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Press Release on Economic and Monetary Conditions for December 2010 and Year 2010

The economy in December 2010 continued to expand, notably in the export and tourism sectors. Meanwhile, domestic demand moderated whereas manufacturing production contracted from the same period last year due to the high base effect.

Overall stability remained satisfactory. The current account was in a surplus, and international reserves remained at a high level. However, inflation rates clearly accelerated and price pressure increased from both inflation expectations and production costs.

Details of the economic conditions are as follows:

This month's economic expansion was mainly supported by **external demand**. December's **export** value amounted to 17,220 million US dollars, increasing across all product categories by 18.6 percent year-on-year (yoy). In particular, exports of agricultural products improved following a rise in rubber and cassava prices. Meanwhile, exports of manufacturing products, although moderating from high-tech sector due to last year's high base effect, remained at a high level. The tourism sector continued to expand notably. **The number of foreign tourist arrivals in Thailand** registered a new record high at 1.8 million people, particularly due to the rising number of tourists from China, South Asia and Russia. Correspondingly, the hotel occupancy rate rose to 58.2 percent from 55.4 percent in November, improving in all country's regions.

With regard to **domestic demand**, **Private Consumption Index (PCI)** grew by 3.8 percent (yoy) from increases in spending on both durable and non-durable goods, reflecting in rising VAT collection and domestic vehicle sales. This was supported by favourable farm income, improving employment condition, and low interest rates. Concurrently, **Private Investment Index (PII)** rose by 11.0 percent (yoy) from 15.5 percent (yoy) last month, decelerating in response to a moderation in all private investment indicators, especially permitted construction area of condominium. However, investor confidence in the next 3 months improved continuously, demonstrating an upward trend of private investment going forward. In addition, **fiscal sector** continued to be supportive, albeit at a slower pace. This was partly due to a delay in the subsidy budget allocation to local administrations.

Production sector contracted from the same period last year. **Manufacturing Production Index (MPI)** fell by 2.5 percent (yoy) mainly from a decline in production of hard disk drive. This was due to the high base effect from a rapid surge in production for restocking, and a high level of current inventory. Nevertheless, productions in various industries such as vehicle, electrical appliances, and electronic tube and parts continued to grow satisfactorily in line with both domestic and external demand. Meanwhile, **crop production** resumed growth in response to this month's unusually high rice production. This was due to a delayed plantation from the effect of drought during the mid of 2010. Meanwhile, oil palm,

rubber and cassava productions were still damaged from the adverse effects of drought, flooding and pest outbreak in the prior period. Concurrently, crop price continued to grow satisfactorily by 18.5 percent (yoy) in tandem with both domestic and external demand. **Farm income**, therefore, edged up by 19.5 percent (yoy).

Import value, totaling 15,911 million US dollars, increased by 8.8 percent (yoy), moderating from the previous month, partly due to the high base effect from last year's record high of import value in December. This was also in tandem with a slowdown in domestic demand and a fall in production of hard disk drive.

Liquidity in the financial institution system slightly declined as credits expanded more than those of deposits. **Depository corporations' private credits** continued to grow at 12.5 percent (yoy), mainly from credits extended to household sector. Meanwhile, **depository corporations' deposits (including bill of exchange)** rose by 10.8 percent (yoy), partly from accelerated deposit accumulation of depository corporations.

With regard to **internal stability**, both headline and core inflation rates accelerated from last month due to the higher pass-through of production costs into goods prices, especially seasonings and condiments as well as prepared food, and energy, whose price rose in line with global oil prices. Going forward, price pressure will persist from the incomplete pass-through of production costs, inflation expectations, and rising production costs. For **external stability**, the trade balance and the current account continued to register surpluses, and international reserves remained at a high level.

Regarding **the economy in 2010**, despite many negative factors throughout the year, including uncertainties in the world economies, political unrest, volatility of Thai baht and capital flows, and natural disasters, Thai economy still expanded approximately by 8 percent. This was supported by exports of goods and services, and a continued recovery of domestic demand which became a more contributory engine of growth during the latter half of the year. Given strong economic fundamentals and supporting factors from improving employment condition, favourable farm income, as well as accommodative fiscal and monetary policies, Thai economy is expected to grow continually in 2011.

Overall stability in 2010 remained sound. Unemployment rate remained at a low level. However, inflation rates rose from last year and price pressure became more apparent, corresponding to expanding economic conditions, as well as increases in wages and commodity prices. This will become the downside risk to the economic stability and growth in 2011. External stability remained solid. The current account and the balance of payments registered surpluses, whereas international reserves to short-term debt ratio remained at a high level.

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