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**Press Release on Economic and Monetary Conditions for March and the First Quarter of 2009**

The economy in March 2009 continued to contract from the same period last year. However, steadily improving signs were observed in certain sectors compared to the previous month, namely manufacturing production and tourism. Farm income from major crops contracted from the same period last year in line with major crop production and prices which declined continually. As for domestic demand, private consumption and investment indices continued to contract, leading import contraction to exceed that of export. The slowdown in economic activities led to a reduction in the government's revenue collection, while expenditures accelerated considerably. This resulted in the government's continued cash balance deficit and treasury cash balance reduction.

Overall, in the first quarter of 2009, the economy contracted from the same period last year. In the agricultural sector, major crop production and prices trended downward, causing a slowdown in farm income compared to the previous quarter. Non-farm productions shrank in line with global economic slowdown and softening domestic demand, as reflected by indicators' contractions following the declining trends of confidence and income. On the international front, export contracted notably due to the impact of world economic crisis. However, a sharper import contraction, in line with demand condition, resulted in an increase in the net export. This, together with the government's disbursement acceleration in this quarter, primarily helped support the economy.

External stability remained sound from high level of international reserves as well as large trade and current account surpluses. Regarding internal stability, inflation rates stayed low while employment condition remained soft, though showing somewhat positive signs.

Details of the economic conditions in **March** and **the first quarter of 2009** are as follows:

**1.** The **Manufacturing Production Index** (preliminary) contracted 15.4 percent year-on-year (yoy), but, when seasonally adjusted, expanded 2.5 percent from the previous month. Improvements were observed in most categories, particularly electronics as export orders began to pick up; beverages following accelerated beer production; and electrical appliances in line with domestic demand for air conditioners. As a consequence, the **capacity utilization rate** was at 61.7 percent, rising from 54.6 percent in the previous month.

Despite the somewhat improvement, the **Manufacturing Production Index** in the first quarter of 2009 declined notably from the same period last year, contracting across the board by 18.9 percent. Correspondingly, the **capacity utilization rate** declined from 60.1 percent in the fourth quarter of 2008 to 57.8 percent.

**2. Private Consumption Index (PCI)** improved 2.6 percent from the previous month, with notable increases in several indicators. However, when compared to the same period last year, the PCI still contracted 4.9 percent. Expansions were observed in fuel and household electricity consumption, whereas VAT at constant prices and imports of consumer goods continued to contract, though at lower rates. **Private Investment Index (PII)** (estimate) shrank further from the previous month at 15.7 percent (yoy), partly from the high base effect. Indicators in both equipment and machinery as well as construction categories continually contracted as business confidence was eroded by unfavourable economic conditions and political instability.

In the first quarter of 2009, private consumption exhibited a decelerating sign. The **Private Consumption Index** contracted 5.3 percent (yoy), with imports of consumer goods, VAT at constant prices, and car sales contracting in line with the declining consumer confidence. Nevertheless, fuel sales continued to expand following lower fuel prices compared to the same period last year. The **Private Investment Index** (estimated) shrank further from the previous quarter at 15.7 percent (yoy). Particularly, the indicators in the equipment and machinery category contracted in line with growing concerns over economic and political turbulence.

**3. Fiscal Position.** The government's gross revenue collection totalled 123 billion baht, declining 2.8 percent (yoy). This was due mainly to **tax revenues** which contracted 3.4 percent (yoy) across all bases except for income-based taxes which observed a marked increase in petroleum revenue tax from the remitting process which delayed into this month. Meanwhile, personal income tax contracted from the government's measures, namely the tax reduction and the increase in tax deductibles. Corporate income tax also contracted in line with the economic slowdown. Consumption-based taxes declined mostly from a decrease in the VAT and specific business tax collection. This was in spite of an increase in excise tax collection, especially on oil consumption of which the excise tax rates adjusted upward since 1 February 2009; and on liquor consumption as the news of liquor tax increase prompted producers to speed up production. **Non-tax revenues** expanded 9.1 percent (yoy), following remittance by state enterprises. The revenue shortfall in conjunction with the accelerated expenditures resulted in the government's cash balance deficit of 88.3 billion baht. This was financed by the net borrowing of 81.0 billion baht and the use of treasury cash of 7.3 billion baht. Consequently, the treasury cash balance was 51.2 billion baht, declining from 58.5 billion baht at end-February.

In **the second quarter of fiscal year 2009**, the decline in revenues and the disbursement acceleration brought the government's cash balance to a deficit of 242.5 billion baht. This was financed by 232.3 billion baht net borrowing and 10.2 billion baht treasury cash. Consequently, the treasury cash balance was 51.2 billion baht, declining from 61.4 billion baht at the end of the first quarter of fiscal year 2009.

**4. External Sector**. The **trade balance** recorded a surplus of 2,165 million US dollars. Export value totalled 11,429 million US dollars, contracting 22.7 percent (yoy) compared to a contraction of 11.1 percent (yoy) in the previous month. This sharper contraction was because of gold exports which declined from 1,865 million US dollars in February to only 305 million US dollars. The contraction was across the board, notably in the high technology category such as vehicles, electrical appliances, and computers. Import value totalled 9,263 million US dollars, contracting across the board at 35.1 percent (yoy). When combined with a surplus of 239 million US dollars in services, income, and transfers account, the **current account** was thus in a surplus of 2,404 million US dollars. **Net capital account**[1/] recorded a 1,459 million US dollar deficit, mainly following the bank sector as exporters lowered their hedging position. When taking into account errors and omissions, the **balance of payments** registered a 1,831 million US dollar surplus. **International reserves** stood at 116.2 billion US dollars, with the BOT net forward position of 3.7 billion US dollars.

In <u>the first quarter of 2009</u>, the **trade balance** recorded a 7,800 million US dollar surplus, compared to the 1,365 million US dollar deficit in the previous quarter, as import contraction outpaced that of export. Export declined 19.9 percent (yoy), in most categories particularly the high technology products. When excluding gold exports of 2,951 million US dollars, export contracted 25.8 percent (yoy). Import, on the other hand, contracted 38.3 percent (yoy), largely following raw materials and intermediate goods as well as capital goods imports. This, accompanied by a 1,312 million US dollar surplus in **services, transfers and income account**, drove the **current account** surplus to a record high of 9,112 million US dollars. The **net capital account** showed a 2,953 million US dollar outflow, mainly following outflows from the banking sector with a reduction in exporters' hedging position. Additionally, trade credit outflows were also observed as new trade credits slowed down in line with import, combined with the exceeded outflows of matured credits. When taking into account errors and omissions, the **balance of payments** registered a surplus of 7,428 million US dollars.

**5. Headline inflation** in March 2009 continued to contract at 0.2 percent (yoy), mainly in line with lower energy prices than the same period last year. With the high base effect in prepared food prices, **core inflation** slightly decelerated from the previous month to 1.5 percent (yoy). The **Producer Price Index (PPI)** continued to contract by 4.0 percent (yoy), corresponding to mining and manufactured product prices which continued to decline in tandem with world market prices.

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[1/] This data is preliminary which will be revised in the following month.

For the first quarter of 2009, the headline inflation contracted 0.3 percent (yoy), while core inflation declined to 1.7 percent (yoy), due to the lower oil prices compared to the same period last year. The PPI, on the other hand, declined 3.5 percent (yoy), compared to an increase of 2.9 percent (yoy) in the previous quarter.

**6. Monetary Conditions**. As of end-March 2009, **monetary base** expanded 4.3 percent (yoy), while **broad money**[2/] rose 8.7 percent (yoy). **Deposits of depository corporations** increased by 6.5 percent (yoy), close to that of February. When included Bills of Exchange, the deposits grew by 8.3 percent (yoy). **Private credits** expanded 5.9 percent (yoy), decelerating compared to earlier period, mainly from a slowdown in economy.

**Short term interest rates** In March 2009, the 1-day repurchase rate and the overnight interbank rate averaged lower to 1.50 and 1.44 percent per annum, respectively, 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.

In the first quarter of 2009, the 1-day repurchase rate and the overnight interbank rate adjusted downward to 1.89 and 1.87 percent per annum, respectively, from the preceding quarter's average of 3.45 percent per annum, corresponding to the two policy rate cuts, for a total of 1.25 percent per annum, on 14 January and 25 February 2009.

During 1-24 April 2009, the 1-day repurchase rate and the overnight interbank rate continually declined, averaging 1.33 and 1.25 percent per annum, respectively, as the policy rate was cut by another 0.25 percent, from 1.50 to 1.25 percent per annum, on 8 April 2009.

**7. Exchange Rate and Nominal Effective Exchange Rate (NEER).** In March 2009, the baht averaged at 35.78 baht per US dollar, slightly weakening from 35.33 baht per US dollar in the previous month. Early into the month, the baht strengthened continually, following increased risk appetite as well as investors' speculative sale of US dollars. However, in the last week of the month, the baht moved in a narrow range and the appreciation slowed down. The NEER was at 77.83, close to that of the previous month.

During the first quarter of 2009, the baht averaged 35.36 baht per US dollar, weakening 1.47 percent from the last quarter's average of 34.84 baht per US dollar. The NEER, nonetheless, stayed close to that of the previous quarter at 77.64, reflecting the stability of the baht.

During 1-24 April 2009, the baht's movement was fairly stable, slightly strengthening from the March's average to 35.47 baht per US dollar.

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[2/] 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.