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Press Release on Economic and Monetary Conditions for December 2008 and Year 2008

In December 2008, the overall economy contracted from the same period last year. On the supply side, manufacturing production and tourism sector continued to contract, while farm income slowed down as a result of the deceleration in both major crop production and price. On the demand side, export, investment as well as import also contracted, while private consumption slightly improved from last month due to the cease of political turbulence as well as extended New Year holidays.

For the year 2008, the Thai economy decelerated from the previous year, particularly in the last quarter where global economic downturn and internal political unrest adversely affected manufacturing production and tourism. Nonetheless, farm income still expanded well from higher major crop production and price compared to the previous year. On the demand side, private consumption and investment declined notably in the last quarter, despite falling inflation during the second half of the year in line with lower oil prices. Both export and import expanded satisfactorily during the first three quarters. However, during the last quarter, export contracted following trading partners' economic slowdown while import decelerated markedly in line with export and domestic demand conditions.

Overall economic stability remained sound. External stability was upheld by high international reserves, while trade and current account were close to balance. Regarding internal stability, inflation rose from last year in line with higher oil prices, despite a downward trend during the second half of the year. Unemployment rate remained low but employment started to deteriorate in the fourth quarter, particularly in the production sector affected by economic slowdown.

Detailed economic conditions for **December 2008** and **year 2008** are as follows:

1. Manufacturing Production Index (preliminary) posted a historical contraction of 18.8 percent year-on-year (yoy), compared to a contraction of 14.9 percent (yoy) in May 1998. A notable decline in both domestic and external demand resulted in the contraction in most categories including **electronics, electrical appliances, vehicle, and iron products**. However, beverages category saw an expansion, mostly from an increase in beer production to build up inventory. **Capacity Utilization** in December 2008 stood at 58.9 percent, slightly lowered from 59.4 percent last month—mostly from the decline in export-oriented productions.

For the year 2008, the **Manufacturing Production Index** (preliminary) expanded 5.3 percent (yoy), decelerating from the preceding year's rate of 8.2 percent (yoy). This was primarily attributed to the slowdown in export-oriented industries, particularly electronics and leather products. On the other hand, productions serving domestic market accelerated during the first half of the year, largely following passenger car and motorcycle production. **Capacity Utilization** in 2008 was at 69.3 percent, dropping from 73.9 percent in the previous year.

2. Private Consumption Index (PCI) increased 0.9 percent (yoy), slightly improving from the preceding month. Imports of non-durable consumer goods picked up while Car Index rose in line with passenger car sale which registered an atypical growth from low base last year as consumers postponed purchase decision to wait for tax benefit at the beginning of 2008. Nonetheless, motorcycle sale contracted following the slowdown in farm income. **Private Investment Index (PII)** (estimated) fell 2.6 percent (yoy). This mainly followed equipment and machinery category which observed a contraction in capital goods imports, partly due to the high base effect. Commercial car sale as well as indicators in construction category also continued to contract.

For the year 2008, **Private Consumption Index** expanded 3.6 percent (yoy). During the first three quarters, most consumption indicators recorded favorable growth, particularly VAT at constant price, imports of consumer goods and Car Index, while Fuel Index decelerated due to escalating oil prices. Nonetheless, in the fourth quarter, PCI decelerated in tandem with farm income as well as waning consumer confidence from rising concerns

over internal political uncertainty and global financial crisis. **Private Investment Index** (preliminary) increased 2.9 percent (yoy), following an expansion in equipment and machinery category, particularly imports of capital goods at constant price, while commercial car sale trended downward during the second half. On the other hand, indicators in the construction category exhibited a contraction throughout the year. Consequently, PII exhibited a decelerating trend and contracted in the fourth quarter.

3. As for **fiscal position** in December 2008, government revenue dropped 7.1 percent (yoy) to 101.9 billion baht, corresponding to a contraction of 10.7 percent (yoy) in **tax revenue** across all bases. **Non-tax revenue**, however, expanded 58.1 percent (yoy) from remittance of state enterprises. With expenditure driven up, the government's **cash balance** registered a 47.5 billion baht deficit which was financed by the net borrowing of 18.0 billion baht and the use of treasury cash of 29.5 billion baht. Consequently, the overall treasury cash balance decreased from 91.0 to 61.4 billion baht.

In the **first quarter of fiscal year 2009** (October–December 2008), the government's gross revenue collection fell 9.2 percent (yoy) to 341.3 billion baht. The cash balance deficit of 147.6 billion baht together with net repayment of 20.8 billion baht, required a total use of 168.5 billion baht of treasury cash. This brought the treasury cash balance down to 61.4 billion baht, from 229.9 billion baht at the end of fiscal year 2008.

4. Externally, the **trade balance** in **December 2008** was in 496 million US dollar surplus. **Export value** contracted for the second consecutive month at 15.7 percent (yoy) to 11,515 million US dollars. This was owing mainly to volume contraction across the board except for labor-intensive industries which witnessed high growth from gold export, as well as resource-based industries from sugar and processed food exports. **Import value** fell 8.8 percent (yoy) to 11,019 million US dollars, from both import price and volume. Import price declined mostly in fuel category, while import volume declined mostly in raw materials and intermediate goods category. When accounting for the net **services, income, and transfers** deficit of 405 million US dollars from lower tourist receipts and increased private's profit and dividend transfers, the **current account** balance registered a surplus of 91 million US dollars. **Net capital account**^{1/} was in a deficit of 715 million US dollars mainly from banks' foreign debt repayments. When taking into account errors and omissions, the **balance of payments** registered a surplus of 1,944 million US dollars, bringing **international reserves** up to 111.0 billion US dollars, with the BOT net forward position of 7.0 billion US dollars.

For the **year 2008**, the **trade balance** registered a surplus of 237 million US dollars, lower from the previous year's 11,572 million US dollar surplus. **Export** rose 16.8 percent (yoy), while **import** expanded 26.4 percent (yoy). Both export and import expanded well during the first three quarters, but in the fourth quarter export contracted in line with global economic slowdown while import also decelerated markedly in line with domestic demand and export condition. **Services, income, and transfers account** registered a deficit of 416 million US dollars, down from the previous year's surplus of 2,477 million US dollars from a reduction in tourist receipts and rising profit and dividend transfers. As a consequence, the **current account** was in a deficit of 178 million US dollars, compared to the previous year's 14,049 million US dollar surplus. **Net capital account**^{1/} was in a surplus of 12,817 million US dollars, due primarily to net inflow from banks' foreign exchange transactions with residents and non-residents as well as FDI into non-bank sector. On the other hand, net outflow was seen in both foreign and Thai securities investment. When taking into account errors and omissions, the **balance of payments** registered a surplus of 24,693 million US dollars, higher than the previous year's 17,102 million US dollar surplus.

5. **Headline inflation** markedly declined to 0.4 percent (yoy) in December 2008, mainly following lower oil prices, while raw food prices slightly moderated. Public transport fares also adjusted downward, resulting in the moderation of **core inflation** to 1.8 percent (yoy). **Producer Price Index (PPI)** fell 1.7 percent (yoy) – the first contraction since November 1999, owing largely to the contraction in manufactured category, particularly petroleum and mining product prices, while agricultural product prices decelerated.

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

For the **year 2008**, headline and core inflation rates increased to 5.5 and 2.4 percent (yoy), respectively. Energy and raw food prices rose sharply during the first half, causing the cost pass-through into the core inflation basket. Nonetheless, inflation continually declined during the second half, in tandem with oil prices.

6. As of end-December 2008, **monetary base**^{2/} increased 11.3 percent (yoy), while **broad money** rose 9.1 percent (yoy). **Deposits of depository corporations** grew 8.4 percent (yoy), partly as a result of the inflow of deposits from Thai securities investment abroad reaching maturity. When including Bills of Exchange, the deposits expanded 8.9 percent (yoy). **Private credits** increased 9.3 percent (yoy), decelerating mostly in line with credits extended to business sector.

For the **year 2008**, **deposits of depository corporations** decelerated during the first half, as depositors shifted towards other financial instruments which offered greater returns such as saving bonds and mutual funds. Nonetheless, during the second half, the deposits trended upward due to investors' flight to quality which included the reverse flow of Thai securities investment abroad reaching maturity. **Private credits** tracked an increasing trend during the first three quarters, but slowed down in the fourth quarter in response to softened economic conditions.

Short term interest rates. In December 2008, the 1-day repurchase rate and the overnight interbank rate both averaged at 2.85 percent per annum, lower from November's average following the MPC's policy rate cut of 1.00 percent on 3 December 2008, from 3.75 to 2.75 percent per annum.

For the **year 2008**, Short term interest rates remained mostly stable during the first half before adjusted downward in tandem with the policy rate. Consequently, the 1-day repurchase rate and the overnight interbank rate averaged at 3.38 and 3.35 percent per annum, declining from 2007's averages of 3.77 and 3.79 percent per annum, respectively.

During **1-27 January 2009**, the 1-day repurchase rate and the overnight interbank rate averaged at 2.31 percent per annum, lower from December's average as a result of the MPC's decision on 14 January 2009 to further cut the policy rate by 0.75 percent per annum.

7. Exchange Rate and Nominal Effective Exchange Rate (NEER). In December 2008, the baht averaged 35.04 baht per US dollar, staying close to November's average of 35.09 baht per US dollar. At the beginning of the month, the baht weakened continuously from prolonged political turbulence as well as downward revision of the country's outlook. However, from the second half of month onwards the baht appreciated against the US dollar as the concerns over the US economic recession heightened. Nevertheless, the NEER depreciated in this month.

For the **year 2008**, the baht averaged 33.38 baht per US dollar, appreciating 3.5 percent (yoy). During the first half, the baht averaged 32.38 baht per US dollar, mainly from current account surplus. However, during the second half, the baht weakened to an average of 34.37 baht per US dollar, primarily from internal political conditions. The NEER depreciated from the average of 78.2 in 2007 to 77.9 in 2008.

During **1-27 January 2009**, the baht moved in narrow range and slightly strengthened from December, averaging at 34.92 baht per US dollar.

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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**

^{2/} Since November 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.

