BANK OF THAILAND

BOT Press Release

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Press Release on the Economic and Monetary Conditions for January 2016

In January 2016, the momentum of the Thai economy has weakened somewhat as the impact of temporary factors has subsided. Private consumption slightly softened after the acceleration in car purchases and household expenditure at the end of last year. In addition, public spending decelerated following the expedited disbursement in December. The value of merchandise exports continued to contract substantially due to a slowdown in China and ASEAN economies together with a decline in export prices following a slump in global oil prices. Private investment and manufacturing production, thus, remained at low level. Nonetheless, the tourism sector continued to be the main engine of growth, which helped support a continued expansion in the service sector.

On the stability front, headline inflation remained negative on the back of the decline in oil prices. The unemployment rate remained at low level. The current account posted a large surplus as imports continued to contract. Meanwhile, the capital account registered a surplus from both foreign direct investment and foreign investors' investment in debt securities.

Details of the economic conditions are as follows.

Tourism sector continued to improve and remained the main driver of related service sector, especially wholesale and retail trade as well as logistics. The number of foreign tourists increased by 15.0 percent compared to the same period last year in line with a continued increase in Chinese tourists as well as a pickup in tourist arrivals from Europe.

Public spending continued to be well disbursed although overall performance decelerated somewhat due to a slight deceleration in non-budget disbursement, particularly on transportation and irrigation projects, after a rapid acceleration in the previous month. Capital expenditure (excluding subsidies) increased at a slower pace, while government revenues slightly decreased due mainly to a delay in revenue collection from a few state-owned enterprises and a reduction in import-related tax revenues in line with import contraction.

Private consumption decelerated slightly after temporary factors waned off, particularly the acceleration in car purchases and household expenditure at the end of last year. In addition, the unusually cold temperature during the month of January led to a slight decrease in household electricity consumption. At the same time, an incremental decline in consumer confidence, due partly to concerns over the drought situation and the global economic slowdown, has provided less support to consumption momentum. Nonetheless, stabilized non-farm income helped support the expansion of spending on non-durable goods and services.

The value of **merchandise exports** contracted by 9.3 percent compared to the same period last year from 1) an economic slowdown in China and ASEAN countries 2) a phase out in short-term supportive factors such as a deceleration in exports of new models of commercial cars and a slowdown in exports of optical appliance and instruments owing to a decline in the global demand for electronics and 3) a continued decline in export prices of petroleum-related products. Nonetheless, the exports of electrical appliances to Europe improved in line with the expectations of higher temperature this year. In addition, exports of electrical appliance to Vietnam also improved thanks to its favorable economic condition.

The value of **merchandise imports** contracted by 17.8 percent compared to the same period last year as a result of a contraction in most import categories. In particular, the value of crude oil imports dropped due mainly to lower global oil prices. Imports of raw materials and intermediate goods (excluding fuel) also contracted in line with sluggish merchandise exports.

Manufacturing production contracted in several categories due to sluggish merchandise exports. Additionally, the impact of temporary factors has tapered off, for instance, car production declined after the acceleration in production to meet the demand at the end of last year. Nonetheless, the production of electrical appliances tended to improve in line with external demand. **Private investment indicators** remained subdued in line with sufficient capacity utilization and positive attributes from the acceleration in commercial car purchases started to level off. At the same time, investment in alternative energy and telecommunication slightly decelerated. Meanwhile, overall corporate financing stabilized, largely contributed by an increase in corporate debt issuances.

On the **stability** front, headline inflation remained negative at -0.53 percent following a decrease in energy prices. The unemployment rate slightly declined from the previous month due to a pickup in employment in the service sector. The current account posted a surplus of 4.1 billion US dollars owing to a drop in merchandise imports and a continued increase in revenue from the tourism sector. The capital account registered a surplus because of 1) foreign direct investment in manufacturing and service sectors 2) an increase in export trade credit inflows and 3) foreign investors' investment in debt securities. The return of foreign investors' investment in emerging markets was owing to the Federal Reserve's signal of delays to further policy rate hikes, coupled with the Bank of Japan's further easing of monetary policy.

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