



No. 26/2009

Press Release on Economic and Monetary Conditions for May 2009

The overall economy in May 2009 remained stable from April and contracted from the same period last year at a rate close to that of the previous month, as reflected in manufacturing production, private consumption and investment indices, as well as export and import. However, major crop production and prices fell at a faster rate, resulting in a further reduction in farm income. Meanwhile, tourism sector also observed a larger contraction, partly because tourists remained uncertain of Thai political condition.

Nonetheless, external stability was upheld by current account surplus and high level of international reserves. Regarding internal stability, inflation rates remained low while unemployment rate increased slightly.

Details of the economic conditions in **May 2009** are as follows:

1. The Manufacturing Production Index (preliminary) fell 10.0 percent year-on-year (yoy), close to the April's contraction of 9.7 percent (yoy). When seasonally adjusted, the MPI decreased 1.2 percent from the previous month, following those manufacturing industries serving domestic market. Passenger cars production fell as a result of inventory adjustment, while beverages and tobacco productions slowed down after prior acceleration in April. However, electronics and electrical appliances productions picked up in line with external demand. The seasonally-adjusted **capacity utilization rate** declined slightly from the previous month.

2. Private Consumption Index (PCI) decreased by 4.7 percent (yoy) or 0.8 percent when compared to the previous month, in line with the contractions in Car Index, real imports of consumer goods as well as VAT at constant prices. **Private Investment Index** (PII) (estimate) contracted 16.5 percent (yoy), a rate close to that of the previous month. Equipment and machinery category contracted in tandem with the economic downturn and low capacity utilization rate, while construction category remained fairly stable.

3. Fiscal Position. The government's gross revenue collection dropped 20.1 percent (yoy) to 237.8 billion baht, with **tax revenues** falling 24.8 percent (yoy). Income-based tax contracted 30.3 percent (yoy). Corporate income tax, in particular, shrank 38.6 percent (yoy), following the decline in net profits in line with economic slowdown as well as the postponement of payment deadline into June. Consumption-based tax also decreased, mainly following VAT collection. On the other hand, specific business tax increased 20.1 percent (yoy) as the specific business tax on real estate transactions was temporarily resumed at 3 percent, before the extension of the measure reducing the specific business tax on real estate transactions was published in the royal government gazette. Excise tax also expanded 17.2 percent (yoy), following the increases in oil, liquor, and tobacco excise taxes. **Non-tax revenues** rose 77.5 percent (yoy) from the delay of certain state enterprises' remittance into this month.

The government's **cash balance** registered a 36.7 billion baht deficit, which was financed by the net borrowing of 40.4 billion baht. Consequently, the treasury cash balance increased from 98.2 billion baht in the previous month to 101.9 billion baht in May.

4. External Sector. Export value shrank across the board by 26.5 percent (yoy) to 11,547 million US dollars, particularly from volume contraction in the high-technology exports, namely, vehicles, computers, and electrical appliances whereas agricultural exports fell from both prices and volume. **Import value** also contracted across the board by 34.3 percent (yoy) to 9,208 million US dollars. In particular, fuel imports fell in line with crude oil import prices, while raw materials and intermediate goods import registered a notable contraction, particularly following volume contractions in the imports of iron, chemical, and plastic materials. Consequently, the **trade balance** recorded a surplus of 2,339 million US dollars. This, combined with a deficit of 949 million US dollar in

the **services, income, and transfers account** due to seasonal income and dividend transfers as well as lower tourist receipts, resulted in a 1,390 million US dollar **current account** surplus. **Net capital account**^{1/} recorded a 979 million US dollar outflow, largely from non-bank outflows – particularly Thai securities investment into Korean debt instruments. Overall, the **balance of payments** registered a 602 million US dollar surplus. At end-May 2009, **international reserves** stood at 121.5 billion US dollars, with the **BOT net forward position** of 6.3 billion US dollars.

5. Headline inflation contracted 3.3 percent (yoy) in line with low energy prices compared to the same period last year, whereas raw food prices increased at a slower pace. With the government's fee exemption on 15-year education, together with the high base effect in prices of several goods and services last year, **core inflation** contracted 0.3 percent (yoy) – the first contraction since January 2004. The **Producer Price Index (PPI)** continued to contract by 7.2 percent (yoy), corresponding to low prices of mining and manufactured products and deceleration in agricultural product prices from the high base last year, especially for rice and rubber.

6. Monetary Conditions^{2/}. As of end-May 2009, **monetary base** expanded 5.8 percent (yoy), while **broad money** rose 9.2 percent (yoy). **Deposits at depository corporations** remained close to the previous month, expanding 6.2 percent (yoy). When included Bills of Exchange, the deposits grew by 8.8 percent (yoy). **Private credits** expanded 4.5 percent (yoy), continually decelerating due to a slowdown in credits extended to business sectors in line with the economic conditions as well as the sales of non-performing loans to asset management corporation. However, if such sales of non-performing loans were added back, the private credit outstanding would continue to increase from the previous month.

Short term interest rates. As of end-May 2009 and during 1-26 June 2009, the 1-day repurchase rate and the overnight interbank rate averaged at 1.25 and 1.15 percent per annum, respectively.

7. Exchange Rate and Nominal Effective Exchange Rate (NEER). In May 2009, the baht moved in line with regional currencies, resulting in the stable NEER at 77.22, close to 77.32 in April. This was despite a slight appreciation of the baht against the US dollar due to increased risk appetite, which ushered capital flows into Thai and regional stock markets, as well as exporters' sale of US dollars. The baht averaged at 34.57 baht per US dollar, slightly strengthening from 35.46 baht per US dollar in April.

During 1-26 June 2009, the baht moved in a narrow range and continued to slightly strengthen compared to the US dollar, averaging at 34.15 baht per US dollar. This was due mainly to risk appetite in the world financial market, resulting in increased investment in assets denominated in regional currencies.

Bank of Thailand
30 June 2009

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/} 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.