



No. 35/2008

Press Release on Economic and Monetary Conditions for July 2008

Overall economy in July 2008 continued to expand from the previous month. Both consumption and investment indicators improved, corresponding with a notable acceleration in imports. Meanwhile, exports still expanded markedly. On the supply side, major crops production and price grew well, resulting in an accelerated farm income. Manufacturing production increased at a rate close to that of the previous month. Nonetheless, tourism sector somewhat slowed down.

External stability remained sound, in line with high level of international reserves. Regarding internal stability, both headline and core inflation remained high.

Details of the economic conditions **in July 2008** are as follows:

1. The Manufacturing Production Index (preliminary) rose by 10.9 percent year-on-year (yoy), comparable to the rate of 11.2 percent (yoy) in the previous month. Export-oriented productions continued to expand satisfactorily, in line with external demand. This included productions of electronics, vehicles, food, and iron and steel products. The **capacity utilization rate** in July 2008 stood at 71.9 percent, lower from 73.1 percent in the previous month. This was due partly to capacity expansion in electronics industry. When seasonally adjusted, the rate was close to that of the previous month.

2. Private Consumption Index (PCI) increased by 9.3 percent (yoy). This stemmed from an acceleration in VAT at constant price and an increase in imports of consumer goods at constant price. At the same time, passenger car sales also observed a satisfactory growth rate, and motorcycle sales expanded well in line with the continuous improvement in farm income. **Private Investment Index (PII)** (estimated) increased by 3.9 percent (yoy), improving from last month. This was due mainly to an acceleration in imports of capital goods at constant price.

3. Fiscal Position. The government's gross revenue collection was 124.9 billion baht, increasing by 12.6 percent (yoy). This mostly followed tax revenue which grew by 14.4 percent (yoy), in line with expansion in most tax bases. In particular, consumption tax drove up, as a result of increased VAT collection from import expansion and higher domestic prices. Excise tax rose, mainly in line with tax collected on liquor. This was due to production hoarding as producers expected liquor tax ceiling to adjust upward. Meanwhile, specific business tax declined because of 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 deficit of 31.2 billion baht, with net repayment of 30.5 billion baht. Consequently, the treasury cash balance at end-July was 127.2 billion baht, lower by 61.7 billion baht from the previous month.

4. External Sector. Despite a large export expansion, the **trade balance** was in a deficit of 762 million US dollars as import accelerated considerably. **Export** value totaled 16,787 million US dollars, growing by 43.9 percent (yoy), largely from export volume. Agriculture category continued to observe favorable growth, particularly rice and rubber exports. Manufacturing category rose well, in line with exports of petroleum products, vehicles, computers, as well as precious stone and jewelry which benefited from an increase in gold exports. Meanwhile, **import** value totaled 17,550 million US dollars, increasing by 53.4 percent (yoy), mainly from import volume. Import price increased at a rate close to that of the previous month, while import volume accelerated across all categories, particularly raw materials and capital goods. This corresponded with the increase in exports. Moreover, fuel and lubricant category saw an increase in crude oil import compared to the preceding month, as some oil refineries resumed normal operation. Import of liquefied petroleum gas (LPG) also picked up, following greater domestic demand for use as vehicle fuel.

Services, income, and transfers account recorded a surplus of 208 million US dollars. Together with the trade balance deficit, the **current account** registered a deficit of 555 million US dollars. According to preliminary data, **net capital flow**^{1/} in July 2008 was in a deficit of 1,799 million US dollars. This mostly followed the outflows of both Thai and foreign portfolio investment. Consequently, the **balance of payments** was in a deficit of 680 million US dollars. **International reserves** as of end-July 2008 stood at 104.8 billion US dollars with a net forward position of 16.6 billion US dollars.

5. Headline inflation remained at a high level of 9.2 percent (yoy), in line with prices of raw food and energy. Higher production costs were thus passed on to prices in non raw-food-and-energy categories. This was in spite of downward adjustment of retail oil prices, towards the end of month, following world market prices and government's excise-tax reduction policy. Consequently, **core inflation** increased to 3.7 percent (yoy). Price increases were observed in the categories of prepared food at home and food away from home, shelter, and public transportation services. The **Producer Price Index (PPI)** rose by 21.2 percent from the same period last year, due to increases in all categories.

6. Monetary Conditions. Deposits of depository corporations^{2/} declined by 1.7 percent (yoy). However, when taking into account Bills of Exchange which were similar to deposits, the deposits expanded by 1.8 percent (yoy). Private credits grew by 10.3 percent (yoy), continuing to accelerate from the preceding month in line with an increase in the credits extended to business sector.

Monetary base, at end-July 2008, rose by 8.5 percent (yoy), while **broad money** contracted by 1.2 percent (yoy). Nonetheless, when taking into account Bills of Exchange issued by commercial banks, broad money expanded by 2.3 percent (yoy).

Money market interest rates adjusted slightly upward. The 1-day repurchase rate and the overnight interbank rate averaged at 3.38 and 3.35 percent per annum, respectively. This corresponded with the MPC's decision, on 16 July 2008, to raise the policy rate by 0.25 percent per annum to 3.50 percent per annum.

During 1-25 August 2008, the 1-day repurchase rate and the overnight interbank rate averaged at 3.50 and 3.49 percent per annum, respectively.

7. Exchange Rate and Nominal Effective Exchange Rate (NEER). In July 2008, the baht averaged at 33.50 baht per US dollar, depreciating from the June's average of 33.20 baht per US dollar. This was in line with importers' demand for US dollars, particularly oil companies. This was accompanied by foreign investors' continual outflows from the stock exchange as well as the weakening of the baht against major currencies such as the US dollar and Euro. As a result, the **NEER** declined from 76.76 in the previous month to 75.68.

During 1-25 August 2008, the baht depreciated slightly further to an average of 33.78 baht per US dollar. This was attributed to the continuation of steadily-enhanced confidence towards the US dollar as well as importers' demand for US dollars.

Bank of Thailand
29 August 2008

Contact person: Punpilas Ruangwisut
E-mail: punpilai@bot.or.th
Tel: +66 (0)-2283-5648, +66 (0)-2283-5639

**Vision : A forward-looking organization with competent staff dedicated to ensuring
the resilience of the Thai economy against shock and instability**

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

^{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.