



No. 4/2008

## Press Release on Economic and Monetary Conditions for December 2007 and Year 2007

**Overall economy in December 2007** continued to expand, in line with satisfactory growth in investment indicators as well as exports. Meanwhile, consumption indicators slowed down somewhat compared with the previous month. On the supply side, major crop production index accelerated, partly due to the low base from early harvest last year. With an improvement in major crop price index, farm income accelerated from the previous month. Manufacturing production and tourism condition remained satisfactory.

For the **year 2007**, overall economy still expanded well. The key growth driver was the strong expansion of the export sector, while the domestic demand, both consumption and investment, softened compared with the previous year. Nevertheless, domestic demand recovery became notable in the second half of the year. On the supply side, both major crop production and prices expanded but at a slower pace compared with the previous year, resulting in a decelerated growth in farm income. Nonetheless, high growth rate was observed in manufacturing production, particularly the export-oriented category, while tourism condition remained satisfactory.

Overall economic stability remained sound. Current account registered a surplus and international reserves stayed at a high level. Averaged inflation rate was lower than the previous year, though accelerating in the fourth quarter owing to the oil price increases.

Details of the economic conditions in **December 2007** and **year 2007** are as follows:

**1. Manufacturing Production.** The **Manufacturing Production Index** (preliminary) grew by 11.7 per cent year-on-year, close to the previous month's rate of 12.0 per cent. This was in line with the production expansion in **electronics, vehicle, food, and electrical appliance** industries. The capacity utilization rate stood at 78.1 per cent, rising slightly from the previous month.

For the **year 2007**, the **Manufacturing Production Index** (preliminary) expanded by 8.2 per cent, accelerating from the preceding year. This corresponded with the production in electronic, electrical appliance, leather, and chemical product categories, which were mainly export-oriented. The capacity utilization rate in 2007 was at 76.1 per cent, increasing from 73.9 per cent in the previous year.

**2. Domestic Demand.** In **December 2007**, **Private Consumption Index (PCI)**<sup>1/</sup> expanded by 0.9 per cent year-on-year, slowing down from the previous month. This was due to the contraction of passenger and commercial car sales, partly an effect of the high base last year. Moreover, consumers delayed purchase decisions to wait for the new tax scheme, effective on 1 January 2008, which would benefit the car models using alternative energy or E-20. Nevertheless, oil consumption increased as the LPG and NGV sales continued large expansion. Import of consumer goods at constant price and VAT at constant price still increased from the same period last year. **Private Investment Index (PII)** (preliminary) grew by 3.6 per cent year-on-year. The improvement from the previous month was mainly attributable to the imports of capital goods. Nonetheless, domestic cement sales contracted continually, in line with the slow down in property sector.

For the **year 2007**, **Private Consumption Index** expanded by 1.3 per cent, decelerating from the previous year's rate of 2.4 per cent. Private consumption displayed an improving trend in the second half of the year, particularly in the fourth quarter which saw an acceleration in import of consumer goods at constant price and VAT at constant price. **Private Investment Index** (preliminary) declined by 0.8 per cent, compared with the previous year's rate of 2.0 per cent. This stemmed primarily from the reduction of the indicators in construction category, while the indicators in the equipment category improved continuously in the second half of the year.

---

<sup>1/</sup> The Bank of Thailand has revised the Private Consumption Index (PCI) series since January 2000 in order to better reflect private consumption expenditure. The revised index comprises of 5 components from 10 indicators (6 indicators from the old series) and assigns weight for each component. For more information, please consult

**3. Fiscal Position. In December 2007**, the government's gross revenue collection totaled 107.7 billion baht, decreasing by 0.4 per cent year-on-year. This was due to lower non-tax revenue as some major state enterprises already remitted revenue in earlier period. Meanwhile, tax revenue, from all bases, expanded from the same period last year. Income tax collection increased in line with the personal income tax on salary and property, which was caused partly by the rush to purchase or transfer property in order to benefit from the fee exemption and before the revision of property valuations become effective in 2008. Consumption tax expanded slightly, in line with the VAT collection. Excise tax contracted, in line with the tax on vehicles as consumers postponed purchase decisions to wait for new car models using alternative energy (E-20) which will be subjected to lower excise tax. In addition, excise tax on beer dropped because the producers had accumulated inventory in advance and there was also a ban on liquor and beer sales during the election period. The government's **cash balance** registered a surplus of 1.7 billion baht, and the treasury cash balance at end-December was 69.1 billion baht, increasing by 12.7 billion baht from the previous month.

In the **first quarter of fiscal year 2008** (October-December 2007), the government's gross revenue collection totaled 373.4 billion baht, rising by 5.7 per cent from the same period last year. The government's **cash balance** registered a deficit of 75.2 billion baht, with net domestic borrowing of 8.5 billion baht and net foreign repayment of 6.9 billion baht. The government used 73.7 billion baht of treasury cash balance to finance the deficit. As a result, the treasury cash balance at end-quarter was 69.1 billion baht, declining from 142.8 billion baht at the end of fiscal year 2007.

**4. External Sector. In December 2007**, the **trade balance** recorded a surplus of 1,069 million US dollars. **Export** value totaled 13,174 million US dollars, expanding by 19.5 per cent year-on-year. This was owing to the continued expansion in exports of electronics, vehicles, electrical appliances, petroleum products, metal products, plastic products, jewelry and gold, as well as agricultural products. **Import** value totaled 12,106 million US dollars, growing by 10.6 per cent year-on-year. This included the import of the natural gas processing platform, worth 477 million US dollars in value. Nevertheless, imports decelerated in all categories. **Services, income, and transfers account** registered a surplus of 593 million US dollars, because of the increased surplus in tourism. Consequently, the **current account** was in a surplus of 1,661 million US dollars and the **balance of payments** registered a surplus of 3,421 million US dollars. International reserves as of end-December 2007 was at 87.5 billion US dollars, with a net forward position of 19.1 billion US dollars.

For the **year 2007**, the **trade balance** surplus reached 11,973 million US dollars, higher than the previous year's surplus of 994 million US dollars. This was due to the **export** expansion of 18.1 per cent from last year, equivalent to 151,147 million US dollars in value. High-technology industries continued to expand well from the previous year. Meanwhile, **import** value equaled 139,174 million US dollars, increasing by 9.6 per cent from last year. During the first half of the year, the slowdown in import continued from the previous year, owing to the weak domestic demand. However, recovery was seen in the second half of the year, resulting in the acceleration of imports of capital goods, raw materials, and consumer goods. **Services, income, and transfers account** registered a surplus of 2,950 million US dollars, rising from the previous year's surplus of 1,180 million US dollars. This was attributed to an increase in the surplus of tourism and public investment income receipts. As a consequence, the **current account** was in a surplus of 14,923 million US dollars, higher than the previous year's surplus of 2,174 million US dollars. The **balance of payments** registered a surplus of 17,102 million US dollars.

**5. In December 2007**, **headline inflation** rate was 3.2 per cent, accelerating from the previous month. This was mainly in line with the price increases in the energy category. The cooking gas price adjusted upward by 1.20 baht in this month. **Core inflation** was at 1.2 per cent, slightly up from the previous month, following the price increases in public transportation services as well as most goods and services with price administrative measures. The **Producer Price Index (PPI)** increased by 8.7 per cent, accelerating primarily because of the price increases in both agricultural products and manufacturing products, particularly oil prices.

For the **year 2007**, headline and core inflation rates were 2.3 and 1.1 per cent, respectively, decreasing from the previous year's rates at 4.7 and 2.3 per cent, respectively. Meanwhile, the **Producer Price Index (PPI)** rose by 3.3 per cent.

**6. Monetary Conditions. In December 2007, deposits of depository corporations** <sup>2/</sup> expanded by 1.1 per cent year-on-year. Some customers made withdrawals and sought for higher returns in bill of exchange and bond investment. **Private credits** grew by 4.0 per cent, following the credits extended to business sector which resumed a positive growth for the first time since the beginning of the year, while, household credits still expanded well.

For the **year 2007, deposits of depository corporations** was in a decelerating trend since the beginning of the year, partly because of the lower interest rates on deposits compared to last year. As a result of unattractive interest rates, depositors shifted their deposits into investment on bills of exchange and bonds which yielded higher returns. **Private credits** exhibited a low growth rate since the beginning of year 2007, in line with the contraction of the credits extended to business sector, particularly investment credits. This was mostly caused by the slowdown in domestic demand and poor business sentiment. Nonetheless, credits extended to business sector began to expand towards year-end.

**Monetary base. At end-December 2007, the monetary base** rose by 7.9 per cent from the same period last year, while **broad money** expanded by 1.2 per cent, following the small increase of deposits of depository corporations.

**Money market interest rates. In December 2007, both the 1-day repurchase rate and the overnight interbank rate** averaged at 3.25 per cent per annum, remaining unchanged since August 2007 in line with the policy rate.

For the **year 2007**, money market interest rates decreased steadily throughout the first half of the year, following the five reductions of the policy rate by the MPC. During the latter half, the rates remained stable in line with the policy rate. Consequently, the 1-day repurchase rate and the overnight interbank rate averaged annually at 3.77 and 3.79 per cent per annum, respectively, declining from the previous year's 4.64 and 4.69 per cent per annum, respectively. During 1-28 January 2008, the 1-day repurchase rate and the overnight interbank rate averaged at 3.22 and 3.25 per cent per annum, respectively, close to those of the previous month, owing to the MPC's decision on 16 January 2008 to continue maintaining the policy rate.

**7. Exchange Rate and Nominal Effective Exchange Rate (NEER). In December 2007, the baht** moved in narrow range, averaging at 33.70 baht per US dollar. The baht slightly appreciated from the November's average of 33.89 baht per US dollar, owing to the waning sentiment towards the US dollars as the repercussion of the US sub-prime problem widened and the current account surplus continued in this month. Furthermore, the baht appreciated against other major currencies, particularly Yen and Euro. Hence, the **NEER in December 2007** was 77.78, appreciating from 76.86 in the previous month.

For the **year 2007**, the baht averaged at 34.56 baht per US dollar, appreciating from the average of 37.93 baht per US dollar in the previous year. The baht per US dollar was in an appreciating trend throughout the year following the continued current account surplus and the US dollar depreciation. Even though the baht against US dollar at year-end appreciated by 6.8 per cent from end-2006, the NEER rose by only 1.8 per cent.

**During 1-28 January 2008, the baht** continued to appreciate from December, averaging at 33.21 baht per US dollar. This was led by the weakening US dollars as a result of the US sub-prime problem as well as exporters' sales of US dollars in an anticipation of further baht appreciation.

Bank of Thailand

31 January 2008

Contact person: Punpilas Ruangwisut

E-mail: punpilay@bot.or.th

Tel: +66 (0)-283-5648, +66 (0)-283-5639

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

<sup>2/</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.