Economic Research Note

What lies beneath Thailand’s current account deficit?

- **Flip from years of sizable surpluses reflects protracted deterioration in trade balance**
- **Weak exports part of the story, but demand for fuel and gold pushing up imports**
- **Moderation in other CA outflows owes to a surge in regional tourist arrivals**

The lingering dip into deficit has been an unusual feature of Thailand’s recent current account data, with the headline balance printing in the red in five of the first seven months of the year. Behind this flip from several years of sizable surpluses, two opposing forces have been at work: a collapse in the trade surplus to almost flat levels, and a notable improvement in the invisibles balance (first chart and table).

Sluggish external demand has been partly responsible for Thailand’s narrowing trade surplus. In large part, weak export growth reflects muted demand from China and the G-3, amid signs of structural headwinds facing the Thai electronics sector. But while exports continue to look soft, demand for certain imports—particularly oil and gold—remains sticky, even as domestic activity has slowed through the year. Strength in these imports has widened the oil, gas, and gold deficits considerably; the trade balance outside of these commodities has held up better (second chart).

While the persistent narrowing in the trade surplus is weighing on the current account balance, the deterioration is being offset in part by a rapid improvement in the invisibles balance. Here, a surge in tourist arrivals is pushing the balance of trade in services into surplus for the first time in years.

Soft exports are not the whole story

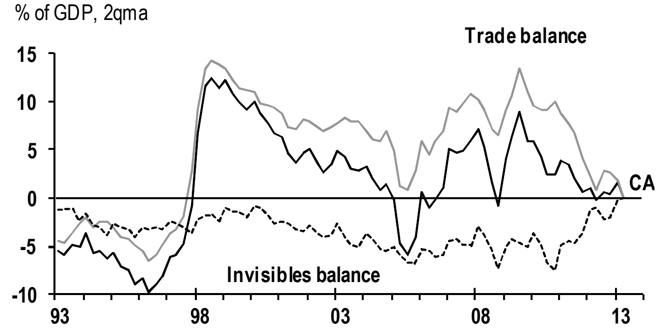
The deterioration in Thailand’s trade surplus was triggered by a collapse in exports during the 2011 flooding and persisted amid a subsequent surge in capital goods imports during the post-flood rebuild. However, the prolonged deterioration through 2013 has been striking, reflecting a combination of weak exports and sticky imports. This strength in imports has been largely concentrated in two areas: demand for oil and demand for gold. While the trade balance outside of these commodities has improved on the margin through 2013, both the gold balance and the oil and gas balance have widened notably over the past year or so, largely on account of the persistent rise in imports (second and third charts).

Thailand: current account balance
% of GDP, selected years

	1996	2007	2012	1H13	Chg.[1]
Current account balance	**-8.1**	**6.3**	**0.1**	**-1.9**	**-8.2**
Trade balance	**-5.2**	**10.8**	**1.7**	**-0.4**	**-11.1**
Exports	30.1	61.1	61.7	56.0	-5.1
Imports	35.3	50.4	60.1	56.4	6.0
Oil balance	-3.0	-7.4	-8.6	-9.2	-1.8
Gold balance	-0.2	0.0	-1.6	-4.3	-4.3
Invisibles balance	**-2.9**	**-4.4**	**-1.6**	**-1.5**	**2.8**
Tourism-related	2.7	4.7	7.5	..	2.9
Others	-5.6	-9.1	-9.1	..	0.0

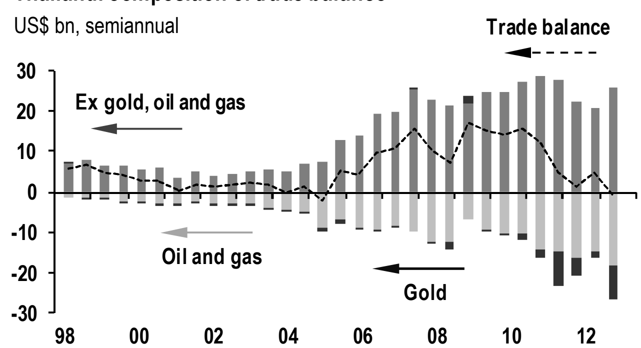
1. %-pt. change, latest since 2007. Oil balance includes gas imports.
Source: Bank of Thailand, IMF, J.P. Morgan

Thailand: current account balance
% of GDP, 2qma



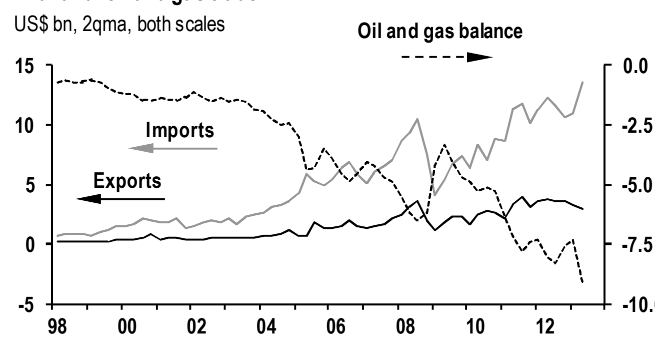
Source: Bank of Thailand, IMF, J.P. Morgan

Thailand: composition of trade balance
US$ bn, semiannual



Source: Bank of Thailand, J.P. Morgan

Thailand: oil and gas trade
US$ bn, 2qma, both scales



Source: Bank of Thailand, J.P. Morgan

The usual suspects: oil and gold imports

Trade in crude oil accounts for the bulk of the deficit in the oil and gas balance. Here, the widening deficit has largely reflected fluctuations in oil prices; volumes of crude imports have been more stable. In contrast, import volumes of fuel excluding crude oil have been strikingly strong. Demand for refined fuel products—including LPG and other petroleum products—surged through 2012 and into 2013, feeding a substantial volumetric increase in these fuel imports. This rise in fuel demand, along with movements in oil prices, saw the oil and gas deficit reach around US$10 billion in 2Q, almost equal to the entire non-commodity trade surplus.

The stickiness of real fuel imports—despite the recent moderation in the domestic economy—is interesting. One factor behind the rise in demand is likely the increase in the stock of cars and other vehicles on Thailand's roads—largely a product of last year's first-car rebate scheme, which led to soaring auto sales (first chart and see: "Thailand: Autos slowing but domestic demand not stalling," *GDW*, March 27). Demand for LPG, for example, has shifted firmly toward the auto sector. Auto-related demand accounted for 22% of all LPG consumption in the year through July, an 8%-pt increase over the share in 2012.

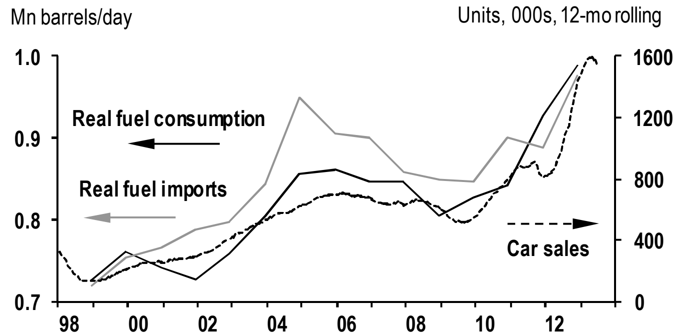
Aside from a rise in fuel demand, imports of gold have also increased rapidly, but the large swings from month to month are more difficult to square. Historically, volumes of gold imports have remained fairly stable, but the surge in nominal imports through 2013 was not due to price movements. One observation here is that the decline in the gold balance has moved in step with larger outflows from the errors and omissions component in the balance of payments (second chart).

Tourist surge benefits other CA flows

In the absence of a pickup in exports, elevated demand for gold and fuel could continue to depress the trade balance. (The expectation that several domestic refineries will wind down output toward 2015 could also add to the oil import bill, further weighing on the oil and gas balance). On the flip side, a reduction in other outflows on the CA should work to offset the narrowing trade surplus. Net outflows from the invisibles have shrunk considerably over the past year or so, largely as a result of a surge in tourist arrivals.

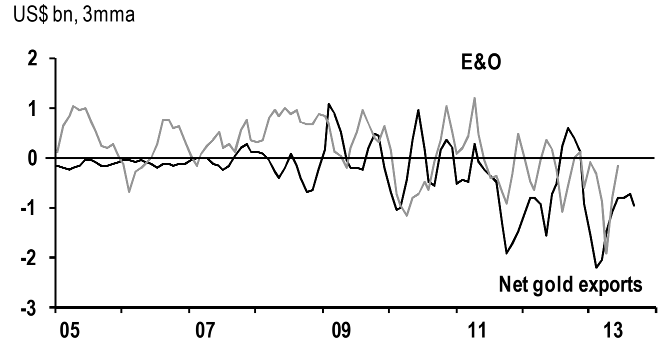
The rise in visitor arrivals has pushed the balance of trade in services into surplus for the first time in years, mostly due to a rapid increase in Asian tourists (third chart). Mainland Chinese arrivals have been particularly strong, up almost five-fold since end-2011 and reaching around half a million per month in August, or 20% of all visitors—an important factor behind the rapid increase in tourism receipts (fourth chart). For more detail see the research note "Emerging Asia riding on the coattails of China's tourists" in this *GDW*.

Thailand: auto sales and demand for petroleum products



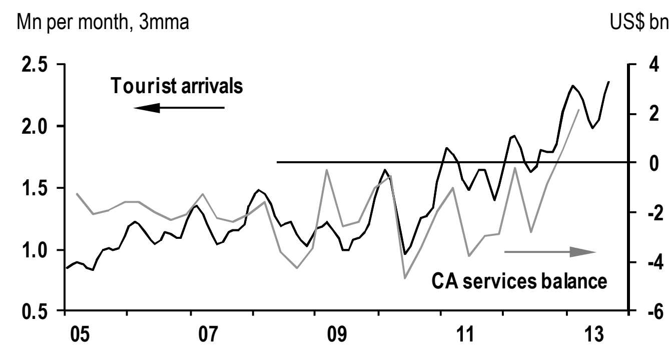
Source: Thailand Energy Policy and Planning Office, Bank of Thailand, J.P. Morgan

Thailand: net gold imports and BoP errors and omissions



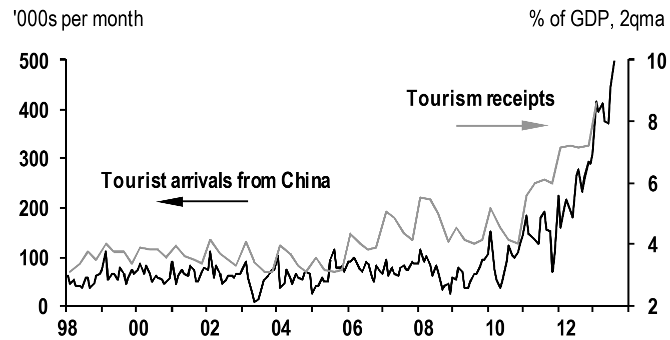
Source: Bank of Thailand, J. P. Morgan

Thailand: tourist arrivals and current account services balance



Source: Bank of Thailand, J.P. Morgan

Thailand: tourism receipts and Mainland Chinese arrivals



Source: Bank of Thailand, J.P. Morgan

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