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Press Release on Economic and Monetary Conditions for January 2009

In January 2009, the overall economy continued to contract from the same period last year, with continual large contractions in manufacturing production and export. Private consumption and investment trended downward, in line with a considerable drop in import. Furthermore, major crops production and price continued to decelerate, resulting in a slowdown in farm income. Nevertheless, tourism sector observed a smaller contraction.

External stability remained sound with high international reserves as well as trade and current account surpluses following a marked decrease in import. Regarding internal stability, January's inflation turned negative for the first time since October 1999. Even though the unemployment rate remained low, manufacturing employment continued to decline.

Detailed economic conditions for **January 2009** are as follows:

1. Manufacturing Production Index (preliminary) posted a consecutive contraction at 21.3 percent year-on-year (yoy). Significant decline in both domestic and external demand resulted in a contraction in most categories including **electronics, electrical appliances, food, iron products**, as well as **vehicles** of which inventory remained high. However, when seasonally adjusted, the MPI remained mostly stable from the previous month, in line with **Capacity Utilization** in January 2009, which after seasonally adjusted, increased from 56.5 percent in the previous month to 57.1 percent.

2. Private Consumption Index (PCI) (estimate) contracted 4.5 percent (yoy), across the board except for fuel sales which benefited from oil excise tax reduction, ending 31 January 2009. Imports of consumer goods and VAT at constant price notably contracted. Household electricity utilization sharply fell due to the prolonged period of low temperature. Passenger car sales also began to contract partly due to high base effect from the tax benefit for alternative-energy cars (E20). **Private Investment Index (PII)** (estimate) shrank 7.9 percent (yoy) in line with equipment and machinery category which observed an accelerating contraction in capital goods imports and commercial car sale.

3. As for **fiscal position** in January 2009, government revenue was 109.0 billion baht, declining 11.9 percent (yoy). This mainly corresponded to a 14.9 percent contraction in **tax revenue** across all bases, while **non-tax revenue** expanded in line with remittance from government agencies and state enterprises. As for tax revenue, consumption-based tax notably declined following VAT as well as excise tax, and specific business tax collection which due partly to the government's tax measures. Additionally, tax on international trade declined in tandem with import. Nonetheless, income tax still rose by 6.3 percent (yoy) from both personal and corporate income taxes. With expenditure driven up, the government's **cash balance** registered a 102.7 billion baht deficit which was financed by 78.7 billion baht net borrowing and 24.0 billion baht of treasury cash. Consequently, the overall treasury cash balance decreased from 61.4 to 37.4 billion baht.

4. Externally, the **trade balance** in January 2009 recorded a 1,688 million US dollar surplus. Export value contracted for the third consecutive month while import fell even more rapidly. Export value dropped 25.3 percent (yoy) to 10,382 million US dollars. This was due mainly to contraction across the board except for labour-intensive industries which still expanded from gold export. Import value contracted 36.5 percent (yoy) across the board to 8,694 million US dollars. When accounting for the net **services, income, and transfers** surplus of 601 million US dollars from lower investment income transfer compared to the previous month, the **current account** balance registered a 2,289 million US dollar surplus. **Net capital account**^{1/} was in a deficit of 718 million US dollars, mainly

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

from banks' foreign exchange transactions with residents. When taking into account errors and omissions, the **balance of payments** registered a surplus of 1,976 million US dollars. **International reserves** was at 110.7 billion US dollars, with the BOT net forward position of 6.1 billion US dollars.

5. Headline inflation fell 0.4 percent (yoy) in January 2009, the first negative inflation since October 1999, following lower energy prices compared to the same period last year. On the other hand, increases in raw food prices began to decelerate, while lower oil costs resulted in public transport fares adjusting downward since the end of December 2008. In addition, prices of palm oil and prepared food also decreased. Consequently, **core inflation** decelerated to 1.6 percent (yoy). **Producer Price Index (PPI)** consecutively fell 2.5 percent (yoy) in line with a contraction in mining and manufactured categories.

6. As of end-January 2009, **monetary base** grew 5.7 percent (yoy), while **broad money**^{2/} increased 9.2 percent (yoy). **Deposits of depository corporations** decelerated from the previous month to 6.9 percent (yoy) as investors diverted deposits at commercial banks into other securities offering higher returns. **Private credits** expanded 8.7 percent (yoy), slowing down in line with a deceleration in credits extended to business sector, while household credits still increased at a similar rate to the previous month.

Short term interest rates. In January 2009, the 1-day repurchase rate and the overnight interbank rate both averaged 2.26 percent per annum, lower from December following the MPC's policy rate cut of 0.75 percent on 14 January 2009, from 2.75 to 2.00 percent per annum. As a result, during **1-24 February 2009**, both rates averaged lower from January to 2.00 percent per annum.

7. Exchange Rate and Nominal Effective Exchange Rate (NEER). In January 2009, the baht averaged 34.92 baht per US dollar, slightly strengthening from December's average of 35.04 baht per US dollar, mainly from unwinding political tension as well as gold exporters' sales of the US dollar. The NEER also slightly appreciated from 76.72 in the previous month to 77.23.

During 1-24 February 2009, the baht averaged 35.22 baht per US dollar, slightly weakening from January, largely in line with an increase in regional demand for safe haven currencies including the US dollar and Japanese yen.

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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*

^{2/} 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 Bills of Exchange.