



BANK OF THAILAND NEWS

Communications and Relations Office, Management Assistance Department
Tel. 0-2283-5016-7 FAX 0-2281-5648 www.bot.or.th

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Press Release on Economic and Monetary Conditions for September 2007 and the third Quarter of 2007

Overall economy in September 2007 continued to expand at a similar pace as the previous month. Domestic demand continued its recovery trend while export growth remained satisfactory. On the supply side, the increase in both production and prices of major crops resulted in higher farm income. Manufacturing production expanded well, though slowing down slightly from the previous month, whereas tourism continued to improve. Overall economic stability remained strong with continued current account surplus and high level of international reserves. Despite a minor acceleration of headline inflation, core inflation remained low.

In the **third quarter of 2007**, overall economy improved from the preceding quarter. Improvement in domestic demand has been more notable and exports continued to expand well. This was in line with the development in the supply side where manufacturing production accelerated from the previous quarter. Tourism also picked up. Nonetheless, the slowdown in agricultural production and the stable agricultural prices led to a slowdown in farm income growth.

Details of the economic conditions in **September 2007 and the third quarter of 2007** are as follows:

1. Manufacturing Production. The **Manufacturing Production Index** (preliminary) expanded well at the rate of 9.3 per cent year-on-year, though slowing down slightly from 10.1 per cent in the previous month. Satisfactory growth was observed in the **electronic** and **vehicle** productions due to favorable external demand, and **petroleum** production in line with domestic demand. However, production deceleration occurred in some categories which had high stock accumulation and export activities in earlier period. These included **electrical appliance**, **beverages**, and **tobacco** categories. The **capacity utilization rate in September 2007** was at 77.0 per cent, close to that of the previous month. Seasonally adjusted capacity utilization rate in September decreased slightly.

In the **third quarter of 2007**, the **Manufacturing Production Index** grew by 9.0 per cent year-on-year, accelerating from the previous quarter. This was attributable to the production expansions in electronics, vehicles, and electrical appliance categories. Accordingly, the **capacity utilization rate** increased from the preceding quarter to 76.4 per cent.

2. Domestic Demand. Private Consumption Index (PCI) expanded by 0.3 per cent from the same period last year, slowing down from the previous month. This corresponded to the reduction in durable-good consumption indicators. Motorcycle sales continued to contract while passenger car sales fell slightly from the same period last year which benefited from the launch of new car models. However, non-durable good consumption indicators improved in line with imports of consumer goods at constant price, VAT at constant price, and household electricity. **Private Investment Index (PII)** (preliminary) dropped by 0.6 per cent year-on-year, picking up from the previous month's decline of 2.4 per cent. This was because of the improvement in indicators in machinery and equipment category, including the continued expansion in imports of capital goods at constant price and high growth in commercial car sales.

In the **third quarter of 2007**, the **Private Consumption Index** improved from the previous quarter, expanding by 0.6 per cent from the same period last year. Most indicators adjusted upward, particularly the passenger car sales which returned to positive growth in this quarter. The **Private Investment Index** (preliminary) dropped by 0.6 per cent from the same period last year, improving from the preceding quarter's decline of 2.7 per cent. The improvement stemmed mainly from the indicators in machinery and equipment category. Nevertheless, the construction category remained subdued.

3. Fiscal Position. In September 2007, the government's gross revenue collection was 138.4 billion baht, increasing by 24.8 per cent year-on-year. Tax revenue rose by 3.2 per cent, following the income tax expansion. Meanwhile, consumption tax declined slightly from the reduction in excise tax. This was caused by lower tobacco tax as producers were hoarding products prior to the increase of tobacco stamp fee on August 28th. The collection of VAT increased in line with the trend of domestic demand. Non-tax revenue escalated by 152.5 per

cent, owing mainly to the remittance of 36.9 billion baht from the closure of the Exchange Rate Equalization Fund (EEF). However, if the remittance was excluded, the government revenue collection would reduce by 8.5 per cent from the same period last year. The government's **cash balance** registered a surplus of 63.9 billion baht, and the treasury cash balance at the end of September was 142.8 billion baht, increasing by 74.6 billion baht from the previous month.

In **fiscal year 2007**, the government's gross revenue collection was 1,703.6 billion baht, increasing by 7.7 per cent from the previous fiscal year. However, without taking into account the remittance from EEF closure, the gross revenue collection would increase by 5.4 per cent. The government's **cash balance** registered a deficit of 94.2 billion baht, with net domestic borrowing of 140.5 billion baht and net foreign borrowing repayment of 42.1 billion baht. Consequently, the treasury cash balance increased by 4.3 billion baht to 142.8 billion baht.

4. External Sector in September 2007. The **trade balance** recorded a surplus of 1,927 million US dollars. **Exports** value totaled 13,246 million US dollars, rising by 12.6 per cent from the same period last year. The export growth was satisfactory, though slowing down from the previous month. Major expansion occurred in computer and parts, vehicles and parts, and plastic product categories. Exports of labor-intensive industries also increased, mainly from the precious stone and jewelry products. Meanwhile, **imports** value totaled 11,318 million US dollars, growing by 9.3 per cent from the same period last year. The minor slowdown came from lower crude oil and natural gas imports, partly because of the overlap in report procedure. Nonetheless, imports of capital goods accelerated, resulting from the imports of machinery, computer parts, as well as one aircraft (150 million US dollars in value). **Services, income, and transfers account** registered a deficit of 116 million US dollars as it was the period for private sector's profit and dividend transfer. Consequently, the **current account** was in a surplus of 1,812 million US dollars and **balance of payments** registered a surplus of 4,670 million US dollars. International reserves as of end-September 2007 stood at 80.7 billion US dollars with a net forward position of 12.9 billion US dollars.

For **the third quarter of 2007**, the **trade balance** surplus was 2,942 million US dollars. This was due mainly to the exports which expanded satisfactorily, though slowing down slightly from the previous quarter. Exports grew by 12.6 per cent year-on-year, equivalent to 38,790 million US dollars in value. On the other hand, imports grew by 8.4 per cent and totaled 35,847 million US dollars in value. Imports expanded well compared with the second quarter, corresponding to the improving trend of domestic demand. The **services, transfers and income account** was in a deficit of 14 million US dollars and the **current account** was in a surplus of 2,928 million US dollars. The **balance of payments** also registered a surplus of 5,120 million US dollars.

5. In September 2007, headline inflation was at 2.1 per cent, accelerating from the previous month. This was mainly ascribed to the energy price increases. During this month, benzene and diesel prices rose in total by 1.60 and 2 baht, respectively. **Core inflation** was at 0.8 per cent, slightly up from the previous month. This was in line with the upward adjustment in tobacco prices after the excise tax increase. The **Producer Price Index (PPI)** rose by 3.1 per cent, rapidly accelerating from 0.3 per cent in the previous month. This was due mainly to agricultural product prices which continued to increase. Some manufacturing products saw price increases, including oil, rubber and plastic products, food, beverages, and tobacco.

For **the third quarter of 2007**, the headline and core inflation decelerated from the second quarter to 1.6 and 0.8 per cent, respectively.

6. Monetary Conditions. In September 2007, deposits of depository corporations^{1/} expanded by 3.0 per cent year-on-year, trending down from the beginning of this year. Private credits grew by 2.4 per cent, following household credit expansion. However, credits extended to the business sector still decreased from the same period last year.

Monetary base. At end-September 2007, the **monetary base** rose by 8.8 per cent while **broad money** increased by 2.7 per cent from the same period last year.

^{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.

Money market interest rates. In September 2007, the **1-day repurchase rate** and the **overnight interbank rate** averaged at 3.25 per cent per annum, unchanged from August to October 24th. This was in line with the MPC decision, on October 10th, 2007, to continue maintaining the policy rate.

During **the third quarter of 2007**, the short-term interest rates in the money market averaged lower than that of the previous quarter. Both **1-day repurchase rate** and **overnight interbank rate** averaged at 3.30 per cent per annum, declining from the second quarter at 3.84 and 3.88 per cent per annum, respectively.

7. Exchange Rate and Nominal Effective Exchange Rate (NEER). In September 2007, the baht averaged at 34.26 baht per US dollar, close to 34.20 baht per US dollar in August. This was a result of the balance between the supply of US dollar from exporters and demand for US dollar from oil companies as well as intervention by the Bank of Thailand. The **NEER in September 2007** stood at 78.28, lower from 79.15 in the previous month.

In **the third quarter of 2007**, the baht averaged at 34.06 baht per US dollar, appreciating from 34.68 baht per US dollar in the second quarter, while the NEER appreciated by approximately 0.7 per cent from the last quarter's average.

During **1-24 October 2007**, the baht moved in narrow range, averaging at 34.20 baht per US dollar, close to the rate in September.

Bank of Thailand
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Contact person: Punpilas Ruangwisut
E-mail: punpilay@bot.or.th
Tel: +66 (0)-283-5648, +66 (0)-283-5639