



BANK OF THAILAND



BOT Press Release

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No. 3/2017

Press Release on the Economic and Monetary Conditions for December and the Fourth quarter of 2016

In December 2016, the Thai economy steadily expanded as with the previous month. Government expenditure, through both current and capital spending, surged from the same period last year. Export of goods displayed a more robust sign of recovery consistent with improvements in both production of export-oriented industries and import of raw materials and intermediate goods, especially for electronic parts. Moreover, growth in the tourism sector rebounded with the improved number of foreign tourists thanks to temporary measures on concession and exemption of visa fee. Overall private consumption picked up as supported by greater consumer confidence and the government's tax deduction measure at the end of the year. Meanwhile, private investment edged up, but remained concentrated in certain businesses.

On the stability front, headline inflation increased from the previous month as prices of domestic petroleum increased. The seasonally-adjusted unemployment rate stabilized from last month. The current account continued to post a surplus due to surpluses in both the trade account and the services, income and transfer accounts.

Details of the economic conditions are as follows.

Public spending expanded through both current and capital spending and remained an important economic growth driver. Greater current spending were particularly due to operational expenses on prevention and relief of natural disasters. Capital spending grew on the back of well-disbursed transportation and irrigation projects, partly thanks to measures to accelerate small-scale investment and to boost disbursement efficiency. Meanwhile, government revenue contracted mainly due to a high base of non-tax revenue last year during which the government collected the 4G auction receipt. Excluding the 4G receipt, government revenue expanded due to corporate income tax revenue following profit repatriation by a foreign company based in Thailand.

The value of **merchandise exports** displayed a more robust sign of recovery with an expansion of 5.6 percent from the same period last year. The expansion was due to: 1) a continued improvement in external demand for several products. Export of integrated circuits (IC) expanded to serve subsequent production of smart-phones, vehicle parts and equipment supporting the Internet of Things (IoT), consistent with increased production capacity in earlier periods. Export of electrical appliances rose, especially for air condition exports to India, the Middle East and Vietnam, and solar-panel exports to the U.S.; 2) temporary factors from China's accelerated import of rubber and rubber products for China's tire production and exports to the U.S.; and 3) a continued increase in export of petroleum-related products. Not only did price increase after oil producers reached an agreement to curb production, but quantity also expanded because of export new petrochemical products to China. **Manufacturing production** slightly expanded as shown by an increase in production of several products, consistent with improving merchandise exports. However, production of vehicles highly contracted as some producers temporarily paused production in preparation for new models.

The value of **merchandise imports** surged by 10.5 percent from the same period last year, especially import of raw materials and intermediate goods. In particular, import of fuel expanded on the back of low quantity imported last year and recovering crude oil prices. Import of metals expanded to serve increasing production of steel plates used in electrical appliances and prepare for production of vehicles in following periods. Moreover, import of IC, plastic and chemical products steadily expanded, consistent with an upward trend for exports of such products.

Tourism sector improved with a rebound in the number of foreign tourists registering a 1.1 percent annual growth. After seasonal adjustment, the number of foreign tourists also increased by 9.0 percent from the previous month. In particular, after the government's regulation on illegal tour operators, the previously declining number of Chinese tourists picked up thanks to measures on concession and exemption of visa fee starting from December 2016.

Overall **private consumption** picked up, supported by greater consumer confidence on future income outlook, following a recovery in merchandise exports and tourism as well as the shopping and domestic travel tax deductions at the end of the year. However, spending on durable goods contracted on the back of a high base level in December last year. In that period, consumers had accelerated their car purchases before the increase in vehicle excise tax would be effective in January 2016.

Private investment edged up for both construction and equipment. However, the Private Investment Index remained contracted from last year and only concentrated in alternative energy, service and transportation, export-related industries and construction by the public sector.

On the stability front, headline inflation accelerated to 1.13 from 0.60 percent last month as prices of domestic petroleum increased. Core inflation, however, stabilized due to unchanged overall costs and low demand pressures. The seasonally-adjusted unemployment rate remained similar to the previous month. The current account continued to post a surplus as improved value of exports and greater tourism receipts contributed to surpluses in both the trade account and the service, income and transfer accounts. On the other hand, the capital and financial accounts registered a deficit due to: 1) the currency and deposit outflows by foreign investment funds (FIF), especially in Hong Kong, Macau and China; and 2) Thai direct investment (TDI) abroad through intra-company lending to a food company in the U.S.

Overall economic activity in the fourth quarter of 2016 continued to expand with public spending as a main driver of economic growth. Export of goods showed a more robust sign of recovery in terms of both price and quantity, consistent with production of export-oriented industries. However, the tourism sector slowed down as the number of foreign tourists contracted, especially those from China after the government's regulation on illegal tour operators. Overall private consumption temporarily decelerated but was, however, partly supported by the government's tax deductions at the end of the year. Private investment contracted at a slower pace and remained concentrated in alternative energy, service and transportation, and some export-related industries. On the stability front, headline inflation increased from last quarter as prices of fresh food and domestic petroleum increased. The seasonally-adjusted unemployment rate slightly increased, but remained low. Meanwhile, the current account continued to post a surplus due to improved value of merchandise exports.

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31 January 2017

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