



Thailand: Political and Economic Situation and Outlook

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< Summary >

1. Restoration of civilian government was realized in Thailand for the first time in the past five years when a new government was launched in July 2019 with retired general Prayuth elected as prime minister following the 2019 general election held in March. However, Prayuth government has received a poor rating for its first half year's policy management while its political base is not strong enough. On the other hand, it is not easy under the current election system for opposition groups to recapture the control of the government. Therefore it is highly likely that the policy management by the pro-junta administration will continue for the foreseeable time even though facing a risk of political instability.
2. The economy remains subdued. In 2019, in addition to continued slackness in exports, the decline of public investment and government expenditures due to delayed budget enactment for fiscal 2020 also weighed down the economy. While the accelerated implementation of the budget may contribute to boosting the growth rate, the future course of the economy needs to be carefully watched as the downward risks have risen on the economy both at home and abroad due to the spread of COVID 19 (novel coronavirus) infection along with the delay of large infrastructure projects based on the Eastern Economic Corridor (EEC) , a project for the economic development of Thailand Eastern Seaboard as well as effects of the droughts.
3. On the economic and financial sides, fundamentals are improving in the medium- and long-term owing to the maintenance of fiscal discipline and legislations directed at maintenance of stability of financial system. Fiscal and public debt position in Thailand

remain generally in a good shape with little concern for external solvency. Yet, in order to gain further upgrade of ratings by major rating agencies it will be essential to secure the political stabilization. In the banking sector, it is highly probable that the soundness will be maintained due to the flexible response of the central bank to banking regulations, although the high level of household debts should be continuously monitored closely.

4. In addition to the need to deal with the flagging economy, the Prayuth administration has many challenges to face including the reforms of tax system and social security system aimed at maintaining medium and long-term soundness of the fiscal balance. Despite its fragile political base, risks for political disturbances such as triggered by a coup d'état have been receding. Under such circumstances, it is highly expected that the government address these medium and long-term challenges persistently.

1. Domestic Politics: Developments to the Restoration of Civilian Government and Current Situation

(1) Restoration of civilian government for the first time in five years

Since the coup d'état in May 2014, Thailand had an interim government (junta) for five years led by General Prayuth Chan-o-cha, former chairman of National Council for Peace and Order (NCPO). Initially, a roadmap the junta presented planned a transition to civilian rule in about a year after the general election slated for October 2015 following an establishment of new Constitution by July 2015. However, it was in April 2017 that the new constitution (the 2017 Constitution) actually came into force, and the general election was held in March 2019 after establishment of legislations related to the election. After that, official election results were announced in May but a formation of a cabinet took more than three months and it was in July that the new administration was formally launched, resulting in a lengthy delay in a transition to civilian rule.

The results of the 2019 general election for 500 seats in the lower house (350 for single-seat constituencies and 150 for party-list proportional representation, each term of 4 years) showed that the Pheu Thai party (For Thais Party, FTP), the leading anti-junta party that supported former prime minister Thaksin, won 136 seats, and the military-led Phak Palang Prachachon (People Power Party, PPP) 116, both failing to gain a single majority. As a result of political maneuvering of both sides to win majority seats, military supporters narrowly succeeded in gaining a majority of 254 seats to form a coalition with nineteen parties including the PPP and other small parties. On the other hand, anti-military parties formed a coalition with seven parties led by the Pheu Thai (FTP) and the Future Forward Party (FFP) which made a leap forward at the last election, but their total seats slightly lacked a majority with 246 seats.

In the prime minister nomination election held in July 2019 by the 750 parliament members of both houses (500 for lower house and 250 for senate¹), Gen. Prayuth, junta-supported candidate contended with anti-junta candidate Mr. Thanathorn Juangroongruangkit, leader of the FFP and supported by the FTP and others, and Gen. Prayuth gained 500 votes to be elected to prime minister. In the background of the reappointment of Gen. Prayuth as prime minister was a fact that the electoral system newly introduced by the 2017 constitution (mixed-member appointment for both constituency and the nationwide party list)² made it more difficult for a specific party to become a majority force than under the former system. In addition, the nomination was largely affected by the framework where an election of prime minister was implemented under the remaining influence of the junta. To be elected as prime minister, 376 votes, the majority of members in both houses, should be won, but since the nomination in the upper house is virtually made by the NCPO, military-supported candidate can be elected as prime minister only by gaining 126 votes and more in the lower house. Gen. Prayuth ran for the general election emphasizing the political stability and economic development among others as his actual achievements, but the gap between his propaganda and concerns of voters (household debts and agricultural prices, etc) and delay of transition to civilian rule had led to a decline in his supporting rate toward the end of the interim government. While some regard the reappointment of Gen. Prayuth positively focusing on the economic and social stability under the interim government, not a few people regard it negatively as a semblance of democracy which is still influenced by the junta.

(2) Pro-Military rule may continue for some time despite a risk of instability

Prime Minister Prayuth has received a poor rating for its first half year's policy management. An opinion poll³ released in December 2019 clearly showed a decline in the evaluation of his policy management as compared to that in his interim administration (Figure 1). During the days of his junta rule, about 70% of the respondents positively evaluated his management of policy with very well (22.15%) and good (48.96%) combined, while under the elected government negative responses amounted to about 60% with 33.72% for not good at all and 25.98% for not good. The reasons for poor rating included insufficient dealing of economic problems (worsening of the economy). The poor evaluation seems to reflect his poor presentation of policy to deal with problems associated with flagging economy as well as his

¹ Members of the upper house (Senate) are not publicly elected and have the term of five years. The 2017 Constitution stipulates as a transitional measure for 5 years that the members of the upper house, allotted 250 seats, be virtually nominated by the NCPO and appointed by the King. Out of them, 6 seats are allocated to the tops of the military and the police (After the end of transitional period, the members of the upper house, allotted 200 seats, are to be elected by mutual vote from among vocational groups).

² Voters cast their ballot only for candidates in the single-seat constituencies and the seats of proportional-representation constituencies are adjusted by the number of votes obtained in the single-seat constituencies.

³ NIDA (2019a).

declining ability to perform his policies due to need for coordination of interests with minor parties within the administration.

On the other hand, Mr. Thanathorn, leader of the Future Forward Party (FFP) who joined the nomination fight for prime minister, has gained a high popularity. According to a poll survey⁴ conducted at the end of 2019, Mr. Thanathorn's popularity (31.42%) exceeded that of Prime Minister Prayuth (23.74%) as a better person for prime minister.

The pro-military rulers have strengthened their caution against Mr. Thanathorn and great advance of his party, causing a new risk of political instability. In the past, whenever parties related to Mr. Thaksin with a strong advantage in the elections gained political power, they had been forced to be overthrown by a coup d'état at a time, and at other times by a decree of nullity of the election or a decree to dissolve a party on the ground of corruption or abuse of power. As Mr. Thanathorn and his FFP have attracted much support especially among the youth with a slogan of anti-militarism and restoration of democracy, they have become a new target of old-guard cronies including established interest groups and the army, replacing the former Thaksin faction.

Already the Constitutional Court ruled on November 2019 to disqualify Mr. Thanathorn as member of parliament on the ground that he had shares in a media company at the time of filing his candidacy in the general election. Furthermore, in the middle of February this year, it ordered the Future Forward Party to dissolve it on the ground that its borrowing of a large amount of money⁵ from Mr. Thanathorn at the time of its foundation corresponded to a breach of the political party law. At the same time the Court gave a decision to ban the party's 16-member executive committee from politics for the next ten years. As the Constitutional Court is under the strong influence of old-guard forces, it had been a majority view that the dissolution of the Future Forward Party was inevitable as was in the case of Thaksin party.

The composition of the political forces in the lower house as of the middle March 2020 showed that, although there were moves like some minor parties' leaving the coalition just after the launch of the administration, the ruling party increased its seats to 275 from the initial 254 with the joining of some members of the former FFP, while the opposition forces decreased their seats from 249 to 209 due to strips of the MP's status from the 16 executive members of the FFP and other members' transfer to the ruling party, thus widening the gap to 66 seats from the former 8 seats (Figure 2). Yet, the ruling party is not necessarily monolithic as it is a coalition of many small parties, and it seems that the political base of the Prayuth government is not strong enough. Out of 65 members of the former FFP who became political independents after the dissolution of the party, 50 members joined the Move Forward Party, a successor to the

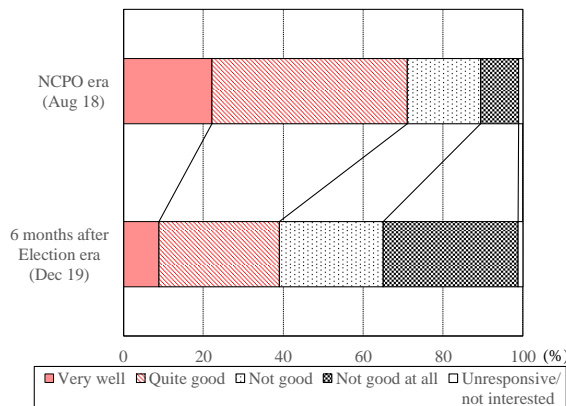
⁴ NIDA (2019b).

⁵ Mr. Thanathorn provided a loan of about 190 million baht at the time of establishing the Future Forward Party. In Thailand, it is forbidden by law that an individual donates more than 10 million baht to a party.

FFP, and 11 transferred their registration to existing political parties that form a ruling coalition, like the Bhumjaithai Party (Proud Thais Party) or the Thai National Development Party. The Move Forward Party sets out amendment of the constitution and abolition of appointment system for the upper house as its main policy guideline. So far, student-centered protests following the Constitutional Court’s ruling to dissolve the Future Forward Party have been limited. Under the current electoral system, it is not easy for a specific party to gain a majority or for anti-military forces to regain the power, and it is considered that the incentive for demanding a holding of another general election remains low. Accordingly, it is highly likely that the pro-military government will continue to remain for some time to come even if there is a risk of political instability.

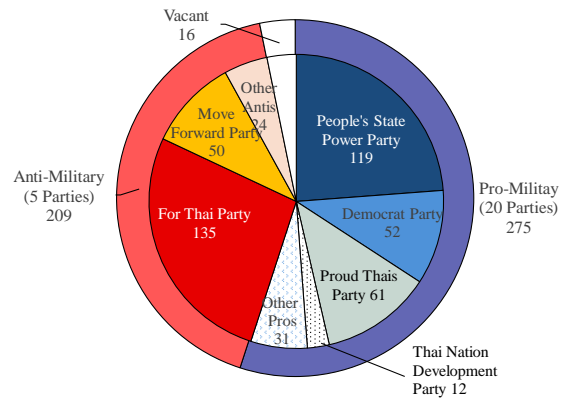
As the next prime minister is to be elected by the lower house MPs (with a term of four years) elected by the 2023 general election and the incumbent senators (with a term of five years), the influence of the pro-military forces will still remain there. Although the senators will be elected by mutual vote from among the professional groups, instead of current nomination by the NCPO, as a series of election process including voting by groups is to be administered by the election commission, they are much liable to reflect the intention of the government, and the influence of the pro-military forces may be preserved intact for a considerable period to come.

Figure 1: Policy Evaluation for Prime Minister Prayut



Note: Survey result was released on 8 December 2019.
Source: NIDA, IIMA

Figure 2: Composition of the Political Forces in the Lower House



Note: As of March 16, 2020. "Vacant" represents the seats of executives of the Future Forward Party who were deprived of membership by the decision of Constitutional Court on February 21. Anti-military FFP was succeeded by the Moving Forward Party.
Source: Various reports

2. Macro Economy

(1) Sharpened economic slowdown: Sluggish exports and delayed passage of budget put downward pressures

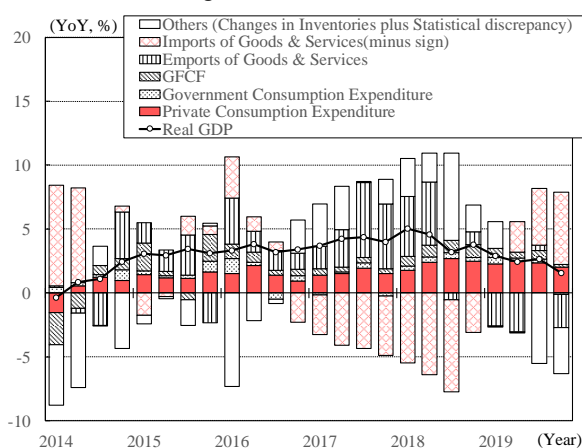
i) Real GDP growth rate

The economy remains sluggish. Since the middle of 2018, the economic growth was

suppressed by the strengthened credit standard of the financial institutions and the delay of the FY2020⁶(October 2019 to September 2020) budget bill enactment along with the continued slump in exports of goods and services (discussed in more detail below). The real GDP expanded by 1.6% year on year (yoy) in Oct.-Dec. 2019, decelerated from 2.6% yoy in the previous quarter, which resulted in a full year growth of 2.4%, the lowest in the past five years (Figure 3). By component on the expenditure side, the growth in Oct.-Dec. period was affected by such downward factors as sluggish exports and stock adjustment coupled with the decrease in public investment and government consumption caused by the delay of passage of the budget bill for FY2020 (see below). On investment, new public investment fell while construction kept its pace on on-going infrastructure projects, namely the metro (MRT Orange Line Project of the Mass Rapid Transit Authority of Thailand), expansion work of Suvarnabhumi International Airport (Phase 2) and water supply construction projects in Bangkok Metropolitan area and by Provincial Waterworks Authority. Private consumption, while it remained relatively strong, decelerated its pace by the drop in automobile sale associated with the stricter credit standard by financial institutions together with the lower household income and declining consumer sentiment (Figure 4).

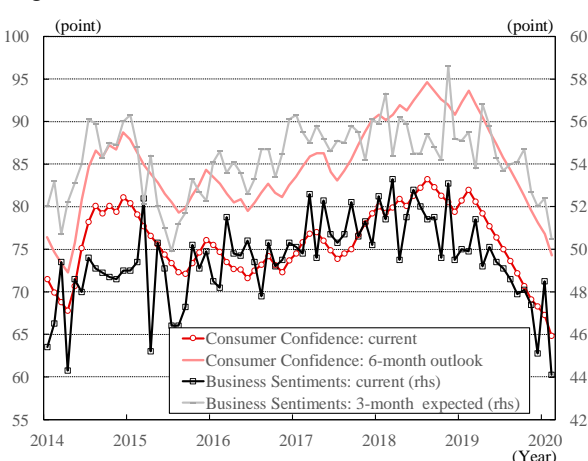
Since the start of office in July 2019, the Prayuth administration took a series of economic stimulus measures like additional allowance and low-interest loans for farmers and low-income households, corporate tax cut for investments in the suburban area of Bangkok, etc. However, the effect of low-interest loans has been limited in an environment of high level of household debts.

Figure 3: Real GDP



Source: NESDC, IIMA

Figure 4: Consumer and Business Sentiment Index



Source: UTCC, BOT, IIMA

⁶ A fiscal year(FY) begins in October of the previous year and ends September of the current year.

ii) External trade and current Account balance

Exports started to decelerate in the middle of 2018 reflecting a slowing demand in the major export partner countries and stock adjustment in the IT sector, coupled with a drop in exports of oil products due to the maintenance shutdown of oil refinery plants and appreciation of the baht, and stayed below the level of previous year throughout 2019 (Figure 5). In the latest period of Jan.-Feb. 2020, exports fell by 0.8% from a year earlier, moderating from a decline of 4.4% in Oct.-Dec. period of 2019 partly supported by a recovery in exports of oil products reflecting the end of maintenance shutdown of oil refineries. Meanwhile, imports of materials and intermediate goods that account for 60% of the whole imports decreased centering on the crude oil and electronic components reflecting sluggish exports. As a result, the trade balance remained in surplus. Exports of services remained sluggish since the middle of 2018 mainly due to the effect of a rollover accident that occurred off the coast of Phuket in July 2018, but they maintained a steady growth toward the end of 2019 as the effect of the above accident ran its course and fee waiver Visa-on-Arrivals (usually 2,000 baht) were extended to attract more tourists. However, recovery in exports of both goods and services is hard to expect at least in the first half of this year since the expansion of COVID-19 infections is raising a downward risk.

The current account continues to maintain a surplus (Figure 6). Although the primary income balance continues to be in red mainly due to increased repatriation of investment income related to direct investment and portfolio investment, the trade surplus and surplus in the services, especially in travel income, have contributed to the increase of the current account surplus. The surplus in the current account amounted to \$37.3 billion (6.9% of GDP) in 2019, increasing from \$28.5 billion (5.6%) in the previous year.

Figure 5: Exports by Product Group

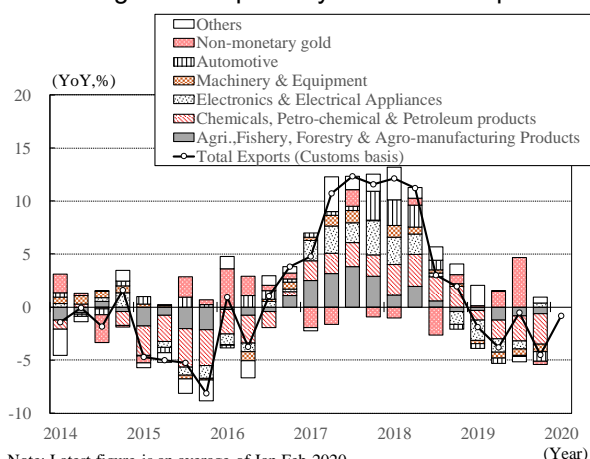
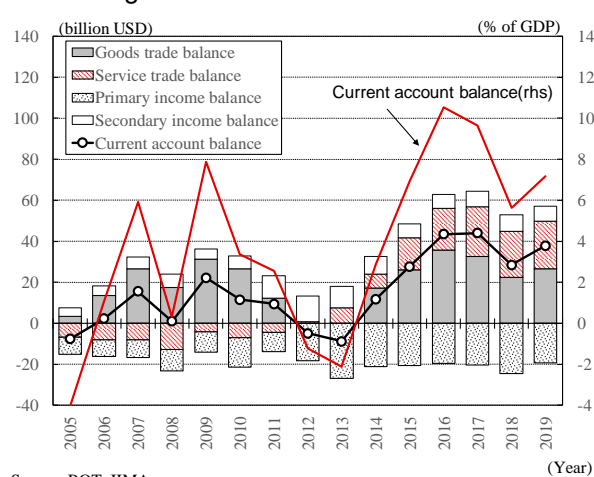


Figure 6: Current Account Balance



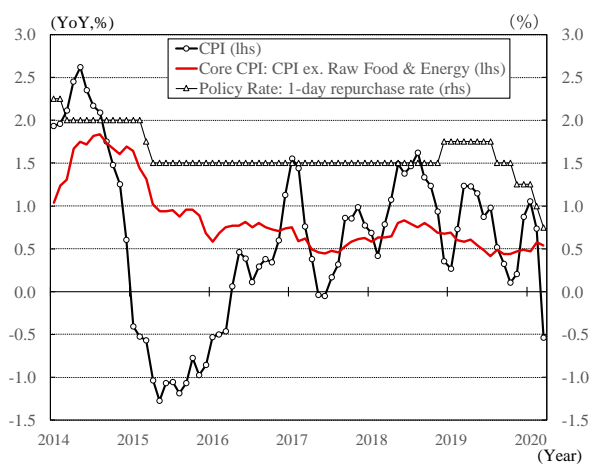
iii) Prices, Monetary policy and Exchange rates

Consumer price has been hovering near the lower range of inflation target (1% to 3%)⁷. Consumer price stood at 0.7% over a year earlier in 2019 as a whole, and dropped 0.5% in March 2020 from a year earlier, by lower oil prices and a weaker demand for goods (Figure 7).

The Bank of Thailand (hereinafter BOT) raised its policy rate in December 2018 for the first time in 7 years and 4 months (Figure 7), considering elevated household debts and overheating of real estate market. However, given the slowdown of the economy and aiming at supporting the economy and trying to restrain the appreciation of the baht, the bank implemented rate cuts in four steps to 0.75% (cumulative cuts of 100bps), a historic low level, starting in August 2019.

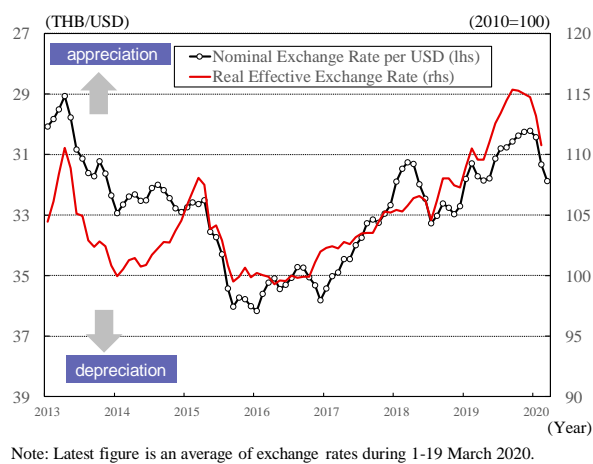
The baht faced strong upward pressures in the backdrop of favorable external balance like the current account surplus and a high level of foreign exchange reserves, and rose to 29.98 baht to a dollar at the end of 2019, up 7% from a year earlier (Figure 8). As other major currencies in Asia remained sagging, the real effective exchange rate of the baht appreciated by 10% during past three years (2017-2019), escalating fears of worsening export competitiveness. In order to alleviate the adverse impact of the strengthening baht on the export companies, the central bank announced such measures as reducing the limit on the outstanding balance of Non-resident Baht Account (NRBA) (July 2019) and relaxation of foreign exchange regulations on the foreign currency holdings and others (November 2019). Although the effect of these measures to ease the pressure of the appreciation on the currency seems to be limited, currently the baht is weakening mainly reflecting the concerns over negative impact of COVID-19 on the economy.

Figure 7: CPI and Policy Rates



Source: Thailand's Ministry of Commerce, BOT, IIMA

Figure 8: Exchange Rates



Note: Latest figure is an average of exchange rates during 1-19 March 2020.
Source: IMF and BIS, IIMA

⁷ Since 2015, inflation targets had been set at 1% to 4% with 2.5% at midpoint (over a year earlier, respectively) but in December 2019 the Monetary Policy Committee and the government changed the range to 1% to 3% taking into consideration the structural changes such as a decline in production cost following technological advancement, intensified price competition associated with expanded e-commerce, and a decline in aggregate demand for goods and services due to aging.

(2) Immediate outlook: Need to monitor the impact of COVID-19 outbreak

Looking forward, there is a possibility that the accelerated implementation of the FY2020 budget may help raise the growth rate. However, the future development of the economy should be more cautiously projected since the downward risk on the economy has risen due to the delay in large-scale projects based on the development of the EEC (to be discussed later) and sluggish agricultural production due to the droughts of last year (see “7. Future risk factors” below) followed by a global spread of COVID-19 outbreak. In March 2020, BOT, based on current changing situation, largely revised downward the projected growth rate for 2020 to -5.3% yoy from 2.8% projection made in December 2019. International organizations also revised downward the economic forecasts in succession⁸. In early March, the government announced a new economic stimulus package totaling 400 billion baht (3.7% of GDP) with financial support and tax reliefs to small and medium enterprises at its center. The package is expected to support the economic recovery in the latter half of the year to 2021.

The major impacts of the COVID-19 on the Thai economy may include (i) a decrease in tourists from abroad led by China, (ii) drop of exports due to slump of supply chains, and (iii) holddown of private consumption associated with the voluntary restraint in the domestic economic activities

In the tourism sector, negative impact has already been materializing. Visitors from abroad to Thailand decreased by 43% from a year earlier in February, recording the largest drop since 2003 when the SARS hit the world (Figure 9), while the tourism revenue dramatically dropped by 44%. Visitors decreased from all directions led by China which accounts for 30% of the total, which was affected by the suspension of China of overseas group tours announced at the end of January 2020 and strengthening of immigration control taken by the Thai government since February. Under such circumstances, it is inevitable that the number of incoming tourists will further drop⁹.

On exports, while it is expected that the supply chains disruptions in China will stimulate the substitute exports from Thailand, it is necessary to note that there is also a possibility that the decrease in imports of intermediate goods from China may dampen the expansion of Thai's exports. Meanwhile, it is expected that exports to major trading partners will decrease due to slowed economic activities in these countries resulting from a spread of COVID-19 infection, but the negative impact of the decrease on the economic growth is considered to be partly alleviated by the decrease of imports centering on intermediate goods.

Furthermore, the Thai government ordered the closing down of more public facilities and

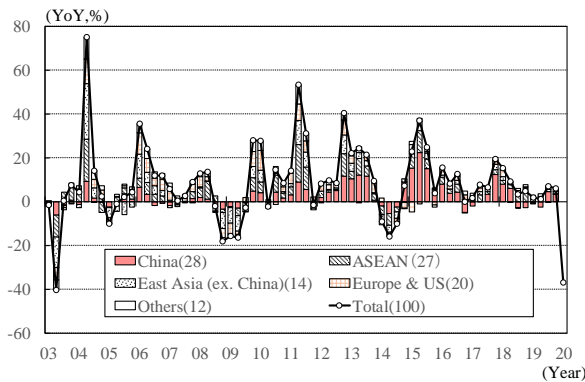
⁸ Economic outlooks for 2020 by major international organizations show -3% as baseline (-5% as lower case) by World Bank, -4.8% by ADB(Asian Development Bank), and -6.7% by IMF(International Monetary Fund).

⁹ Visitors from abroad at main airports dropped 44% from a year earlier in February 2020, and 72% in the first 21 days in March.

businesses including shopping malls, eat-in restaurants, expanded existing closures area from Bangkok Metropolitan to nationwide and extended implementation period until the end of April. This may temporarily restrict private consumption centering on discretionary expenses that affect retailing, entertainment and dining out.

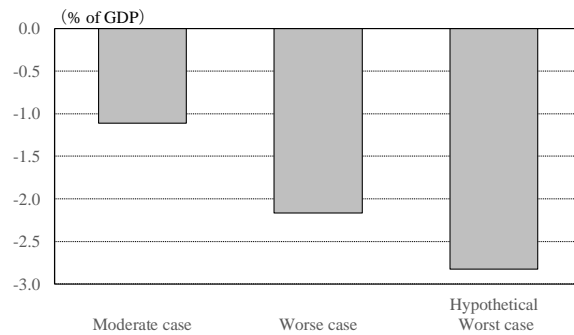
At present, it is difficult to correctly forecast the impact of the COVID-19 on the Thai economy as there are so many unpredictable factors including the expected time of containment of the virus and its impacts on the economies of trading partner of Thailand. In early March ADB analyzes¹⁰ that Thailand may suffer a loss between \$5.6 billion and \$14.4 billion (1.1%-2.8% of GDP) due to a large loss in tourism industry coupled with a decrease in Chinese consumption (Figure 10). The margin of downward pressure is estimated at 1.1% for a “moderate case” where the virus is assumed to be contained in three months, 2.2% for “worse case” with containment in 6 months, and 2.8% for the “hypothetically worst case” that adds to the worst case a decrease in Thai consumption for three months. Currently it is widely viewed that the spread of the COVID-19 will slow down in about three months and the economic activities will turn to recover from the latter half of the year and after. However, given a possibility of restrained private consumption within Thailand, it should be kept in mind that there is a possibility that the impact will become larger than expected in the “moderate case”.

Figure 9: International Tourist Arrivals in Thailand



Note: 1) "East Asia (ex. China)" includes Hong Kong, Taiwan, Japan and Korea.
 2) Figures in parentheses after the country/region indicate the % share in total as of 2019.
 3) Latest figure is the number of the period during 1 Jan.- 20 Mar. 2020.
 Source: Association of Thai Travel Agents, Ministry of Tourism and Sport, IIMA

Figure 10: Impact of the COVID-19 on the Thai Economy



Notes: 1) Each scenario takes into account decreases in Chinese outbound tourism and consumption.
 2) Duration of containing COVID-19 is assumed for 3 months in the "Moderate case", and 6 months in the "Worse case", and a decline in domestic consumption for 3 months is added to the Worst case in the "Hypothetical worst case"
 Source: ADB

¹⁰ ADB, “The Economic Impact of the COVID-19 Outbreak on Developing Asia,” March 6, 2020. (<https://www.adb.org/publications/economic-impact-covid19-developing-asia>)

3. Outline of “Thailand 4.0” and Its progress

(1) Investment in target industries increasing

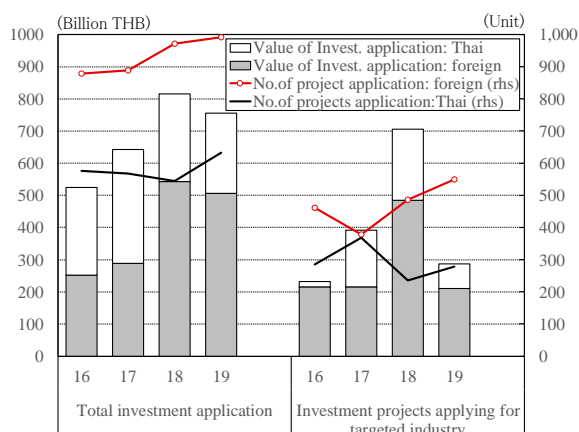
In 2015 the Prayuth interim administration laid out the “Thailand 4.0” Initiative, a 20-year national strategy to achieve high-income status by 2036. It includes a wide range of top-down initiatives such as sophistication of industrial structures making full use of the latest digital technology, based on Germany’s “Industry 4.0.” As a core project to realize the “Thailand 4.0”, development of “Eastern Economic Corridor (EEC)” has been promoted covering 3 eastern provinces neighboring Bangkok; Chachoengsao, Chonburi and Rayong. The region has been developed since 1980 as an Easter Seaboard with increasing number of industrial bases led by petrochemicals and automobiles. The gross provincial product (GPP) of these three provinces now accounts for about 30% of the whole Thailand. The EEC project plans to invest about 1.6 trillion baht (10% of GDP) in the first 5 years in fostering industries and infrastructures in the region. The government has designated as target industries 10 industries¹¹ including next generation automobiles and smart electronics, while making efforts to attract investment with such incentives as tax reductions and exemptions¹².

According to the investment application to the Board of Investment, foreign capital accounted for about 60% of the total in 2016-2019, and about 70% in target industries, suggesting that the foreign capital plays an important role in the sophistication of industries in Thailand (Figure 11). Although the amount decreased in 2019, the number of applications remained on a rising trend. By industry, automobiles, electronics and electric machines, and petrochemicals which have already large developed industrial bases, continue to be a driving engine (Figure 12). Especially in the automobile industry, a series of applications have been made by Japanese car makers for investment in hybrid cars and production of components like batteries for electric vehicles while in petrochemicals both domestic and foreign capitals have made a massive investment in petrochemical plants, thus contributing to push up the total amount of investment. It is pointed out as a big challenge how to diversify and expand the investment base into other targeted industries than the existing industries in the coming days.

¹¹ Targeted industries include (1) Next-generation automotive, (2) Intelligent electronics, (3) Tourism, (4) Advance agriculture and biotechnology, (5) Food processing, (6) Automation and robotics, (7) Aviation and logistics, (8) Biofuels and biochemicals, (9) Digital, (10) Medical hub.

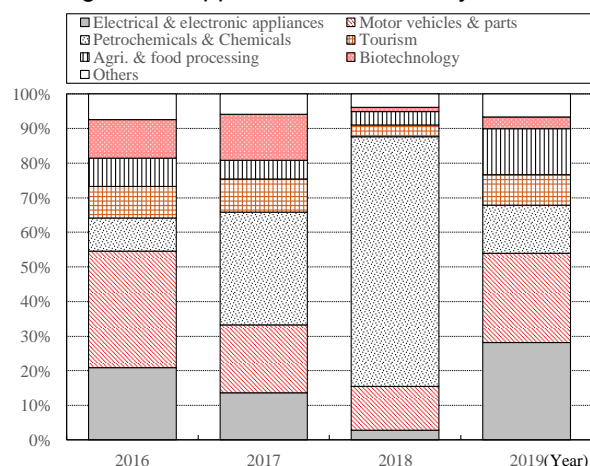
¹² In response to the completion at the end of 2019 of the former investment promotions in the EEC, the Board of Investment of Thailand (BOI) started to accept new applications for investment privileges from early 2020 by expanding the targeted areas of activities and regions. (Applicable until the end of 2021) (https://www.boi.go.th/upload/content/No.204_2562EN.pdf).

Figure 11: Investment application in Thailand



Source: BOI, IIMA

Figure 12: Approved investment by sector



Source: BOI, IIMA

(2) Progress of main infrastructure projects much expected

In the meanwhile, development of infrastructure in the EEC project has been much delayed (Table 1).

Table 1: Major infrastructure projects in the EEC

| Name of Projects | Initial plan | | | | | Status of Project | |
|-------------------------------------------------------------------------------------------------|--------------------------------------------|-----------------------------------------|--------------------|-----------------------------|------------------|---------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | Start of bidding (Decision of contractors) | Signing of contract /Start construction | Start of Operation | Project cost (billion baht) | Ratio to GDP (%) | Initial bidding /Contract | Progress |
| ① High-speed Airport Rail Link connecting three airports (Suvarnabhumi, Don Mueang and U-Tapao) | Mar.-Apr. 2018 (Sept.-Oct. 2018) | in 2018 /2019 | 2023 | 225 | 1.4 | Nov. 2018 /Oct. 2019 | Contract was signed by the State Railway of Thailand and a consortium led by Charoen Pokphand Group (CP). |
| ② Expansion of U-Tapao airport and Eastern Airport City Project | Aug. 2018 (Nov. 2018) | in 2018 /2019 | 2023 | 290 | 1.8 | Mar. 2019 | Administrative Court had disqualified CP-led consortium (different from the above-noted one) due to delayed submission of bidding documents. Later the Supreme Administrative Court reversed the lower court's ruling and permitted to decide the contractor after deliberations on three groups including the CP-led consortium. |
| ③ Laem Chabang Deep Sea Port Development Phase 3 | Jun. 2018 (July-Aug. 2018) | Sept. 2018 /2019 | 2021 | 114 | 0.7 | Mar. 2019 | The NPC consortium led by Associated Infinity Co, distributor of petro chemical products, was disqualified on the ground of insufficient documentation. The Supreme Administrative Court completed the deliberations and permitted to determine the contractor. |
| ④ Establishment of Maintenance Repair and Overhaul (MRO) Center in U-Tapao airport | Jun. 2018 (Sep. 2018) | in 2018 /2019 | 2024 | 10.6 | 0.1 | | The Thai Airways International and a European major aircraft maker Airbus agreed to establish a joint venture to jointly invest in the project (conclusion of the agreement expected at around August 2020). |
| ⑤ Map Ta Phut Deep Sea Port Development Phase 3 | Aug. 2018 (Nov. 2018) | in 2018 /2019 | 2025 | 55.4 | 0.3 | Feb. 2019 /Oct. 2019 | A consortium of PTT Tank Terminal and Gulf Energy Development made a bid. After tough negotiations on readjustment of profit sharing with the State, it finally came to enter into a contract with the Industrial Estate Authority of Thailand. |
| Aggregated | | | | 695 | 4.3 | | |

Note: % of GDP represents a ratio against nominal GDP in 2018.

Source: Compiled by the IIMA based on various reports.

Among the main infrastructure projects, the high-speed railway project that connects three main airports (Suvarnabhumi, U-Tapao, and Don Mueang) and the third expansion project of the Map Ta Phut Port came to reach a completion of contract during 2019, but due to the delay in the passage and implementation of the FY2020 budget bill, installation of electricity and gas supply system that constitutes a preparatory step to construction work, thus the formal construction is expected to start in 2021. On other projects, selection of contractors and the

agreement thereon have not been made due to problems relating to bidding procedures. However, the Supreme Administrative Court has finished the deliberation of the development projects of U-Tapao Airport and Laem Chabang Port and permitted the supervising body to decide a successful bidder. On both projects, it is expected that the formal construction will start sometime in the latter half of 2020 or in 2021 after the selection of operators and contract with them, which will contribute to boost the growth rate.

4. Fiscal Positions

(1) Fiscal positions are basically sound, but with need for accelerated implementation

The government has been conducting prudent fiscal and public debt management under the laws on budgetary management and public debt management including Public Debt Management Act (2005), amended Budget Procedure Act and Fiscal Responsibility Act which were put into force in 2018. The Public Debt Management Policy and Supervision Committee¹³ prepares a Mid-Term Fiscal Framework (MTFF)¹⁴ in which it sets numerical targets for revenues/expenditures and others together with the economic outlook related to fiscal management environment.

The fiscal balance of the central government deteriorated in FY2017 to record a deficit of 3.1% of GDP mainly on the backdrop of increased support to rural areas and low-income earners, but in FY2019, it improved to a deficit of 2.6% of GDP. The fiscal balance of general government that include the fiscal surpluses of local governments and social security fund remained on a sound level at 0.2% of GDP in the same year (Figure 13).

The FY2020 draft budget was compiled by the new government after its inauguration in July 2019 and approved by the cabinet in September. The deliberation on the budget started in the lower house in October but its passage by the lower house and the senate was delayed until February 2020, which meant an enactment with 5-month delay¹⁵. Until the enactment of the budget for the current fiscal year, mandatory expenses (such as fixed costs like personnel cost and contracted cost) can be disbursed up to a half level of the budget of the previous fiscal year, but the disbursement rate of capital expenditures that included public investment remained at a

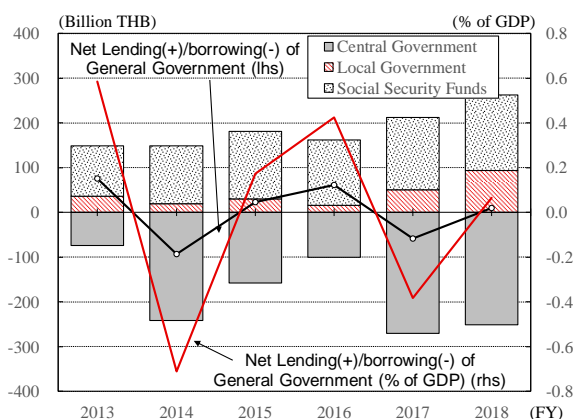
¹³ The Public Debt Policy and Supervision Committee consists of Finance Minister (chairperson) and Deputy Finance Minister (vice-chairperson) joined by executives from National Economic and Social Development Bureau (NESDB), State Enterprise Office, Fiscal Policy Office and the governor of the Bank of Thailand and so on.

¹⁴ Precise numerical targets are; public debt not exceeding 60% of GDP, debt-servicing obligations not exceeding 15% of the annual budget and guarantee loans not exceeding 20% of annual budget and supplementary budget, etc.

¹⁵ The budget was passed on February 13th by the second vote as the constitutional court ordered a revote due to revelation of false voting at the vote for the budget bill in January in the lower house. It came into effect on February 26th following the endorsement of the King and announcement in the official gazette. It is a usual process that the compilation of budget draft starts in January or February and the lower house deliberates on it within 105 days after its submission by the cabinet, and the upper house within 20 days after the adoption of it by the lower house to be passed before the start of the fiscal year (end of September).

low level (Figure 14), influencing the cash management of private sector¹⁶ as the payments remained unpaid on more than 200 construction projects (totaling 40 billion baht) for which private companies had gotten the order. Since a delay of the establishment of a new government directly led to a delay in the compilation and passage of the fiscal 2020 budget, early normalization of the budgetary process is highly expected.

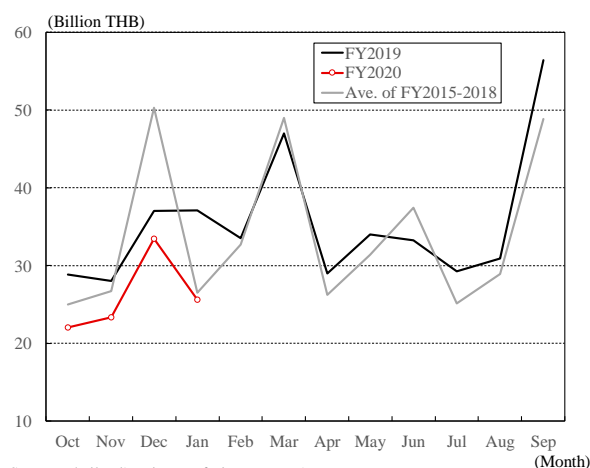
Fiscal 13: Fiscal Balance in Thailand



Note: A fiscal year begins in October of the previous year and ends September of the current year.

Source: Thailand's Ministry of Finance, IIMA

Figure 14: Capital Expenditure Disbursement



Source: Thailand's Ministry of Finance, IIMA

(2) Public debt stability will be maintained

Public debt outstanding stood at 41.2% of GDP at the end of 2019, well below the ceiling of 60% (Figure 15). Public debt includes central government debts (about 80% of the total), debts of state enterprises (slightly more than 10%) and debts guaranteed by Specialized Financial Institutions (SFI) (5%). Debts of state enterprises and guaranteed by SFIs have been decreasing after peaking out in FY2014. Meanwhile, the government-guaranteed debts (total of government-guaranteed debts of state enterprises and debts guaranteed by SFIs) stood at 732.7 billion baht (4.3% of GDP) at the end of December 2019. Major entities which were provided guarantees from the government include, in addition to those related to infrastructures such as State Railway of Thailand (SRT) which undertakes the construction of mass transit networks and high-speed railways, Bangkok Mass Transit Authority (BMTA), and Mass Rapid Transit Authority of Thailand (MRTA), as well as Bank for Agriculture and Agricultural Cooperatives (BAAC), Government Housing Bank (GHB) and Small Industry Finance Corporation of Thailand (SIFCT) which were set up with the aim of supporting farming villages, housing development for low-income people and financing of small enterprises (Figure 16).

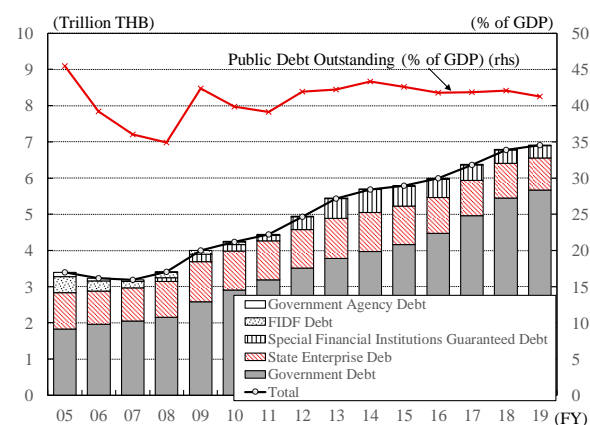
Looking ahead, Thailand is likely to continue to maintain stable fiscal position based on the

¹⁶ The cash management of the private sector seemed to have been improved later following the implementation of the budget.

sound fiscal and public debt management under the Public Debt Management Act.

The SFIs such as the BAAC are required to maintain a certain level of capital adequacy ratio and take measures to respond risk management under the regulations and supervision of the BOT¹⁷. It should be noted, however, that the management policies of the SFIs depend on the government policy while the BOT has many constraints in enforcing regulations on SFIs such as the need to obtain pre-approval from the government (Ministry of Finance). Despite its relatively high non-performing loan ratio standing at 3.87% as of March 2019 (4.34% as of March 2018), the BAAC keeps a certain level of soundness with loan-loss allowances of over 100% and capital adequacy ratio of 10.66%. Recently it requested the Ministry of Finance for a drawing of 6 billion baht from Specialized Financial Institutions Development Fund¹⁸ to further increase its capital.

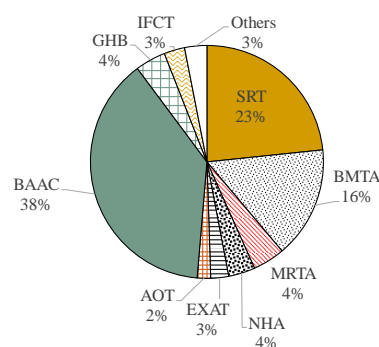
Figure 15: Public Debt Outstanding



Note: A fiscal year begins in October of the previous year and ends September of the current year.

Source: Thailand's Ministry of Finance, IIMA

Figure 16: Composition of government-guaranteed debts



Note: 1) at the end of December 2019.

2) The State Railway of Thailand (SRT), The Bangkok Mass Transit Authority (BMTA), Mass Rapit Transit Authority of Thailand (MRTA), National Housing Authority (NHA), Expressway Authority of Thailand (EXAT), Airports of Thailand Public Co.,Ltd. (AOT), Bank of Agriculture and Agricultural Co-operatives (BAAC), The Government Housing Bank (GHB), Small Industry Finance Corporation of Thailand (IFCT).

Source: Thailand's Ministry of Finance, IIMA

5. External Balance

(1) Little concern over external solvency

Compared with the days of the Asian currency crisis of 1997, Thailand has much improved fundamentals as are seen in the lower dependency on external borrowings and accumulation of foreign exchange reserves. The country also has promoted its institutional reforms by introducing floating exchange rate system and expanding safety-nets like currency swaps under

¹⁷ Bank of Thailand, "Notification of the Bank of Thailand No. SVG. 7/2559(2016), Regulations on Supervision of Capital for Specialized Financial Institutions."

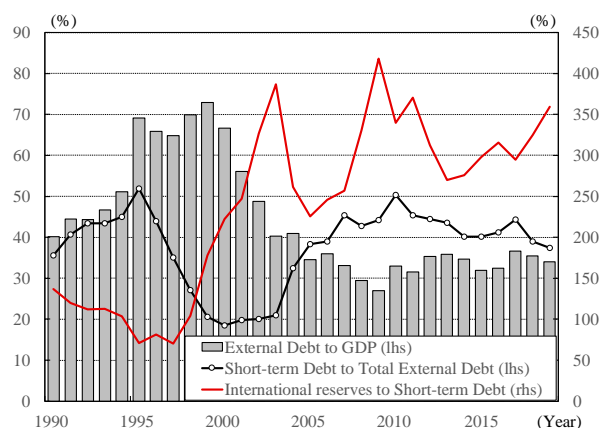
(<https://www.bot.or.th/Thai/FIPCS/Documents/FPG/2559/EngPDF/25590256.pdf>)

¹⁸ Specialized Financial Institutions Development Fund was established in 2015 with the aim of reducing fiscal burdens to support SFIs. It is financed by the subscription of SFIs, to which the Government Saving Bank is seen the largest contributor. As the SFIs can draw funds only with the approval of the Ministry of Finance (without the approval by the Parliament), such problems as lack of transparency and moral hazard have been pointed out. Ministry of Finance, "Specialized Financial Institutions Development Fund Act B.E. 2558 (2015)."

(<http://www2.fpo.go.th/FPO/modules/Content/getfile.php?contentfileID=14330>)

the Chiang Mai Initiative. Under such circumstances, it is judged that the tolerability to capital outflows is increasing. The external debt outstanding currently hovers at around the mid-30% of GDP as compared with 70% of GDP recorded in the latter of the 1990s when the country faced a currency crisis, and the coverage ratio of short-term external debts by foreign exchange reserves excluding gold (\$216.8 billion at the end of December 2019) considerably exceeded 100% which is regarded as a guide of an adequate level (Figure 17). As the ratio based on the Assessment of Reserve Adequacy Metric (ARA) which the IMF considers crucial also stood at over 200%, widely exceeding the level considered adequate, it can be said that the concern over external solvency is not great (Table 2).

Figure 17: External Debt and International Reserves



Note: Latest figure is as of September 2019.
Source: BOT, IIMA

(2) Notwithstanding favorable fundamentals, political stability indispensable for rating upgrade

Initially, the credit rating for the government bonds of Thailand had been classified as “A” grade (A2 from Moody’s and A- from S&P) by major rating agencies, but triggered by the 1997 currency crisis, their ratings tumbled to “speculative grades”. Since then, along with the improvement of fundamentals, government’s efforts for fiscal consolidation and stable policy management were favorably assessed by rating agencies, and by early 2000 all three international rating agencies upgraded their ratings to “investment grade”¹⁹. Yet, the ratings still remain one notch below the ranks granted before the currency crisis, standing at Baa1 by Moody’s and BBB+ by S&P. Comparing the fundamentals of other countries with credit rating of “Baa1/BBB+” ~ “A-/A3”, Thailand’s superiority stands out in the current account surpluses

¹⁹ Investment grade was recovered in June 1999 by the Fitch, in August 1998 by the S&P, and in June 2000 by the Moody’s, respectively. Although the Fitch upgraded the sovereign rating outlook of Thailand to “Positive” in July 2019, it downgraded it to “Stable” in March 2020 on the ground of prolonged political uncertainties even after the transition to civilian rule and negative impact on the economy of the COVID-19 infection.

and foreign exchange reserves (Table 2). In addition to its strong economic base, supported by diversified industrial structures, including automobiles and electronics industries, and agricultural and tourism, fundamentals like low public debt burden, transparent fiscal and monetary policy management and stable financial system have been positively assessed. On the other hand, repeated changes of governments triggered by coups d'état and the like and political uncertainties behind a large and diverse mix of political parties in the ruling coalition after the restoration of civilian government in 2019, which is regarded as a major factor to moderate the upgrading of ratings.

Table 2: Fundamentals of major emerging economies

| | Rating | | Current Account (% of GDP) | | Fiscal Balance of General Government (% of GDP) | | Public Debt (% of GDP) | | Foreign Reserve (% of ARA) | |
|--------------|---------|-------|----------------------------|------|-------------------------------------------------|------|------------------------|------|----------------------------|-------|
| | Moody's | S&P | 2013 | 2018 | 2013 | 2018 | 2013 | 2018 | 2013 | 2019 |
| Malaysia | A3 | A- | 3.4 | 2.1 | -3.5 | -3.6 | 55.7 | 55.6 | 98.6 | 118.3 |
| Thailand | Baa1 | BBB+ | -2.1 | 6.4 | 0.5 | -0.3 | 42.2 | 42.1 | 209.8 | 217.2 |
| Philippines | Baa2 | BBB+ | 4.2 | -2.6 | 0.2 | -1.6 | 45.7 | 38.9 | 243.2 | 190.1 |
| Indonesia | Baa2 | BBB | -3.2 | -3.0 | -2.2 | -1.8 | 24.8 | 30.1 | 123.3 | 113.7 |
| India | Baa2 | BBB-u | -1.7 | -2.1 | -7.0 | -6.4 | 67.4 | 68.1 | 143.6 | 149.1 |
| Mexico | A3 | BBB+ | -2.5 | -1.8 | -3.7 | -2.2 | 45.9 | 53.6 | 122.6 | 116.4 |
| Peru | A3 | BBB+ | -5.1 | -1.6 | 0.7 | -2.0 | 20.0 | 26.2 | 321.4 | 269.8 |
| Poland | A2 | A- | -1.3 | -0.6 | -4.1 | -0.4 | 55.7 | 48.9 | 105.5 | 121.1 |
| Russia | Baa3 | BBB- | 1.5 | 6.8 | -1.2 | 2.9 | 13.1 | 14.6 | 151.0 | 317.1 |
| South Africa | Baa3 | BB | -5.8 | -3.5 | -4.3 | -4.4 | 44.1 | 56.7 | 81.8 | 67.5 |
| Brazil | Ba2 | BB- | -3.2 | -0.8 | -3.0 | -7.2 | 60.2 | 87.9 | 159.4 | 166.1 |
| Turkey | B1 | B+ u | -6.7 | -3.5 | -1.5 | -3.1 | 31.4 | 30.2 | 101.5 | 81.3 |

Note: 1) Shadowed portion indicates an improvement from 2013.

2) Appropriate level of reserves to hold is calculated by the Assessment of Reserve Adequacy (ARA) Metric below and figures within the 100-150 % range of the metric is considered to be appropriate.

$$\text{ARA metric (Float Exchange Rate)} = 5\% \times \text{Exports} + 5\% \times \text{Broad Money} + 30\% \times \text{Short-term Debt} + 15\% \times \text{Other Liabilities}$$

Source: IMF & Rating Agencies, IIMA

6. Soundness of the Banking Sector

(1) Strengthened control of high household debts by BOT helps keep the soundness of banking sector

Loan outstanding of commercial banks continued to increase until 2018, but since the end of 2018 the growth started to slow down its pace centering on corporate lending reflecting the monetary tightening and economic slowdown to increase only 0.6% at the end of 2019 (Figure 18). Credit provision to households remains relatively strong, but the increase has been slowing due to the impact of tight credit policy on unsecured loans, credit card loans²⁰, auto loans and

²⁰ In Thailand, individuals with monthly earnings of 15,000 baht and more can hold a credit card. The spending limits used to be set at five times of monthly earnings, but the regulation strengthened in September 2017 set the limit per card depending on the holder's monthly earnings (1.5 times for monthly earnings of below 30,000 baht, 3 times for more than 30,000 to below 50,000 baht, and 5 times for 50,000 baht and over, while limiting the number of cards an individual can hold to three).

housing loans (see below) which the central bank (BOT) implemented on alert for the mounting household debts. Although the straight increase of household debts has been contained by the strengthened regulations by BOT, the outstanding still stood at a high level of around 70% of GDP as of end-June 2019, and it will warrant a continued careful monitoring (Figure 19).

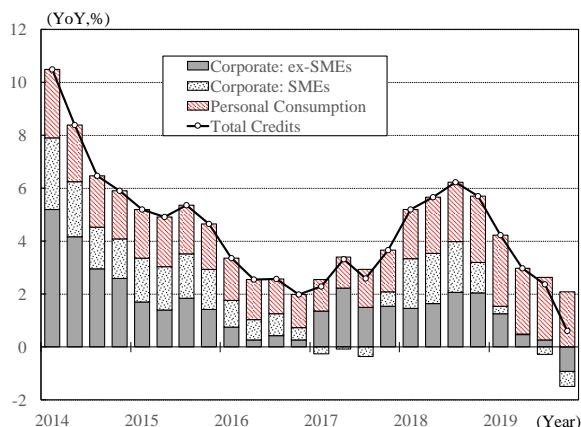
The Non-Performing Loan (NPL) ratio of commercial banks moderately rose since 2013 to reach 3.0% in December 2019, the highest in 8 years (Figure 19). By category, the NPL ratio is outstanding in housing loans for household and loans for SMEs for corporate, while by business sector construction is high (Figure 20). On credit card loans, the NPL ratio has come down reflecting the strengthened regulations by BOT.

In Thailand, central bank's independency and supervising authority on the financial institutions were strengthened by the enactment of the 2007 amendment to the Bank of Thailand Act (Bank of Thailand Act of 2008) and Financial Institutions Business Act. The Bank of Thailand Act clearly defined the stability of price and financial system as the responsible role of BOT, and set the term of the governor and the way to choose and dismiss him²¹. Also, under the Financial Institutions Business Act, the BOT shall have the power to issue regulations on financial institutions and set any relevant measures without a permission of the Ministry of Finance. The BOT can order the commercial banks to take any relevant action when their capital adequacy ratio falls below 8.5% and is authorized to intervene in the management if needed when their ratio falls below 5%. Commercial banks have increased their allowances against NPLs and actively engaged in selling bad loans to asset management companies (AMCs) and writing them off from their balance sheet by securitization. Currently, the allowance ratio of commercial banks have reached a level of nearly 200% with capital adequacy ratio (BIS ratio) standing at 19.4%²². It can be safely said that the soundness of banks is generally high (Figure 21). It is quite likely that the soundness of financial institutions continues to be maintained especially with the help of strengthened supervision by the BOT and its flexible handling of regulations.

²¹ As the Bank of Thailand Act of 1942 did not clearly prescribe the independency of the central bank, procedures for electing the governor and terms, allowing the Finance Minister to propose a dismissal of the governor for an appropriate reason, the Finance minister had a de-fact power to appoint the central bank governor, resulting in five governors being forced to resign by 2007. The Bank of Thailand Act of 2008 stipulated that the governor is approved by the cabinet based on the recommendation by the Appointment Committee and appointed by the King. His term is set at 5 years (with one reappointment) and his removal was limited to the cases of lack of job performance skills based on specific reasons.

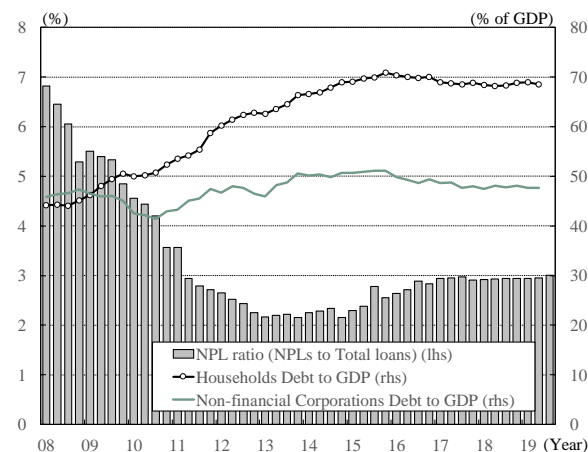
²² BOT has applied Basel III framework to Thai commercial banks since 2013, which specifies the regulations on minimum capital requirements by the ratio of total capital to total risk-weighted assets; 8.5% for total capital ratio, 4.5% for narrowly defined Common equity tier 1 ratio (CET 1 ratio) and 6.0% for Tier 1 ratio.

Figure 18: Commercial Bank Credits



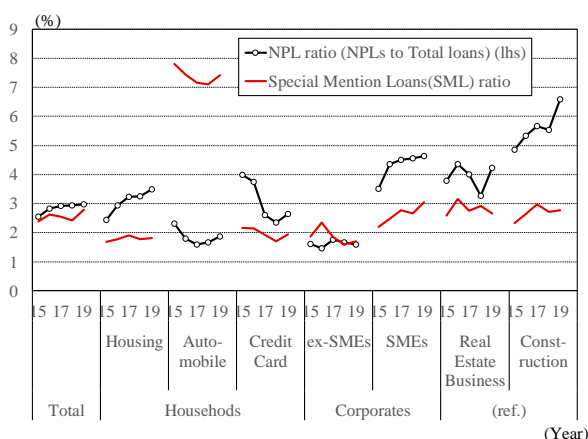
Note: Credits exclude financial and insurance activities.
Source: BOT, IIMA

Figure 19: NPLs of banks and household debts



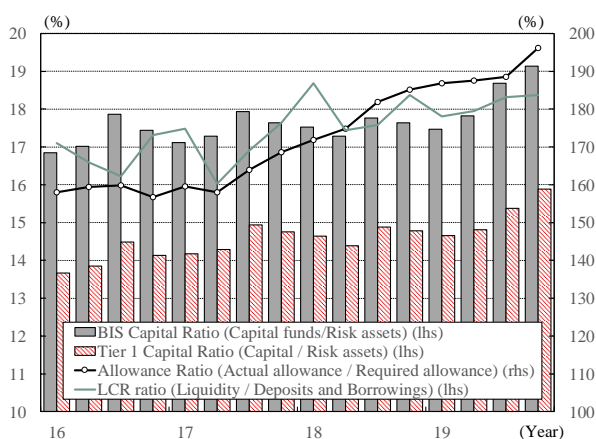
Source: BOT and BIS, IIMA

Figure 20: NPL Ratios by sectors



Note: Special Mention Loans(SML) are classified by overdue period of 1- 3 months.
Source: BOT, IIMA

Figure 21: Financial Ratios of Commercial Banks



Source: BOT, IIMA

(2) Impact of stricter regulations on housing loans

On April 1 2019 BOT implemented a revision of the Loan-to-Value (LTV) measure on housing loans to address a systemic financial risk caused by the elevated of household debts and increasing foreign purchase of property (real estates) for speculation purposes. Specifically, the BOT tightened a ceiling of LTV ratio at 80% on housing loans exceeding 10 million baht, and obliged the buyer of a house to make a minimum down payment of 20%²³ while setting the down payment ratio based on the house purchase record (what number of houses purchased and record of payment of the first mortgage) (Table 3). With the cooling sign of overheating in the housing market and consideration to a slowing economy, the BOT partly eased the LTV regulation in January 2020.

²³ In the past, down payments of 20% of housing prices were recommended but actually it is said that some housing loans were provided without no down payment or based on a deposit in return.

After the implementation of the regulations on the housing market, price of condominiums fell below the level a year ago by the third quarter of 2019 and the number of mortgage loan contracts showed a large drop in Jan.-Nov. period of 2019, centering around second and more homes and high-rise houses. It can be said that the regulation worked to a certain extent to suppress a speculative house buying (Figure 22, Table4).

Finely tuned steering of BOT to contain the increase of household debts and an overheating of the housing market can be positively evaluated for the stability of financial system. However, there is growing concern over an excess supply in the housing market following a decline in investments from abroad, especially from China, Hong Kong and Singapore and it should be noted that there is a possibility that the concern may suppress the pace of increase in private investment in the future.

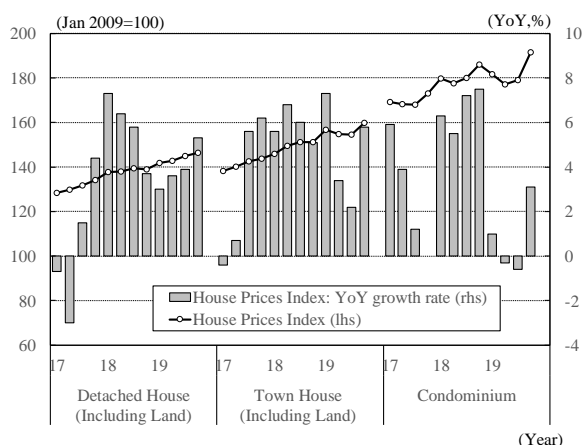
Table 3: Summary of regulation on mortgage

| Home price | No. of mortgage contracts | Minimum down payment | |
|------------------|---------------------------|---------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------|
| | | New (as of January 2020) | Previous (as of April 2019) |
| <10 million baht | First | - No minimum requirement - Borrowers can seek home loan up to 110% if that top-up mortgage is included | - No minimum requirement - The loan was capped at 100% if a top-up mortgage was included |
| | Second | - 10% if the first mortgage has been paid for ≥ 2 yrs - 20% if the first mortgage has been paid for < 2 yrs | - 10% if the first mortgage has been paid for ≥ 3 yrs - 20% if the first mortgage has been paid for < 3 yrs |
| | Third and subsequent | 30% | 30% |
| ≥10 million baht | First | 10% | 20% |
| | Second | 20% | 20% |
| | Third and subsequent | 30% | 30% |

Note: A "top-up mortgage" includes a borrowing for the cost of purchasing house furnishings goods.

Source: BOT, IIMA

Table 22: House price



Source: BOT, IIMA

Table 4: Housing loan transaction after tightened regulation

| | Banking system's average LTV (%) | | Mortgage loan contracts (Jan-Nov 2019, YTD)(%) | | |
|---------------------------------------|----------------------------------|--------|------------------------------------------------|----------|-----------|
| | 2018Q4 | 2019Q3 | Total | Low-rise | High-rise |
| 1st mortgage contracts | 88.9 | 88.7 | 3.1 | 5.0 | -1.9 |
| 2nd and subsequent mortgage contracts | 87.7 | 81.7 | -17.4 | -10.4 | -25.3 |

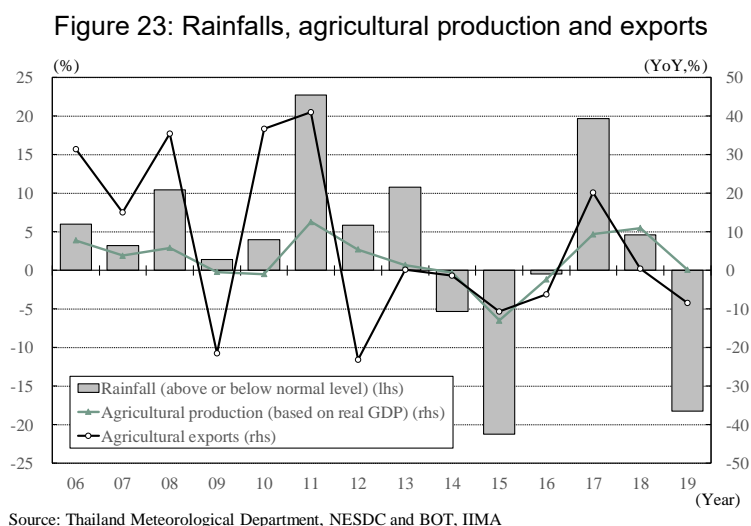
Source: BOT, IIMA

7. Major Risk Factors

Major risk factors to the Thai economy ahead include a natural disaster, deterioration of public safety, and progress in aging, in addition to the COVID-19 noted above.

(1) Natural disaster: Near-term need to monitor the impact of drought

Among the near-term risk factors, impact on the economy of the drought is much feared. In 2019, Thailand had an annual rainfall of only 1,298mm, the lowest next to the record low of 1,251mm experienced in 2015. In addition, the storage of reservoirs had fallen due to the construction of dams upstream of the Mekong, leading to a decline in agriculture production and exports of agricultural products (Figure 23). The slowdown of activities in the agricultural sector due to a drought has negatively affected a wide range of the economy through the decreased demand in chemicals (fertilizer), oil, and related services. Low rainfall is expected also in 2020 for two consecutive years and the past experiences suggest that the GDP growth rate will be lowered by about 0.3% point.



In addition, a risk for flood should also be kept in mind together with a risk of drought. In 2011, Thailand had an annual rainfall of 1,700mm, the heaviest in 50 years. There were floods in 65 provinces out of the whole 77 provinces in Thailand, inflicting a great damage on the economy not only in the irrigated agricultural areas but also in such areas as Bangkok Metropolitan and Ayutthaya that serve as business and industrial hubs. Subsequently, relocation of production bases to in and out of the country has been promoted by manufacturing industry, and flood management plan for Chao Phraya River Basin was formulated under the support of Japan and others, with the projects on improvement of irrigation system and diversion aqueducts being in progress. Although in 2017 Thailand had the same level of annual rainfall as

in 2011, the damage was limited to a small scale, which suggests a certain extent of progress in the countermeasures against flooding.

(2) Deterioration of public safety

In the near term, another risk factor relates to the impact on tourism and business activities of deteriorating civil order associated with shooting rampages. In early February 2020 a mass shooting occurred in a military camp in Nakhon Ratchasima where a soldier of the Royal Army shot and killed his commanding officer and others followed by shooting to death and injury of nearly 90 people in the nearby commercial facilities and it was followed by a similar shooting accident which occurred in the central Bangkok in the middle of the month.

It is very common in Thailand that civil servants including military people work a second job and there are problems pointed out for long of profit taking using their positions and authority or of disputes among the hierarchical relationships over business lines or distribution of profits thereof. The business that the army is running widely ranges from real-estate development to petrol refilling stations, retail shops, boxing stadiums, golf courses, horse racetracks, and hotels which are all operated on the military lands²⁴. The recent incidents are believed to have been triggered by a conflict surrounding the profits from real-estate trading and the possibility of recurrence of similar incidents cannot be ruled out.

In response to the recent incidents, the government called for an intensified administration of armaments of the army, and the Royal Thai Armed Forces started to make reforms directed toward securing transparency and strengthening compliance. In late February, the government signed a memorandum of understanding (MoU) with the army to transfer the commercial businesses the army manages (facilities in more than 100 places) to the Treasury Department of the Ministry of Finance²⁵.

(3) Progress in aging: Impact on the budget needs to be watched

In the medium-and long run, the impact of progress in aging on the economy and the budget should be noted. In Thailand the aging of population is progressing at a higher pace than any other country in major Asian countries excluding Japan, suggesting a decline in the rate of production age population (Figures 24 and 25).

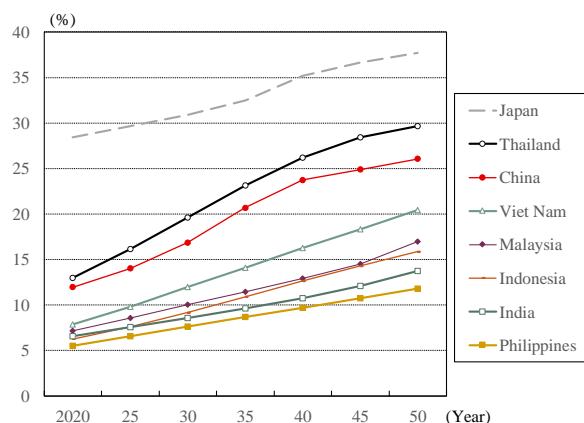
Currently the fiscal balance of the general government of Thailand remains within the range of $\pm 1\%$ of GDP, with public debts standing at around 40% of GDP. Thus, the fiscal figures show a sound fiscal position, which suggests that Thailand has a large leeway for expanded

²⁴ Military lands are borrowed estates from the finance bureau.

²⁵ However, the fringe benefits to military people and their families financed by the profits that are earned on the real-estate development business and others are expected to be secured even after the transfer of the management to the Treasury Department.

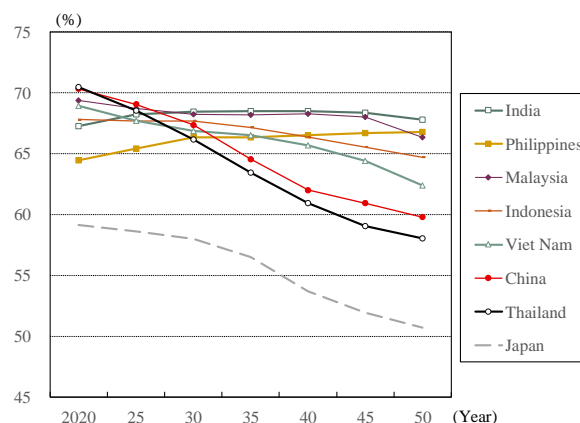
expenditures at a time of economic downturn. However, the fiscal balance of the central government continues to be mostly in red, and it is the social security fund that has contributed to the improvement of the balance of the general government (Figure 13). For this reason, a possibility is pointed out that the fiscal deficit of the central government will increase and the surplus of the social security fund will decrease due to a decrease of tax revenues and an expansion of expenditures²⁶ along with the progress of aging. Moreover, under the current pension system, workers in the informal sectors in agriculture, forestry and fisheries, which account for about 60% of the total employment, are guaranteed only for old-age pension allowance of 600 baht a month (equivalent of about 2,100 yen) or less than one dollar per day, causing a concern for a problem of poverty of the aged people. This strongly indicates the needs to reform tax and social security systems directed toward maintenance of medium-and long term fiscal soundness as well as to steadily implement economic structural reforms to enhance the growth rate.

Figure 24: Proportion of Aged Population in Major Asian Economies



Note: The percentage of the population aged 65 years old and over.
Source: United Nations, IIMA

Figure 25: Proportion of Productive-Age Population in Major Asian Economies



Note: The percentage of the population aged 15 to 64.
Source: United Nations, IIMA

8. Conclusion

In Thailand, as a result of general election held in March 2019, restoration of civilian government was realized for the first time in half a decade, and the new government led by the junta-supported Gen. Prayuth Chan-o-Cha was launched. However, the Prayuth government has received a poor rating from the people for the polity management in its first half year of office, with its political base remaining fragile. Yet, it is not easy under the current election system for the anti-junta groups to regain the power, and it is highly likely that the pro-military government

²⁶ The IMF estimates that the expenditures for healthcare will increase to 4% of GDP in 2035 from 2.9% in 2017 (IMF2019).

continues to conduct the policy management, even with a risk of political destabilization.

Amid a continued sluggish development of the economy, prospects for the economy should be cautiously projected as a downward risk is increasing due to the drought and the COVID-19 infections. In the medium-and long run, it is expected that the growth rate will be boosted by the sophistication of industrial structures through the realization of the 20 year-national strategy, “Thailand 4.0” which aims at promoting steady economic growth to 2036 and the “Eastern Economic Corridor” development which is positioned as its core project.

On the other hand, the fiscal and public debt position are sound as the whole with little concern for external solvency. However, to acquire a further upgrade of rating by major rating agencies, stabilization of political situation is considered essential. Banking sector is likely to keep its soundness owing to the flexible management of the BOT including strengthening of regulations, even though it warrants a continued careful monitoring of a high level of household debts.

The Prayuth administration faces many challenges like the need to reform tax and social security systems to maintain the fiscal soundness in the medium-and long term in addition to the need to stimulate the flagging economy in the near term. However, now that risks for political disorder through coup d'état and the like are receding despite its fragile political base, it is expected that the government will address the medium-to-long term challenges persistently noted above.

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