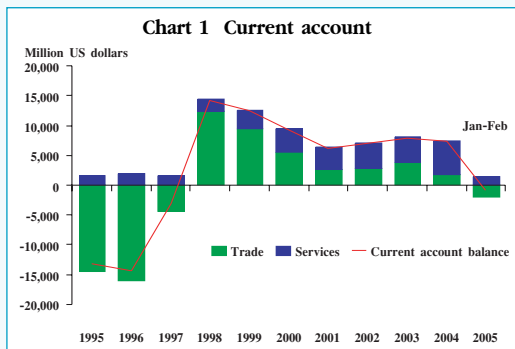


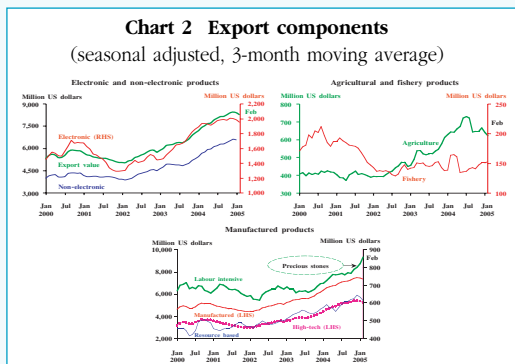
## Pressures on the Thai current account

In addition to maintaining price stability, the main objective of monetary policy, the MPC also monitored factors contributing to financial imbalances that could induce economic vulnerabilities. (See July 2004 *Report* for details). Recently, the MPC expressed concerns over the imbalances in household debts and the real estate sector. In the latest review of Thailand's economic growth and inflation forecast, the current account position, another important indicator of financial imbalance, was a key concern.

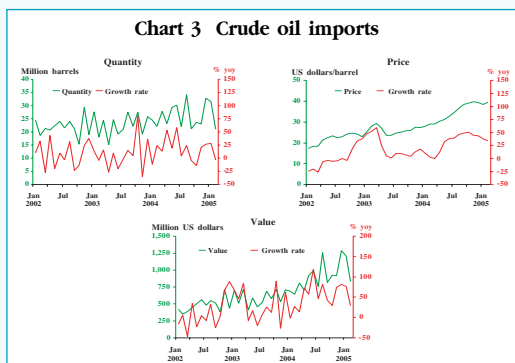
### Current conditions



Source: Bank of Thailand



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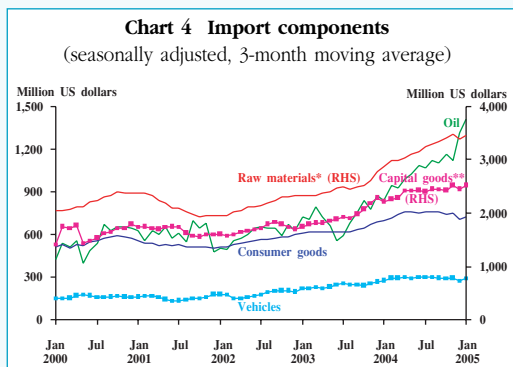


Source: The Customs Department and Bank of Thailand

Thailand's current account surplus continued to dwindle since the first surplus which was recorded in 1998, and would record a deficit in 2005 Q1. This deficit was unexpected by the MPC despite having incorporated the effects of the tsunami on tourism revenue. The main contributor to this unanticipated deficit was soaring oil prices that drove the country's current account into a deficit of 836 million US dollars in the first 2 months of this year.

**Exports:** In January and February, the growth of Thailand's export quantity started to decelerate partly due to the slowdown in trading partners' growth. This slowdown was accounted for by the decelerating electronics industry, particularly integrated circuits, that was caused by the global electronics cyclical downturn, together with the shortage of agricultural exports due to the severe drought. However, this export trend and its risk factors are in accordance with the previous assessment by the MPC.

**Imports:** The continued increase in the price of oil caused the value of imports to accelerate as well. The ratio of oil imports and related products to total import value has risen from 12 per cent in 2003 to 14 and 15 per cent in 2004 and the first 2 months of 2005, respectively. With the quantity of crude oil imports in the first 2 months of 2005 growing 13.1 per cent year-on-year and the unanticipated rise in price of 35.4 per cent (higher than previously estimated), the growth in value of crude oil imports during this period soared to 53.1 per cent. Although oil production in excess of domestic usage (about 13.5 per cent) was exported to neighbouring countries, it marginally alleviated pressure on the current account.



Note: \* Reclassified to include IC and parts and computer and parts  
 \*\* Reclassified to exclude IC and parts and computer and parts  
 Source: Bank of Thailand

Non-oil import growth also accelerated, particularly raw materials and selected capital imports. Imports with substantial growth in the first 2 months of this year were iron and steel, non-electrical machineries, chemical products and gold which grew at 70.7, 29.1, 24.7 and 213.0 per cent year-on-year, respectively. The hike in iron and steel imports was mainly due to currently low world prices as well as the accumulation of raw materials in order to expand production capacity, while imports of gold were to be used for jewellery exports. Additionally, preliminary data in March suggested a continued growth in these imports.

### Outlook

Going forward, the MPC assessed potential risk factors that could create additional pressure on the country's current account:

1. Further increase in oil prices. With the assumption of the average world oil price at 45 US dollars per barrel in 2005, the country's oil consumption was estimated to be at 257 million barrels. This would result in an additional deterioration of the current account by 1.7 billion US dollars from the previous forecast in January.

Nevertheless, the floating of retail benzene prices and the gradual increase in diesel prices (total of 3.60 baht per litre in the 2005 Q1) towards a floating price were expected to lead to the adjustment in oil consumption behaviour and should somewhat slow down future oil imports.

2. The high 3-month forward-looking Business Sentiment Index for the next quarter and the currently high capacity utilization rate. These conditions suggested potential demand for investment and imports of capital goods which was confirmed by businesses participating in the BOT business liaison programme, especially those in the seafood, textile export, steel, house construction, and hotel industries.

3. Specialized imports by the government and state enterprises. Both ongoing and future projects by the public sector suggested forthcoming demand for imports, such as aircrafts by the Thai Airways Ltd., trains by the Mass Rapid Transit Authority as well as imports for other projects.

As for tourism revenues, even though prior projections were adjusted to take into account the effects from the tsunami, the ongoing unrest in the three southern provinces that appeared to have spread to nearby areas as well as news of earthquakes in neighbouring countries may affect tourist confidence. However, the latest questionnaire, sent out between 4-8 April 2005 to related businesses as part of the BOT Economic/Business Information Exchange Programme, revealed that the risks should be short-lived and contained within the area. Should the government be able to restore confidence in the safety of tourists, tourism would resume its normal path in a short period of time.

#### The 2005 current account forecasts

Billion US dollars	As of January 2005	As of April 2005
Current Account	2-4	1-2

After evaluating the conditions that prevailed during the first 2 months of 2005, risk factors to the current account, and the net impact of import adjustments to the economic slowdown and high import prices from the macroeconomic model, the MPC projected the current account to remain in surplus of 1-2 billion US dollars in 2005 relative to the previous forecast of 2-4 billion US dollars.