



BANK OF THAILAND

BOT Press Release

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Press Release on the Economic and Monetary Conditions for June and the Second Quarter of 2013

In June 2013, the Thai economy continued to moderate as external demand, especially from China, softened and further weighed on merchandise exports, manufacturing production of export goods, and private investment. On the other hand, private consumption stabilized, while the tourism sector continued to expand robustly.

On the stability side, inflation eased and unemployment declined marginally. The current account, the capital account, and the balance of payments all posted a deficit.

Details of the economic conditions are as follows:

**Merchandise exports** declined with softened global demand notably from China, coupled with supply constraints due to the shrimp disease. The maintenance shutdown of petroleum refineries also weighed on exports temporarily. Thus, the merchandise export value totalled 18,818 million US dollars, dropping by 3.5 percent year-on-year (yoy) due to the slowdown in exports of agricultural products, fishery, and manufacturing products – especially hard disk drives (HDD), petroleum products, electrical appliances, and processed agricultural products.

Flagging exports, in turn, contributed to a contraction in manufacturing production and investment. The **Manufacturing Production Index** (MPI) dropped by 3.5 percent (yoy), mainly from export production including processed seafood and HDD, with automobile production growth (yoy) moderating from the previous month's. The **Private Investment Index** (PII) declined by 4.1 percent (yoy) following (1) the slowdown in machinery and equipment investment as partly reflected in lower capital imports by export-oriented businesses; and (2) the high base effect due to post-flood reconstruction last year. Construction investment, however, expanded in line with increased construction both for residential and commercial uses.

Private consumption stabilized this month. The **Private Consumption Index** (PCI) rose by 0.8 percent (yoy), as non-durable purchases increased with fuel consumption and imports of consumer goods, especially food and beverages. Nonetheless, durable consumption declined mainly from car purchases, as fewer cars remained to be delivered under the first-car scheme and new car orders also dropped.

The recent slowing in exports and investment weighed on imports of raw materials and intermediate goods (excluding fuel), as well as imports of capital goods. Imports of consumer goods, however, expanded in line with consumption spending. Altogether, **merchandise**

**imports** totalled 18,230 million US dollars, growing by 0.9 percent (yoy). Excluding fuel and gold, the import value stood at 12,394 million US dollars, a drop of 5.1 percent (yoy).

**Farm income** grew by 12 percent (yoy) both from output and price. Despite the decline in rice and shrimp produce, farm output expanded by 8.5 percent (yoy) on the back of rubber and oil palm produce due to the expansion of planting areas over the previous years. Farm price grew by 3.2 percent (yoy) on account of higher shrimp price due to the impact of the disease on shrimp supply, higher livestock price due to unfavorable weather, and higher cassava price due to greater demand for use in ethanol production. Meanwhile, rubber price posted a negative growth (yoy) as orders from China slowed down.

The **tourism** sector expanded robustly, with 2.1 million foreign tourist arrivals or a growth of 25 percent (yoy), thanks to more tourists from China, Malaysia, India, and Russia.

**Fiscal spending** rose with the increase in transfer payments due to the excise tax rebate under the first-car scheme and subsidy to village funds and state-owned enterprises. Government revenue, on the other hand, expanded from corporate income tax. With revenue outpacing expenditure, the government's cash balance posted a surplus of 168.1 billion baht.

On the **stability** front, unemployment declined slightly, while headline inflation softened to 2.25 percent (yoy) following subdued core inflation and fresh food prices. The current account recorded a deficit due to the repatriation of profits and dividends. The capital account also posted a deficit following foreign investors' sell-off of government bonds, Bank of Thailand bonds, and equity securities in line with sentiment reversal in the global financial market. The balance of payments posted a deficit overall.

Considering **the second quarter of 2013 as a whole**, economic growth moderated as consumption flattened out after picking up strongly in 2012 and merchandise exports contracted amid fragile global demand and supply constraints. Manufacturing production and investment slowed down accordingly. The tourism sector, however, continued to grow robustly. As for economic stability, unemployment stayed low and inflation eased from the first quarter, while the Thai baht fluctuated with global market sentiments. The current account posted a deficit, both from the trade balance and the services, income, and transfers balance. At the same time, the capital account recorded a surplus due to financial institutions' short-term borrowings to manage liquidity in the foreign exchange swap market, foreign investors' purchases of government debt securities, and foreign direct investment. The balance of payments registered a deficit overall.

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