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Press Release on Economic and Monetary Conditions for March 2008 and the First Quarter of 2008

Overall economy in March 2008 continued a recovery trend with domestic demand, both private consumption and investment, as a key driver. Meanwhile, despite a deceleration, export performance remained satisfactory. Tourism continued to register a favorable expansion. Nonetheless, manufacturing and agricultural productions slowed down. In the agricultural sector, the shift in harvest time resulted in the decelerated farm income, though major crop prices increased continuously.

In the first quarter of 2008, overall economy continued to improve from the preceding quarter. Domestic demand played a greater role in contributing to economic growth. Consequently, import accelerated, while export still grew well. On the supply side, both productions and prices of major crops recorded satisfactory increases, resulting in an acceleration in farm income. Similarly, both manufacturing production and tourism observed large expansions.

Overall economic stability remained sound. Current account continued to register a surplus. International reserves stood at a high level. Nevertheless, inflationary pressure heightened following the large upward adjustments in energy and food prices.

Details of the economic conditions **in March 2008 and the first quarter of 2008** are as follows:

1. Manufacturing Production. The **Manufacturing Production Index** (preliminary) expanded by 10.1 per cent year-on-year (yoy), decelerating from the previous month. This was mainly attributed to the production slowdown in **electronics** category. However, the productions of **electrical appliances** and **vehicles** still grew well, in line with both domestic and external demand. The **capacity utilization rate** in March 2008 was at 78.1 per cent. After seasonally adjusted, the rate was lower, corresponding with the decelerated growth of production.

In the first quarter of 2008, the Manufacturing Production Index rose by 12.9 per cent (yoy), slightly accelerating from the preceding quarter. This largely followed productions in export-oriented industries, while productions for domestic market also improved notably from the last quarter. The capacity utilization rate stood at 76.3 per cent.

2. Domestic Demand. Private Consumption Index (PCI) expanded by 6.8 per cent (yoy). Imports of consumer goods at constant price and VAT at constant price registered high growth rates. Car Index accelerated due mainly to the introductions of new models and promotional activities during the Motor Show. Meanwhile, a large expansion sales of motorcycles was in line with the improvement in farm income as well as the low base effect in the same period last year. **Private Investment Index (PII)** (estimated) rose by 7.2 per cent (yoy). The indicators in machinery and equipment category increased satisfactorily. Furthermore, there was also an effect of low base in the previous year.

In the first quarter of 2008, the Private Consumption Index grew by 7.0 per cent (yoy), improving from the previous quarter as all indicators accelerated. Particularly, in the Car Index, passenger cars sales expanded considerably as consumers took advantage of the new tax scheme for the car models using alternative energy (E20) which came into effect since the beginning of this year. The Private Investment Index (estimated) increased by 7.2 per cent (yoy). This was in line with indicators in machinery and equipment category, particularly imports of capital goods at constant price which expanded well.

3. Fiscal Position. The government's gross revenue collection was 125.9 billion baht, increasing by 3.0 per cent (yoy). The deceleration from the previous month was due to a large contraction of non-tax revenue as some state enterprises were delayed in remitting revenues. Meanwhile, tax revenue still rose in all bases. Income tax increased from both personal and corporate income taxes. Consumption tax expanded mostly in line with the VAT collection. Specific business taxes contracted, as a result of declining tax on financial institutions'

transactions and the postponement of property transactions before the tax-relief measures became effective on 29 March 2008. The government's **cash balance** registered a deficit of 48.6 billion baht, and the treasury cash balance at end-March was 54.4 billion baht, decreasing by 12.7 billion baht from the previous month.

In the second quarter of fiscal year 2008, the government's gross revenue collection recorded at 381.6 billion baht, increasing by 6.6 per cent (yoy). The government's cash balance was in a deficit of 108.1 billion baht, with net borrowing of 93.4 billion baht and use of treasury cash of 14.6 billion baht. Consequently, the treasury cash balance at the end of the second quarter of fiscal year 2008 was at 54.4 billion baht, reducing from 69.1 billion baht at the end of the first quarter.

4. External Sector. The **trade balance** recorded a surplus of 342 million US dollars, with minor decelerations in both import and export values. **Export** value totaled 14,648 million US dollars, growing by 15.1 per cent (yoy). Export prices expanded well across all categories, particularly in the agriculture category. Meanwhile, export volume slowed down, following the contraction of fishery exports as well as the deceleration of high-technology manufacturing exports, particularly integrated circuits. Exports of labor-intensive industries observed a considerable acceleration from the preceding month, in line with the precious stone and jewelry exports. Meanwhile, **import** value totaled 14,306 million US dollars, rising by 31.2 per cent (yoy). This corresponded with import price expansions, particularly in the oil category. Import volume also increased across all categories, in line with the recovery of domestic demand and the satisfactory expansion of exports. **Services, income, and transfers account** registered a surplus of 579 million US dollars. Consequently, the **current account** was in a surplus of 920 million US dollars and the **balance of payments** registered a surplus of 8,611 million US dollars. **International reserves** as of end-March 2008 stood at 110 billion US dollars with a net forward position of 21.1 billion US dollars.

In the first quarter of 2008, the **trade balance** deficit stood at 109 million US dollars. This was due mainly to the acceleration in import while export slightly slowed down. **Import** value totaled 41,494 million US dollars, up by 34.5 per cent (yoy) as all categories benefited from accelerations. **Export** value totaled 41,385 million US dollars, rising by 21.1 per cent (yoy). This was in line with the export of agricultural products which saw increases in both prices and quantity. In addition, the export of labor-intensive products evidently accelerated following the precious stone and jewelry exports. High-technology products continued to expand well. The **services, transfers and income account** was in a surplus of 3,177 million US dollars, greater than the surplus of 1,371 million US dollars in the same period last year. This stemmed from increases in tourism surplus as well as public investment income, corresponding with the accrued international reserves. As a consequence, the **current account** was in a surplus of 3,068 million US dollars. The **balance of payments** registered a surplus of 18,483 million US dollars.

5. Headline inflation was at 5.3 per cent (yoy), slightly lower than that of the preceding month. This followed the decelerated price increases in the raw food and energy categories. Meanwhile, prices in the other categories rose, owing mainly to the prices of prepared food at home and food away from home. Accordingly, **core inflation** was at 1.7 per cent (yoy), accelerating from the previous month. The **Producer Price Index (PPI)** rose by 11.1 per cent (yoy), slightly lower than the previous month. This was due mostly to downward adjustments in the prices of agricultural products.

For the first quarter of 2008, the headline and core inflation were 5.0 and 1.5 per cent (yoy), respectively, rising from 2.9 and 1.1 per cent (yoy) in the preceding quarter.

6. Monetary Conditions. **Deposits of depository corporations**^{1/} expanded by 2.6 per cent (yoy). When included Bills of Exchange, the deposits grew by 8.2 per cent (yoy), accelerating from the previous month. **Private credits** increased by 5.9 per cent, also accelerating from the preceding month due to the recovery of the credits extended to business sector.

^{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.

The **monetary base**, at end-March 2008, grew by 12.0 per cent (yoy), while **broad money** increased by 2.1 per cent (yoy). Nonetheless, the growth rate of broad money was lower than normal as, by definition, it did not include the Bills of Exchange issued by commercial banks which were similar to deposits.

Money market interest rates. The policy rate remained stable at 3.25 per cent per annum; consequently money market interest rates did not changed significantly. The overnight interbank rate averaged at 3.21 and 3.22 per cent per annum during March and 1-23 April 2008, respectively. This was slightly lower than the average of 3.25 per cent per annum in the fourth quarter of 2007.

7. Exchange Rate and Nominal Effective Exchange Rate (NEER). In March 2008, the baht averaged at 31.46 baht per US dollar, appreciating from the February's average of 32.60 baht per US dollar. This was led by weak US dollars as the signs of softened US economy became more apparent and the Federal Reserves decided to lower the federal funds rate further to alleviate the economic problems. Moreover, the Bank of Thailand's lifting of the reserve requirement on short-term capital inflows, on 29 February 2008, resulted in baht appreciation against a number of currencies, aside from the US dollar. Consequently, the **NEER** stood at 79.97, adjusting upward from 78.94 in the previous month.

In the first quarter of 2008, the baht averaged at 32.42 baht per US dollar, appreciating by 4.7 per cent from the preceding quarter's average of 33.94 baht per US dollar. The NEER appreciated by 2.1 per cent. This was smaller than the appreciation of the baht against US dollar because, during this period, the US dollar depreciated against a number of currencies, not only against the baht.

During 1-23 April 2008, the baht weakened slightly from the previous month to an average of 31.56 baht per US dollar. This was partly attributable to the greater demand for US dollars by importers as well as the improved sentiment towards the US dollar.

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