BANK OF THAILAND

BOT Press Release

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Press Release on the Economic and Monetary Conditions for October 2015

In October 2015, the Thai economy continued to recover at a gradual pace. Public spending continued to be disbursed well. Private consumption increased on the back of spending on necessary goods and services. The number of foreign tourists slightly improved mainly owing to Chinese tourists. However, merchandise exports continued to contract due to the slowdown in Chinese and ASEAN economies. As a result, private investment and manufacturing production stayed low as production capacity in most industries remained lower than normal.

On the stability front, headline inflation became less negative due to increased prices of fresh food and the high-base effect of oil prices which gradually waned off. The unemployment rate was stable, with labor migrating back to the agricultural sector in the season for rice cultivation. The current account continued to post a surplus as a result of low imports. The capital account recorded a deficit despite the net inflows of foreign portfolio investment for the first time in the last 6 months with a possible temporary delay in policy-rate hike by the Federal Reserve.

Details of the economic conditions are as follows.

Public spending was well disbursed on both current and capital expenditure. The disbursement on capital expenditure was mostly for small-scale transportation and irrigation projects as well as the expedited disbursement for renovation of universities at the beginning of fiscal year. Government revenue declined from the same period last year due to a fall in non-tax revenue following an advanced collection from state-owned enterprises in the previous month. However, tax revenue expanded, reflecting the gradual economic recovery. Since the launch in September, on-going government stimulus measures improved private sector's confidence in the economic outlook over the periods ahead.

Private consumption indicators increased from last month owing to spending on non-durable necessary goods and services such as telecommunication and transportation. This was supported by 1) improved purchasing power of non-farm households partly resulted by low oil prices and 2) a gradual lift in consumer confidence. Spending on durable goods such as cars edged up due to the fact that some consumers made their purchases before higher excise tax rates at the beginning of next year. However, overall durable consumption remained low. This was in line with low farm income, elevated household debt, and cautious credit extension by financial institutions after the deterioration of credit quality in the preceding period.

The **tourism** sector slightly improved as the number of foreign tourists expanded 3.7 percent from last month, after contracting for two consecutive months following the bombing incident in Bangkok. This increase was mainly a result of improved Chinese tourist numbers. However, the number of foreign tourist arrivals from other countries continued to decline, especially from Malaysia and Russia.

The value of **merchandise exports** dropped by 8.0 percent from the same period last year due to 1) the economic slowdown in China and ASEAN countries, 2) lower prices of some goods in relation to global oil prices, and 3) the high base last year from accelerated exports before the GSP tax privilege expired. Although most merchandise exports contracted, exports of certain goods continued to increase such as automobiles, particularly the new models of commercial cars, as well as electronic parts and lens exported to China as raw materials for new models of mobile phones and tablets.

The slow recovery of domestic demand and low levels of exports led to a slight decline in **manufacturing production** from last month. Furthermore, **private investment** indicators stayed low as production capacity remained sufficient to accommodate soft domestic and external demand. Production capacity this month was at 60.4 percent. As a result, imports of machinery and equipment for capacity expansion stayed subdued. Meanwhile, construction investment flattened in line with activities in the real estate sector.

The value of **merchandise imports** contracted by 21.3 percent from the same period last year as most categories continued to drop. Imports of consumer goods and raw materials (excluding crude oil) declined due to soft economic activities, especially in the manufacturing sector. Crude oil imports largely dropped mainly due to lower global oil prices. Nevertheless, imports of capital goods expanded in aircraft imports. At the same time, imports of machinery and equipment continuously contracted in line with current domestic investment.

On the **stability** front, headline inflation became less negative, at -0.77 percent, as fresh food prices edged up and the base effect of high global oil prices waned off. Core inflation was stable from last month at 0.95 percent following the slow domestic demand recovery. The unemployment rate flattened from last month, with more workers migrating back to the agricultural sector in the season for rice cultivation. The current account posted a surplus of 5.2 billion U.S. dollars mainly due to low merchandise imports. The capital account registered a deficit because of loan repayment by financial institutions and Thai investors' portfolio investment abroad. However, there were net inflows of foreign portfolio investment after the chances of a temporary delay in policy-rate hike by the Federal Reserve.

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