



BANK OF THAILAND NEWS

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Press Release on Economic and Monetary Conditions for July 2007

Overall economy in July 2007. On the supply side, major crop production expanded at a satisfactory rate. However, the slowdown in the farm price increase caused a slight deceleration in farm income. Manufacturing production continued to grow. However, tourism slowed down as a result of political demonstrations and southern unrests. On the demand side, private investment indicators improved compared to the previous month while private consumption indicators slowed down. And the deceleration in the growth of exports and imports resulted in smaller surpluses in both trade balance and current account. Overall the economic stability remained strong. International reserves stayed at a high level and the inflation rates remained low.

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

1. Manufacturing Production. The **Manufacturing Production Index** (preliminary) rose by 7.2 per cent year-on-year, accelerating from the previous month. In particular, production in **electronic category** grew continuously following the external demand for hard disk drives. In the **vehicle category**, passenger car production expanded well with the demand from both domestic and external markets for newly-launched models. But, temporary factors also played some role. In the **tobacco category**, production picked up sharply to replenish the run down in inventory. Meanwhile, high production growth of **iron and steel and electronic appliances** were caused by low base effects. Nonetheless, production in **beverage category** fell, in line with lower beer production in order to moderate overstocking. In **food category**, canned seafood and canned pineapple productions declined, mainly due to raw material shortage. Lower production of **petroleum products** was owing to maintenance closures. In **textile category**, a drop in the garments production resulted from the industry's lost of competitiveness.

The **capacity utilization rate in July 2007** declined from the previous month to the level of 75.0 per cent, in line with the production in leather, electrical appliances, food, and beverage categories. Nonetheless, seasonally adjusted capacity utilization rate in July was close to that of the previous month.

2. Domestic Demand. Private Consumption Index (PCI) increased by 0.1 per cent year-on-year, slowing down from the previous month. The decelerated indicators included the consumption of benzene and gasohol as well as household electricity, the imports of consumer goods at constant price, and the motorcycle sales, which contracted noticeably. Nevertheless, improvements occurred in VAT at constant price and passenger car sales, which returned to positive growth in this month as a result of the introduction of new models. **Private Investment Index (PII)** (preliminary) declined by 3.0 per cent year-on-year. However, compared to the previous month, PII expanded by 1.0 per cent. This was in line with the improvement in the commercial car sales, imports of capital goods at constant price, and domestic cement sales.

3. Fiscal Position. In July 2007, the government's gross revenue collection totaled 111.0 billion baht, growing by 9.6 percent from the same period last year. This corresponded to the increase in non-tax revenue, which resulted from the low base effect of the profit remittance by the state enterprises. Meanwhile, tax revenue rose by 4.3 per cent, following an expansion in income tax. The increase in personal income tax collection was in line with the tax collected on salary income and interest income. The increase in corporate income tax collection was a result of increases in service fee, disposed profit and withholding tax. Consumption tax increased slightly with the increased collection of VAT which resumed positive growth in this month, especially those from the domestic sales. Excise tax still contracted, following oil and beer taxes. The government's **cash balance** registered a deficit of 54.1 billion baht, and the treasury cash balance at the end of July settled at 57.9 billion baht, decreasing by 51.3 billion baht from last month.

4. External Sector in July 2007. The **trade balance** recorded a surplus of 41 million US dollars, slowing down from the previous month in line with the decelerated exports. **Exports** value totaled 11,725 million US dollars, growing by 6.2 per cent from the same period last year. The deceleration occurred in all categories. In particular, the agriculture category decreased by 7.5 per cent year-on-year, following rice and tapioca exports, which were affected by exporting activities that occurred in earlier period and high base effect. Petroleum exports also fell as a result of

maintenance closures. Meanwhile, **imports** value totaled 11,684 million US dollars, expanding by 3.7 per cent from the same period last year. In particular, raw material imports, such as iron, chemicals, textiles, and electronic products, decelerated for two consecutive months after the high growth in the first 5 months of this year. Capital goods imports also declined, due to the decrease in the machinery category. Imports in fuels and petroleum category continued to decline, resulting mainly from the crude oil import reduction. **Services, income, and transfers account** registered a surplus of 325 million US dollars. This was in line with the continued surplus of tourism balance and lower volume of private sector's profit and dividend transfers compared to the previous month. Consequently, the **current account** was in a surplus of 367 million US dollars and **balance of payments** settled at a surplus of 245 million US dollars. International reserves as of end-July 2007 stood at 74.0 billion US dollars with a net forward position of 12.3 billion US dollars.

5. In July 2007, headline inflation was at 1.7 per cent, declining from the previous month. This was owing to the downward adjustments in the prices of raw food, following the prices of vegetables and fruits, and energy, following the reduction in the benzene prices which occurred 3 times during this month and FT-electricity rate which was lowered in June. Meanwhile, **core inflation** was at 0.8 per cent, slightly higher from the previous month. This was ascribed to the price increase of all daily newspapers in response to higher production costs. The **Producer Price Index (PPI)** rose by 1.2 per cent, reducing from 1.8 per cent in the previous month. The lower index resulted primarily from the slowdown in agricultural prices, namely rubber, palm oil, vegetables and fruits, and the continual deceleration in mining product and manufactured product prices.

6. Monetary Conditions. In July 2007, deposits of depository corporations^{1/} grew by 4.8 per cent year-on-year, still tracing a slowing down trend compared with the beginning of this year. However, the expansion of deposits from the previous month was a result of the reverse flow of deposits which fell temporarily in June in order to lessen the payment of FIDF fee. Private credits expanded by 2.7 per cent year-on-year, decelerating in line with the credits extended to business sector.

Monetary base. At end-July 2007, the **monetary base** rose by 4.6 per cent from the same period last year. **Broad money** increased by 4.0 per cent from the same period last year, corresponding to commercial banks' deposit growth.

Money market interest rates. In July 2007, the **1-day repurchase rate** and the **overnight interbank rate**, following the reduction in the policy rate, fell to the same monthly average of 3.39 per cent per annum.

7. Exchange Rate and Nominal Effective Exchange Rate (NEER). In July 2007, the baht averaged at 33.71 baht per US dollar, appreciating rapidly from 34.58 baht per US dollar in June. This was due mostly to large capital inflow to invest in the stock market at the beginning of the month and the selling of US dollars forward by exporters. The **NEER in July 2007** stood at 80.4, rising from 79.1 in the previous month as a result of the baht appreciating against major and regional currencies.

During 1-28 August 2007, the regional stock markets dampened down, due to the repercussion from the sub-prime market problem in the US. Foreign investors mitigated investment risk by withdrawing from the regional stock markets and bought US dollars. As a consequence, the baht depreciated to the average of 34.18 baht per US dollar.

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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.