Mizuho Insights: Thailand

Economics & Strategy | Asia ex-Japan

October 21, 2021

Lavanya Venkateswaran, Market Economist

Tan Boon Heng, Market Economist

MIZUHO

Thailand – Heavily Reliant On Fiscal Support

In a nutshell: Thailand's sputtering growth engines from tourism to domestic consumption have made the economy's reliance on fiscal spending through the pandemic not just apparent, but acute. This is fully appreciated when considering that the government has ramped up expenditures via both budgetary and off-budgetary mechanisms. Two Emergency Decrees to allow for additional borrowings worth a total of THB1.5trn (8.9% of GDP) have been passed since April 2020 to support COVID-19 related expenditures including, but not limited to, the procurement of vaccines, cash-hand provisions and economic development.

The fiscal deficit for FY21 (i.e. October 2020-September 2021) is expected to widen to 9% of GDP but will narrow closer to 7% of GDP in FY22. The fiscal support, albeit reduced from FY21, still implies a profile of rising public debt. To that end, the authorities recently raised the debt ceiling to 70% of GDP from 60%.

Admittedly, the prospects of further and increasingly synchronised re-opening in Thailand and globally in FY22 augur well for a wider range of growth engines to be fired up, led by tourism; albeit slowly and unevenly. In turn, widening growth ought to revive private sector rejuvenation alongside weaning off the fiscal crutch, thereby alleviating the fiscal deterioration and corresponding public debt burden. Until then, however, the combination of elevated fiscal deficits, rising public debt and weak external balances will continue to exert near-term pressure on THB.

Fiscal Support Through FY21 Has Been Strong

Expenditures Have Been Ramped Up…

In response to the COVID-19 pandemic, **the Thai government ramped up fiscal spending**. **This was done not only through on-budget spending but also by adopting "off-budget" 'Emergency Decrees'.** Two such decrees were passed – the first allowing for THB1trn in spending in April 2020 and the second for THB500bn in May 2021. The government authorised the spending on these decrees to be off-budget in order to expedite the adoption of these bills through Parliament while also avoiding a breach in fiscal rules[1]. As a result, **for a more representative picture of the authorities' fiscal profile, we look at both the off and on-budget spending trends**.

Using this method, we estimate that **total expenditure growth remained strong at 12.2% YoY for the eleven months of FY21** (i.e. October 2020 to August 2021) **versus 16.5% for the same period in FY20**. The bulk of this spending was done via the approval of the Emergency Decrees while on-budget spending has been largely in sync with historical standards.

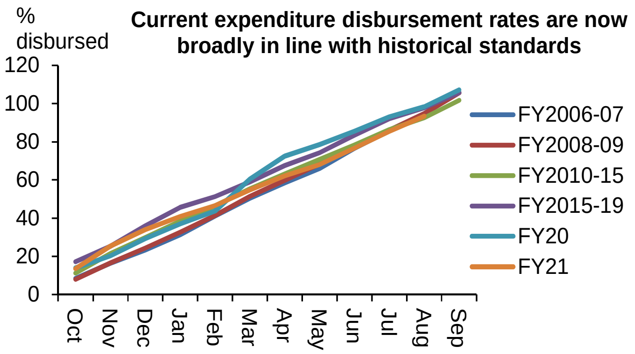
Specifically, the amount disbursed from April 2020-October 2021 under the Emergency Decrees amounts to around 6% of (CY2019 nominal) GDP. Disbursement rates under the first Decree, approved in April 2020 for a total of THB1trn in additional borrowings, **reached ~91% of cabinet approved spending (as of 19 October, 2021).** Within this, spending to boost the incomes of people and more specifically, farmers' incomes hit the highest disbursement rate while spending on infrastructure and procurement of medicines/vaccines lagged.

[1] Thailand Economic Monitor, 'The Road to Recovery', July 2021, World Bank. The specific fiscal rule states that the annual budget deficit cannot exceed 20% of the annual budget plus 80% of expenditures allocated for principal repayment.

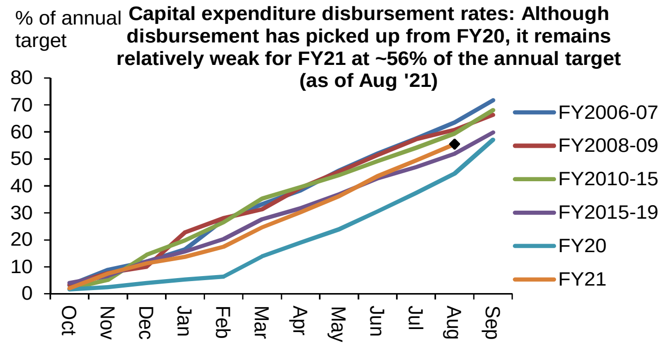
Of the second decree, which was only tapped in August 2021 and allows for additional borrowings worth THB500bn, ~82% of the approved budget has been disbursed. This leaves the government with a further, untapped, THB350bn (2.1% of GDP) at its potential disposal amount of over which we expect will be drawn down in the rest of FY22 (i.e. from November 2021 until September 2022) in order to support economic recovery.

As of 19 October 2021, THB bn				
Emergency decree approved in April 2020				
Items	**Credit limit according to the Royal Decree**	**Amount approved by Cabinet**	**Disbursement**	**Disbursement rate, based on cabinet approved amount**
Program/projects with medical and public health objectives	**63.9**	**63.9**	**51.4**	**80.5**
Expenses, remedies, compensation for medical personnel		6.3	6.2	98.7
Procurement of medical/public health equipment, medicines, vaccines and medical laborities		15.3	7.9	51.8
Disease control, including R&D		30.4	30.4	100.0
Hospital preparation and quarantine costs		10.3	6.3	61.2
Emergency situation budget		1.7	0.7	38.7
Programs/projects to help, heal and compensate	**709.1**	**709.1**	**697.6**	**98.4**
Help people		595.8	584.3	98.1
Help farmers		113.3	113.3	100.0
Plans/projects to rehabilitate the economy and society	**227.0**	**214.0**	**145.4**	**67.9**
Invigorate the economy		25.1	18.6	73.9
Job creation/ career building		11.3	5.3	47.4
Stimulate household spending and private consumption		170.5	119.2	69.9
Infrastructure Development Plan		7.2	2.3	31.8
Total	**1000.0**	**987.0**	**894.4**	**90.6**
Emergency decree approved in May 2021				
Programs aimed at resolving the COVID-19 outbreak	30.0	18.4	6.4	35.0
Programs aimed at healing, helping and compensation	300.0	127.3	112.7	88.5
Programs for economic rehabilitation	170.0	0.0	0.0	n.a.
Total	**500.0**	**145.7**	**119.1**	**81.8**
Source: Public Debt Management Office; Mizuho Bank				

For expenditures recorded on-budget, as analysed by the regular cash-based accounting methodology, growth eased to 3.1% YoY for FY21 (year-to-August) from 4.8% during the same period in FY20 led by a slowdown in current expenditures to 0.3% from 7.5% in FY20 (Oct '19-Aug '20). In terms of disbursement rates, current spending has been broadly in line with historical standards. **Capex, however, picked up by 25.4% YoY from -13.2% in FY20** underscoring a reprioritisation towards more productive spending, including infrastructure projects that were stalled in 2020 as the pandemic forced widespread stringent lockdowns. **That said, the capex disbursement rate remains poor at ~56% of the budgeted amount**, as of August 2021; albeit, better than in FY20 but still low by historical standards.



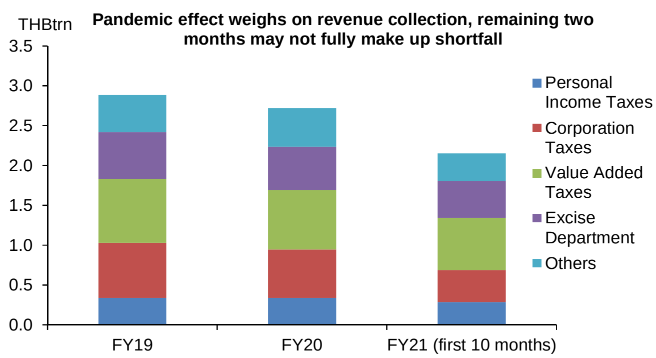
Source: CEIC; Mizuho Bank



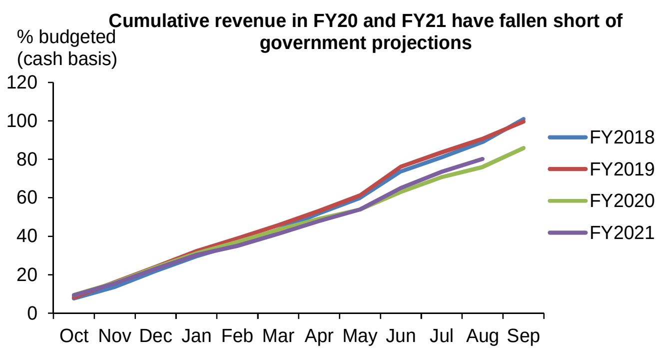
Source: CEIC; Mizuho Bank

…Even As Revenue Collections Underperformed

Meanwhile, revenue growth picked up to 3.4%YoY Oct '20-to-Aug '21 (i.e. YTD FY21) from -10.3% in FY20. Much of this improvement was due to the low base effect in 2020 when the authorities' instituted strict lockdowns to rein in the spread of the COVID-19 infection lockdowns together with various corporate tax relief schemes such as increase tax deductions for SMEs intended to support local businesses. **While the details of revenue collections** (available to until July 2021) **show improvements across the broad, it is falling short of the official target.**



Source: CEIC, Mizuho bank



Source: Fiscal Policy Office, Mizuho Bank

Specifically, **corporate incomes taxes increased** by 16.7% YoY for the first 10 months of FY21. On personal income taxes, collections for the same period of FY21 edged up slightly at about 2% as schemes which expanded allowance for personal income taxes expired and withholding tax rate reductions were reduced. **Value added taxes, the biggest contributor to revenues, rose 5.3%YoY in FY21** supported by an array of schemes such as direct cash handouts (e.g. Mor33 Rao Rak Kan and Rao Chana). **Excise duties collection remained relatively flat** as declines in petroleum taxes along with the cut in excise tax rate on jet fuel, were offset by increases in automobile taxes.

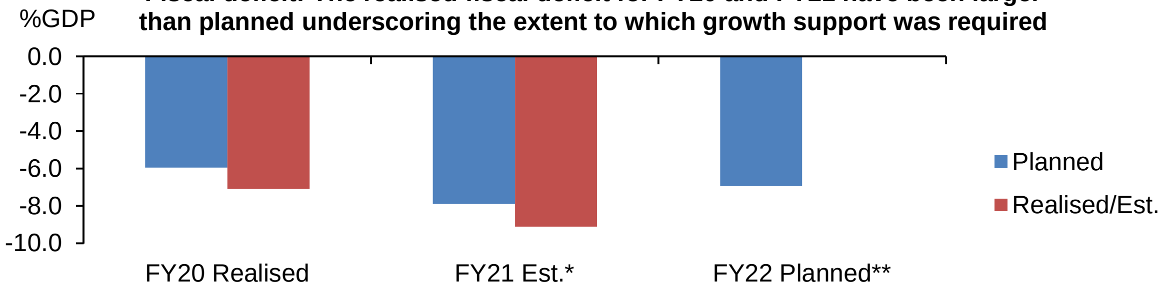
Notwithstanding the monthly data availability, **the trends suggest that the Thai authorities will undershoot their revenue targets for FY21 and will find it hard to make up lost ground even during the H1 FY22.** A similar undershoot was experienced in FY20 reflective of the lacklustre economic recovery, especially in the continued absence of the tourism growth engine.

Fiscal Policy Remains the Only Game In Town (for now)

Lavanya Venkateswaran | Market Economist
Tan Boon Heng | Market Economist

Putting it all together, we estimate that the fiscal deficit for FY21 widened to slightly over 9% of GDP from 7.1% in FY20, taking into account expenditures disbursed as a part of the emergency decrees. These deficits across both years were larger than planned by the government underscoring a greater than intended fiscal impulse and strong support even as other engines of growth sputtered.

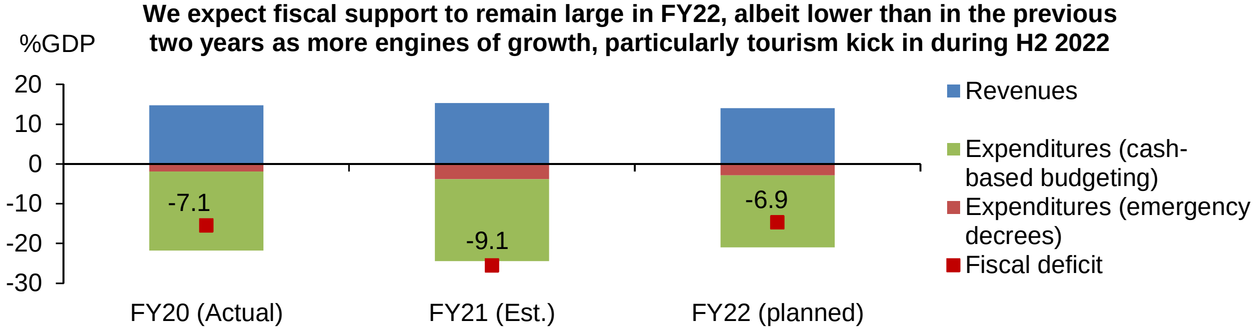
Fiscal deficit: The realised fiscal deficit for FY20 and FY21 have been larger than planned underscoring the extent to which growth support was required



Note: *For the planned expenditures, we use the cash-based budget planned expenditure as well as cabinet approved amounts for Sep '20 for FY20 and Sept '21 for FY21 from the Emergency Decrees.
**For the realised amount, we use the actual cash based expenditures+the disbursed amount from the Emergency Decrees as of Sep '20 and Sep '21 respectively. Source: CEIC; MOF; PDMO; ThaiME; Mizuho Bank

We expect more of the same in the current fiscal year 2022 (i.e., October 2021 until September 2022). Specifically, the government has pegged the cash-based deficit at 4.1% of GDP, i.e. a deficit of THB700bn in FY22. **Including the THB480bn (~2.8% of CY2019 nominal GDP) available for spending via the two emergency decrees, the FY22 deficit could reach closer to 7% of GDP.**

We expect fiscal support to remain large in FY22, albeit lower than in the previous two years as more engines of growth, particularly tourism kick in during H2 2022



Note: *For the planned expenditures, we use the cash-based budget planned expenditure as well as cabinet approved amounts for Sep '20 for FY20 and Sept '21 for FY21 from the Emergency Decrees. **For the realised amount, we use the actual cash based expenditures+the disbursed amount from the Emergency Decrees as of Sep '20 and Sep '21 respectively.
Source: CEIC; MOF; PDMO; ThaiME; Mizuho Bank

Although this is modestly lower than the FY21 fiscal deficit, it will nonetheless imply additional pressure on Thailand's debt profile. The government already raised its public debt ceiling to 70% of GDP from 60% on 20 September; the last time this fiscal rule was modified was in response to 2008/09 financial crisis. **For FY21, the authorities expect the public debt to GDP ratio to settle at 58.9% with a climb to 62.6% by end FY22.** The risk, however, is that the recovery continues to underperform official expectations requiring additional fiscal support.

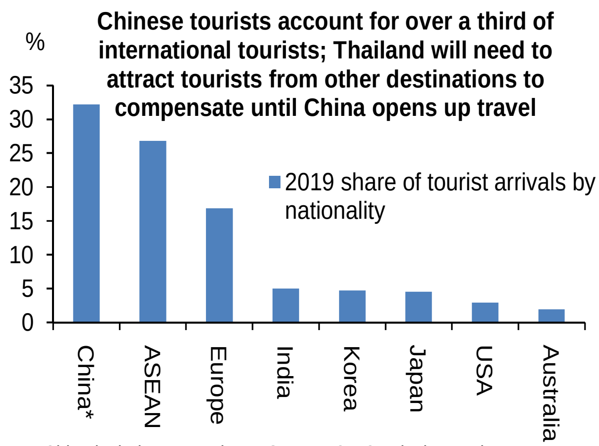
The Other Drivers of the Economic Recovery Will Take Some Time Yet To Recover…

In that regard, we are less optimistic than official forecast regarding the recovery next year. We expect GDP growth of 3.5% in 2022 from 0.9% in 2021, which is lower compared to Bank of Thailand's (BOT) 2022 forecast of 3.9% and

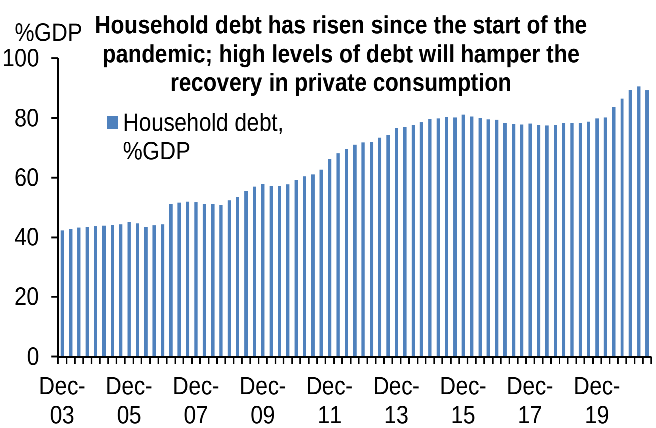
Ministry of Finance's forecast of 4.5%.

For one, much of Thailand's recovery hinges on the return of international tourism. While this has started to some degree, it is a far cry from pre-COVID levels. Trouble is, Chinese tourists, the overwhelming bulk of international tourists, may not return in the large numbers they did before the pandemic (at least initially). And while efforts may be made to attract tourists from elsewhere, filling this gap may be challenging regardless. Furthermore, with domestic vaccination rates still low, complicated by the need for booster shots, **Thailand's appeal as a tourist destination will likely return only in H2 2022.** Its full shine will return once China eases its travel restrictions.

Complicating matters is that domestic demand remains weak, hamstrung by issues that predate the pandemic. Although household incomes have been supplemented on a timely basis with government cash handouts during the pandemic, the impact on consumer spending is obvious especially with durable and semi-durable spending taking a hit. **The high levels of household debt, which have likely risen through the pandemic, will continue to bear down on the household balance-sheet recovery.** Investment spending on the government side still faces execution hurdles that predate the pandemic, while private investment spending may not be incentivised given potential crowding out effects from high levels of public sector support.



*China includes HK and TW. Source: CEIC; Mizuho Bank



Source: CEIC; Mizuho Bank

…Bearing Down on the THB In the Near-Term

The currency, in the near-term, will likely continue to bear the brunt of a weak economic recovery necessitating large fiscal deficits, high levels of public debt while the external sector remains weak. A still wide fiscal and significantly diminished current account surplus, bordering on a deficit, will keep THB vulnerable to capital outflows into 2022, made worse by the impending monetary policy normalisation by DM central banks including the Fed and ECB. However, with a re-opening of domestic and global tourism, THB prospects will be boosted into H2 2022.

BOT, for its part, will be comfortably on hold in H1 2022. Despite the pressure on THB, the weak state of the domestic economy and relatively well contained inflation (even if artificially suppressed by fuel subsidies via the Oil Fund) will support a more gradual normalisation, in lock step with fiscal policy. We expect BOT will only start the process of policy rate normalisation in H2 2022.

Lavanya Venkateswaran | Market Economist
Tan Boon Heng | Market Economist