lessen overall inflation. Meanwhile, **core inflation** was at 0.7 per cent, unchanged from the previous month. Price decreases in non-alcoholic beverages, processed food and medical check-up fees helped to offset the effects of increases in rents and prices of cooking materials. The **Producer Price Index (PPI)** grew at 1.8 per cent, the same rate as of May. Agricultural prices had risen while industrial prices had decreased, following petroleum and natural gas prices.

For the second quarter of 2007, the headline inflation and core inflation decelerated from the first quarter. The headline inflation was at 1.9 per cent while the core inflation was at 0.8 per cent, compared to the previous quarter of 2.4 and 1.4 per cent, respectively.

6. Monetary Conditions. In June 2007, deposits of depository corporations^{1/} expanded by 4.2 per cent year-on-year, a slowdown from 5.7 per cent in the previous month. This was due partly to the reduction of deposit base in order to minimize the FIDF fees during every mid-year period. Private sector credits of **depository corporations** rose by 3.5 per cent year-on-year, increasing from that of the previous month of 2.4 per cent. Household credits accelerated from the previous month while credits to the business sector still contracted from the same period last year.

Monetary base. At end-June 2007, the monetary base increased by 2.7 per cent from the same period last year. **Broad money** expanded by 3.5 per cent from the same period last year, projecting a continued declining trend.

Money market interest rates. In June 2007, the 1-day repurchase rate and the overnight interbank rate decreased from those of May to the averages of 3.50 and 3.54 per cent per annum, respectively. During **1-25 July**, the rates dropped further to average at 3.42 and 3.41 per cent per annum, respectively, after the policy rate reduction.

During **the second quarter of 2007**, the averages of short-term interest rates in the money market were lower than the previous quarter. The **1-day repurchase rate** and the **overnight interbank rate** averaged at 3.84 and 3.88 per cent per annum, respectively. The averages of the first quarter of 2007 were 4.69 and 4.73 per cent per annum, respectively.

7. Exchange Rate and Nominal Effective Exchange Rate (NEER). In June 2007, the baht averaged at 34.58 baht per US dollar, appreciating slightly from the previous month, due to the relatively balanced supply and demand of the US dollar. Capital inflows into the stock market were continuous while importers and petroleum companies were buying more US dollars as well. The **NEER in June 2007** was at 79.1, a slight increase from the previous month's level of 78.8. This was due primarily to the increased inflow of foreign capital into the region's stock markets which resulted in the appreciation of regional currencies alongside with the baht.

In the **second quarter of 2007**, the baht averaged at 34.68 baht per US dollar, appreciating slightly from the previous quarter's average of 35.59 baht per US dollar. NEER also strengthened by 1.5 per cent from the average of the last quarter.

During 1-25 July 2007, the baht appreciated rapidly and averaged at 33.71 baht per US dollar. This was attributed to large investment inflows into the stock market, as well as exporters' concerns which resulted in the selling of US dollars.

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***Vision : A forward-looking organization with competent staff dedicated to ensuring
the resilience of the Thai economy against shock and instability***

^{1/} Depository Corporations comprises of all depository corporations excluding the Bank of Thailand, namely, domestically-registered commercial banks, branches of foreign banks, international banking facilities, finance companies, specialized banks, thrift and credit cooperatives, and money market mutual funds.