



BANK OF THAILAND NEWS

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No. 24/2008

Press Release on Economic and Monetary Conditions for May 2008

Overall economy in May 2008 still expanded continuously. On the supply side, major crops production and price grew markedly, resulting in an acceleration of farm income compared to the previous month. Manufacturing production and the tourism sector continued to expand well. On the demand side, private consumption, private investment as well as the volume of both exports and imports slowed down.

External stability remained sound. Current account returned to a surplus following a decrease in import value. International reserves remained at a high level. In terms of internal stability, both headline and core inflation accelerated considerably from the previous month.

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

1. The Manufacturing Production Index (preliminary) expanded by 10.5 percent year-on-year (yoy), accelerating from the previous month. The production of **electronics, vehicles, and electrical appliances** continued to expand well in line with external demand.

The **capacity utilization rate** was at 74.4 percent, increasing from 69.2 percent in the previous month.

2. Private Consumption Index (PCI) grew by 6.3 percent (yoy), slowing down from the previous month. Most private consumption indicators increased at a decelerated rate especially VAT at constant prices and imports of consumer goods at constant prices, while the Car Index expanded at a similar rate to the preceding month in line with passenger car sales. **Private Investment Index (PII)** (estimated) expanded by 5.0 percent (yoy), continuously decelerating. This was due to a continual deceleration in imports of capital goods at constant prices as well as a contraction in domestic commercial car sales.

3. Fiscal Position. The government's gross revenue collection was 297.6 billion baht, increasing by 8.3 percent (yoy) mostly attributable to the income tax. Tax revenue expanded by 15.9 percent (yoy), increasing across all bases. Income tax rose in line with the increase in corporate income tax. Consumption tax drove up following VAT collection which increased in line with import value and domestic demand. However, excise tax contracted primarily due to the decrease in tax collected on beer. Specific business tax continued to contract as a result of the measure to reduce specific business tax on property transactions.

The government's **cash balance** registered a surplus of 3.9 billion baht and the treasury cash balance at the end of May 2008 was at 72.5 billion baht, increasing by 4.8 billion baht.

4. External Sector. The **trade balance** recorded a surplus of 1,268 million US dollars due to the deceleration of imports from the previous month while exports expanded well. **Export value** was 15,296 million US dollars, increasing by 22.1 percent (yoy). Exports of agricultural products continued to observe a favorable expansion due mainly to the price factor. Meanwhile exports of manufactured products decelerated slightly from the previous month. The labor intensive industries expanded following exports of precious stones and jewelry while high-tech industries continued to expand well in line with exports of computers, vehicles, plastic, iron products and petroleum products. **Import value** was 14,028 million US dollars, increasing by 15.7 percent (yoy). This deceleration was due mainly to the decline in import volume particularly in the fuel and lubricant category which observed a drop in crude oil imports. Imports of capital goods slowed down in line with imports of machinery, while imports of consumer goods decelerated primarily in line with imports of non-durable goods. **Services, income, and transfer accounts** recorded a deficit of 637 million US dollars as this was the period in which companies remitted profits and dividend payments. This resulted in the **current account** surplus of 631 million US dollars while the **balance of payments** registered a deficit of 77 million US dollars. **International reserves** at the end of May 2008 stood at 108.9 billion US dollars, with a net forward position of 18.9 billion US dollars.

Nevertheless, according to preliminary data, net capital flow^{1/} in May was expected to be in surplus in line with inflows in non-bank private sector, mostly in forms of direct investment, as well as government inflows from bonds issued in Japan (Samurai Bond).

5. In May 2008, **headline inflation** was at 7.6 percent (yoy), accelerating continuously from the previous month. This was in line with upward adjustments in raw food and energy prices. This caused the transmission into the prices of prepared food at home, food away from home, seasonings and condiments, as well as public transportation services. Consequently, **core inflation** accelerated from the previous month to 2.8 percent (yoy). The **Producer Price Index (PPI)** increased by 15.6 percent (yoy). This was primarily due to the price increase in the manufactured products category, namely, petroleum and food products.

6. **Monetary Conditions. Deposits of depository corporations^{2/}** rose by 1.5 percent (yoy). With Bills of Exchange included, the deposits expanded by 6.7 percent (yoy). **Private credits** grew by 8.0 percent (yoy). The continual acceleration from the preceding month followed the recovery of credits extended to the business sector, while household credits still expanded well.

The **monetary base**, at the end of May 2008, grew by 8.1 percent (yoy), while **broad money** increased by 1.6 percent (yoy). Nonetheless, when including Bills of Exchange, broad money increased by 3.7 percent (yoy).

Money market interest rates did not change significantly from last month. The overnight inter-bank rate averaged at 3.21 and 3.23 percent per annum during May 2008 and 2-23 June 2008, respectively. This corresponded to the policy rate which remained stable at 3.25 percent per annum.

7. **Exchange Rate and Nominal Effective Exchange Rate (NEER).** In May 2008, the baht averaged at 32.11 baht per US dollar, depreciating from the April's average of 31.59 baht per US dollar due primarily to an improved confidence in the US dollar along with the market's concern on Thailand's accelerating inflation rates and the deficit current account in April 2008. In addition, there was an acceleration in the amount of US dollar purchased by importers. Since the baht depreciated relatively to several currencies, the **Nominal Effective Exchange Rate (NEER)** decreased from 79.57 in the previous month to 78.94.

During the period of 2-23 June 2008, the baht continued to depreciate, averaging at 33.09 baht per US dollar in line with the regional currencies. Additionally, foreign investors took a selling position in the stock market due to concerns over political instability while importers continued to purchase the US dollars.

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30 June 2008

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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/} This data is primary which will be revised in the following month.

^{2/} 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.