



# BANK OF THAILAND NEWS

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## Press Release on Economic and Monetary Conditions for August 2007

**Overall economy in August 2007** improved from the previous month. This was primarily due to the exports which resumed satisfactory expansion and the improvement in domestic demand which corresponded to the accelerated imports. On the supply side, agricultural production decelerated while major crop prices increased, resulting in a minor slowdown in farm income. Manufacturing production expanded well, particularly in the export-oriented industries. Furthermore, tourism also picked up from the previous month. Overall economic stability remained strong. International reserves stayed at a high level and inflation remained low.

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

**1. Manufacturing Production.** The **Manufacturing Production Index** (preliminary) grew by 10.2 per cent year-on-year, accelerating from the previous month. With the strengthened domestic demand, expansions occurred in **electronic, electrical appliance, and vehicle** production. The **beverages** category also benefited from beer production which accelerated as a result of the low base in the same period last year. However, a decline in production was seen in some categories. These included **leather** production which fell after special orders have ended and **food** production which decreased owing to raw material shortages in the canned food and canned pineapple industries. In the **textile** category, lower garment production was ascribed to the industry's lost of competitiveness. **Iron and steel** production fell in line with the slowdown in the construction sector.

The **capacity utilization rate in August 2007** stood at 77.2 per cent, rising from the previous month mainly in line with the increase in electronic and electrical appliance production. Seasonally adjusted capacity utilization rate in August also increased.

**2. Domestic Demand. Private Consumption Index (PCI)** expanded by 1.4 per cent year-on-year, accelerating from the previous month. Improvements occurred in most indicators, including imports of consumer goods at constant price, VAT at constant price, the consumption of benzene and gasohol, and household electricity. Passenger car sales also saw continual growth for two consecutive months. **Private Investment Index (PII)** (preliminary) declined by 2.8 per cent year-on-year. However, compared to the previous month, PII expanded by 0.9 per cent. This was in line with the improvement in the imports of capital goods at constant price, commercial car sales, and domestic cement sales.

**3. Fiscal Position. In August 2007**, the government's gross revenue collection totaled 225.7 billion baht, increasing by 2.4 per cent from the same period last year. Tax revenue rose by 1.9 per cent mainly from expansion in personal income tax, while corporate income tax increased only slightly. An increase in consumption tax resulted primarily from an increase in the collection of VAT, excise tax from the petroleum, tobacco, beer, and car sales, and specific business tax from financial institutions. Non-tax revenue expanded in line with the profit remittance by the state enterprises. The government's **cash balance** registered a surplus of 4.6 billion baht, and the treasury cash balance at the end of August was 68.2 billion baht, increasing by 10.3 billion baht from the previous month.

**4. External Sector in August 2007.** The **trade balance** recorded a surplus of 973 million US dollars as a result of export acceleration. **Exports** value totaled 13,818 million US dollars, growing by 18.4 per cent from the same period last year. The expansion occurred in all export categories, particularly in the high-tech industries such as electronic and vehicle. Meanwhile, **imports** value totaled 12,845 million US dollars, an increase of 12.1 per cent from the same period last year, accelerating from the previous month across all categories. In addition to the growth in imports of raw materials and capital goods, fuels and petroleum imports adjusted upwards after a period of continuous decline since the beginning of the year. **Services, income, and transfers account** registered a deficit of 239 million US dollars, due to the increase in profit and dividend transfers. Consequently, the **current account** was in a surplus of 735 million US dollars and **balance of payments** registered a surplus of 205 million US dollars. International reserves as of end-August 2007 stood at 74.4 billion US dollars with a net forward position of 13.6 billion US dollars.

**5. In August 2007, headline inflation** was at 1.1 per cent, decreasing from the previous month. This was due to the slowdown in the prices of raw food, following lower prices of vegetables resulting from favorable weather conditions. The prices in energy category dropped, following the price reductions twice in the benzene prices and once in the diesel prices during this month. Meanwhile, **core inflation** was at 0.7 per cent, slightly lower from the previous month. This was due to high base as there was an increase in the fees of public mass transit in the same period last year. The **Producer Price Index (PPI)** rose by 0.3 per cent, slowing down from 1.2 per cent in the previous month. This was primarily because of the deceleration in the agricultural product prices, particularly the prices of vegetables, as well as the manufacturing product prices which continued to decline.

**6. Monetary Conditions. In August 2007, deposits of depository corporations<sup>1/</sup>** expanded by 2.9 per cent year-on-year, trending down from the beginning of this year. Private credits grew by 2.8 per cent, following household credit expansion. However, credits extended to the business sector still continued to decrease from the same period last year.

**Monetary base. At end-August 2007,** the **monetary base** increased by 2.7 per cent while **broad money** rose by 3.0 per cent from the same period last year.

**Money market interest rates. In August 2007,** the **1-day repurchase rate** and the **overnight interbank rate** averaged at 3.25 per cent per annum, which was lower than the averages in the previous month in line with the downward trend in interest rates. **During 1-24 September,** both rates remained unchanged as the MPC decided to maintain the policy rate on August 29<sup>th</sup>, 2007.

**7. Exchange Rate and Nominal Effective Exchange Rate (NEER). In August 2007,** the baht averaged at 34.20 baht per US dollar, depreciating from the average of 33.71 baht per US dollar in July. This was a result of foreign investors' withdrawal from the regional stock markets due to concerns over the US sub-prime market. Compared to the trading partners' and competitor' currencies, the baht also depreciated. The **NEER in August 2007** softened to 79.15, from 80.38 in the previous month.

**During 1-24 September 2007,** the baht moved in narrow range, averaging at 34.26 baht per US dollars close to the rate in August.

Bank of Thailand  
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the resilience of the Thai economy against shock and instability***

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<sup>1/</sup> 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.