



BANK OF THAILAND

BOT Press Release

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Press Release on Economic and Monetary Conditions for March and the First Quarter of 2012

The Thai economy continued its recovery path in March 2012. Manufacturing production in several industries recovered close to the pre-flood level, which in turn boosted exports of manufacturing products. Meanwhile, private consumption and investment continued to expand. For overall economic stability, external debt increased primarily from trade credits and the commercial banks' borrowing to close their foreign exchange exposures while headline inflation accelerated mainly from an increase in energy prices.

Details of the economic conditions are as follows:

Manufacturing production improved for the fourth consecutive month as most industries, notably domestic-oriented industries, were able to resume their production close to the pre-flood level. Furthermore, some automobile manufacturers accelerated their production above normal level to compensate for decreased production of some affected firms. Consequently, the capacity utilization rate rose to 68.1 percent from 62.5 percent in the previous month. **However, the Manufacturing Production Index (MPI)** still contracted by 3.2 percent year-on-year (yoy) as production in certain industries was not fully recovered. **Agricultural production** decreased by 0.3 percent (yoy) due to last year's high base effect as a result of early rice harvest. Nonetheless, production of livestock and other major crops including rubber, oil palm, sugar cane, and cassava continued to expand well. Meanwhile, **agricultural price** continued to drop by 8.4 percent (yoy) following a marked contraction in rubber price due to last year's high base effect and softened rubber demand from China and domestic manufacturers. Consequently, **farm income** contracted by 8.6 percent (yoy).

Improvement in manufacturing production helped exports of manufacturing products, especially electronics and automobile, to improve. Nonetheless, total **export value** dropped by 6.8 percent (yoy), mainly from a plunge in exports of agricultural products. This was due to decreased rubber export prices, as well as a decline in rice exports due to deteriorated price competitiveness. Regarding the **tourism sector**, the number of foreign tourist arrivals totaled 1.9 million people, growing by 12.2 percent (yoy). This was mainly attributable to the rising number of tourists from China, Japan, and Laos. As a result, the occupancy rate (seasonally adjusted) rose from the previous month, reflecting the rebound in tourist confidence despite the bombing incident in Bangkok in February.

Private consumption and investment registered continuous growth following resolved supply chain disruption problems that caused goods shortages and an improvement in the overall sentiment of the private sector. **The Private Consumption Index (PCI)** grew by 3.7 percent (yoy) from an expansion across all consumption indicators,

especially VAT collection. Furthermore, robust domestic vehicle sales, especially commercial car, resulted in an increase in fuel consumption. Concurrently, private investment rose continuously as reflected by a satisfactory growth of **the Private Investment Index (PII)** by 9 percent (yoy). This was owing mainly to rising investment in commercial cars, as well as a surge in imports of capital goods in several industries including electronics, electrical appliances, automobile, and machinery and equipment.

Improving economic conditions led the **import value** to expand by 21.5 percent (yoy), with the expansion recorded across all product categories. In addition, crude oil imports surged as oil refineries increased their commercial oil reserves to deal with a possible energy crisis in the Middle East on top of accelerated crude oil imports to increase production before the temporary maintenance shut-down by one oil refinery in May 2012.

The fiscal sector remained stimulative as reflected by rising government expenditures, especially expense on goods and services, grants to local governments, as well as measures to increase the civil servants' compensation. Meanwhile, the government's revenue rose from VAT and duty on imports in tandem with economic recovery and a surge in imports of automobile and parts. However, excise tax collection continued to contract due to the postponement to reimpose diesel excise tax. Higher expenditures relative to revenue, therefore, resulted in a cash balance deficit of 180.3 billion baht.

Regarding **overall economic stability**, external debts rose mainly from trade credits and short-term borrowing of commercial banks. Export recovery and continued outflows of foreign portfolio investment have resulted in marked increase in Thai exporters and investors' foreign exchange hedging transaction, which required banks to close their foreign exchange exposures.

Headline inflation stood at 3.45 percent (yoy), accelerating from the previous month following the rise in energy prices and the reintroduction of contributions to the oil fund for benzene, as well as liquid petroleum gas (LPG) usage in the transportation sector. Meanwhile, raw food prices continued to soften mainly from a decline in meat prices following an oversupply in the market. Core inflation stood at 2.77 percent (yoy), rising across almost all goods categories from the previous month, especially prepared food prices.

Overall, **the economy in the first quarter of 2012** recovered markedly across all sectors after the supply disruption problems had been largely resolved, which led to improvements in manufacturing production, private consumption, private investment, and exports. Besides, the fiscal stimulus increased following the enactment of the Budget Act Fiscal Year 2012 on the 8th February 2012. On economic stability, employment resumed its normal condition, and inflation remained at a high level.

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