Mizuho Flash: Thailand

Economics & Strategy | Asia ex-Japan

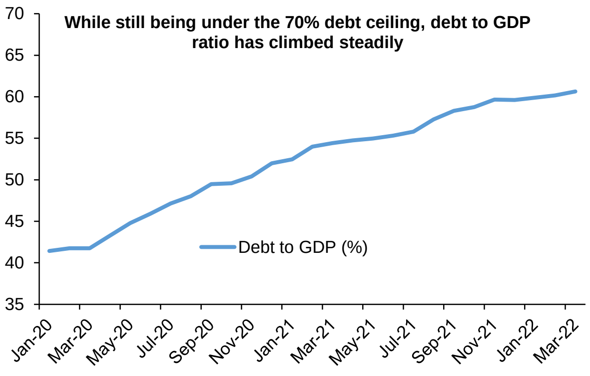
May 13, 2022 | Tan Boon Heng | Market Economist

Thailand Fiscal Updates: Hurdles

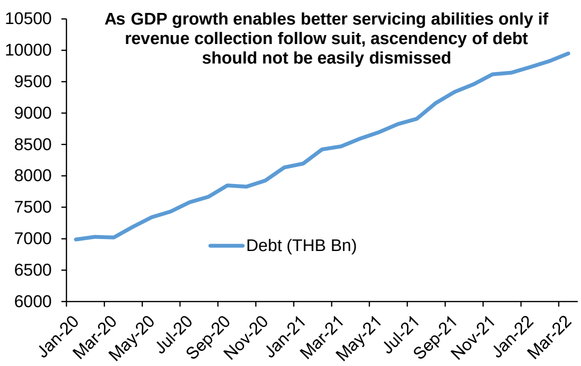
In a nutshell: A brief refresh of the fiscal overview at the half way mark of the FY in Thailand sheds light on the rising debt amid expected lower revenues and higher expenditures while also pointing to areas of possible weaknesses. Overall public debt to GDP has expectedly risen 2% points so far and the authorities expect this will continue rising to 62.6%. This stems from **both lower revenue collection** as economic activity remains weak **alongside higher expenditure needs**. Notably, **more than 60% of projected borrowing in FY22 has already taken place** which is **at faster pace than most years** and at risk of exceeding the authorities' initial projections. In addition, there is **little credit remaining for drawing down from two emergency decrees** passed last year and also high disbursement rates imply waning projects in the pipeline for implementation and growth support.

The **diesel price ceiling** represents a **slippery issue that straddles both fiscal policy and inflation trade-off pertains to valiant efforts to balance subsidies** (to keep a lid on prices) and fiscal capacity. Insofar, **various workarounds** to alleviate the burden on the State Oil Fund such as **reduction** of **diesel excise duties** and a 2-baht lifting of the previous 30-baht ceiling **are simply categorical changes, which do not derail the path of public debt creeping up as these moves cannot escape wider fiscal equivalence.** Our estimates point to a slightly **higher estimate of 63% debt to GDP ratio if the price ceiling of 32 baht persist.** Nonetheless, a lifting of the ceiling may not necessarily reduce debt as consumption and corporate taxes may instead bear some brunt. The **silver lining is that the debt ceiling has enough to give** and so buying time with fiscal levers may offer the "path of least harm" to ride out the global storm as a fuller tourism recovery – now likely delayed by China's prolonged Zero-COVID policy – is awaited.

Climbing Debt & Borrowing

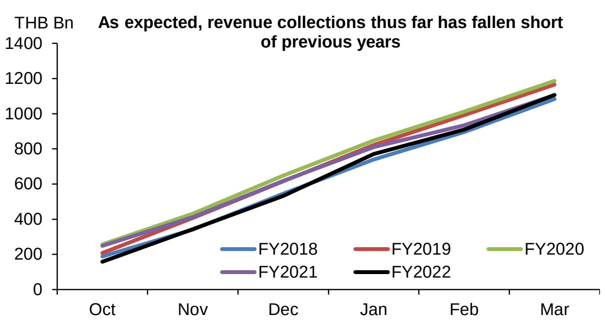


Source: PDMO; Mizuho Bank

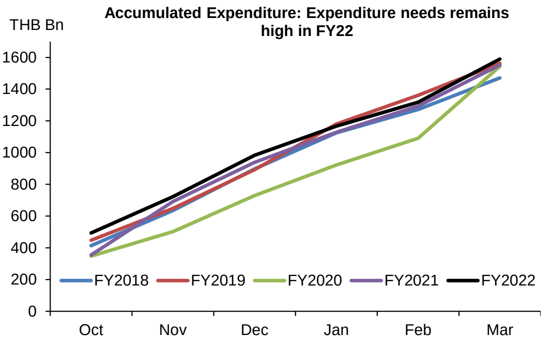


Source: PDMO; Mizuho Bank

As of March 2022, **Thailand's public debt to GDP ratio stood at 61%, rising 2%-point since the start of the fiscal year**, and is expected to **climb towards 62.6% by end-FY22** (September 2022). Although clear of 70% debt ceiling, chronic revenue shortfall makes for worrying debt dynamics. Fact is, revenue collections continue to languish below those in recent pre-pandemic years as economic activity remains weak alongside efforts to reduce costs of living such as lowering of excise duty on diesel.

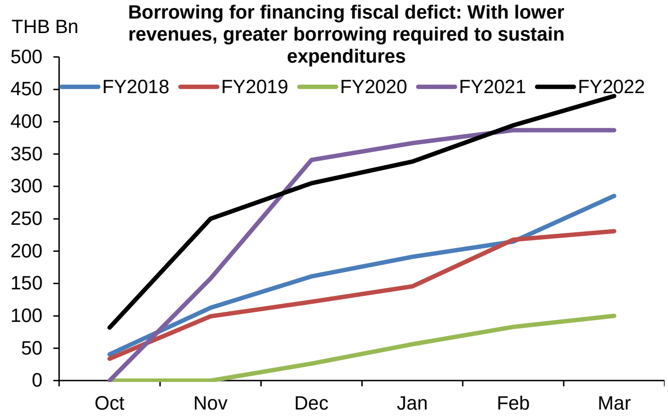


Source: Fiscal Policy Office, Mizuho Bank

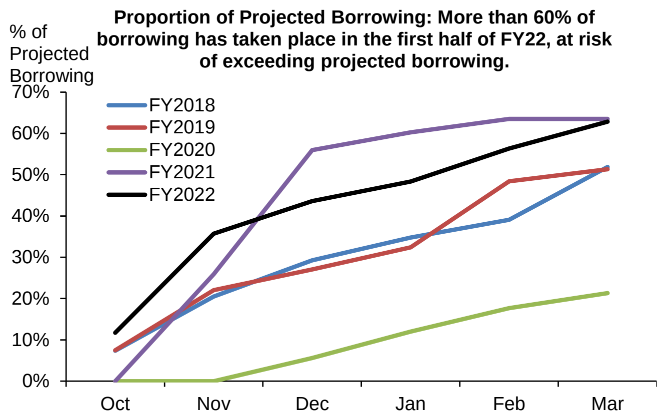


Source: Fiscal Policy Office, Mizuho Bank

Yet **expenditures are elevated well above pre-COVID levels** due to attempts at fiscal buffer; such as the recent 10-point plan and electricity subsidies aimed at reducing cost of living issues. As a consequence of which, FY22 borrowing has surpassed previous years – both in total (projected) quantum and current (current) pace. **Despite the larger quantum of borrowing required** (700bn baht) in FY22, **borrowing as of March (mid-FY) has exceeded 60% of full FY target**; and **risks exceeding borrowing target**.



Source: Fiscal Policy Office, Mizuho Bank



Source: Fiscal Policy Office, Mizuho Bank

What's more, **this borrowing for financing fiscal deficit does not include the needs of the state oil fund** which is currently in a THB $66bn deficit and is set to borrow THB $30bn in the coming months and **thereby increasing public debt.**

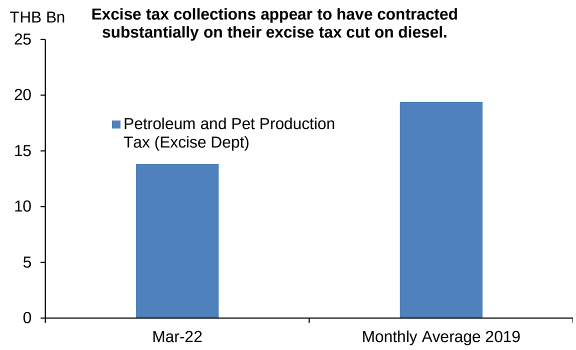
Reduced Room from Emergency Decrees

	Approved Credit (million Baht)	Approved Credit (% of total)	Disbursements (million Baht)	Disbursements (% of total approved)	Balance Credit (% of GDP)
1 Trillion loan act	982423	98%	944930	96%	0.1%
500 billion loan ordinance	342955	69%	276972	81%	0.6%
Total	1325378	88%	1221902	92%	0.7%

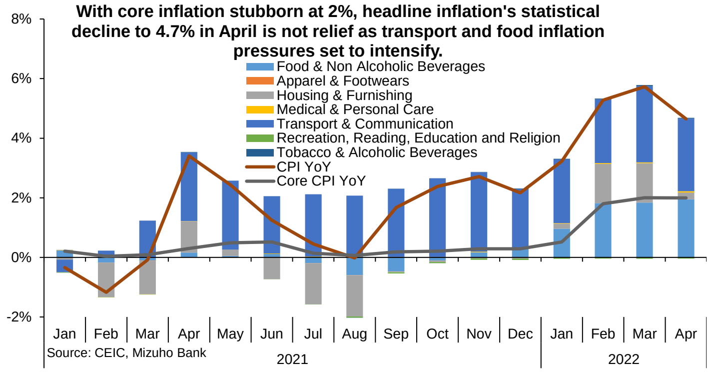
Source: NESDC; Mizuho Bank

Earlier borrowing from the **2 emergency decrees which totalled THB 1.5trn have largely been exhausted** with 88% of the credit already approved and leaves credit amounting to 0.7% of GDP remaining for future proposals to drawn down in support of economic recovery. Disbursements of assigned plans/projects also reached 92% which leaves **little in the transmission pipeline for holding up growth**.

Fiscal Issues – Slippery Slopes



Source: CEIC; Mizuho Bank



Source: CEIC, Mizuho Bank

A slippery issue that straddles both fiscal policy and inflation trade-off pertains to valiant efforts to balance subsidies (to keep a lid on diesel prices) and fiscal capacity.

This **diesel price cap** is effected **through a mix of** *price ceiling subsidies backed by the State Oil Fund* alongside a *reduction in petrol excise duties.* Assuming the entirety of the fall (relative to 2019 monthly average) in petroleum and pet production tax in March accrued on the excise tax cut, the **foregone revenue amounts to about 5.5bn baht for the month**; aligning with the Finance Ministry's initial estimate of 17bn baht reduction over three months as the **excise tax cut** was meant to **last from mid-February to 20 May**.

If allowed to expire without any additional offset, **a 3-baht increase in diesel prices by late-May is all but guaranteed**. And this is **a highly undesirable political liability as much as it is an unwelcome economic setback**; given that the resultant, far-reaching cost impact is simultaneously an unwelcome hit on the rapidly declining spending power of household as well as the bottom-line of struggling businesses (suffering both cost and revenue pressures). Crucially, and most **inconveniently**, far-reaching inflation impact of higher diesel prices will **accentuate the Bank of Thailand's sharp policy dilemma**.

The solution, or more realistically stopgap, is therefore fiscal in nature; reportedly comprising an increase in **borrowing of 30bn baht by the state oil fund to extend price ceiling subsidies on diesel.** With this 30bn baht borrowing (**0.2% of GDP) of the oil fund from commercial banks set to take place this quarter**, the increase in debt is as imminent as it is inevitable.

And the **double whammy of revenues forgone** and (subsidy) **expenditure incurred** may be an **extended quagmire** as global energy prices may remain elevated amid prolonged uncertainty from the war waged by Russia in Ukraine. In other words, fiscal strains from energy may not dissipate quickly.

Especially amid policy incentives to buffer inflation from a full-on onslaught of higher energy prices; *given Thailand already has one of the most acute acceleration in inflation in the region*. And the context (as well as a further policy complication) is that the **diesel price ceiling has already been raised to 32 baht** from 30 baht at the start of May, entailing inflation bump-up in coming months; potentially with pass-through via production chains and logistics channels.

But this only **emphasizes the wider policy conundrum**. That as much as fiscal authorities have the desire and intent to quell imported price shocks, capacity to do so is not unlimited. For one, with an estimated **THB 19bn/month baht subsidy** on oil and LPG (assuming US$109/bbl Dubai crude), the State Oil Fund needs to burn through substantial amounts of cash. Which is in fact borrowings. And even assuming the planned US$30bn comes through, it is unlikely to last **beyond July 2022**.

In turn, this highlights **further upside risks to public debt** amid lagging revenues and unabated demands for public spending to buffer the economy. Even on a conservative estimate **additional borrowings that result may add 0.3-0.5%-pts to the standing debt estimates** of the authorities; to **push the FY22 debt to GDP ratio closer to the 63% mark**.

And to be clear, this must be appreciated from with **a dose of fiscal agnosticism**. Point being, **cutting excise duties to alleviate the burden on the State Oil Fund** (as well as to buy time for borrowing negotiations of the State Oil Fund) is a zero-sum game that merely transfer the direct borrowings of state firms to the budget deficit (for a given price ceiling target), which is eventually must be derived from borrowings as long as revenues fall short. In other words, **a categorical change** of fiscal buffer **cannot escape the wider fiscal equivalence**.

But for now, **higher debt, within the debt ceiling limits, is the lesser economic evil**. Rather **than unchecked surge in diesel prices** that will *amplify monetary policy dilemma* as headline inflation spirals sharply higher (from an already elevated 4.7% in April vs. 1.2% in 2021). For reference, the Commerce Ministry estimates a 2-baht 3-baht increase in diesel will lift CPI by 0.34%-pt and 0.45%-pt; and that is just as a first pass.

Worse, as we highlighted earlier, a surge in diesel ceiling will dent the already compromise budgets of consumers and further erode firms' profits; in turn **recycling as more prolonged fiscal drag as recovery in revenue collections from consumption and corporate taxes are retarded**.

All said, **Thailand's fiscal challenges remain daunting, with risks of slippery slopes**; especially considered in the context of the **combined policy constraints** on the monetary and fiscal front. The harsh reality is that **immunity from global headwinds making landfall is not an option**. ***But*** the **silver lining here is that the debt ceiling has enough give**. And so, **buying time with fiscal levers may offer the "path of least harm"** to ride out the global storm as a fuller tourism recovery – now likely delayed by China's prolonged Zero-COVID policy – is awaited.