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Press Release on the Economic and Monetary Conditions for December and the Fourth Quarter of 2015

In December 2015, the Thai economy continued to recover with additional support from temporary factors. Domestic spending, both public spending and private consumption, remained the main driver of growth. The improved private consumption was due partly to acceleration in car purchases prior to an increase in vehicle excise tax, which would come into effect at the beginning of 2016, as well as the government's tax deduction measure at the end of 2015. As a result, manufacturing production slightly improved. In addition, tourism sector continued to recover. However, merchandise exports contracted due to the slowdown in the Chinese and ASEAN economies as well as a decrease in prices of certain export product following slumps in global oil prices. As economic recovery was not broad-based, overall private investment stayed at a low level.

On the stability front, headline inflation remained negative on the back of declines in energy prices. The unemployment rate slightly declined. The current account registered a large surplus as a result of continued contraction in merchandise imports. The capital account recorded a deficit.

Details of the economic conditions are as follows.

**Public spending** continued to be well disbursed. Especially, capital expenditure excluding subsidies and grants expanded by 44.1 percent compared to the same period last year. The spending was mostly concentrated in transportation and irrigation, as well as small-scale investment projects. Government revenue increased by 8.4 percent from the same period last year, reflecting a pickup in domestic economy. The increase in revenue was also attributed to (1) revenue from the 4G auction (2) vehicle excise tax revenue due to the acceleration in car purchases, and (3) edged-up withholding tax receipts from property transfers consequent of the government's measures on the real estate sector.

**Private consumption indicators** continued to improve as spending on non-durable goods expanded. Spending on durable goods also temporarily benefited from the acceleration in car purchases. A slight increase in non-farm income and improved consumer confidence together with a persistent decline in global oil prices helped offset a drag from the low level of farm income. Additionally, private consumption received an impetus from the government's tax deduction measure at the end of 2015, but part of it brought forward some of consumers' future spending.

The **tourism** sector has improved for the third consecutive month. The number of foreign tourists expanded 4.7 percent from last year, but the recovery concentrated in Chinese tourists.

The value of **merchandise exports** declined by 9.1 percent compared to the same period last year due to the economic slowdown in China and ASEAN countries. The short-term supportive factors for Thai exports also gradually waned off, such as an earlier acceleration in exports of the new models of commercial cars. Furthermore, although the exports of optical appliance and instruments continued to expand, it has slowed down somewhat in line with sluggish global demand for smart phones reflecting high global stocks. In addition, the export prices of petroleum-related products continued to fall.

The overall **manufacturing production** edged up mainly from temporary factors such as the acceleration in car production to meet demand before the implementation of vehicle excise tax hike. Additionally, production of rubber sheets and rolls exported to China accelerated after the implementation of imported compound rubbers tax hikes by the Chinese government. Meanwhile, **private investment** indicators remained at low levels, but the momentum slightly improved in line with an expansion in corporate funding, increasing telecommunication and alternative energy investments, together with accelerated commercial car purchases. However, investment for capacity expansion in other sectors remained subdued.

The value of **merchandise imports** contracted by 8.7 percent compared to the same period last year. The value of energy imports dropped owing to lower global oil prices. Imports of raw materials and intermediate goods (excluding crude oil) continued to contract in line with sluggish merchandise exports. Imports of capital goods also declined due to a drop in imports of the telecommunication equipment as the demand for new models of mobile phones slowed down. However, imports of consumer goods continued to improve for the second consecutive month thanks to the recovery of the tourist sector and private consumption.

On the **stability** front, headline inflation remained negative at -0.85 percent, due mainly to a decrease in energy prices. The unemployment rate slightly dropped from the previous month due to an improvement in non-farm employment, particularly in service sector. The current account posted an increasing surplus - registering 4.9 billion US dollars owing to low merchandise imports and increase in revenue from the tourism sector. The capital account remained in deficit because of 1) foreign investors' sell-off of debt securities and equities in line with regional markets due to Federal Reserve's policy rate hike and 2) a continued increase in Thai investors' portfolio investment abroad in securities and direct investment.

**Overall economic activity in the fourth quarter of 2015** continued to recover at a gradual pace attributed to accelerated public spending and improvement in the service sector. Additionally, private consumption gradually recovered supported by improved consumer confidence, persistent decline in energy prices, and partly benefitted from additional stimulus measures. However, those were weighed down by low farm income. The tourism sector improved after the bombing incident in Bangkok. The value of merchandise exports, nevertheless, dropped significantly from a decrease in export prices of several products following global oil prices, as well as a decline in quantity due to the economic slowdown in China and ASEAN countries. Manufacturing production and private investment slightly improved. Investments in certain sectors expanded especially telecommunication and alternative energy. On the stability front, headline inflation became less negative as the high-base effect of oil prices gradually waned off. The unemployment rate remained at a low level. The current account continued to register a surplus owing to the contracted merchandise imports. The level of international reserves remained high.

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