BANK OF THAILAND

BOT Press Release

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Press Release on the Economic and Monetary Conditions for May 2015

In May 2015, the Thai economic recovery continued to be slow and fragile. The main drivers were the tourism sector and public spending on capital expenditure. Meanwhile, merchandise exports remained sluggish and private spending softened in line with contracted merchandise imports. On the stability front, the unemployment rate remained low and was unchanged from the previous month. Headline inflation remained negative. The current account registered a surplus.

Details of economic conditions are as follows.

The tourism sector and public spending continued to play an important role in supporting the economy. **Tourism** continued to expand thanks mostly to an increase in the number of Chinese and Malaysian tourists. The number of tourists from Russia started to improve after declining in the preceding period in line with their economic slowdown. **Public spending**, particularly on capital expenditure for transportation and irrigation, continued to expand following contractual obligation bound in the earlier period. Current expenditure flattened from the same period last year. Government revenues decreased significantly from the level last year due mainly to the contraction of petroleum income tax, corporate income tax, and VAT collection on imports, partly reflecting slow economic recovery.

Merchandise exports remained sluggish owing to the slowdowns in ASEAN and the Chinese economies coupled with fragile economic recovery in major trading partners, especially the US, Japan and Europe. Prices of several goods related to crude oil prices continued to be low. Foreign orders for automobiles declined due partly to consumers awaiting the launch of new car models. Overall, the value of merchandise exports declined markedly from the same period last year across the board. However, exports of agricultural products increased this month on account of higher cassava demand from China for ethanol production as it was substitutable for Chinese production of maize that has been restricted to consumption only.

Households remained cautious about spending due to falling farm income as a result of low agricultural prices and outputs, flat non-farm households' income, and consumers' concerns about economic uncertainties and drought. **Private consumption** indicators remained at a low level due to softened spending on semi-durable and durable goods especially cars which was in line with a contraction in auto leasing activities. Meanwhile, spending on nondurable items and services improved from the previous month including fast-moving consumer goods, fuel, and services in transportation and telecommunication sectors.

Subdued domestic and foreign demand led to low **manufacturing production** in both domestic-oriented and export-oriented industries. Moreover, businesses were cautious in undertaking new investments, particularly on purchases of machinery and equipment, in spite of the lower cost of funding following the policy rate cut. As a result, **private investment** indicators declined from the previous month following a significant contraction in imports of capital goods and a decrease in commercial car sales partly as a result of awaiting new car models. Meanwhile, construction investment remained flat. **Merchandise imports** contracted across all categories. Imports of capital and consumer goods decreased in line with weak private spending while imports of raw materials (excluding crude oil) dropped owing to low production. Crude oil imports contracted significantly after having accelerated last month to build up stocks.

On the **stability** front, the unemployment rate stayed low and was unchanged from the previous month. Headline inflation remained negative due mainly to energy and fresh food prices. Meanwhile, core inflation decelerated slightly owing to declines in food costs and a slow recovery in domestic demand. The current account posted a surplus as a result of a fall in merchandise imports. The capital account registered a deficit due to short-term loans repayment by financial institutions to manage their foreign exchange positions coupled with outflows of foreign portfolio investments. Overall, the balance of payments continued to record a surplus and the ratio of international reserves to short-term external debt remained high.

Bank of Thailand
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