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Press Release on Economic and Monetary Conditions for January 2008

Overall economy in January 2008 continued to expand from the preceding month. This was driven by the recovery in domestic demand as well as exports which continued to exhibit high growth and was in line with large import expansion. Meanwhile, manufacturing production still expanded well, following the favorable domestic demand and export sector. Similarly, the tourism sector showed satisfactory numbers due to seasonal factor. Despite a somewhat slowdown in major crops production index, farm income still increased satisfactorily, following the rise in prices. Nevertheless, it was notable that the expansion of many indicators in this month resulted partly from the low base in the same period last year.

Overall economic stability remained sound. Current account registered a surplus and international reserves stayed at a high level. Nonetheless, headline inflation accelerated considerably from the previous month.

Details of the economic conditions in **January 2008** are as follows:

1. Manufacturing Production. The **Manufacturing Production Index** (preliminary) continued to expand satisfactorily at 12.5 per cent year-on-year (yoy). This followed the production expansion in **electronics, electrical appliances** and **food** industries, resulting from an increase in external demand. Meanwhile, **vehicle** production achieved high growth, particularly passenger cars, partly due to the production of new car model using alternative energy or E-20. The capacity utilization rate was at 76.9 per cent. After seasonally adjusted, the rate was close to that of the previous month.

2. Private Consumption Index (PCI) increased by 8.5 per cent (yoy). Improvement was seen in all components, particularly passenger car sales which saw postponed demand as consumers waited to gain tax benefit on car models using alternative energy or E-20. VAT at constant price expanded as a result of an increase in both domestic consumption and imports. This corresponded with large expansion in imports of consumer goods. **Private Investment Index (PII)** (estimated) remained stable compared to the preceding month, while expanded 4.6 per cent (yoy). This stemmed from the large increase in imports of capital goods.

3. Fiscal Position. The government's gross revenue collection totaled 122.1 billion baht, increasing 5.6 per cent (yoy) in line with the tax revenue which increased in all bases. In particular, consumption tax accelerated as a result of VAT collection. **Non-tax revenue** declined, due to a contraction in the profit remittance by state enterprises as some had already remitted in December 2007. The government's **cash balance** registered a deficit of 60.8 billion baht, and the treasury cash balance at end-January was 51.1 billion baht, declining by 18.0 billion baht from the previous month.

4. External Sector. The trade balance recorded a surplus of 170 million US dollars. Export value totaled 13,843 million US dollars, increasing by 33.6 per cent (yoy). The expansion occurred in all categories, especially electronics, vehicles, petroleum products, plastic products, as well as jewelry and gold. The agricultural products which exported well included rice, natural rubber, and frozen chicken. Imports, which accelerated in all categories as well, totaled 13,673 million US dollars, expanding by 40.1 per cent (yoy). **Services, income, and transfers account** registered a surplus of 1,226 million US dollars, owing to the increased surplus in tourism as well as the seasonal decline in profit and dividend transfers. Consequently, the **current account** was in surplus of 1,396 million US dollars while balance of payments registered a surplus of 3,300 million US dollars. **International reserves** at end-January 2008 was 92.8 billion US dollars, with a net forward position of 21.9 billion US dollars.

5. The **headline inflation** rate was 4.3 per cent (yoy), accelerating from the previous month. This followed the upward adjustment of energy and raw food prices, particularly vegetables and fruits as the production was adversely affected by unseasonal rain. **Core inflation** registered 1.2 per cent (yoy), unchanged from the previous month, partly due to the reduction in the Transport Company's bus fees and the excise tax cut on alternative-energy cars. This was in spite of the price increases in other categories. The **Producer Price Index (PPI)** rose by 10.0 per cent (yoy), accelerating from the preceding month and attributable to the price increases in both agricultural and manufacturing products.

6. **Monetary Conditions. Deposits of depository corporations**^{1/} grew by 1.3 per cent (yoy). The expansion from the previous month reflected a return of deposits, after the calculation of the FIDF fees. Moreover, several commercial banks offered special interest rates to attract depositors. **Private credits** accelerated at 4.5 per cent (yoy), in line particularly with credits extended to the business sector which exhibited a recovery sign and rose 1.5 per cent (yoy).

Monetary base. At end-January 2008, the **monetary base** increased by 8.6 per cent (yoy) while **broad money** expanded by 1.2 per cent (yoy), following a small increase in deposits of depository corporations.

Money market interest rates. the **1-day repurchase rate** remained unchanged at 3.25 per cent per annum, in line with the policy rate. Meanwhile, the **overnight interbank rate**, during 1-22 February 2008, declined to an average of 3.20 per cent per annum, as a result of commercial banks' excess liquidity.

7. **Exchange Rate and Nominal Effective Exchange Rate (NEER).** In January 2008, the baht averaged at 33.18 baht per US dollar, strengthening from the previous month's average of 33.70 baht per US dollar. This stemmed from continued weakness in the US dollar as well as the anticipation of greater baht appreciation, which induced the selling of US dollars by those with earnings denominated in foreign currencies. Consequently, the **NEER** increased from 77.78 in the previous month to 78.06.

During 1-22 February 2008, the baht appreciated continuously, averaging at 32.77 baht per US dollar. This was largely due to forward selling of foreign currencies by exporters in an anticipation of the abandonment of reserve requirement on short-term capital inflows.

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**Vision : A forward-looking organization with competent staff dedicated to ensuring
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.