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## Press Release on Economic and Monetary Conditions for June and the Second Quarter of 2009

The economy in June 2009 improved from the previous month. This was reflected by the month-on-month increases in several seasonally-adjusted indicators whereas the year-on-year contractions also subsided. These include indicators for manufacturing production, private consumption and investment, as well as export and import. However, farm income continued to contract, following notable declines in major crops production and prices from the high bases last year. Tourism sector also weakened continually, partly due to the global outbreak of the Influenza A (H1N1) which caused WHO to raise the level of pandemic alert to phase 6 in this month.

Overall, in the second quarter of 2009, the economy still contracted from the same period last year, but certain indicators improved when compared to the previous quarter, especially manufacturing production and private consumption. On the other hand, private investment as well as export and import stabilized. Nonetheless, farm income registered a larger contraction, in tandem with major crops production and prices which fell continually on a year-on-year basis. Tourism sector still contracted, mainly following world economic slowdown and political unrest in April.

External stability was upheld by a current account surplus as well as high level of international reserves. Regarding internal stability, inflation rates stayed low while employment condition remained mostly stable.

Details of the economic conditions in **June and the second quarter of 2009** are as follows:

**1. The Manufacturing Production Index** (preliminary) still contracted by 7.8 percent year-on-year (yoy), despite improvements in several sectors. In particular, export-oriented industries resumed a positive growth rate, the first expansion since November 2008. When seasonally adjusted, an increase from the previous month was observed in most categories. The export-oriented industries improved following hard disk drives, television sets, and canned seafood productions, whereas the industries serving domestic market improved following expedition of passenger car production to catch up with orders. The **capacity utilization rate** was at 60.4 percent, close to that of the previous month. When seasonally adjusted, the rate slightly increased in line with manufacturing production.

In the second quarter of 2009, the manufacturing production improved somewhat, as reflected in a drop of 9.1 percent (yoy) in the MPI, notably less than the first quarter's contraction of 18.5 percent (yoy). When seasonally adjusted, the MPI rose 10.6 percent from the first quarter, primarily in line with export-oriented industries. The **capacity utilization rate** increased from 58.1 percent in the previous quarter to 59.2 percent.

**2. Private Consumption Index (PCI)** shrank 2.7 percent (yoy), but increased 2.6 percent from the previous month. This corresponded to improvements in Car Index, VAT at constant prices, and consumer goods imports, while Fuel Index declined from the previous month in response to oil prices' upward adjustments. **Private Investment Index (PII)** (estimate) continued to contract by 15.5 percent (yoy), but grew 1.1 percent from the previous month.

In the second quarter of 2009, the Private Consumption Index contracted 4.2 percent (yoy), but increased 1.1 percent compared to the previous quarter. Most indicators expanded from the previous quarter, particularly VAT at constant prices, Car Index, and Fuel Index. The Private Investment Index (estimated) remained stable compared to the previous quarter.

**3. Fiscal Position.** The government's gross revenue collection increased 29.8 percent (yoy) to 172.4 billion baht, mainly following income-based **tax revenues**. This resulted from spillovers of corporate income tax due to net profit tax remittances' deadline postponement into June. Consumption-based and international trade taxes contracted at slower rates. **Non-tax revenues** shrank 31.7 percent (yoy), from lower remittance by state enterprises. With the increase in revenues, the government's **cash balance** registered a 124.1 billion baht surplus. After a net debt repayment of 10.5 billion baht, the treasury cash balance increased from 101.9 billion baht at end-May to 215.6 billion baht at end-June.

In the third quarter of fiscal year 2009, the government's gross revenue collection fell 8.2 percent (yoy) to 529.1 billion baht. With a 51.3 billion baht cash balance surplus in conjunction with net borrowing of 113.0 billion baht to finance budget deficit, the treasury cash balance at end-quarter totaled 215.6 billion baht, increasing 51.2 billion baht from the previous quarter.

**4. External Sector.** The **trade balance** registered a surplus of 939 million US dollars. **Export** value recorded 12,160 million US dollars, contracting across the board by 26.4 percent (yoy), particularly in high-technology category such as vehicles and petroleum products, while agriculture category also registered a marked contraction due mostly to lower prices. However, when seasonally adjusted, export volume still expanded 1.5 percent from the previous month. **Import** value dropped across the board by 26.3 percent (yoy) to 11,221 million US dollars. When seasonally adjusted, import value expanded 21.6 percent from the previous month, mostly following fuel category. This, combined with a 462 million US dollar deficit in **services, income, and transfers account**, brought the **current account** into a surplus of 477 million US dollars. **Net capital account**<sup>1/</sup> recorded 173 million US dollar inflow, mainly following the bank sector inflows as well as an increase in investors' currency hedging activities. When taking into account errors and omissions, the **balance of payments** registered a 27 million US dollar surplus. **International reserves** stood at 120.8 billion US dollars, with the BOT net forward position of 8.9 billion US dollars.

In the second quarter of 2009, the trade balance recorded a 3,896 million US dollar surplus, as a result of considerable import contraction by 32.3 percent (yoy), while export shrank by 26.1 percent (yoy). This, together with a 1,604 million US dollar deficit in services, transfers and income account following lower tourist receipts, drove the current account to a 2,293 million US dollar surplus. The net capital account showed a 1,646 million US dollar outflow, chiefly in line with the non-bank sector outflows from 1) rising Thai investment in overseas securities, particularly long-term investment in Korean high-return debt instruments and 2) debt repayment. There were also some outflows from long-term debt repayment in the banking sector, as well as state enterprises' lending activities. Overall, the balance of payments registered a surplus of 1,274 million US dollars.

**5. Headline inflation** in June 2009 contracted 4.0 percent (yoy), in line with lower oil prices compared to the same period last year. **Core inflation** continued to contract 1.0 percent (yoy), following the government measures to help alleviate costs of living and fee exemption on 15-year education, accompanied by the high base effect in several goods and services prices last year, especially for prepared food prices which rose rapidly last year. **Producer Price Index (PPI)** continued to contract by 10.5 percent (yoy) because of notable reductions from the same period last year in agricultural, mining and manufactured product prices.

For the second quarter of 2009, the headline and core inflation contracted 2.8 and 0.1 percent (yoy), respectively. This was partly attributed to the high base effect, for instance, in oil and prepared food prices, as well as the government measures to help alleviate costs of living. PPI continued to contract by 7.0 percent (yoy).

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<sup>1/</sup> This data is preliminary which will be revised in the following month.

**6. Monetary Conditions. Deposits of depository corporations** grew 9.4 percent (yoy). When taking Bills of Exchange into account, the deposits rose 9.5 percent (yoy). **Private credits of depository corporations** expanded 3.5 percent (yoy), decelerating continually from a slowdown in credits extended to business sectors, along with low credit demand and the sales of non-performing loans. Nonetheless, household credits still grew at a rate close to that of the previous month.

**Short term interest rates.** In June 2009 and during 1-28 July 2009, the 1-day repurchase rate and the overnight interbank rate remained stable at 1.25 and 1.15 percent per annum, respectively.

In the second quarter of 2009, the 1-day repurchase rate and the overnight interbank rate adjusted downward from 1.89 and 1.87 percent per annum, respectively, to 1.27 and 1.18 percent per annum, respectively, in line with the policy rate cut by the Monetary Policy Committee on 8 April 2009.

**7. Exchange Rate and Nominal Effective Exchange Rate (NEER).** In June 2009, the NEER strengthened slightly, following the baht strengthening from averaged 34.57 baht per US dollar in the previous month to 34.14 baht per US dollar, from exporters' sale of US dollars as well as capital flows into Thai stock market.

During the second quarter of 2009, the average NEER slightly weakened by 0.2 percent from the previous quarter, reflecting the baht's relative depreciation against the currencies of trading partners. This was despite the baht's appreciation against the US dollar, from the previous quarter's average of 35.36 baht per US dollar to 34.68 baht per US dollar.

During 1-28 July 2009, the baht moved in narrow range, strengthening slightly to averaged 34.05 baht per US dollar.

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