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Press Release on Economic and Monetary Conditions for February 2008

Overall economy in February 2008 still tracked a trend of continual expansion. Particularly on the supply side, manufacturing production and tourism continued high growth rates. Meanwhile, farm income observed an acceleration from the previous month, following increases in major crop production and price indices. On the demand side, private consumption, exports, and imports registered satisfactory growth rates, though decelerated somewhat compared to the preceding month. Private investment still expanded favorably.

Overall economic stability remained sound. Current account continued to register a surplus while international reserves stayed at a high level. Nonetheless, headline inflation accelerated continuously.

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

1. Manufacturing Production. The **Manufacturing Production Index** (preliminary) grew well at a rate of 14.7 per cent year-on-year (yoy), accelerating from the previous month. This was in line with the increased productions of **electronics** and **electrical appliances**, due to greater external demand. In addition, **vehicles** production continued to achieve high growth from the previous month, particularly passenger cars. The capacity utilization rate was at 73.9 per cent. After seasonally adjusted, the rate was close to that of the previous month.

2. Private Consumption Index (PCI) (estimated) rose by 6.0 per cent (yoy), decelerating from the previous month. This was attributed to the slowdown in imports of consumer goods at constant price and VAT at constant price, both of which accelerated notably last month. However, passenger car sales increased considerably, corresponding with the sales of alternative-energy cars (E-20). **Private Investment Index (PII)** (estimated) was close to that of the preceding month, while expanded 5.6 per cent from the same period last year. This was led by the large increase in imports of capital goods.

3. Fiscal Position. The government's gross revenue collection totaled 131.5 billion baht, rising by 9.5 per cent (yoy). This followed the tax revenue which expanded well in all bases. Furthermore, non-tax revenue increased in line with greater profit remittance by state enterprises in this month compared to the same period last year. The government's **cash balance** registered a surplus of 1.4 billion baht, and the treasury cash balance at end-February was 67.1 billion baht, rising by 16.0 billion baht from the previous month.

4. External Sector. The trade balance recorded a deficit of 620 million US dollars, the first deficit in 10 months. This was because of large import expansion in all categories, particularly fuel and oil products which increased primarily from higher prices. Import value totaled 13,514 million US dollars, expanding by 32.5 per cent (yoy). Meanwhile, export value totaled 12,894 million US dollars, growing by 16.2 per cent (yoy). The slowdown occurred in most export categories, particularly fishery products following a decrease in shrimp export. Labor-intensive category also saw a decelerated growth. This was in line with a slowdown in precious stone and jewelry exports as a result of large gold export activities in earlier period. **Services, income, and transfers account** registered a large surplus due to the increased surplus in tourism. Consequently, the **current account** was in surplus of 752 million US dollars while balance of payments also registered a surplus of 6,571 million US dollars. **International reserves** at end-February 2008 was 100.5 billion US dollars, with a net forward position of 23.3 billion US dollars.

5. The **headline inflation** rate was 5.4 per cent (yoy), accelerating from the previous month. Even though energy prices remained somewhat stable, fast acceleration was observed in raw food prices, especially vegetables, fruits, and meats. Seasonings and condiments prices also accelerated, particularly vegetable and animal oils, which transmitted into the prices of prepared food at home and food away from home. Consequently, **core inflation** was 1.5 per cent (yoy), speeding up from the previous month. The **Producer Price Index (PPI)** rose by 11.2 per cent (yoy), accelerating from the preceding month because of price increases in all categories.

6. **Monetary Conditions. Deposits of depository corporations**^{1/} expanded by 1.8 per cent (yoy). This came mainly from an increase in household deposits as a result of attractive interest rates offered by several commercial banks. **Private credits** grew by 5.3 per cent (yoy), attributable to credits extended to the business sector which began to recover.

Monetary base. At end-February 2008, the **monetary base** increased by 7.0 per cent (yoy) while **broad money** grew by 1.9 per cent (yoy), owing to the increase in deposits of depository corporations.

Money market interest rates. The **1-day repurchase rate** remained unchanged at 3.25 per cent per annum. Meanwhile, the **overnight interbank rate**, during 1-21 March 2008, averaged at 3.21 per cent per annum.

7. **Exchange Rate and Nominal Effective Exchange Rate (NEER).** In February 2008, the baht averaged at 32.60 baht per US dollar, appreciating from the previous month's average of 33.18 baht per US dollar. This was caused by weak US dollars and the anticipation that the Bank of Thailand would abandon the reserve requirement on short-term capital inflows. Consequently, the **NEER** increased from 78.06 in the previous month to 78.94.

During 1-21 March 2008, the baht strengthened continuously, averaging at 31.45 baht per US dollar. The baht appreciation corresponded with the Bank of Thailand's lifting of reserve requirement on short-term capital inflows as well as softened US dollars, mainly following the Federal Reserve's announcement on 18 March 2008 to lower the federal funds rate by 75 basis points.

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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.