



No. 37/2008

Press Release on Economic and Monetary Conditions for August 2008

Overall economy in August 2008 slowed down from the previous month, as reflected in both consumption and investment indicators. Export and import also decelerated. On the supply side, major crops production and price grew at a rate close to that of the previous month, resulting in a satisfactory farm income. Nevertheless, manufacturing production decelerated from the previous month, while tourism sector slowed down rather noticeably, partly owing to political instability.

External stability remained sound. This was in line with high level of international reserves, though current account registered a deficit. Regarding internal stability, both headline and core inflation adjusted downward compared to the previous month.

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

1. The Manufacturing Production Index (preliminary) increased by 7.9 percent year-on-year (yoy), slowing down from the preceding month. This corresponded with electrical appliances and vehicle productions which decelerated mainly as a result of softening external demand. However, a favorable expansion was observed in electronics production, due to constant external demand for this category. The **capacity utilization rate** in August 2008 was at 70.5 percent, stable from the previous month.

2. Private Consumption Index (PCI) expanded by 7.2 percent (yoy), decelerating from the previous month. This followed a slowdown in VAT at constant price and imports of consumer goods at constant price. Nonetheless, motorcycle sales continued to expand in line with favorable farm income. **Private Investment Index (PII)** (estimated) increased by 3.8 percent (yoy), slowing down from the previous month. This stemmed mostly from imports of capital goods at constant price, while indicators in construction category remained contracted.

3. Fiscal Position. The government's gross revenue collection totaled 199.1 billion baht, declining by 11.9 percent from the same period last year. This was largely owing to the contraction of 14.9 percent (yoy) in tax revenue. Income tax contracted, following corporate income tax collection which, due to deadline extension for filing profit tax, spilt over into September data. Consumption tax also contracted slightly, following a decline in excise tax on oil consumption, in line with the government's measures. The government's **cash balance** recorded a surplus of 7.7 billion baht, with net domestic borrowing of 32.7 billion baht and net foreign repayment of 27.8 billion baht. Consequently, the treasury cash balance at end-August was 139.8 billion baht, up by 12.6 billion baht from the previous month.

4. External Sector. The **trade balance** recorded a deficit of 675 million US dollars, with both export and import decelerating from the previous month. **Export** value totaled 15,788 million US dollars, growing by 15.5 percent (yoy). The deceleration resulted primarily from export volume. In the agriculture category, rice export slowed down from both price and volume, while rubber export decelerated mostly from volume. Manufacturing category also slowed down in line with the exports of petroleum products, precious stone and jewelry, computers, plastic products, and electrical appliances. Meanwhile, **import** value totaled 16,463 million US dollars, expanding by 26.9 percent (yoy). The slowdown from the preceding month was attributed mainly to a deceleration in import volume across all categories, except for gold import which increased notably as a result of weakened world market prices.

Services, income, and transfers account registered a deficit of 177 million US dollars. The **current account** was thus in a deficit of 853 million US dollars. According to preliminary data, **net capital flow**^{1/} in August 2008 recorded a surplus of 123 million US dollars. This resulted mostly from the net inflows of banking sector. Consequently, the **balance of payments** was in a deficit of 850 million US dollars. **International reserves** as of end-August 2008 stood at 101.2 billion US dollars with a net forward position of 15.8 billion US dollars.

5. Headline inflation lowered from the previous month to 6.4 percent (yoy), because of the government's measures as well as downward adjustments of oil prices. Furthermore, as a result of the reduced costs of water supply as well as public transportations, both buses and trains, **core inflation** decelerated to 2.7 percent (yoy). The **Producer Price Index (PPI)** rose considerably by 21.6 percent from the same period last year, mostly corresponding to a price increase in agriculture category.

6. Monetary Conditions. Deposits of depository corporations^{2/} grew by 0.3 percent (yoy). However, when taking into account Bills of Exchange which were similar to deposits, the deposits expanded by 3.6 percent (yoy). **Private credits** increased by 11.3 percent (yoy), in line with an acceleration of credits extended to business sector, while household credits continued to expand well.

Monetary base, at end-August 2008, increased by 10.5 percent (yoy), while **broad money** grew by 0.7 percent (yoy). Nonetheless, when taking into account Bills of Exchange issued by commercial banks, broad money expanded by 4.0 percent (yoy).

Money market interest rates adjusted upward towards the end of month. This was in tandem with the policy rate which was raised from 3.50 percent per annum to 3.75 percent per annum in the MPC meeting on 27 August 2008. As a consequence, the 1-day repurchase rate and the overnight interbank rate averaged at 3.54 and 3.52 percent per annum, respectively.

During 1-26 September 2008, the 1-day repurchase rate and the overnight interbank rate kept a close track of the policy rate, averaging at 3.75 and 3.74 percent per annum, respectively.

7. Exchange Rate and Nominal Effective Exchange Rate (NEER). In August 2008, the baht averaged at 33.86 baht per US dollar, weakening from the July's average of 33.50 baht per US dollar. This was caused by an improved sentiment towards the US dollar as well as importers' constant demand for US dollars. Moreover, foreign investors continued the outflow from the stock market. The **NEER** strengthened from the preceding month, rising from 75.68 to 76.46. Even though the baht depreciated against the US dollar, it appreciated against other regional currencies.

During 1-26 September 2008, the baht weakened to an average of 34.32 baht per US dollar. This was in line with regional currencies as well as the continuation of importers' demand for US dollars and foreign portfolio outflows from the stock market.

Bank of Thailand
30 September 2008

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**

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

^{2/} Depository Corporations comprise Domestically Registered Commercial Banks, Branches of Foreign Banks, International Banking Facilities, Finance Companies, and Specialized Banks. However, Thrift and Credit Cooperatives and Money Market Mutual Funds will be included when data of these institutions become available.