

The depreciation of Thailand's baht is behind the current account deficit

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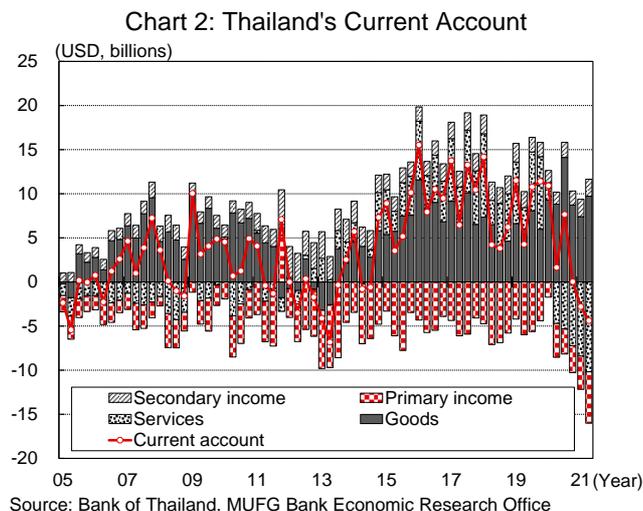
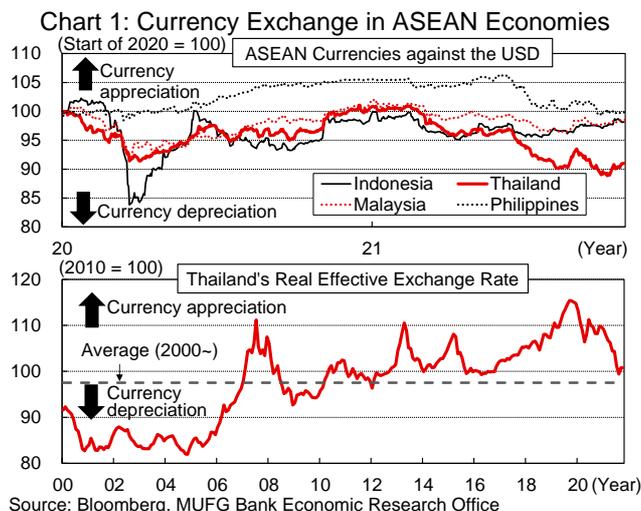
The currencies of all ASEAN members have been depreciating against the US dollar since the start of this year. Of these currencies, Thailand's has taken a particularly large fall after experiencing strong upward pressure before the COVID-19 pandemic and it is now at a lower level than it was during the first wave of the COVID-19 infection last year, when all ASEAN members' currencies depreciated sharply (Chart 1, upper).

On the other hand, Thailand's real effective exchange rate has fallen, but only to the level of the long-term average due to its appreciation before the pandemic (Chart 1, lower). Thailand's exporting companies had been struggling to cope with the continued THB appreciation and the current depreciation could be seen as a correction of excessive appreciation of the currency up until now.

That being said, it is important to note that the recent depreciation of the THB is inextricably linked to the slump in the tourism industry – a pillar of Thailand's economy. In recent years, income from international tourism has increased to more than 10% of nominal GDP thanks to the growth of Thailand's tourism industry. This has led to an improvement in the services balance and the current account balance. However, Thailand closed its borders in response to the COVID-19 pandemic, the impact of which meant the number of foreign tourists has fallen to almost zero from approximately 40 million in 2019, and there has been no substantial change in the situation since. As a result, the current account surplus, which had been supporting the strength of the THB up until now, has recorded a deficit for the first time in around six years, and the deficit is increasing further (Chart 2). It is highly likely that the depreciation in the THB was triggered by the deterioration of the economy brought about the pandemic and the current account deficit resulting from the slump in tourism – Thailand's main industry – and is not necessarily a good thing.

This THB depreciation, which can be called a by-product of the sluggish tourism industry, could drive an increase in the export of goods – another pillar of Thailand's economy – by strengthening its price competitiveness, and could become a factor in supporting the economy until tourism recovers. However, the Bank of Thailand forecast the number of tourists to be 6 million next year, which means it will likely take a number of years before Thailand's tourism industry makes a substantial recovery, and the currency account deficit and THB depreciation are expected to continue for a while. Markets are growing increasingly aware that the US will

start to raise its interest rates. At this time, it will be important to pay attention to the risk that the outflow of funds from Thailand will increase further and there will be an unexpected depreciation in the THB.



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