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Press Release on Economic and Monetary Conditions for July 2009

The economy in July 2009 continued to improve from the previous month. Most indicators continued on a positive trend; both on the supply side – namely manufacturing, agriculture, and tourism, and on the demand side – namely private consumption and investment, government expenditure as well as export and import. As a result, when compared to the same period last year, the contraction rates of most indicators continued to subside. This was in line with private credits of depository corporations which continued to increase from the previous month.

External stability was yet upheld by a current account surplus as well as high level of international reserves. Regarding internal stability, inflation rates remained low while employment condition improved in line with production outlook.

Details of the economic conditions in **July 2009** are as follows:

1. The Manufacturing Production Index (preliminary) improved from the previous month. The index contracted 7.3 percent year-on-year (yoy), compared to the drop of 8.3 percent (yoy) in June. When seasonally adjusted, the index increased 1.9 percent from the previous month. This corresponded to sugar, rubber sheet, and commercial car productions. Tobacco and beer productions also increased due to restocking process. Export-oriented industries, particularly the hard disk drive production, however, slowed down slightly after accelerating earlier. The **capacity utilization rate** was at 61.6 percent, up from the previous month following the improvement in production.

2. Private Consumption Index (PCI) shrank 1.8 percent (yoy), but rose further by 3.4 percent from the previous month. This was in tandem with improvements in consumer goods imports, VAT at constant prices, and Car Index. Fuel Index, in particular, recorded a notable expansion because of downward adjustments in retail oil prices as well as the low base of last year when oil sales plummeted from record-high prices in July 2008. **Private Investment Index (PII)** (estimate) fell 14.3 percent (yoy), but grew 1.6 percent from the previous month. Most indicators thus began to show improving signs. Nevertheless, overall business conditions remained fragile, reflecting in the current Business Sentiment Index (BSI) which declined from the previous month and has stayed below the confidence level of 50. This was due mainly to increasing production cost.

3. Fiscal Position. The government's gross revenue collection dropped 7.0 percent (yoy) to 116.4 billion baht. **Tax revenues** contracted 8.9 percent (yoy) across income, consumption, and international trade bases, as a result of both economic conditions and the government's tax stimulus measures. On the other hand, excise tax grew in line with an increase in oil excise tax rate since 14 May 2009. **Non-tax revenues** increased 16.9 percent (yoy), with higher remittances by state enterprises and petroleum loyalty.

With the accelerated budget disbursement, the government's **cash balance** registered a 62.0 billion baht deficit. With net borrowing of 125.6 billion baht, the treasury cash balance, however, increased from 215.6 billion baht at end-June to 279.2 billion baht.

4. External Sector. The **trade balance** registered a surplus of 799 million US dollars. **Export** value totaled 12,784 million US dollars, contracting 25.7 percent (yoy), a rate close to that of the previous month. The contraction was observed across the board, particularly in high-technology category such as vehicles and petroleum

products. Precious stone and jewelry exports also fell, due largely to the high base effect as the same period last year saw a marked increase in gold exports. Agriculture category also registered a considerable contraction from both volume and prices. Nonetheless, when seasonally adjusted, export volume still expanded 1.9 percent from the previous month. **Import** value totaled 11,984 million US dollars, dropping across the board by 31.7 percent (yoy), particularly for crude oil, metal products, chemical products, and electrical machinery. However, after seasonal adjustment, import volume expanded 3.5 percent from the previous month, mostly across the board. The **services, income, and transfers account** registered a 422 million US dollar deficit due to the continued fall in tourism receipts. This, combined with the trade surplus, however, brought the **current account** into a smaller surplus of 378 million US dollars. **Net capital account**^{1/} recorded a 20 million US dollar outflow, mainly following the outflows in Thai securities investment abroad, particularly those concentrating on foreign debt instruments. When taking into account errors and omissions, the **balance of payments** registered a 1,106 million US dollar surplus. **International reserves** stood at 123.5 billion US dollars, with the BOT net forward position of 11.4 billion US dollars.

5. Headline inflation in July 2009 was -4.4 percent (yoy). This was mainly due to the high base effect as oil prices in July 2008 reaching record-high levels, discounted by the government measures to help alleviate costs of living and the 15-year free education policy. **Core inflation** was -1.2 percent (yoy), also following the high bases of goods and services prices as well as the government's measures. **Producer Price Index (PPI)** fell by 12.9 percent (yoy) because of notable reductions across the board from the same period last year.

6. Monetary Conditions^{2/}. **Deposits of depository corporations** expanded 7.8 percent (yoy). When taking Bills of Exchange into account, the deposits grew 8.1 percent (yoy). **Private credits of depository corporations** increased 2.7 percent (yoy), decelerating continually from the slowdown in credits extended to business sectors as demand for credit subsided. Nevertheless, when compared to the previous month, private credits have been increasing for 4 consecutive months.

Short term interest rates. At end-July 2009 and during 1-25 August 2009, the 1-day repurchase rate and the overnight interbank rate remained stable, averaging constantly at 1.25 and 1.15 percent per annum, respectively, in line with the Monetary Policy Committee's decision to maintain the policy rate on 15 July 2009.

7. Exchange Rate and Nominal Effective Exchange Rate (NEER). In July 2009, the NEER weakened slightly to 77.45, reflecting the baht's depreciation against trading partners' currencies. Nonetheless, the baht strengthened slightly against the US dollar, from 34.14 baht per US dollar in June to 34.05 baht per US dollar. This was mostly following the US dollar's depreciation in conjunction with exporters' sale of US dollars as well as capital flows into Thai stock market.

During 1-25 August 2009, the baht moved in a narrow range, averaging at 34.02 baht per US dollar, following balanced trading transactions.

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

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

^{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.