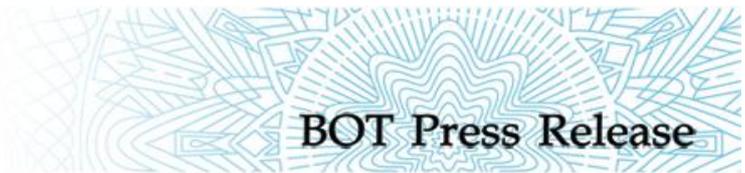




BANK OF THAILAND



BOT Press Release

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Press Release on the Economic and Monetary Conditions for September and the Third Quarter of 2016

In September 2016, the Thai economy expanded at a greater pace than last month. Public spending expanded well and remained an important growth driver. The value of merchandise exports improved in many categories, which helped compensate for the initial effects on tourism following the government's regulation on zero-dollar tour operators. Private investment increased somewhat in certain sectors as reflected by larger imported capital goods of export-oriented manufacturing sectors. Meanwhile, private consumption expanded at a slower pace relative to earlier periods due to lower spending on non-durable goods.

On the stability front, headline inflation rate increased due to higher domestic petroleum prices. The unemployment rate remained low. The current account posted a surplus as the trade surplus—improved exports and continuing low import level—compensated for the deficit in the service, income and transfers accounts.

Details of the economic conditions are as follows.

Regarding **public spending**, both current and capital expenditures continued to expand, especially compensation expenses for personnel and spending on transportation and irrigation projects, respectively. Government revenue collection expanded from the same period last year mainly due to tax revenue, partly reflecting an improvement in overall economic activities. However, non-tax revenue contracted from a high level in the same period last year during which the government expedited a collection of revenue from some state-owned enterprises.

The value of **merchandise exports** expanded from last year for the second consecutive month, up by 3.5 percent annual growth or 3.9 percent when excluding gold. The expansion was observed in many categories. Export of electronic products benefited from the production of new smartphone models. Export of electrical appliances was driven by capacity expansion to meet rising demand from various markets, especially CLMV, Europe and the US. In addition, a smaller contraction in the value of some exports was due to recovering oil prices. Indeed, the gradual pick-up in exports was in line with an improvement in the Manufacturing Production Index.

**Private investment** stayed flat relative to the same period last year. However, in comparison to the preceding month, investment edged up somewhat in the manufacturing sector as reflected by imported capital goods of export-oriented industries. Moreover, investment in alternative energy continued, especially in electricity generation as supported by government policy. Nonetheless, the construction sector overall remained at a similar level as last month. Despite continuing public investment and the resulted private investment crowding-in, the real estate market decelerated as demand softened after government stimulus measures had ended.

The value of **merchandise imports** grew by 1.7 percent from the same period last year. Excluding gold, imports grew by 0.3 percent on the back of growth in various categories. Import of capital goods expanded in transformers and power generators, consistent with steady investment in

alternative energy. Moreover, import of machineries for electronics and electrical appliances industries displayed a better outlook. Imported raw materials and intermediate goods also expanded for such industries.

**Private consumption** expanded from the same period last year, despite at a slower pace than earlier periods, in accordance with spending on consumer products. In fact, supporting factors for overall consumption remained soft. Non-farm income stayed flat and consumer confidence slightly dropped from last month after having accelerated due to the referendum result to accept the draft constitution and the better-than-expected second quarter GDP figure.

As for the **tourism sector**, the number of foreign tourists significantly grew by 18.3 percent as the low base level last year was resulted by the lasting impact from the bombing incident in Bangkok in August 2015. After seasonal adjustment, the number of foreign tourists declined by 2.1 percent from last month as Chinese tourists decreased following the government's regulation on zero-dollar tour operators. On the other hand, the bombing incidents in 7 southern provinces last month only showed a limited impact.

On the **stability front**, headline inflation rate slightly increased from last month due to higher domestic petroleum prices. The unemployment rate remained low with more jobs in food and electronics industries. The current account posted a surplus as the trade surplus—improved exports and continuing low import level—compensated for the deficit in the service, income and transfers accounts. The deficit was due to lower tourism receipts and a period of repatriation of profits and dividends by foreign companies in Thailand. Meanwhile, the capital and financial accounts registered a deficit due to intra-company loan repayment, Thai direct investment abroad and portfolio outflows by Thai investors. Nonetheless, capital inflows into Thai securities continued.

**The Thai economy in the third quarter of 2016** expanded on the back of public spending and a steady growth in private consumption. In particular, consumer confidence improved from the previous quarter due to domestic factors and farm income gradually recovered after the drought had subsided. Moreover, exports started to pick up and tourism sector continued to expand despite the bombing incidents and the government's regulation on zero-dollar tour operators. Nonetheless, private investment was similar to last year. While the construction sector and import of capital goods remained lower than last year, domestic machinery sales expanded. On the stability front, headline inflation rate slightly declined from last quarter as raw food prices decelerated following the end of the drought. The unemployment rate marginally decreased mainly due to greater employment in the agricultural sector. The current account posted a surplus due to both high tourism receipts, prior to the bombing incidents in the 7 southern provinces and the government's regulation on zero-dollar tour operators, and low level of imports.

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