



BANK OF THAILAND



BOT Press Release

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Press Release on the Economic and Monetary Conditions for August 2016

In August 2016, the Thai economy expanded at a higher rate than the previous month. Growth in public spending bounced back for both current and capital expenditures. The value of merchandise exports picked up especially for electrical appliances, automobile and electronics. As a result, manufacturing production of related products improved. Private investment slightly increased, but remained at a low level and concentrated mainly in the service sector. Meanwhile, the tourism sector, a key driver of the economy in recent periods, grew at a somewhat slower rate following the blasts in the 7 southern provinces of Thailand. The incidents affected both the number of foreign tourists and spending on services by Thai consumers.

On the stability front, headline inflation rate edged up slightly due to fresh food prices. More specifically, fruit prices increased as production was lower following the drought in earlier periods. The unemployment rate remained low. The current account posted a surplus owing to steadily high tourism receipts and low level of imports.

Details of the economic conditions are as follows.

Public spending bounced back after some slowdown last month. Current expenditure expanded due to spending on pensions and purchases of goods and services. Moreover, capital expenditure expanded well, particularly in projects on transportation, public health, and educational institutions. Meanwhile, government revenue contracted from the same period last year after having accelerated in the previous month with receipts of petroleum income taxes. On the other hand, consumption-based tax revenue expanded, mainly in petroleum excise tax in accordance with higher consumption of fuel.

The value of **merchandise exports** registered a 2.7 percent annual growth. Excluding gold, exports grew by 5.0 percent due partly to a low base in the previous year. Besides, exports of electrical appliances and automobile to Europe greatly improved. Exports of electronics benefited from the launch of new smartphone products. However, exports of petroleum-related products continued to contract due to oil prices which remained lower than last year. Exports of agricultural products also contracted. Particularly, exports of rubber suffered from a high base last year when the Chinese authority increased import duty on compound rubber and Chinese importers switched to import natural rubber.

Private investment leveled from the same period last year despite a slight improvement from the previous month. Investment was still concentrated in the service sector, such as telecommunications and retail trade. However, investment in manufacturing has not shown a clear sign of recovery due to existing excess capacity. Similarly, total corporate financing through bond, equity and credit expanded for the service sector while that for manufacturing sector still contracted.

The value of **merchandise imports** stayed at a level close to the same period last year. Imports excluding gold grew slightly by 0.6 percent according to imports of raw materials and

intermediate goods, especially integrated circuits (IC) and parts whose production and exports improved. On the other hand, imports of fuel continued to contract.

Tourism sector continued to be a major economic growth driver. The number of foreign arrivals grew by 9.9 percent from the same period last year. Nonetheless, tourism in this month was partly affected by the bomb incidents in the 7 southern provinces of Thailand after which some tourists postponed their trips. The number of foreign arrivals from most countries declined, resulting in a decrease of 3.1 percent from last month after seasonal adjustment.

Private consumption expanded from the same period last year despite at a slower rate than the second quarter and July. In particular, spending on services slowed down after long weekends in the earlier periods had significantly supported spending on hotels and restaurants. Moreover, the bomb incidents in the 7 southern provinces weighed down confidence of Thai tourists. Supporting factors for consumption remained subtle in spite of a slight gain in consumer confidence. Real income of non-farm workers stayed relatively flat. Despite gradual improvements, income of farm households remained concentrated among fruit growers who benefited from higher prices while their harvest areas were minimally affected by the preceding drought conditions.

On the **stability** front, headline inflation rate edged up slightly. More specifically, fruit prices increased as production contracted following the drought in earlier periods. The unemployment rate remained low. Low-skilled labor in the manufacturing sector continually moved to the agricultural sector. Employment in service and manufacturing sectors increased, particularly that in relation to improved production and exports. The current account registered a surplus on the back of high tourism receipts and low imports. Meanwhile, the financial account posted a deficit due to Thai direct investment abroad and portfolio outflows of foreign investment funds (FIF) by Thai investors. Capital inflows into Thai securities continued, driven mainly by prolonged monetary policy easing in major advanced economies. Moreover, domestic factors further supported the inflows, including the referendum result to accept the draft constitution and the better-than-expected GDP figure in the second quarter.

Bank of Thailand
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