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Press Release on Economic and Monetary Conditions for September 2008 and the Third Quarter of 2008

Overall economy in September 2008. The supply side exhibited a decelerating trend, with manufacturing production continued to slow down from the previous month. Meanwhile, despite a deceleration in crops production, major crops price grew continually, resulting in a satisfactory farm income. Tourism sector observed a contraction, owing mainly to political instability. On the demand side, private investment also continued to decelerate, while private consumption indicators improved as a result of lower oil prices and inflations. Export and import accelerated from the previous month.

In the third quarter of 2008, overall economy denoted a sign of slowing down in response to the weakened sentiments of both consumers and businesses, despite the lower energy prices and inflations. This was due to internal political uncertainties as well as growing concerns over the global financial crisis. As for the export sector, export volume decelerated in line with manufacturing production. Meanwhile, tourism sector contracted. Nonetheless, major crops production and price expanded favorably. As a result, farm income from major crops continued to expand well.

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 continued to adjust downward.

Details of the economic conditions **in September 2008 and the third quarter of 2008** are as follows:

1. The Manufacturing Production Index (preliminary) increased by 4.6 percent year-on-year (yoy), slowing down from the preceding month. **Electronics** production slowed down due to softening external demand; **iron products and construction materials** due to subdued construction sector; and **beverages** production due to the production hoarding in the previous month. Furthermore, production in the **petroleum** category contracted because of some maintenance closures. Nevertheless, certain categories still expanded satisfactorily such as **vehicle** production which in this month benefited from new model introductions of both commercial and small passenger cars. The **capacity utilization rate** was at 68.2 percent, lower from the previous month.

In the third quarter of 2008, the Manufacturing Production Index (preliminary) rose by 7.7 percent (yoy). The deceleration from the preceding quarter was observed across most categories, in line with softened domestic and external demands. Correspondingly, the capacity utilization rate declined to 69.6 percent.

2. Domestic Demand. Private Consumption Index (PCI)^{1/} increased by 5.9 percent (yoy). The improvement from the preceding month resulted from the acceleration in imports of consumer goods at constant price and VAT at constant price. The Car Index expansion was due to favorable growth of both passenger car and motorcycle sales. **Private Investment Index (PII)** (estimated) grew by 2.6 percent (yoy). Even though imports of capital goods at constant price expanded well, commercial car and domestic cement sales still contracted from the same period last year.

In the third quarter of 2008, the Private Consumption Index rose by 5.2 percent (yoy), improving from the previous quarter. This corresponded to an expansion in most categories except the Fuel Index which contracted as a result of high oil prices. The Private Investment Index (estimated) increased by 2.6 percent (yoy), slowing down from the preceding quarter. This was in line with a decline in most categories except imports of capital goods which continued to expand well.

^{1/} The Bank of Thailand revised the calculation method of Private Consumption Index (PCI). For more detail, please visit www.bot.or.th

3. Fiscal Position. The government's gross revenue collection totaled 180.1 billion baht, rising by 30.0 percent (yoy) mainly from tax revenues. Income tax increased considerably from corporate income tax collection which received some spillover from August. Consumption tax drove up following VAT collection, while excise tax and specific business tax continued to contract as a result of government's measures. Meanwhile, non-tax revenue declined by 65.2 percent (yoy), due to the high base last year when the Exchange Rate Equalization Fund (EEF) closure remittance of 37 billion baht took place. The government's **cash balance** recorded a surplus of 63.5 billion baht, with net borrowing of 26.6 billion baht. Consequently, the treasury cash balance at end-September was 229.9 billion baht, up by 90.1 billion baht from the previous month.

For **fiscal year 2008**, the government's gross revenue collection was 1,839.6 billion baht, increasing by 8.0 per cent from the previous fiscal year. The government's **cash balance** registered a deficit of 24.0 billion baht, with net domestic borrowing of 173.0 billion baht and net foreign borrowing repayment of 61.9 billion baht. Consequently, the treasury cash balance increased by 87.1 billion baht to 229.9 billion baht.

4. External Sector. The **trade balance** recorded a surplus of 142 million US dollars. **Export** value totaled 15,665 million US dollars, expanding by 19.5 percent (yoy). The acceleration from the previous month stemmed primarily from export volume while export price decelerated in most categories except fishery. The value of agriculture exports rose, following the prices which, though slowing down in line with global commodity prices, remained at high levels. Manufacturing exports accelerated, corresponding with exports of electrical appliances, computer, and metal product. Meanwhile, **import** value totaled 15,523 million US dollars, accelerating from the previous month to 38.6 percent (yoy). Import volume increased across all categories, particularly, raw material which accelerated markedly from chemical and metal product imports. Import price, however, decelerated across all categories, particularly petroleum products.

Services, income, and transfers account registered a deficit of 845 million US dollars.^{2/} The **current account** was thus in a deficit of 703 million US dollars. According to preliminary data, **net capital flow**^{2/} in September 2008 recorded a surplus of 1,808 million US dollars. This was largely caused by the net inflows in the banking sector from withdrawing foreign asset holdings. Consequently, the **balance of payments** was in a surplus of 2,033 million US dollars. **International reserves** as of end-September 2008 stood at 102.4 billion US dollars with a net forward position of 13.4 billion US dollars.

In the **third quarter of 2008**, the **trade balance** recorded a deficit of 1,296 million US dollars, as import accelerated more than export. The **services, transfers and income account** was in a deficit of 1,166 million US dollars. This was due to reduced tourism receipts as well as higher remittance of private profits and dividends. Consequently, the **current account** registered a deficit of 2,461 million US dollars. As preliminary data showed a surplus of 573 million US dollars in net capital flow for the third quarter of 2008, the **balance of payments** registered a surplus of 503 million US dollars.

5. Headline inflation continued to decelerate from the previous month to 6.0 percent (yoy). This was led by the government's measures as well as downward adjustments of oil prices, despite the price acceleration of raw food as plantations were damaged by floods. **Core inflation** slightly decelerated to 2.6 percent (yoy). The **Producer Price Index (PPI)** also decelerated to 19.0 percent (yoy). This followed prices of major commodities in the world market, particularly petroleum products. Nevertheless, prices in agriculture category adjusted upward, owing to floods in major production areas.

For the **third quarter of 2008**, the headline and core inflation were 7.3 and 2.9 percent (yoy), respectively. These were close of those of the previous quarter mostly because of the lower oil prices and government's measures. This was notwithstanding the accelerated raw food prices, resulting from flood damages, which gradually transmitted costs into prices of food prepared at home and food away from home. The Producer Price Index accelerated from the preceding quarter to 20.6 percent (yoy).

^{2/} This data is preliminary which will be revised in the following month.

6. Monetary Conditions^{3/}. **Monetary base**, at end-September 2008, increased by 5.5 percent (yoy), while **broad money** grew by 4.8 percent (yoy). **Deposits of depository corporations** expanded by 1.4 percent (yoy). However, when taking into account Bills of Exchange which were similar to deposits, the deposits expanded by 4.0 percent (yoy). **Private credits** increased by 10.8 percent (yoy), following a satisfactory expansion in household credits and an acceleration in credits extended to business sector.

Money market interest rates adjusted upward in tandem with the policy rate which was raised on 27 August 2008. Consequently, in September 2008, the 1-day repurchase rate and the overnight interbank rate averaged at 3.75 and 3.74 percent per annum, respectively. In **the third quarter of 2008**, the money market interest rates adjusted higher from the preceding quarter, corresponding with the total increase of 0.50 percent per annum in the policy rate. **During 1-28 October 2008**, the money market interest rates remained close to the September's averages as the Monetary Policy Committee decided on 8 October 2008 to maintain the policy rate.

7. Exchange Rate and Nominal Effective Exchange Rate (NEER). In September 2008, the baht averaged at 34.29 baht per US dollar. The baht fluctuated somewhat and averaged weaker from the August's average. This was due to the risk aversion in global money market, which resulted in foreign investors withdrawing investments from emerging markets, including Thai stock market. Nonetheless, the **NEER** slightly strengthened from the preceding month to 76.79 as the baht depreciated against the US dollar less than most currencies. This was partly because Thailand witnessed smaller capital outflows compared to other countries in the region. Therefore, when compared against major trading partners' currencies, the baht slightly appreciated.

During **the third quarter of 2008**, the exchange rate weakened from 32.33 baht per US dollar in the previous quarter to 33.89 baht per US dollar. Meanwhile, the NEER also weakened by 2.6 percent compared to the previous quarter.

During 1-28 October 2008, the baht averaged at 34.36 baht per US dollar, close to that of September.

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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*

^{3/} Since September 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.