



BANK OF THAILAND NEWS

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Press Release on Economic and Monetary Conditions for June 2008 and the Second Quarter of 2008

Overall economy in June 2008 continued to expand from the previous month. The supply side grew satisfactorily in line with major crops and manufacturing production. On the demand side, private consumption index and private investment index improved from the preceding month, following an accelerated import. Export also expanded well.

In **the second quarter of 2008**, demand-side indicators denoted a continual increase in private spending from the previous quarter, though with less momentum. This was due to weak sentiment of both consumers and businesses as a result of accumulated political uncertainty in conjunction with elevated costs of living and production primarily from oil price pressure. Nonetheless, public expenditure, several measures to alleviate the impacts of heightened cost of living, together with favorable expansions in exports, major crops production and price and the resulting acceleration in farm income, collectively shored up the continual growth of overall economy.

Overall economic stability remained sound. Current account remained in surplus. International reserves stood at a high level. Regarding internal stability, both headline and core inflation continued to accelerate considerably.

Details of the economic conditions **in June 2008** and **the second quarter of 2008** are as follows:

1. The Manufacturing Production Index (preliminary) expanded by 11.2 percent year-on-year (yoy), up from the previous month. The increased production of **electronics, food, and vehicles** corresponded with external demand.

The **capacity utilization rate** in June 2008 was at 73.0 percent, lower from 74.5 percent in the previous month.

In **the second quarter of 2008**, the Manufacturing Production Index rose by 10.2 percent (yoy), decelerating from 12.6 percent in the preceding quarter. This was in line with the capacity utilization rate which lowered from 76.7 percent in the previous quarter to 72.3 percent.

2. Domestic Demand. Private Consumption Index (PCI) expanded by 6.5 percent (yoy). Imports of consumer goods at constant price accelerated in line with imports of food, watches and ornaments, toiletries and cosmetics, as well as electrical appliances. Meanwhile, both VAT at constant price and Fuel Index grew at a lower rate. **Private Investment Index (PII)** (estimated) increased by 4.2 percent (yoy), improving from last month. This was due to imports of capital goods at constant price which accelerated particularly in the electrical machinery and parts category. Construction investment remained subdued, corresponding with a contraction in domestic cement sale.

In **the second quarter of 2008**, the Private Consumption Index grew by 6.9 percent (yoy), a rate close to that of the previous quarter. Fuel Index accelerated, following a constant expansion in alternative energy consumption. Meanwhile, the growth of other consumption indicators decelerated. The Private Investment Index (estimated) increased by 4.2 percent (yoy), slowing down from the preceding quarter in line with both machinery and equipment as well as construction categories.

3. Fiscal Position. The government's gross revenue collection totaled 132.8 billion baht, expanding by 9.1 percent (yoy). This resulted mainly from non-tax revenue as some state enterprises remitted last year revenue holdups in this month and the treasury department remitted greater-than-expected revenues from property rental. Tax revenue increased by 3.7 percent (yoy) in line with the expansion in all bases. This was except income tax which contracted due to irregular base with petroleum income tax remitted in this month last year. Personal

income tax and corporate income tax decelerated, following lower withholding tax and net profits, respectively. Consumption tax increased in line with VAT collection which expanded from both imports and higher domestic prices. Similarly, excise tax rose mainly from tax collected on liquor and beer. Meanwhile, specific business tax dropped continually, owing to the measure to reduce specific business tax on property transactions as well as lower tax income based on financial institutions' transactions. The government's **cash balance** recorded a surplus of 141.5 billion baht, and the treasury cash balance at end-June was 188.9 billion baht, up by 116.4 billion baht from the previous month as a result of carryover of corporate income tax remittance.

In the third quarter of fiscal year 2008, the government's gross revenue collection was at 576.3 billion baht, increasing by 11.5 percent (yoy). The government's cash balance was in a surplus of 119.2 billion baht as this was a period for filing corporate income tax. Net borrowing stood at 15.3 billion baht. Consequently, the treasury cash balance at the end of this quarter was at 188.9 billion baht, increasing by 134.4 billion baht from 54.5 billion baht at the end of the previous quarter.

4. External Sector. The **trade balance** recorded a surplus of 926 million US dollars, with both export and import values accelerated from the previous month. **Export** value totaled 16,145 million US dollars, expanding by 28.5 percent (yoy). This was attributed to exports in the agriculture category as well as manufacturing category such as petroleum products, computers, as well as precious stone and jewelry, owing partly to increased gold exports. Meanwhile, **import** value totaled 15,220 million US dollars, increasing by 31.5 percent (yoy). Import price accelerated across all categories, particularly fuel and lubricant. Compared to a contraction in the preceding month, import volume returned to an expansion following the imports of consumer goods, capital goods, as well as raw materials and intermediates, which, in turn, were in line with increased exports. In addition, the imports in the fuel and lubricant category rose due largely to an increase in price. **Services, income, and transfers account** was in a deficit of 203 million US dollars as this was a period for private profit and dividend remittance. Consequently, the **current account** registered a surplus of 722 million US dollars and the **balance of payments** was in a deficit of 3,752 million US dollars. **International reserves** as of end-June 2008 stood at 105.7 billion US dollars with a net forward position of 18.4 billion US dollars.

According to preliminary data, net capital flow^{1/} in June 2008 was in a deficit of 3,856 million US dollars. This mostly followed the outflows of both Thai and foreign portfolio investment.

In the second quarter of 2008, the **trade balance** recorded a surplus of 425 million US dollars, in line with favorable export expansion. Export value was 45,072 million US dollars, growing by 26.3 percent (yoy). This followed a satisfactory growth in the agriculture category which benefited mostly from price. Manufacturing exports continued to expand well in line with exports of precious stone and jewelry as well as high-technology products. **Import** value totaled 44,647 million US dollars, up by 29.3 percent (yoy). This was because of an acceleration in price while import volume slowed down from the previous quarter, particularly fuel and lubricant as well as capital goods. The **services, transfers and income account** was in a deficit of 733 million US dollars, compared to a slight surplus in the same period last year. This was caused by higher remittance of private profits and dividends, a decline in returns from private investment abroad as interest rates adjusted downward, as well as a reduction of commercial banks' foreign assets. As a consequence, the **current account** was in a deficit of 308 million US dollars. With the preliminary data of a deficit net capital flow in the second quarter of 2008 following Thai and foreign portfolio investment outflows, the **balance of payments** registered a deficit of 2,491 million US dollars.

5. Headline inflation was at 8.9 percent (yoy), accelerating continuously from the preceding month as a result of price increases in raw food and energy category. Higher production costs were thus passed on to prices in other categories. Consequently, **core inflation** accelerated to 3.6 percent (yoy). Price increases were observed in the categories of prepared food at home and food away from home, seasonings and condiments, public transportation services, and cleaning supplies. The **Producer Price Index (PPI)** rose by 18.6 percent from the

^{1/} This data is primary which will be revised in the following month.

same period last year. This was owing to price increases in the manufacturing product category, in line with price of petroleum products. Meanwhile, prices in agricultural product category slowed down.

For **the second quarter of 2008**, the headline and core inflation were 7.5 and 2.8 percent (yoy), respectively, accelerating from 5.0 and 1.5 percent (yoy) in the preceding quarter following price increases in most categories.

6. Monetary Conditions. Deposits of depository corporations^{2/} remained stable from the same period last year. However, when taking into account Bills of Exchange which were similar to deposits, the deposits grew by 3.2 percent (yoy). Private credits increased by 9.3 percent (yoy), still accelerating from the preceding month in line with the recovery of the credits extended to business sector while household credits continued to expand well.

Monetary base, at end-June 2008, grew by 13.6 percent (yoy), while **broad money** increased by 0.3 percent (yoy). Nonetheless, when Bills of Exchange issued by commercial banks were included, broad money expanded by 3.4 percent (yoy).

Money market interest rates did not change significantly. The overnight interbank rate averaged at 3.23 and 3.22 percent per annum during June and the second quarter of 2008, respectively. This corresponded with the policy rate which remained stable at 3.25 percent per annum.

During 2-25 July 2008, the 1-day repurchase rate and the overnight interbank rate adjusted upward, averaging at 3.35 and 3.32 percent per annum, respectively. This was in line with the MPC's decision on 16 July 2008 to raise the policy rate by 0.25 percent to 3.50 percent per annum.

7. Exchange Rate and Nominal Effective Exchange Rate (NEER). In June 2008, the baht averaged at 33.20 baht per US dollar, weakening from the May's average of 32.11 baht per US dollar in line with regional currencies. This stemmed from importers' demand for US dollars as well as foreign investors' outflows from the stock exchange. The **NEER** declined from 78.94 in the previous month to 76.76 as the baht depreciated against major currencies,.

In the Second quarter of 2008, the baht averaged at 32.33 baht per US dollar, slightly strengthening from the preceding quarter. However, during this quarter, the baht reversed to a depreciating trend, particularly towards the end of quarter, in response to both internal and external factors. Consequently, the NEER depreciated by 0.7 percent from the previous quarter's average.

During 2-25 July 2008, the baht weakened to an average of 33.50 baht per US dollar. This was owing to a continuation of importers demand for US dollars and foreign investors' outflows from Thai stock market.

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the resilience of the Thai economy against shock and instability*

^{2/} Depository Corporations comprise Domestically Registered Commercial Banks, Branches of Foreign Banks, International Banking Facilities, Finance Companies, and Specialized Banks. However, Thrift and Credit Cooperatives and Money Market Mutual Funds will be included when data of these institutions become available.