Mizuho Flash: Thailand

Economics & Strategy | Asia ex-Japan

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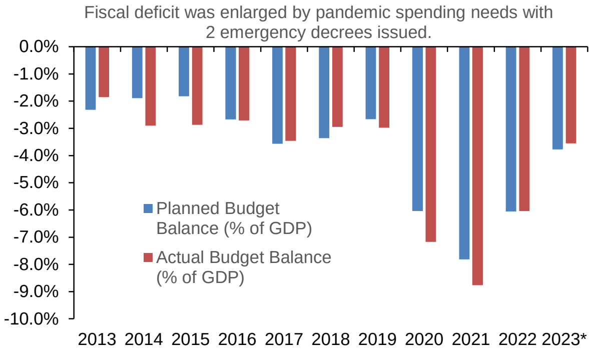
MIZUHO

Thailand: Fiscal Setbacks

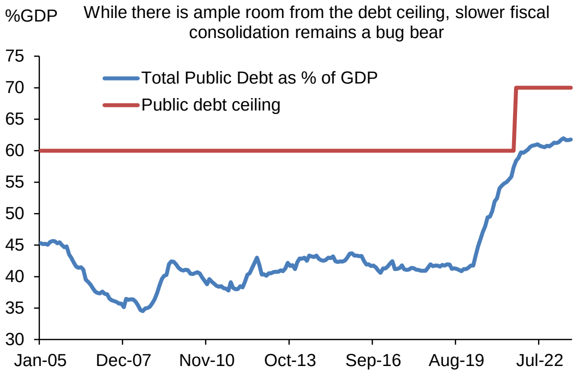
In a nutshell:

- After the substantial increase in fiscal deficits sustained and raised public debt ceiling during the pandemic, **one would have expected that post-pandemic fiscal consolidation would take place alongside tourism recovery in Thailand especially in 2024.**
- Instead, the **revised** Medium Term **Fiscal Framework** (2024-27) under the new Government has **lifted the public debt trajectory towards 65% of GDP** amid projections of larger fiscal deficits which averaged 3.5% of GDP which is much higher than the below 3% of GDP deficit previously.
- Typically, fiscal deficit funding needs and public borrowing plans moved in tandem, but the new public debt management plan for FY2024 **signalled just 194.4bn THB of new borrowing** which is much lower than previous years. As such, it is likely to be an understatement which has **not fully reflected** the higher budget **deficit of 693bn THB**.
- As such, higher borrowing is par for the course in 2024 and worryingly, interest payments are also likely to rise due to both a higher stock of debt and higher yields required to attract Thailand government debt buyers. The **setback to fiscal consolidation** is an apparent one and in **sharp contrast to regional peers** such as Malaysia and Indonesia who have embarked on reform efforts.
- What's more, the implied demands of fiscal boost to consumption alongside inflation reduction measures in the pipeline suggest upward revision in borrowing needs and even larger planned deficits are certainly not to be ruled out.

Pandemic Enlarged Fiscal Deficits



Source: CEIC; Mizuho Bank
* Actual 2023 Fiscal Deficit is up till July 2023.

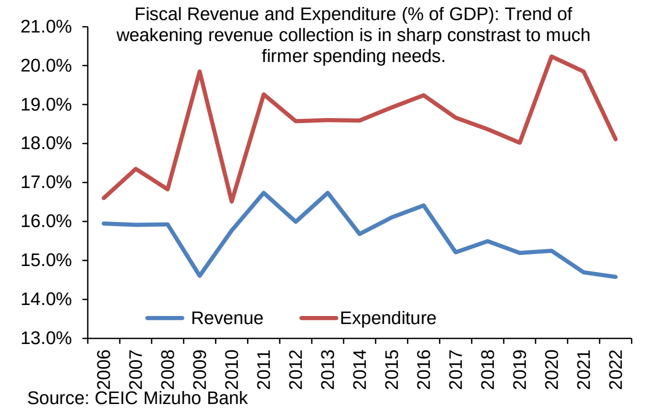


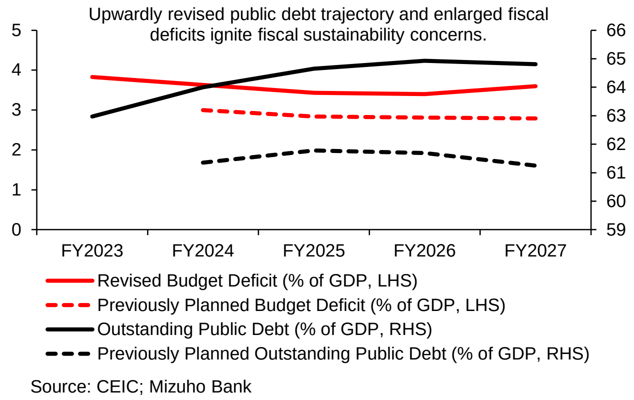
Source: CEIC; Mizuho Bank

The Covid-19 pandemic had necessitated enlarged fiscal spending in Thailand, not unlike many countries in the region. Including 2 Emergency Decrees worth a combined 1.5 trillion baht, actualised fiscal deficit reached depths of nearly 9% of GDP in 2021. The government had raised the debt ceiling in 2021 to 70% to accommodate the higher borrowing needs for essential pandemic spending.

Post Pandemic Fiscal Uncertainties

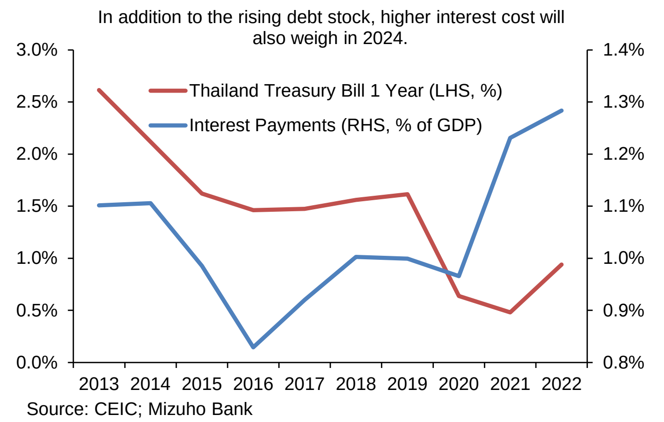
In 2023, **public debt ratios continued to climb and reached 61.8% of GDP in August.** While the **debt ceiling is not under immediate threat**, the slew of measures announced by Thailand's new government headed by PM Srettha which has been implemented or are in the pipeline have been ironically **visible in the headlines but are unfortunately shrouded in uncertainty on the underlying fiscal reallocations.**

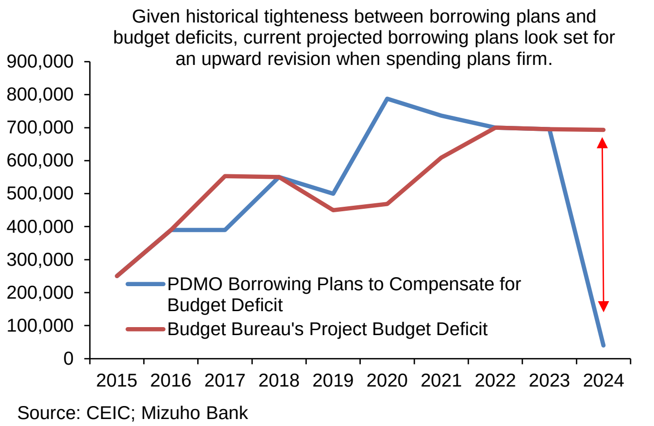




Historically, **revenue collections ability (in term of % of GDP) appear to be trending lower** while expenditures needs have been much firmer. **Looking ahead**, the new government's revised medium term fiscal framework have put fiscal consolidation on a slower pace. Previously, fiscal deficits were planned at below 3% of GDP which contrast with the current average of 3.5% of GDP over 2024-27. Consequently, **public debt ratios are set to reach almost 65% of GDP which is significantly higher than the previously projected path which stayed below 62% of GDP**.

In the near term, while the new Thai Cabinet had approved 194.4bn THB of new borrowing on 26 September under their latest **public debt management plan for FY2024**, underlying details imply that an **upward revision of borrowing needs is on the cards** when the fiscal spending details are firmed. Specifically, **it appears that the borrowing plan by the PDMO has yet to fully take into account the planned budget deficit** as the 40bn THB borrowing to compensate for deficit is a long way from planned deficit of 693bn THB. Traditionally, borrowing plans and budget deficits have been in close alignment. As such, **it is foreseeable** that the current 194.4bn borrowing which has 104bn THB accounted for by spending on **existing** projects, will **need to rise by another 650bn THB to account for the budget deficit.**





What's more, with the unprecedented digital wallet spending plan due to launch in Q1 2024 which is estimated to take up 3.2% of GDP, the **ability to keep to the estimated budget deficit may also be in doubt** especially if one takes into account the **need to subsidise rail operators, electricity operators, suspend debt for farmers and collect less revenue due to cuts in excise tax on diesel.**

Amid a higher for longer rates environment, the implication is that the **significantly higher amount of government borrowing via debt issuances will require higher yields** to attract demand especially as rate differential vis-à-vis the US widens. The **ensuing higher interest servicing** will weigh on fiscal consolidation needs as well. The contrast with regional peers such as Malaysia and Indonesia who have embarked on efforts such as subsidy rationalisation is a stark one. Signs of fiscal position worsening may put Thailand's credit ratings at risk and exacerbate a vicious feedback loop.