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Press Release on Economic and Monetary Conditions for October 2008

In October 2008, the economy slowed down with manufacturing production. Agricultural production, on the other hand, fell as crop prices moderated, leading farm income to decelerate from last month. The number of tourist arrivals continued to shrink largely from political uncertainty. Meanwhile, both private consumption and investment softened along with imports as exports contracted.

Nevertheless, external stability was upheld by high international reserves despite a current account deficit, while internal stability consolidated with falling core as well as headline inflation.

Detailed economic conditions for **October 2008** are as follows:

1. Manufacturing Production Index (preliminary) rose 2.0 percent from the same period last year, a sharp drop from 4.3 percent of last month. The deceleration was recorded in electronics, iron and steel products, chemical products, as well as beverages. Motor vehicle sector, however, was shored up by mini passenger car production, while food processing was boosted by export demand for canned seafood and canned pineapple. Overall **capacity utilization rate**, nevertheless, declined from last month to 66.4 percent.

2. Private Consumption Index (PCI) grew 2.8 percent from the same period last year, weakening across the board in all of value added tax at constant prices, real imports of consumer goods, and vehicle sales. **Private Investment Index (PII)** (estimated) rose 1.9 percent year on year (yoy), decelerating with imports of capital goods at constant prices while commercial cars and domestic cement sales continued to diminish.

3. For fiscal position in October 2008, government revenue fell 15.2 percent to 112.8 billion baht largely due to non-tax shortfalls as a number of state enterprises delayed submission of their incomes. Tax revenues, however, crept up 0.1 percent (yoy) from corporate petroleum taxes that had been moved to this month. Consumption based taxes fell as earlier policy measures shrank excise and specific business tax collection. VAT, on the other hand, grew more moderately, as commodity prices declined. On overall **cash balance, the government** registered a 14.0 billion baht deficit which, coupled with another 35.5 billion baht net debt repayment, brought the overall treasury cash balance down by 49.4 billion baht to 180.5 billion baht at the end of the month.

4. Externally, the balance of trade net 964 million US dollar deficit as **export** grew only 4.7 percent (yoy) to 14,998 million US dollars, from export price moderation on top of shrinking volume across the board from a high base of last year. Agricultural exports were weighed down by the sharp slowdown in rubber and cassava prices while export volume also fell across the board. Hi-tech exports also dropped for the first time since March 2002, led by computer and parts and integrated circuits from weaker demands. **Import**, on the other hand, grew 23.5 percent (yoy) to 15,962 million US dollars, a deceleration in both prices and volume from weak domestic demand except crude oil imports that jumped from the temporary refinery shutdown of last month.

When accounting for the net **services, income, and transfers** deficit of 163 million US dollars, the **current account** balance registered a deficit of 1,128 million US dollars. As banks reduced their net foreign assets holdings, **net capital account**^{1/} registered a surplus of 3,597 million US dollars. As a consequence, **balance of payments** net a surplus of 4,041 million US dollars, bringing **international reserves** up to 103.2 billion US dollars at the end of October 2008, with a BOT net forward position of 8.9 billion US dollars.

^{1/} This data is preliminary which will be revised in the following month.

5. Headline inflation moderated to 3.9 percent (yoy) along with falling oil prices, while **core inflation** declined to 2.4 percent (yoy) with falling public transport costs and prices of raw food, which was boosted by a more favorable climate, contributing to lower price pass-through of prepared food at home and away from home. **Producer Price Index (PPI)** also rose 8.5 percent (yoy), a moderation from last month — thanks to lower petroleum and primary commodity prices. At the same time, mining product prices fell along with consumer product prices.

6. As of end-October 2008, **monetary base**^{2/} rose 9.6 percent (yoy), while **broad money** rose 5.3 percent (yoy). **Private credits** continued to expand 11.2 percent (yoy), although with a somewhat more stabilizing trend compared with the first 9 months of this year, while **deposits of depository corporations** grew by only 1.1 percent (yoy) (4.0 percent (yoy) if include Bills of Exchange).

Short term interest rates stayed close to those of the previous month's levels as policy rate was kept steady all through the month. The 1-day repurchase rate and the overnight interbank rate stood at 3.75 and 3.73 percent per annum, respectively, and stabilized at an average of 3.75 percent per annum, equal to the policy rate between 1-25 November 2008.

7. Exchange Rate and Nominal Effective Exchange Rate (NEER). In October 2008, exchange rate averaged 34.43 baht per US dollar, by moving in a narrow range. Overall, the baht weakened along with other regional currencies against the US dollar, as foreign investors withdrew their funds to lower risk assets e.g. US Treasury etc. Nevertheless, Baht declined less than other currencies in the region due to somewhat less volatile capital flows.

Between 1-25 November 2008, average exchange rate stood at 35.04 baht per US dollar, weakening slightly further from October in line with other regional currencies.

Bank of Thailand
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Contact person: Punpilas Ruangwisut
E-mail: punpilay@bot.or.th
Tel: +66 (0)-2283-5648, +66 (0)-2283-5639

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

^{2/} Since October 2008, BOT has extended the coverage of broad money, deposits and private credits to include data from the Thrift and Credit Cooperatives and Money Market Mutual Funds. The broad money series is also adjusted to include Bill of Exchange.