BANK OF THAILAND
BOT Press Release
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Press Release on the Economic and Monetary Conditions for December and the Fourth Quarter of 2014

In December 2014, the pace of economic recovery remained slow. The main drivers were merchandise exports, the tourism sector and government spending. Despite lower cost of living and production cost benefits from falling oil prices, private spending softened as consumers remained cautious and businesses awaited economic recovery and clarity on government's infrastructure investment. On the stability front, the decline in global oil prices resulted in falling inflation and the third consecutive month of current account surplus.

Details of economic conditions are as follows.

Merchandise exports recovered gradually. Foreign orders continued to increase mainly from the U.S. in line with its economic improvement. Nevertheless, soft demand from China as well as declining prices of several oil-related goods such as petroleum, rubber, and chemical products caused the value of exports in 2014 to decline slightly from last year. **Merchandise import** values declined from last month due mainly to crude oil imports. This was attributable to falling global oil prices and reduced import volume by refineries with the expectation of lower prices as well as a marked decline in gold imports following heavy purchases in the preceding period when gold price had been on a declining trend.

The **tourism** sector continued to expand as Asian tourists, particularly China and Malaysia, increased substantially during the New Year celebration given their lessening concerns on the political situation. The increase in these groups of tourists helped offset a drop in the number of tourist arrivals from other countries, especially Russia and Japan, which were hurt by their economic slowdowns and the depreciation of the Russian Ruble and the Japanese Yen.

Fiscal spending rose this month on the back of expedited disbursement on both capital expenditure, particularly for irrigation and transportation, and purchases of goods and services. Meanwhile, government revenue expanded on account of the 3G license auction and the increase in excise tax rate on diesel. However, revenue collection of corporate income tax and VAT dropped from the same period last year.

Private consumption fell from last month. Benefits from lower global oil prices have not passed on to private consumption as households remained cautious in spending given elevated debt levels and low farm prices. Additionally, financial institutions continued to be cautious on household credit extension. As a result, spending on durable goods, particularly car purchases, remained depressed, while outlays for nondurable items slowed down slightly. Purchase of services, on the other hand, improved mainly from tourist spending.

Private investment flattened from the previous month as recovery in domestic and foreign demand was still soft and government's infrastructure investment was at the beginning stage. As a result, investment for capacity expansion and construction remained low despite supportive financial conditions.

Overall **manufacturing production** rose marginally from the previous month in line with industrial electricity consumption. Export-oriented production to the U.S. expanded especially integrated circuit and electrical appliances, but domestic-oriented production declined from beer production due to accelerated production in the preceding period. Sugar production also decreased owing to lower sugar cane input as a result of drought.

Farm income, which contracted considerably compared to the same period last year, weighed on household consumption. A decline in farm income stemmed from falling prices of two crops, namely rubber and rice. The former resulted from lower orders from China and Malaysia which are major importing countries following their softening economic conditions. This was coupled with pressure from declines in global oil prices as they are substitutable by synthetic rubber. The latter was owing to the end of the rice pledging scheme. At the same time, the impact of declining oil prices on prices of renewable energy crops such as oil palm, sugar cane and cassava, was limited.

Economic stability on both domestic and external front was sound. The unemployment rate remained low. The significant drop in global oil prices contributed to lower inflation and a continuous surplus in the current account for the third consecutive month. The capital account posted a deficit due to outflows of direct investment by Thai investors overseas and foreign portfolio investment. Overall, the balance of payment was in balance and the ratio of international reserves to short-term external debt remained high.

Overall economic activity in the fourth quarter of 2014 improved gradually. The main drivers were merchandise exports, the tourism sector and expedited government's disbursement at the beginning of fiscal year, which contributed to recovery in the manufacturing production and the service sectors. Private spending, nevertheless, slowed down from the previous quarter as businesses awaited clear signs of recovery in the economy and government's infrastructure investment. Household consumption expanded at a slow pace on account of constraints from low farm income and high debt burden although lower oil prices partly decreased cost of living. On the stability front, unemployment was low. Inflation declined and the current account recorded a surplus thanks to falling global oil prices. Meanwhile, the capital account registered a deficit following outflows of direct investment by Thai investors overseas and foreign portfolio investment.

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