BANK OF THAILAND

BOT Press Release

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Press Release on the Economic and Monetary Conditions for February 2016

In February 2016, the Thai economy has stabilized from the previous month. The economic momentum was driven by continued growth in the tourism sector and well-disbursed public spending, despite a slight deceleration after the expedited disbursement in the previous period. Meanwhile, private consumption was relatively stable. Despite a contraction in purchases of durable goods after the vehicle excise tax increase became effective, spending on other goods and services expanded, supported by a slight increase in non-farm income. The value of merchandise exports excluding gold contracted following the continued slowdown in major trading partners' economies such as China and ASEAN countries, coupled with the contraction in export prices in line with global oil prices. Consequently, manufacturing production and private investment remained at low level.

On the stability front, headline inflation remained negative on the back of the decline in oil prices. Nonetheless, core inflation increased somewhat due to a rise in tobacco excise tax. The unemployment rate remained at low level. While there was a slight decline in employment in the manufacturing sector, displaced labour was partly absorbed by the buoyant service sector. The current account registered a large surplus as a result of high value of gold exports, together with a continued contraction in imports.

Details of the economic conditions are as follows.

Tourism sector expanded well and showed signs of a broad-based recovery. The number of foreign tourists increased by 16.0 percent from the previous year as Chinese tourists continued to expand well. At the same time, the number of tourists from other regions have picked up.

Public spending continued to play an important role in supporting the economy. Current spending has expanded well owing to spending on goods and services and an upward adjustment to civil servant salaries. Investment by state-owned enterprises was well-disbursed. Meanwhile, the central government's capital expenditure softened somewhat after the expedited disbursement in the previous period. Revenue collection increased in line with revenue from the state-owned enterprises as well as an expansion of revenue from excise taxes.

Private consumption indicators have stabilized from the previous month after the positive attributes from temporary factors waned off. Consumption momentum was maintained by spending on non-durable goods and services supported by a slight increase in non-farm income, while spending on durable goods contracted after an acceleration of car purchases before an increase in vehicle excise tax. Nonetheless, a contraction in farm income consequent of the drought, a decline in agricultural prices as well as high level of household debts remain a drag on consumption. At the same time, financial institutions remained cautious in extending credit at the retail level.

The value of **merchandise exports** expanded for the first time since December 2014, registering a growth rate of 6.2 percent over the same period last year. This was largely attributable to high level of gold exports following a hike in gold prices, which partly induced the sale of gold from household savings. However, after subtracting gold exports, the value of merchandise exports contracted by 4.0 percent from the same period last year. Most merchandise export categories contracted as a result of a slowdown in major trading partners' economies and constraints from the loss of competitiveness in a few industries, while export prices remained at low level in line with crude oil prices. A temporary factor also played a role, for instance, the unusually low level of exports of petroleum-related products was due to a temporary shutdown of a refinery plant. Nonetheless, some merchandise exports registered positive growth. For example, high growth in sugar exports was due to an expectation of a reduction in the world supply of sugar consequent of the drought, at the same time, substantial growth in jewelry exports was due to exports for sale during the Hong Kong International Jewelry Show in March 2016.

The value of **merchandise imports** contracted by 16.3 percent compared to the same period last year as a result of a contraction in all categories of imports. Imports of raw materials and intermediate goods contracted substantially in line with a contraction in exports and prices of crude oil and metal products. Meanwhile, imports of capital goods contracted due to sluggish **private investment**. Most industries, except telecommunication and alternative energy sectors, may not need capacity expansion as reflected by relatively low capacity utilization rate at 64.7 percent. The subdued private investment was in line with a deceleration of corporate financing from the previous month, both in corporate credit and corporate debt issuance.

Manufacturing production improved slightly from the previous month but remained at low level following a slow recovery in demand, especially from trading partners' economies. Nonetheless, production of some products expanded on the back of special factors such as an accelerated production of processed rubber before an agreement on control over the global rubber supply by the International Tripartite Rubber Council (ITRC) between Indonesia, Malaysia, and Thailand comes into effect in March 2016. In addition, the production of canned pineapples also picked up after raw materials became available.

On the **stability** front, headline inflation remained negative at -0.5 percent in line with a decrease in energy prices. Meanwhile, despite low inflationary pressure from the demand side, core inflation increased slightly owing to a rise in the tobacco excise tax which came into effect in February 2016. The unemployment rate edged up slightly due to a decline in employment in the manufacturing sector. Nevertheless, displaced labour could partly be absorbed by the construction and service sectors, which continued to expand well. This, therefore, alleviated the impact on the overall non-farm income.

On the **external** front, the current account posted a large surplus of 7.4 billion US dollars owing to high level of exports, driven mainly by gold exports and an increase in tourism revenue. Meanwhile, the value of merchandise imports remained at low level. The capital and financial account registered a deficit of 0.4 billion US dollars because of Thai direct investment abroad and an increase in trade credits extended by Thai exporters.

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