



BANK OF THAILAND NEWS

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No. 46/2009

Press Release on Economic and Monetary Conditions for August 2009

The economic recovery in August 2009 moderated from the previous month after the earlier consecutive improvements, reflecting its gradual progression. Seasonally adjusted manufacturing production index, private consumption index, and import contracted from the previous month, while export remained stable. Nonetheless, several indicators continued to show improving signs, namely, private investment, number of foreign tourists, major crops production and farm income, as well as fiscal stimulus which reflected in public spending.

External stability was upheld by a current account surplus as well as a high level of international reserves. Regarding internal stability, inflation rates remained low while employment conditions improved, particularly in line with the resumption of employment expansion in manufacturing sector.

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

1. The Manufacturing Production Index (preliminary) after seasonal adjustment fell by 3.6 percent from the previous month, in line with both domestic-market and export-oriented productions. This was due partly to a slowdown in textile and electronic industries after the marked improvement in the previous months, while food production also encountered input shortage problem. Beverage production dropped after hoarding production before the increase in excise tax on beverages. Petroleum and tobacco productions declined, following factory maintenance closures. Consequently, the MPI recorded a larger contraction of 10.3 percent year-on-year (yoy), compared to a contraction of 7.1 percent (yoy) in July. This corresponded to the **capacity utilization rate** which lowered to 60 percent.

2. Private Consumption Index (PCI) shrank 4.4 percent (yoy) and declined 3.2 percent from the previous month. This followed lower imports of consumer goods which earlier accelerated sharply, as well as lower VAT at constant prices in line with VAT on imports. Meanwhile, fuel sales dropped, partly in response to an increase in retail oil prices. Nonetheless, Car Index and household electricity usage continued to improve. **Private Investment Index (PII)** (estimate) fell 13.3 percent (yoy), but grew 1.6 percent from the previous month. The continued improvement was observed in the machinery and equipment indicators, while construction category remained stable.

3. Fiscal Position. The government's gross revenue collection increased 13.0 percent (yoy) to 225.3 billion baht. This chiefly followed tax revenues which grew 15.6 percent (yoy) from both income and consumption taxes. Corporate income tax markedly rose, owing to low base effect as last year saw a deadline extension for filing profit tax from the last day of August 2008 to the first day of September 2008, causing part of revenue to spill over into September. Consumption-based taxes increased 2.5 percent (yoy) following the excise tax which notably rose 45.7 percent (yoy) as a result of 1) the government measures last year to cut excise tax on diesel and gasohol sales and 2) an increase in oil excise tax this year.

The government spending remained supportive of the economic recovery. In August 2009, the government's cash balance registered a 28.6 billion baht deficit which was financed by the net borrowing and the treasury cash of 20.7 and 7.9 billion baht, respectively. Consequently, the treasury cash balance decreased to 271.3 billion baht at end-August 2009.

4. External Sector. The **trade balance** registered a 2,271 million US dollar surplus. **Export** value totaled 13,181 million US dollars, contracting 17.9 percent (yoy). A smaller contraction was observed in both agriculture

and manufacturing categories; as a result of both volume and price for the former, while mainly from volume for the latter. After seasonal adjustment, export volume remained close to that of the preceding month. **Import** value totaled 10,910 million US dollars, dropping 33.8 percent (yoy), a rate close to that of the previous month. When seasonally adjusted, import volume shrank 11.4 percent from the previous month. This mostly followed lower fuel imports which reflected maintenance closure of an oil refinery. Imports in other categories slightly decreased from the previous month, except capital imports which continued to increase for the third consecutive month.

The **services, income, and transfers account** registered a 356 million US dollar deficit due to lower tourism receipts as well as higher non-bank profit remittance. This, combined with the trade surplus, however, brought the **current account** into a 1,916 million US dollar surplus. **Net capital account**^{1/} recorded a 667 million US dollar net inflow, largely from the capital flow into banking sector as investors and exporters increased exchange rate hedging activities. When taking into account errors and omissions, the **balance of payments** registered a 2,570 million US dollar surplus. **International reserves** stood at 127.3 billion US dollars, with the BOT net forward position of 12.6 billion US dollars.

5. Headline and core inflation in August 2009 were -1.0 and -0.2 percent (yoy), respectively. The smaller contractions were because this month last year saw the introduction of the government's measures to alleviate the costs of living while oil prices also started declining. **Producer Price Index (PPI)** fell by 10.4 percent (yoy). The smaller contraction resulted from both mining and manufactured product prices which adjusted upward in line with world market.

6. Monetary Conditions^{2/}. **Deposits of depository corporations** rose 7.8 percent (yoy). When taking Bills of Exchange into account, the deposits grew 8.0 percent (yoy). **Private credits of depository corporations** expanded 1.3 percent (yoy), decelerating continually in tandem with economic conditions. This reflected in a decline in credits extended to business sectors, whereas household credits continued to expand.

Short term interest rates. At end-August 2009 and during 1-25 September 2009, the 1-day repurchase rate and the overnight interbank rate remained stable and in line with the policy rate, averaging constantly at 1.25 and 1.15 percent per annum, respectively.

7. Exchange Rate and Nominal Effective Exchange Rate (NEER). In August 2009, the NEER slightly weakened to 77.05. The baht moved in a narrow range against the US dollar, averaging at 34.02 baht per US dollar, close to 34.05 baht per US dollar in July. This was because of fairly balanced trading transactions on the US dollar. During 1-25 September 2009, the baht strengthened from August, averaging at 33.87 baht per US dollar, due to the weakened US dollar from increased risk appetite.

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30 September 2009

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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 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.