



# BANK OF THAILAND NEWS

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## Press Release on Economic and Monetary Conditions for February 2009

In February 2009, the overall economy still contracted from the same period last year. However, when seasonally adjusted, certain economic data registered an improvement from the previous month, particularly manufacturing production. Nonetheless, a slowdown in major crop production and a decline in major crop prices brought about a fall in farm income. Tourism contracted from the same period last year, partly from the high base effect as the Chinese New Year fell under this month last year. Regarding domestic demand, private consumption and investment contracted from the same period last year. Export also continued to contract, but with import contracting even faster, net exports increased. This combined with an acceleration of the government's disbursement helped offset the drop in private demand.

External stability was upheld by high international reserves in conjunction with large trade and current account surpluses. Regarding internal stability, inflation rates remained low; however, signs of softening in employment conditions became more apparent.

Detailed economic conditions for **February 2009** are as follows:

**1. Manufacturing Production Index** (preliminary) contracted 19.8 percent year-on-year (yoy). Global and domestic economic slowdowns, accompanied by high inventory holding, resulted in production contraction in most categories, except for food and jewelry productions which slightly expanded. Nevertheless, when seasonally adjusted, the MPI increased 1.9 percent from the previous month, particularly for the export-oriented industries such as electronics which began to recover. This was in line with **Capacity Utilization** in February 2009, which after seasonally adjustment was at 56.8 percent, close to that of January.

**2. Private Consumption Index (PCI)** contracted 7.1 percent (yoy). VAT at constant price and imports of consumer goods continued to post notable contraction, while Car index fell from the high base in the same period last year. Regarding fuel consumption, benzene and diesel sales decelerated from the preceding month following the end of oil excise tax reduction at the end of January. **Private Investment Index (PII)** (estimate) shrank 12.9 percent (yoy) in line with large drop in equipment and machinery category, while construction continued to contract.

**3. As for fiscal position** in February 2009, government revenue contracted 16.1 percent (yoy) to 111.5 billion baht, as a result of 20.6 percent (yoy) drop in tax revenues across the board. Income-based tax shrank, partly from personal income tax as the minimum taxable income threshold was lifted to 150,000 baht and many businesses cut bonus and work hours. Meanwhile, corporate income tax continued to shrink from the economic downturn. Consumption-based tax fell across the board. **Non-tax revenues**, however, grew 12.1 percent (yoy), following profit remittance by state enterprises.

The government continued to speed up disbursement, offsetting for the earlier delay, in order to meet the disbursement target rate. However, with revenue shortfalls, the government's **cash balance** registered a 51.5 billion baht deficit which was financed by 72.6 billion baht net borrowing. Consequently, the treasury cash balance increased 21.1 billion baht from 37.4 billion baht in January to 58.5 billion baht.

**4. Externally, the trade balance** in February 2009 was in a 3,946 million US dollar surplus, mainly from larger import contraction. Export value fell 11.1 percent (yoy) to 11,582 million US dollars. However, excluding 1,865 million US dollars of gold export, export value contracted 24.5 percent (yoy). Contractions were observed particularly in high technology manufactured products, while sugar and food exports still expanded. Import value markedly contracted 43.5 percent (yoy) across the board to 7,635 million US dollars. When accounting for the net services, income, and transfers surplus of 472 million US dollars from lower investment income transfer, the

current account balance registered a 4,418 million US dollar surplus. **Net capital account**<sup>1/</sup> was in a deficit of 474 million US dollars, due mainly to outflow from a foreign bank branch's closure as well as non-bank's trade credit repayments. When taking into account errors and omissions, the **balance of payments** registered a surplus of 3,621 million US dollars. **International reserves** stood at 113.3 billion US dollars, with the BOT net forward position of 3.9 billion US dollars.

**5. Headline inflation** fell 0.1 percent (yoy), compared to the 0.4 percent (yoy) drop in the previous month. Energy category saw upward adjustments in oil prices following the excise tax increases, while raw food prices decelerated. The government also lowered subsidy on water supply fees. Consequently, **core inflation** slightly increased to 1.8 percent (yoy). Compared with the previous month, **Producer Price Index (PPI)** posted a larger decline of 4.0 percent (yoy), in line with a contraction in mining and manufactured categories.

**6.** As of end-February 2009, **monetary base** expanded 5.9 percent (yoy), in line with the previous month, while **broad money**<sup>2/</sup> rose 9.1 percent (yoy). **Deposits of depository corporations** decelerated from the previous month to 6.0 percent (yoy) as investors diverted deposits at commercial banks into other securities offering higher returns. **Private credits** expanded 6.8 percent (yoy), decelerating compared to earlier period, mainly from a slowdown in credits extended to business sectors.

**Short term interest rates.** In February 2009, the 1-day repurchase rate and the overnight interbank rate both declined to an average of 1.92 percent per annum in tandem with the MPC's policy rate cut of 0.50 percent on 25 February 2009 from 2.00 to 1.50 percent per annum.

During **1-25 March 2009**, the 1-day repurchase rate and the overnight interbank rate continually declined, averaging 1.50 and 1.45 percent per annum, respectively.

**7. Exchange Rate and Nominal Effective Exchange Rate (NEER).** In February 2009, the baht averaged 35.33 baht per US dollar, slightly depreciating from the previous month. The baht was relatively stable during the first half of the month, before weakening during the latter half owing to increased risk aversion in the global financial market as well as demand for the US dollar from importers and commercial banks. The NEER, however, slightly appreciated from January to 77.85 as the baht weakened at a slower rate compared to major and regional currencies.

During **1-25 March 2009**, the baht averaged 35.86 baht per US dollar, slightly depreciating from February. Nevertheless, after the first week of the month, the baht continually appreciated against the US dollar, largely in line with higher risk appetite in the market.

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the resilience of the Thai economy against shock and instability**

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

<sup>2/</sup> Since September 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.