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THAILAND

January 2024

2023 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THAILAND

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2023 Article IV consultation with Thailand, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its January 17, 2024, consideration of the staff report that concluded the Article IV consultation with Thailand.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on January 17, 2024, following discussions that ended on November 7, 2023, with the officials of Thailand on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on December 18, 2023.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Thailand.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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PRESS RELEASE

PR 24/20

IMF Executive Board Concludes 2023 Article IV Consultation with Thailand

FOR IMMEDIATE RELEASE

Washington, DC – **January 17, 2024:** The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Thailand.

Thailand's economic recovery is losing momentum, amid decelerating inflation. Economic activity expanded by 2.6 percent in 2022, but growth moderated to 1.9 percent in 2023Q1-Q3. This is despite robust private consumption buttressed by the recovery in tourism, as the economy is facing headwinds from weak external demand and domestic investment. Inflation decelerated in November 2023, owing to the base effect of energy and food prices, gradual monetary policy tightening, and the extension of energy price subsidies. The current account balance declined in 2022, reflecting higher commodity prices and slower external demand. As of September 2023, the current account balance has registered a small surplus aided by the recovery in tourist arrivals, the decline in shipping costs and a larger compression of imports relative to exports.

The recovery in 2023 is expected to remain timid, before accelerating in 2024. Real GDP is projected to grow by 2.5 percent in 2023, supported by an acceleration of services exports and private consumption in 2023Q4, while headline inflation is expected to average 1.3 percent in the year. Growth is projected to accelerate briefly in 2024, on account of improvements in external demand and robust growth in private consumption bolstered by the government's fiscal stimulus. Driven by the demand boost, headline inflation is expected to accelerate mildly in 2024— but remain within the Bank of Thailand's target range. The current account balance is expected to turn into a small surplus in 2023 and further increase in 2024, as the continued recovery in tourism receipts and decline in freight costs offset the weak performance of merchandise exports.

Downside external and domestic risks dominate Thailand's economic outlook. The economy's rebound is subject to external risks that include an abrupt global slowdown—including in China— hikes in commodity prices, tighter-than-expected global financial conditions, and deepening of geo-economic fragmentation. Domestic risks add to the uncertainty as the lack of fiscal discipline could undermine macroeconomic stability, elevated private sector debt poses a threat to financial stability, and over-reliance on tourism increases Thailand's vulnerability to external shocks.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

Executive Board Assessment

Executive Directors welcomed Thailand's post-pandemic economic recovery and commended the authorities for maintaining macroeconomic stability amidst multiple shocks. However, the recovery has been slower than in ASEAN peers and the outlook remains uncertain, with risks tilted to the downside. Given limited fiscal space and longstanding structural weaknesses, Directors encouraged the authorities to continue with gradual policy normalization in the near term, while implementing bold structural reforms to boost productivity and potential growth and building climate resilience.

Directors took note of the authorities' announced near-term policy measures to stimulate economic growth, but considered a neutral fiscal stance, with targeted and sustained support for vulnerable groups through enhanced social safety nets and greater progressivity in the tax system, better suited for achieving their objectives to address poverty and inequality. They agreed that the medium-term fiscal strategy should aim at placing public debt on a downward path while providing fiscal space for investments in human and physical capital and reducing risks from state-owned enterprises and extra-budgetary funds. Enhanced revenue mobilization, through gradually increasing the VAT rate and improving spending efficiency, including by removing costly universal energy subsidies, should be key priorities.

Directors concurred that the Bank of Thailand's neutral monetary policy stance remains appropriate. Nonetheless, the authorities should be ready to tighten in case domestic or external risks to inflation materialize. Directors welcomed the unwinding of policy interventions in the financial sector. They encouraged the authorities to pursue their efforts to reduce elevated private debt by facilitating restructurings, promoting responsible lending and borrowing, and strengthening the macroprudential framework, instead of relying on debt moratoria that could cause moral hazard. Efforts to further strengthen the AML/CFT framework should also continue.

Directors reiterated that the exchange rate should continue to act as a shock absorber and foreign exchange intervention should be limited to addressing disorderly market conditions and preventing excessive deviations in hedging and financing premia due to large non-fundamental shocks. They noted the staff's preliminary assessment that Thailand's external position is stronger than implied by medium-term fundamentals and desirable policies, although some Directors recognized the authorities' reservations about the External Balance Assessment framework and called on staff to continue to work with them on addressing concerns.

Directors encouraged the authorities to implement structural reforms to promote investment and boost competitiveness and productivity. They underscored the need to remove excessive regulation, upskill the labor force, and reform the social protection system. Managing climate transition risks and building resilience to natural disasters will also be key.

Table 1. Thailand: Selected Economic Indicators, 2019–25

	Actual				Est.	Projections	
	2019	2020	2021	2022	2023	2024	2025
Real GDP growth (y/y percent change) 1/	2.1	-6.1	1.5	2.6	2.5	4.4	2.0
Consumption	3.4	-0.3	1.3	5.0	4.8	6.0	0.3
Gross fixed investment	2.0	-4.8	3.1	2.3	2.0	3.0	2.1
Inflation (y/y percent change)							
Headline CPI (period average)	0.7	-0.8	1.2	6.1	1.3	1.7	1.9
Core CPI (period average)	0.5	0.3	0.2	2.5	1.2	1.4	1.6
Saving and investment (percent of GDP)							
Gross domestic investment	23.8	23.7	28.6	27.8	21.9	19.7	20.7
Private	16.9	16.8	17.0	17.4	17.7	17.5	17.5
Public	5.7	6.4	6.5	6.0	5.8	5.8	5.9
Change in stocks	1.2	0.5	5.1	4.4	-1.6	-3.6	-2.6
Gross national saving	30.8	27.9	26.6	24.6	22.6	21.1	22.8
Private, including statistical discrepancy	25.8	26.1	26.9	23.1	21.3	21.1	20.5
Public	5.1	1.8	-0.3	1.5	1.4	0.0	2.3
Foreign saving	-7.0	-4.2	2.0	3.2	-0.8	-1.4	-2.1
Fiscal accounts (percent of GDP) 2/							
General government balance 3/	0.4	-4.5	-6.8	-4.5	-3.2	-6.2	-3.4
SOEs balance	0.4	0.6	-0.3	-0.6	-0.1	0.0	0.0
Public sector balance 4/	0.8	-3.8	-7.1	-5.1	-3.3	-6.2	-3.4
Public sector debt (end of period) 4/	41.1	49.4	58.4	60.5	62.4	65.8	66.9
Monetary accounts (end of period, y/y percent							
Broad money growth	3.6	10.2	4.8	3.9	1.3	5.6	3.6
Narrow money growth	5.7	14.2	14.0	3.1	1.3	5.6	3.6
Credit to the private sector (by other depository corporations)	2.4	4.5	4.5	2.4	1.3	3.8	2.4
Balance of payments (billions of U.S. dollars)							
Current account balance	38.3	20.9	-10.3	-15.7	4.1	7.7	12.3
(In percent of GDP)	7.0	4.2	-2.0	-3.2	0.8	1.4	2.1
Exports of goods, f.o.b.	242.7	227.0	270.6	285.2	279.1	298.8	313.2
Growth rate (dollar terms)	-3.3	-6.5	19.2	5.4	-2.1	7.1	4.8
Growth rate (volume terms)	-3.7	-5.8	15.4	1.2	-2.9	3.7	3.8
Imports of goods, f.o.b.	216.0	186.6	238.2	271.6	263.3	282.8	295.9
Growth rate (dollar terms)	-5.6	-13.6	27.7	14.0	-3.1	7.4	4.6
Growth rate (volume terms)	-5.8	-10.4	17.8	0.9	-4.2	5.7	3.5
Capital and financial account balance 5/	-24.7	-2.6	3.2	5.5	-4.1	-7.7	-12.3
Overall balance	13.6	18.4	-7.1	-10.2	0.0	0.0	0.0
Gross official reserves (including net forward end of period) (billions of U.S. dollars)	259.0	286.5	279.2	245.8	245.8	245.8	245.8
(Months of following year's imports)	16.7	14.4	12.3	11.2	10.4	10.0	9.5
(Percent of short-term debt) 6/	326.3	310.7	291.8	245.9	252.9	243.6	231.9
(Percent of ARA metric)	251.5	277.8	259.6	224.8	219.1	209.0	200.2
Forward position of BOT (end of period)	-34.7	-28.3	-33.2	-29.2	-29.2	-29.2	-29.2
Exchange rate (baht/U.S. dollar)	31.0	31.3	32.0	35.1	34.3	34.0	33.8
NEER appreciation (annual average)	7.2	-0.3	-4.5	-1.8	...	...	...
REER appreciation (annual average)	5.8	-2.6	-5.7	-1.1	...	...	...
External debt							
(In percent of GDP)	31.7	38.0	38.8	40.4	41.0	40.4	41.0
(In billions of U.S. dollars)	172.6	190.1	196.2	200.3	213.2	223.7	236.6
Public sector 7/	38.0	37.2	41.5	41.2	44.6	46.2	48.0
Private sector	133.9	152.9	154.7	159.1	170.3	179.1	190.2
Medium- and long-term	74.6	79.4	82.3	82.3	95.8	100.3	106.6
Short-term (including portfolio flows)	59.3	73.5	72.4	76.8	74.5	78.8	83.6
Debt service ratio 8/	6.9	8.4	6.7	7.3	9.2	7.3	7.3
Memorandum items:							
Nominal GDP (billions of baht)	16889.2	15661.1	16166.6	17370.	17839.5	18829.8	19509.2
(In billions of U.S. dollars)	544.0	500.5	505.6	495.4	519.7	554.4	577.5

Sources: Thai authorities; CEIC Data Co. Ltd; and IMF staff estimates and projections.

1/ This series reflects the new GDP data based on the chain volume measure methodology, introduced by the Thai authorities
2/ On a fiscal year basis. The fiscal year ends on September 30.
4/ Includes general government and SOEs.
5/ Includes errors and omissions.
6/ With remaining maturity of one year or less.
7/ Excludes debt of state enterprises.
8/ Percent of exports of goods and services.

THAILAND

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION

December 18, 2023

KEY ISSUES

Context. Thailand's economic recovery from the COVID-19 pandemic and multiple shocks in 2022 is continuing, amid elevated uncertainty. Growth is projected at 2.5 percent in 2023, broadly on par with 2022, while inflation is expected to remain well-within the authorities' target range. Policies have gradually normalized to support growth and financial stability while protecting the population from the high inflation, but there is limited space to absorb new shocks. Heightened global uncertainty, with downside risks prevailing, puts an extra premium on prudent macroeconomic management.

Policies. Policy normalization should resume, with fiscal and monetary policies working in tandem, to preserve macroeconomic stability while protecting the poorest and rebuilding buffers. Bold structural reforms are critical to support sustained, green, and inclusive growth over the medium term.

- *Fiscal*. The new government's planned quasi-universal transfers will significantly expand the deficit and provide a temporary boost to the economy, followed by a contraction amidst higher public debt. Instead, a more neutral near-term fiscal stance would be more appropriate and still allow space for well-targeted support to the more vulnerable groups. Over the medium term, a high-quality fiscal consolidation supported by a greater focus on critical investments in physical and human capital, targeted social transfers and enhanced revenue mobilization are critical to boost productivity while keeping public debt on a downward path.
- *Monetary*. The current neutral monetary policy stance is appropriate. Nevertheless, if inflationary risks from external shocks or domestic policies materialize, the Bank of Thailand (BOT) should stand ready to tighten the monetary stance further. In addition, the BOT should continue to closely monitor financial stability risks as vulnerabilities may arise from sharp swings in real interest rates.
- *Financial*. A comprehensive approach to address elevated private debt is needed. Ongoing debt restructuring programs should be accelerated while strengthening the insolvency regime and avoiding moral hazard. Macroprudential policy tools would help prevent excessive leverage.
- *Structural*. Comprehensive and coordinated reforms are critical to address Thailand's long-standing structural weaknesses and new headwinds. Enhancing competition, upskilling the labor force, reforming the fragmented social protection system, addressing governance vulnerabilities, and introducing effective carbon pricing are essential to fully harnessing the benefits of the digital and green transformations and reverse the trend decline potential growth.

Approved By
Sanjaya Panth (APD) and Martin Sommer (SPR)

Discussions took place in Bangkok during October 20-November 7, 2023. The team comprised C. Deléchat (Head), M. Akbar, M. Firat, E. Kitsios, M. Sy, and A. Stepanyan (all APD). The mission met with the Prime Minister and Minister of Finance Srettha Thavisin, Bank of Thailand Governor Sethaput Suthiwartnarueput, senior government officials, private sector representatives and development partners. Ms. Kurniati (ED) joined the concluding meeting. Mr. Pongrasamiroj (OED) and Ms. Wongwaisiriwat (OED) accompanied the mission. Mr. Nahata (APD) provided analytical inputs. Ms. Reis (APD) coordinated the production of the report.

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TABLES

ANNEXES

CONTEXT

1. **Policies have gradually normalized following the COVID-19 pandemic and multiple shocks in 2022**. After a contraction in 2020, growth recovered gradually during 2021-22 as travel restrictions were removed. However, the increase in commodity prices since 2022, faster-than-expected monetary policy normalization in advanced economies, and the slowdown in China dragged down the recovery. In response, the authorities gradually tightened monetary and fiscal policies while mitigating the impact of high inflation on the population and safeguarding financial stability.

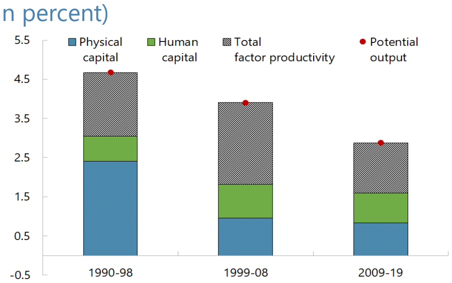
2. **With the post-pandemic recovery nearly complete, it is imperative to revive stalled structural reforms and reverse the decline in potential growth**. Thailand faces significant medium-term headwinds that amplify its long-standing structural weaknesses (Text Figure 1). Potential growth has been trending down driven by underinvestment in human and physical capital, high private sector debt, and inadequate social safety nets for a fast-aging population. Fully harnessing the benefits of the digital and green transformations, while mitigating the negative effects of geo-economic fragmentation and climate change will require additional investments in skills and technology.

Text Figure 1. Thailand: Medium-Term Challenges

Productivity is trending down…

Contribution to Potential Output Growth

(In percent)

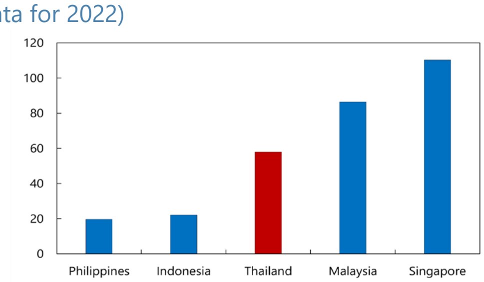


Sources: Thai authorities; Penn World Table and IMF staff estimates.

… amidst high exposure to external demand shocks…

ASEAN-5 Exports to GDP Ratio

(Data for 2022)

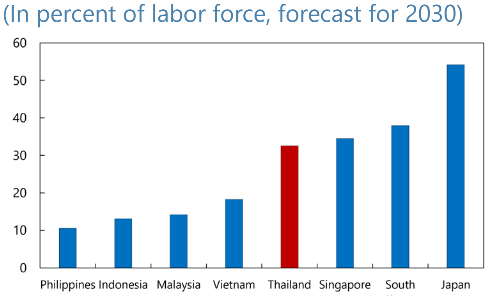


Sources: Haver Analytics; and IMF staff calculations.

…fast aging population…

Selected Asian Countries: Old Age Dependency Ratio

(In percent of labor force, forecast for 2030)

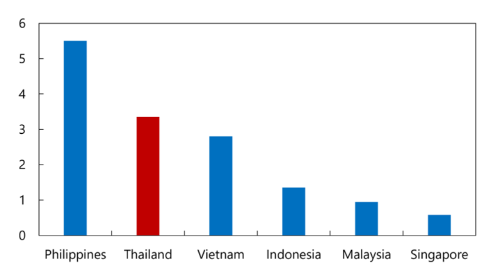


Sources: UNDESA, CEIC Data Co. Ltd, and IMF staff calculations.

…and elevated climate risks.

Global Climate Risk Index, 2000-2019

(Index, higher number indicates higher risk)



Source: GermanWatch and IMF staff calculations.
Notes: Philippines ranks 4th and Thailand ranks 9th on a sample of 180 countries as most vulnerable to climate change.

3. The new government aims to reignite growth by boosting domestic demand, while acknowledging structural challenges in the economy. The government's policy statement highlights pressing challenges faced by the Thai economy, including a lackluster post-pandemic recovery and high inequality. The government has also announced near-term measures to stimulate the economy (Box 1).

Box 1. Thailand: Political Transition

The May 2023 general election resulted in a coalition government formed in September. After four months of political stalemate, the Pheu Thai party, that came in second, met the 375-Parliamentary votes needed to secure the premiership and formed a ruling coalition with other 10 parties.

The new government's policy statement outlines its key near- and medium-term economic policy priorities, including:

- Near-term plans to stimulate domestic demand by providing a 10,000 baht (about US$284) Digital Wallet (DW) to all adult citizens, cuts in the prices of electricity, diesel, and gasohol (effective since September 2023), minimum wage increases of about 70 percent over 4 years, a debt moratorium for farmers and selected SMEs, and efforts to boost tourism revenue by easing visa processes and waiving fees for travelers from selected countries.
- Medium-term goals to accelerate signing of free-trade agreements, promote digitalization, reform the education system, invest in infrastructure, incentivize private sector investments in start-ups, modernize outdated laws, ease visa rules for foreign labor and skilled-workers, and promote renewable energy.

The revised MTFF approved by the new Cabinet envisages higher levels of deficit and debt.[1] The FY24 deficit target was raised to THB 693 billion (3.6 percent of GDP) from THB 593 (3.1 percent of GDP) billion previously. The authorities are targeting a public debt to GDP ratio of 64 percent by the end of FY24, while they expect the fiscal deficit and debt to hover around 3.4 and 65 percent of GDP, respectively, over the medium term (see Text Table 2).

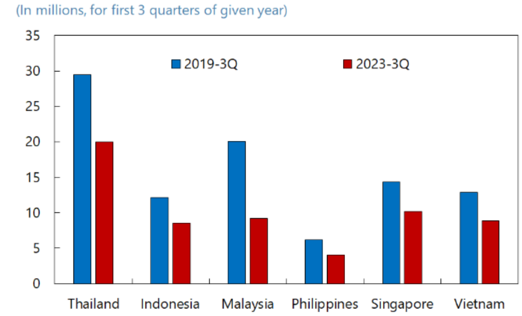
The details of some of the near-term stimulus measures remain to be finalized. On November 10, 2023, the government announced that the DW program would cover 90 percent of the adult population (about 50 million people, excluding the richest 10 percent), for a total cost of 2.7 percent of GDP. The program would start in May 2024 and would be financed by a special loan, subject to Parliamentary approval, which wasn't included in the revised MTFF. The timing and size of the minimum wage remain uncertain as they are subject to tripartite discussions. Modalities of the debt moratorium for farmers are available, but not yet for SMEs.

1/ The numbers are based on the MTFF published in September 2023.

RECENT DEVELOPMENTS

4. Weak external demand and domestic investment have dampened Thailand's post-pandemic recovery. The economy expanded by 2.6 percent in 2022, and by only 1.9 percent in 2023Q1-Q3, despite robust private consumption fueled by the gradual recovery in tourist arrivals (20 million as of 2023Q3, compared to 29.5 million as of 2019Q3). The growth deceleration was driven by the poor performance of goods exports (-5.1 percent in 2023Q1-Q3), and modest investment amidst uncertainty around the political transition. Private

International Tourist Arrivals
(In millions, for first 3 quarters of given year)

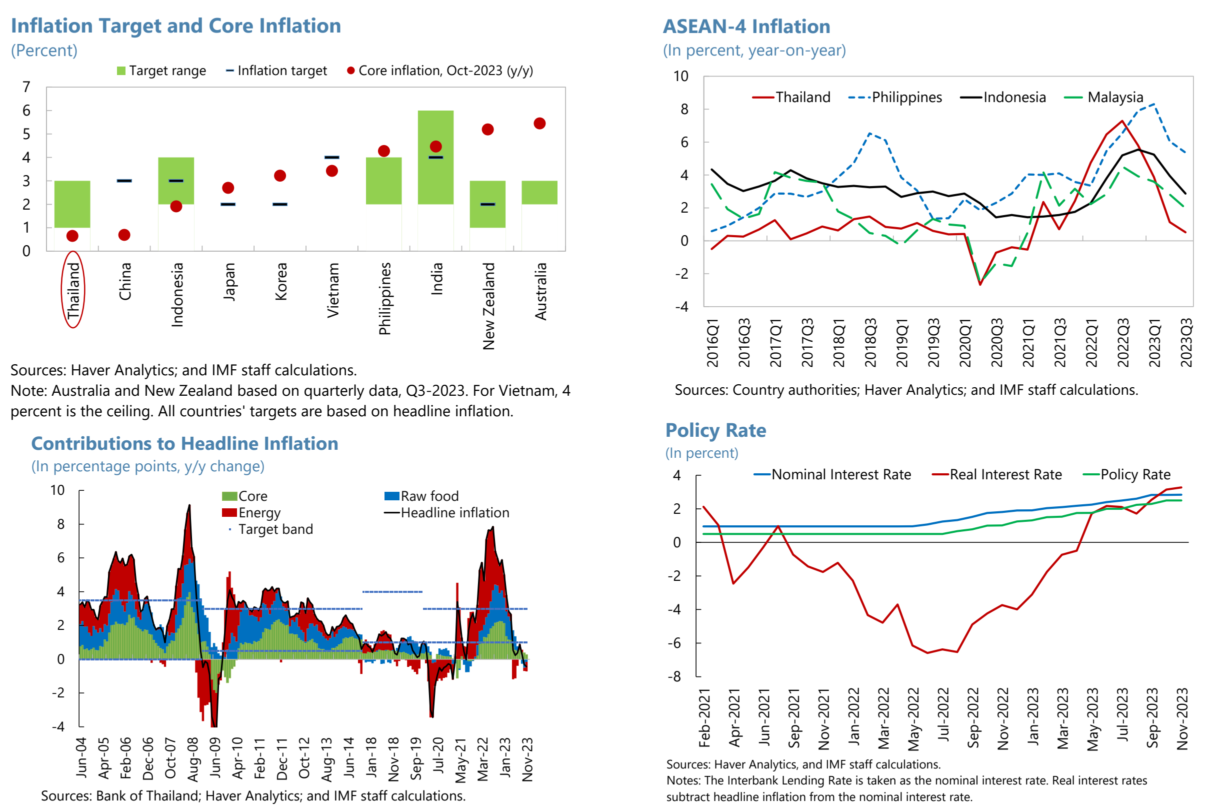


Sources: Country authorities and Haver Analytics.

consumption growth remained robust at 7.3 percent. Growth is expected to accelerate during 2023Q4 supported by services exports and private consumption, on top of the base effect of a weak growth in 2022Q4, and is projected at 2.5 percent for the year (Figure 1, Table 1).

5. At the same time, headline inflation decelerated significantly, from its peak of 7.9 percent in August 2022 to -0.4 percent in November 2023 (y/y), below the BOT's lower target of 1 percent (Text Figure 2). Core inflation also decelerated to 0.6 percent in October 2023 from 3.2 percent in November 2022 (y/y). The deceleration was due to the base effect of energy and food prices, gradual monetary policy tightening, and the extension of energy price subsidies.[1] Headline and core inflation are projected to average at 1.3 and 1.2 percent in 2023, respectively (Figure 1, Table 1).

Text Figure 2. Thailand: Inflation Dynamics



6. The ongoing recovery helped improve socio-economic outcomes, but some gaps remain. Employment performed strongly driven by the wholesale and retail trade and accommodation services sectors.[2] Because women and low-skilled workers are over-represented in these sectors, their employment fared better than that of men and high-skilled workers. But the gender gap in employment opportunities remains large, and women are less well-represented in the digital economy in spite of stronger educational attainment (Text Figure 3, Figure 6).

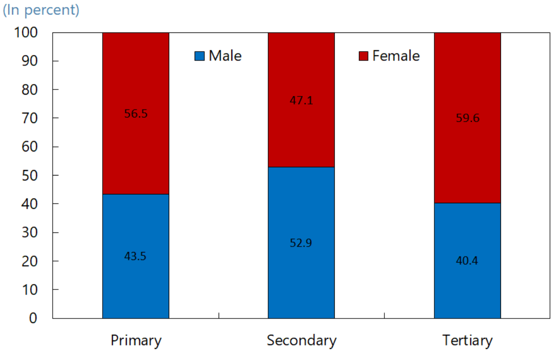
[1] In addition, 26.4 percent of the goods' prices in the consumer price index (CPI) basket are controlled.

[2] The change in the Labor Force Survey methodology in 2020, makes comparison with pre-pandemic data challenging.

Text Figure 3. Thailand: Employment and Educational Attainment by Gender

Women fare well in both in educational attainment…

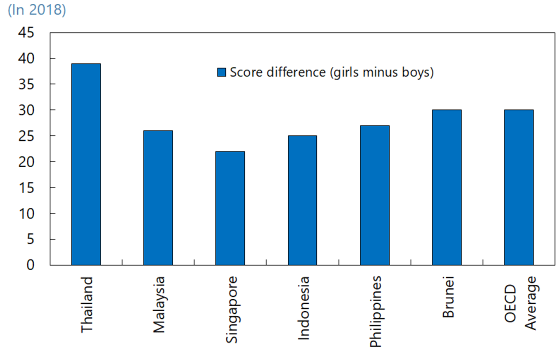
Educational Attainment by Gender
(In percent)



Sources: Thailand Labor Force Survey 2019.

… and in educational outcomes compared with peers.

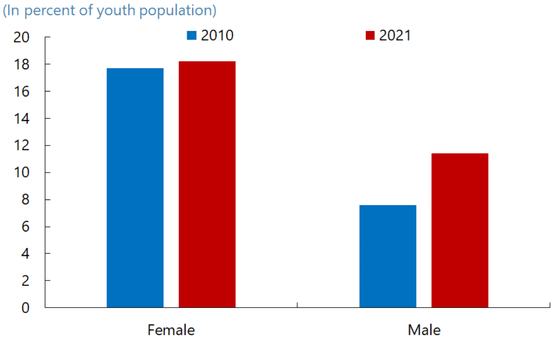
Gender Gap in Reading Test Scores
(In 2018)



Source: OECD PISA 2018.

However, large gaps in employment opportunities for women persist …

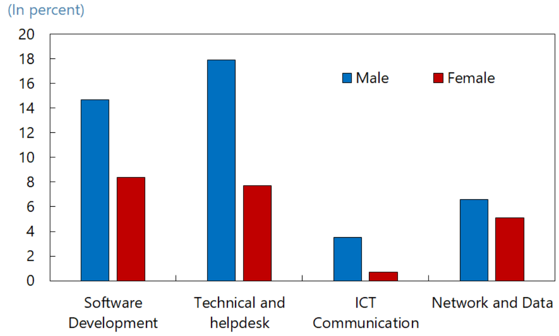
Youth not in Education, Employment or Training
(In percent of youth population)



Source: World Bank Gender Landscape Report for Thailand.

…particularly in ICT jobs.

Share of Employees in ICT Jobs
(In percent)

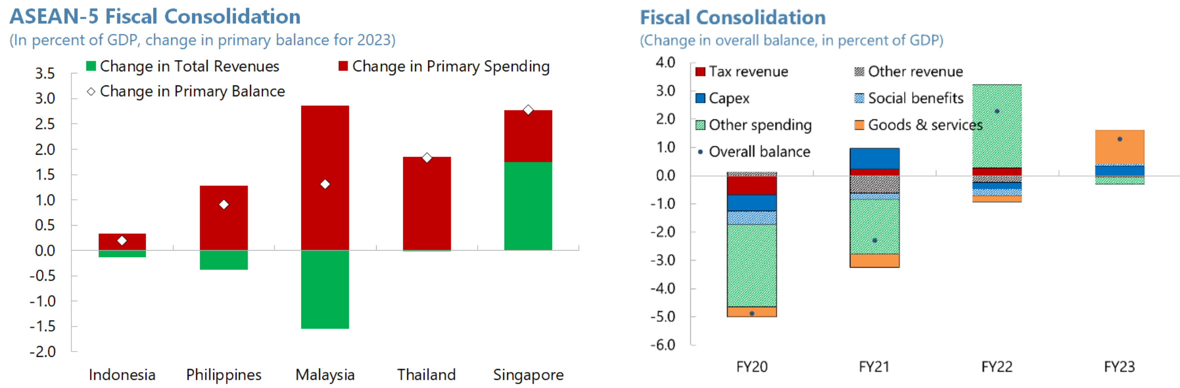


Sources: NSO, and *Gender and Digital Development in Thailand*, World Bank 2021.
Notes: ICT stands for Information and Communications Technology.

7. **The withdrawal of pandemic-related measures helped contain the deficit in FY23.**[3] The general government's deficit is estimated at 3.2 percent of GDP in FY23, down from 4.5 percent of GDP in FY22. Lower spending on goods and services, following the end of the COVID-19 measures, and election-related delays in investment are the main drivers of the lower deficit (Text Figure 4). Nonetheless, broad-based energy subsidies and tax cuts are slowing the fiscal consolidation—while they helped shield the population from higher inflation. Public sector debt, at 62.4 percent of GDP as of end-FY23, remains stable and sustainable (Figure 2, Tables 3a, 3b, Annex I).

[3] The COVID-19 stimulus package, worth 8.7 percent of GDP, has been executed at about 91 percent by the end of FY22. The remainder has been fully executed in FY23.

Text Figure 4. Thailand: Fiscal Sector Developments



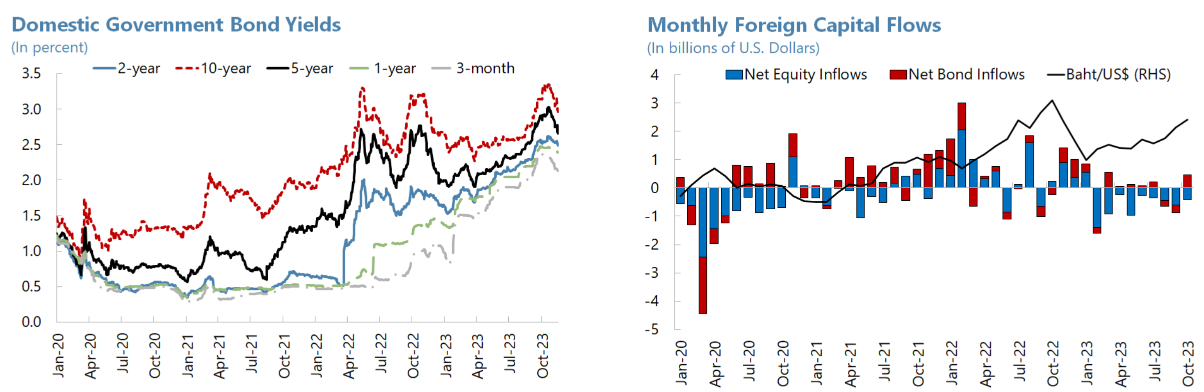
Sources: Country authorities and IMF *World Economic Outlook*.

Sources: Thai authorities and IMF staff calculations.

Note: The figures show annual changes in fiscal balances (overall (left) and primary (right)). Positive changes in fiscal balances show improvement compared with previous year. ''Other spending'' includes mainly wages and other expenses not shown. Positive values for expenditures imply a reduction compared with the previous year. ASEAN's fiscal deficit numbers are in calendar year.

8. **The Bank of Thailand (BOT) has gradually normalized the monetary policy stance to curb inflationary pressures**. The BOT implemented 8 consecutive 25 bps increments in the policy rate between August 2022 and September 2023 to tame inflation without derailing the still-fragile recovery. In addition to tighter global financing conditions, domestic policy uncertainty contributed to net foreign portfolio outflows in equities and bonds during January-September 2023 that partly drove a somewhat stronger Thai baht (THB) depreciation than in most ASEAN-5 peers (Text Figure 5, Figure 5, Table 5).

Text Figure 5. Thailand: Financial Conditions



Sources: Thai authorities and Bloomberg LP

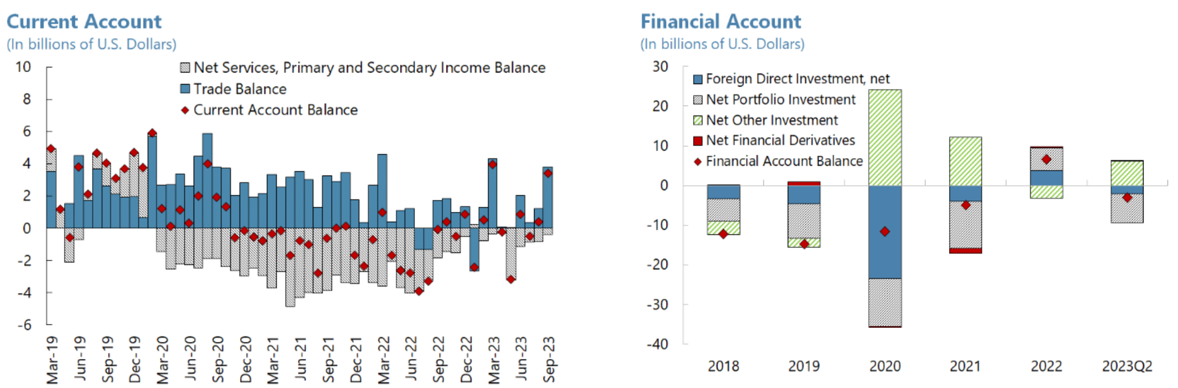
Sources: Bloomberg LP and IMF staff calculations.

9. **The financial sector remained resilient, but high private debt is a source of vulnerability** (Figures 3, 4, Table 4). The banking system is well capitalized, liquid (liquidity coverage ratio at 196 percent in 2023Q3), and profitable with declining NPLs (from 3.23 percent in 2020Q1 to 2.70 percent in 2023Q3). Loan loss provision remained high with NPL coverage ratio of 176 percent in 2023Q3. However, loans under relief measures slightly increased in 2023Q3 from the previous quarter as the authorities extended forbearance measures until end-2023. Private sector credit growth remains

weak at 1.1 percent in 2023Q3 (Table 5). Household debt declined to 90.7 percent of GDP as of mid-2023, from 94.7 percent of GDP at end-2021, while corporate debt remained stable at 87.9 percent of GDP.

10. Thailand's 2023 external position is preliminarily assessed as stronger than the level implied by medium-term fundamentals and desirable policies. The current account (CA) balance declined from –2.0 percent of GDP in 2021 to –3.2 percent of GDP in 2022, reflecting higher commodity prices and the slowdown in external demand in 2022H2 (Table 6). The CA registered a surplus of US$2.8 billion as of September 2023 as the trade balance improved due to import compression, and the deficits in the net service, income, and transfer accounts declined (Text Figure 6) with the rebound of tourism and decline in shipping costs. Accounting for country-specific factors, staff assess the cyclically-adjusted CA gap to be around 1.7-3.1 percent of GDP, and the real effective exchange rate (REER) gap to be 3.6-6.5 percent (Annex I).[4]

Figure 6. Thailand: Current Account and Financial Account



Sources: Haver Analytics; and IMF staff calculations.

Sources: Thai authorities and IMF staff calculations.

OUTLOOK AND RISKS: GRADUAL NORMALIZATION AMID ELEVATED UNCERTAINTY

11. Staff's baseline projections are subject to uncertainty related to the delay in the FY24 budget process and implementation of the new government's near-term economic policies.[5] Staff's projections are based on the revised MTFF through FY27. The projections also incorporate the debt-financed DW program but exclude the impact of any increases in minimum wages, given lack of clarity on their magnitudes and timing. Macroeconomic implications of alternative policy scenarios, including a smaller, targeted DW program and of full implementation of minimum wage increases are discussed in Annex II.

[4] The final assessment for 2023 will be presented in the 2024 External Sector Report.

[5] The protracted political transition has delayed the FY24 budget preparation. The budget is now expected to be approved by Parliament in April 2024 (FY24 started in October 2023).

12. Growth is projected to accelerate briefly in 2024 before slowing down in 2025. Improvements in external demand and robust growth in private consumption, buttressed by the government's fiscal stimulus, are expected to accelerate GDP growth to 4.4 percent in 2024.[6] Tourism flows are expected to gradually recover to pre-pandemic levels by 2025. The still-negative output gap is projected to close by end-2024. As the stimulus is withdrawn, growth would slow to 2 percent in 2025, and converge to its potential of around 3 percent in the medium term. Headline and core inflation are expected to accelerate mildly to 1.7 and 1.4 percent in 2024, respectively, owing to the demand boost. Commodity price pressures are expected to remain limited, while supply chain issues are expected to dissipate.

13. The CA balance is expected to return to a surplus in 2023 and to further strengthen in 2024, as the recovery in tourist arrivals and declining freight costs offset the weak performance of merchandise exports. The CA balance is expected to stabilize at around 3 percent of GDP.

Text Table 1. Thailand: Selected Economic Indicators, 2019-29

	Actual				Est.	Projections					
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Output											
Real GDP growth (%)	2.1	-6.1	1.5	2.6	2.5	4.4	2.0	3.0	3.0	3.0	3.0
Output Gap (in percent of potential output) 1/	0.2	-4.2	-4.2	-2.1	-1.5	-0.4	0.1	0.0	0.0	0.0	0.0
Employment											
Unemployment (%)	1.0	1.7	1.9	1.3	1.2	1.1	1.0	1.0	1.0	1.0	1.0
Prices											
Headline inflation (%)	0.7	-0.8	1.2	6.1	1.3	1.7	1.9	2.0	2.0	2.0	2.0
Core inflation (%)	0.5	0.3	0.2	2.5	1.2	1.4	1.6	2.0	2.0	2.0	2.0
Government finances											
GG fiscal balance (% GDP)	0.4	-4.5	-6.8	-4.5	-3.2	-6.2	-3.4	-3.4	-3.2	-3.0	-2.9
Public debt (% GDP)	41.1	49.4	58.4	60.5	62.4	65.8	66.9	66.8	66.2	65.4	64.7
Balance of payments											
Current account (% GDP)	7.0	4.2	-2.0	-3.2	0.8	1.4	2.1	2.5	2.9	3.0	3.0
FDI (% GDP)	0.9	4.7	0.8	-0.8	0.9	0.9	0.9	0.9	0.9	0.9	0.9

Source: IMF staff estimates.
1/ Based on multivariate filter.

14. The outlook remains uncertain with the balance of risks tilted to the downside (Table 7).

Domestic risks

- **Lack of fiscal discipline and substantial minimum wage increases could undermine macro stability**. A delayed fiscal consolidation could worsen public debt dynamics and require an abrupt policy tightening that would be detrimental to growth. Economic agents' anticipation of large minimum wage increases for several consecutive years could de-anchor inflation expectations.

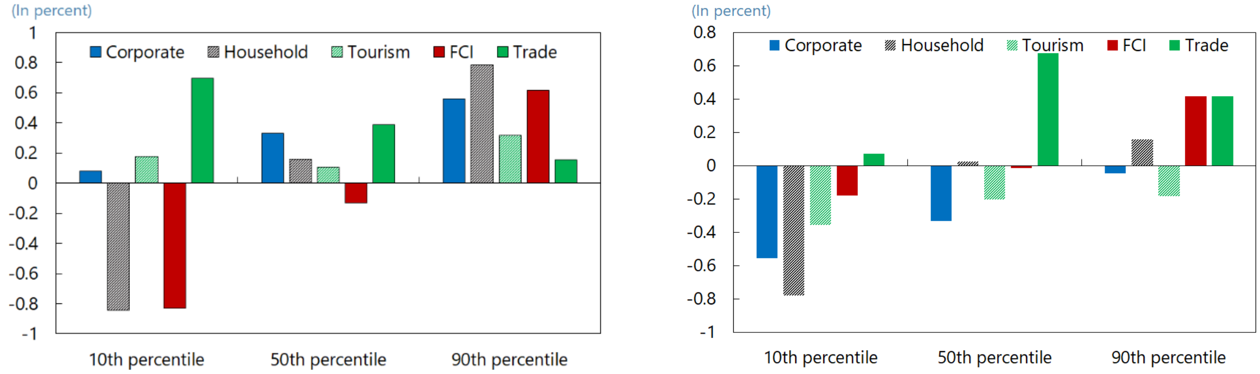
[6] According to the October 2023 WEO projections, trade weighted import growth of Thailand's trading partners is expected to accelerate from -1.5 percent in 2023 to 3.8 percent in 2024.

- **Private sector debt is a threat to financial stability and a drag on medium-term growth**. Tightening financial conditions and a slower-than-expected domestic recovery could trigger insolvencies and negatively impact growth. Growth-at-risk analysis suggests that during weak growth episodes an increase in household debt reduces both near- and medium-term growth (Text Figure 7 and Annex III). While an increase in corporate debt boosts growth through higher investment in the near term, it weighs on medium-term growth since over-indebted firms have difficulties in accessing finance.[7]

- **Over-reliance on tourism increases Thailand's vulnerability to external shocks and could weigh on medium-term growth**. Tourism is an important driver of the Thai economy comprising 20 percent of GDP in 2019 when including indirect and induced contributions. The growth slowdown in China and escalation of the Middle East conflict could negatively affect tourist arrivals. Over-reliance on tourism could weigh on medium-term growth due to misallocation of resources towards a relatively low value-added sector (Annex III).

Text Figure 7. Thailand: Growth Response to One Standard Deviation Increase in Macroeconomic Variables

Near-term Quantile Regression Coefficients (In percent) | Medium-term Quantile Regression Coefficients (In percent)



Sources: Haver Analytics and IMF staff calculations. | Sources: Haver Analytics and IMF staff calculations.

Note: Coefficients are from estimation of Growth at Risk (GAR) model. Y-axis is in percent. Near-term and medium-term denote 4-quarters and 12-quarters ahead change in GDP growth. Corporate, household, and tourism denote corporate debt to GDP ratio, household debt to GDP ratio and tourism revenues to GDP ratio, respectively. FCI denotes financial condition index which is a principal component of several domestic and international financial variables. Trade denotes principal component of U.S. GDP growth and China import growth.

External risks

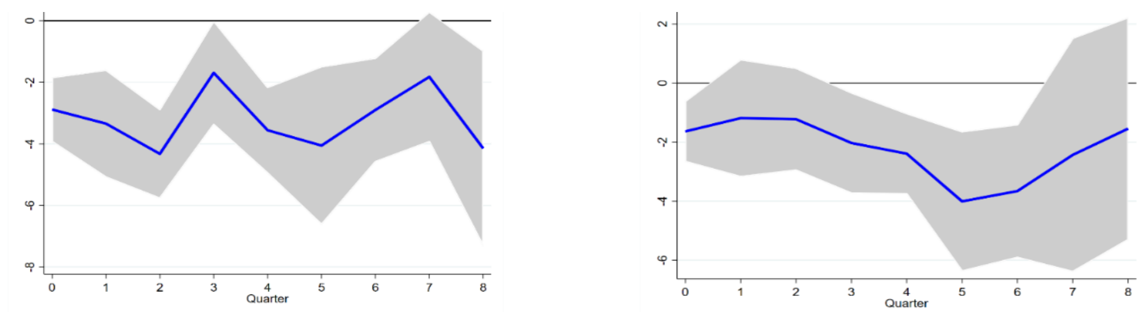
- **An abrupt global slowdown, including in China and the U.S., could have adverse implications on Thailand**. Staff's analysis suggests a cumulative 4 percent decline in Thailand's exports (from 0.1 percent in agriculture to 5 percent in heavy manufacturing sectors) and a

[7] The 2019 FSAP noted that systemic risk remains limited.

3.9 percent decrease in firm revenues for 2 years following a one percent negative shock to China's GDP. The impact of a similar shock in the U.S. on Thailand would be somewhat milder but still significant (Text Figure 8 and Annex IV).

Text Figure 8. Thailand: Spillovers from China and the U.S. to Thai exports

Export Response to China Shock | *Export Response to U.S Shock*



Sources: IMF staff calculations.

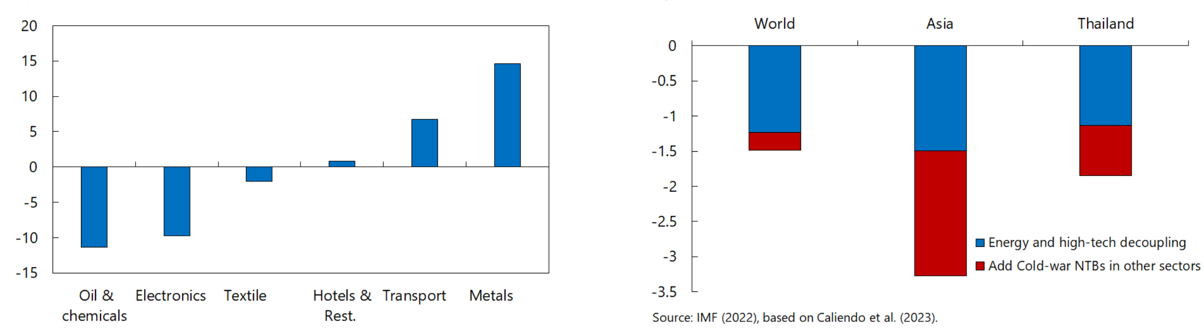
Notes: Y-axis is in percent and refers to changes in real export levels. China and the U.S. shocks refer to negative demand shocks and are obtained from Structural Vector Autoregression (SVAR) estimations. The sizes of China and the U.S. shocks are scaled to generate 1 percent change in GDP. See Annex IV for details.

- **Deepening of geoeconomic fragmentation can have large negative effects in the medium term**. In the near term, Thailand may benefit from foreign direct investment (FDI) diversion thanks to its well-established network of local manufacturing suppliers. However, long-term GDP losses from fragmentation could range from 1.1 percent of GDP in a mild scenario (energy and high-tech decoupling), to 1.8 percent of GDP in a severe scenario (nontariff barriers at cold war levels). The estimated GDP loss for Thailand is smaller than the estimate for Asia since some sectors are expected to gain from trade diversion (Text Figure 9).

Text Figure 9. Thailand: GDP Losses from Fragmentation Scenarios

Long-Term Sectoral GDP Losses from Fragmentation
(In percent)

Long-Term GDP Losses in Fragmentation Scenarios
(In percent)



Source: IMF (2022).

Source: IMF (2022), based on Caliendo et al. (2023).
Notes: The scenarios consists of trade fragmentation between the group that voted positive in the UN resolution and the group that voted negative or abstained. NTB stands for non-tariff barriers.

- **Commodity price hikes could fuel inflation, thereby deteriorating income inequality and increasing fiscal costs**. Supply disruptions, including those caused by the escalation of conflict in the Middle East, or demand fluctuations could increase inflation, with negative distributional implications (Annex V). In addition, this could increase the cost of the government's energy subsidies.

- **Tighter-than-envisaged financial conditions due to higher-for-longer rates in advanced economies and a slowdown in China could generate sizable financial spillovers**. This would depreciate the exchange rate and weigh on private sector investment. However, the lack of significant balance sheet mismatches in Thailand should limit the impact on financial stability.

Authorities' Views

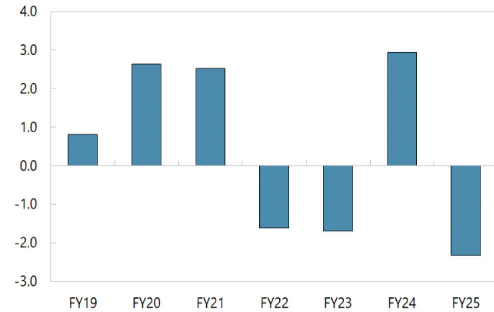
15. The authorities broadly shared staff's views, including on the uncertainties surrounding the economic outlook. They however considered domestic and external risks to be more balanced. The authorities broadly agreed with staff's preliminary assessment of the external position, while continuing to urge for caution regarding the presentation and interpretation of the External Balance Assessment (EBA) results. They noted that the framework gives an incomplete picture of countries' external balance with no consideration on the implication of financial flows and heavy reliance on exchange rate adjustments as primary adjuster. Nonetheless, they welcomed staff recommendations which focus on structural policies to lower the saving-investment gap as a key to addressing external imbalances over the medium term.

POLICY DISCUSSIONS: GRADUAL CONSOLIDATION WHILE SUPPORTING RESILIENT GROWTH

16. Discussions focused on the appropriate near and medium-term policy stance to rebuild buffers while supporting growth, and structural reforms to boost potential output. In the near term, staff recommends a gradual normalization of fiscal and monetary policies to rebuild buffers amidst significant downside risks to the outlook. A high-quality fiscal consolidation supported by enhanced revenue mobilization, and spending reallocations towards well-targeted and sustainable social protection and investments in physical and human capital, would boost productivity while keeping public debt on a downward path. Structural reforms to address Thailand's long-standing challenges and new headwinds are critical to reverse the decline in potential output. The authorities have broadly agreed with and made notable progress in implementing previous Article IV consultations' recommendations (Table 8). They have benefitted from Fund technical assistance (TA) that is well aligned with their policy priorities, including on monetary and financial sector policies, as well as on climate issues.[8]

[8] Ongoing CDs continue to focus on the operationalization of the IPF, stress testing and bank resolution. The Fund and the BOT are also collaborating on training and peer learning events to raise awareness on climate change-and climate finance.

A. Fiscal Policy



Sources: Thai authorities; and IMF staff calculations.
Note: Positive numbers correspond to stimulus.

17. The government's focus on alleviating poverty and inequality is welcome, but well-targeted support to the most vulnerable is preferable to broad-based one-off transfers. The FY24 fiscal stance would turn as expansionary as during the COVID-19 pandemic, when the government deployed unprecedented support, and lead to a further increase in public debt. In the absence of another emergency, staff does not see merit in providing quasi-universal transfers, given the strong momentum in private consumption, closing output gap, and narrowed fiscal buffers amidst a highly uncertain global environment. Public debt would peak at about 67 percent of GDP in FY25, close to the current debt ceiling of 70 percent of GDP, while the withdrawal of the stimulus in FY25 would generate a contraction (Annex VI).

18. Staff recommends implementing the DW program within the MTFF deficit limit in FY24, without resorting to new borrowing. Staff encourages the authorities to considerably scale down the DW program to fit within the FY24 budget envelope (a 3.6 percent of GDP deficit) and target only vulnerable groups. Staff recommends targeting households that might have not benefited from the still-slow recovery. Limiting transfers to people below the poverty line would have a much lower fiscal cost (0.2 percent of GDP), with a higher value for money because the growth multiplier of targeted measures is much higher (see Annex II). Staff also advises to strictly rely on transparent and on-budget processes to implement and finance the transfers.

Text Table 2. Thailand: Medium-Term Adjustment Scenario and Fiscal Measures

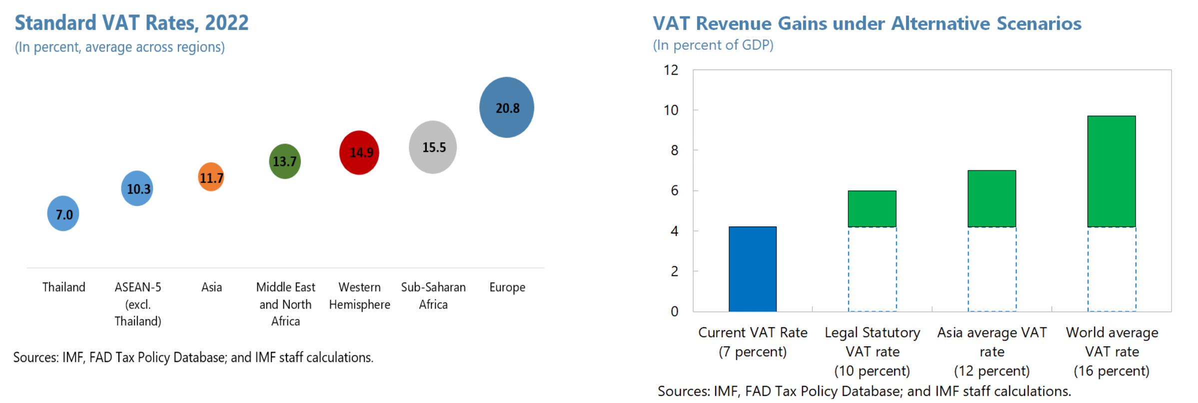
	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029
			(In percent of GDP)			
CG overall balance (MTFF)	-3.6	-3.4	-3.4	-3.3	NA	NA
GG overall balance (Baseline)	-6.2	-3.4	-3.4	-3.2	-3.0	-2.9
GG overall balance (Adjustment scenario)		-2.5	-2.0	-1.5	-1.3	-1.2
Primary balance (Baseline)	-4.9	-2.0	-2.0	-1.8	-1.6	-1.5
Primary balance (Adjustment scenario)		-1.1	-0.6	-0.1	0.1	0.2
Revenue measures		1.2	1.8	2.4	2.4	2.4
VAT (rate increase from 7 to 10 percent in 3 years)		0.6	1.2	1.8	1.8	1.8
Excises (reversal of tax cuts to subsidies energy prices)		0.5	0.5	0.5	0.5	0.5
Spending measures		0.3	0.5	0.7	0.7	0.7
Education expenses and reskilling		0.3	0.3	0.3	0.3	0.3
Aging		0.1	0.1	0.1	0.1	0.1
Infrastructure investments, including climate			0.2	0.4	0.4	0.4
Public debt (MTFF)	64.0	64.7	64.9	64.8	NA	NA
Public debt (Baseline)	65.8	66.9	66.8	66.2	65.4	64.7
Public debt (Adjustment scenario)		66.0	64.7	63.0	61.3	59.5

Source: IMF staff estimates.
Notes: CG stands for central government and GG for general government. MTFF stands for Medium-Term Fiscal Framework. Public debt covers the non-financial public sector including state-owned enterprises but excludes local government debt whose outstanding debt is less than 0.2 percent of GDP as of end FY2023.

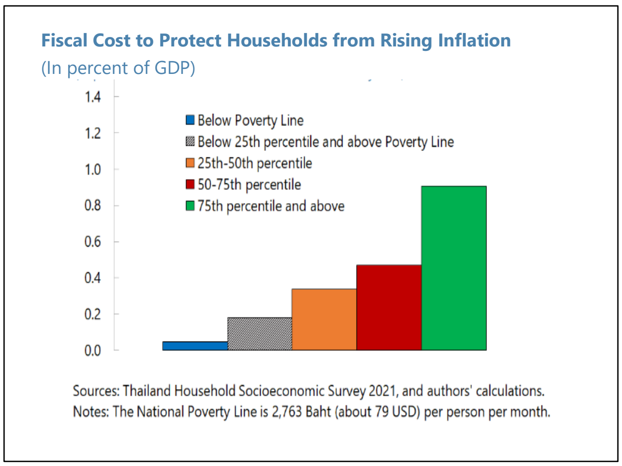
19. Over the medium term, staff recommends pursuing a high-quality fiscal consolidation. Starting in FY25, staff recommends a gradual fiscal adjustment to bring the deficit at around 1 percent of GDP by FY29 (Text Table 2). Enhanced revenue mobilization and improved spending efficiency will provide space for essential investments in physical and human capital while bringing public debt under the previous 60 percent of GDP ceiling in the medium term. Key recommendations include:

- *Increasing the Value Added Tax (VAT) rate and rationalizing tax exemptions.* Gradually increasing the VAT rate from 7 to 10 percent (its legal statutory rate) could yield an additional 1.8 percent of GDP in revenue (Text Figure 10).[9] Tax exemptions, particularly for personal and corporate income taxes, should be rationalized, and the multiple investment tax incentives streamlined, to enhance targeting and efficiency while minimizing their cost. Staff welcomes the end of the reduction in the tax rate on immovable property. Judicious reforms to other wealth taxes (inheritance and capital gains) could raise additional revenue while achieving greater progressivity in the tax system.

Text Figure 10. Thailand: VAT Potential Remains Untapped



- *Phasing out energy subsidies and replacing them with targeted support to vulnerable groups.* The price caps and broad-based energy subsidies mostly benefit high-income households and delay Thailand's objective to reduce greenhouse gas (GHG) emissions. Staff simulations show that the cost of protecting all households from elevated inflation in 2022 was about 1.9 percent of GDP. Targeting only households under the national poverty line would cost 0.05 percent of GDP (Annex V). Therefore, targeting at least the vulnerable



[9] Thailand standard VAT rate is 10 percent. However, the standard rate is reduced to 7 percent at the beginning of every fiscal year. The increases in the VAT rate can be gradual and should be accompanied by efforts to support the vulnerable and poor through well-targeted fiscal measures. However, the VAT system is overall progressive in Thailand and many goods that are purchased by low-income households are tax-exempted. They also mostly purchase from informal markets (World Bank June 2023).

that are below the poverty line would be more inclusive and much less costly to public finances.[10] Reversing the excise tax cuts on diesel would generate about 0.5 percent of GDP in revenue per year.

- *Scaling up critical investment spending to boost potential output.*[11] Public spending on education and training should increase to reskill/upskill Thailand's labor force.[12] A scale-up in health expenditure should help address the shortage of healthcare professionals, particularly in rural areas. Increasing public investment in macro-critical ICT, and green resilient infrastructure will enable the authorities to enhance export sophistication by leveraging digitalization, crowd-in private investment as also envisaged under the *Eastern Economic Corridor (EEC)* Initiative and, provide adequately for climate mitigation and adaptation needs (Text Table 3).

Text Table 3. Thailand: Spending by Functional Classification
(In Percent of GDP, average 2017-21)

	Thailand	EMEs (n=25)	AEs (n=37)
Education, health, infrastructure	6.3	8.7	14.4
Education	3.1	3.6	4.5
Health	1.4	3.1	7.4
Infrastructure	1.8	2.0	2.4
Social Protection	3.9	8.0	17.7
Basic Research	0.02	0.05	0.5
Defense, order and safety	2.5	2.8	2.8
Other primary spending	7.8	10.5	5.6
Interest	1.0	1.0	1.6
Total	23.4	33.1	45.0

Sources: IMF calculations using Government Finance Statistics, and WEO.
Notes: Infrastructure includes: Energy, water, transport, and communication. AEs corresponds to advanced economies, EMEs correspond to emerging economies. The figures reported correspond to general government expenditures and are GDP-weighted average country.

20. Fiscal risks from state-owned enterprises (SOEs) and extra-budgetary funds should be closely monitored, and robust fiscal governance and transparency implemented. Most energy subsidies are implemented off-budget. With new measures to continue supporting the energy and electricity prices, the financial position of the Oil Fund and the electricity utility (EGAT) is being weakened.[13] Energy prices should be set to ensure cost recovery for both entities. SOEs are also implementing a substantial portfolio of large infrastructure projects (mainly transport and energy) under public-private partnership arrangements (PPPs). Staff encourages the authorities to continue to strengthen risk monitoring and ensure both full transparency and adequate planning of public sector's projects. For greater transparency, there is a need to limit quasi-fiscal operations and expand the institutional coverage of published government finance statistics (GFS) to SOEs and fiscal reports

[10] The national poverty line defined as 2,763 baht (about 79 USD) per person per month. About 6.3 percent of the population are below the poverty line.

[11] See ''Annex III. Thailand: An Assessment of Potential Output and Output Gap'', IMF country Report No 2022/300.

[12] There is also room to improve the efficiency of social spending. For example, the World Bank found in its 2023 public expenditure review that spending per primary student is high in Thailand due to the prevalence of inefficient small schools.

[13] The Oil Fund remains in deficit since energy prices started to increase in 2022Q2. The Oil Fund was in deficit of 74.2 billion baht (0.4 percent of GDP) in October 2023 from 125 billion baht (0.7 percent of GDP) in December 2022. The electricity subsidy amounts to 150 billion baht financed by EGAT. About 110 billion baht is financed through borrowing and the rest by EGAT's internal funds. As of end-August 2023 EGAT had recovered part of the subsidy and total outstanding debt declined to 95 billion baht. The cabinet approved a further reduction in diesel price from September to end-December 2023 through excise tax cut worth about 16.5 billion baht.

covering extra-budgetary funds. Overall, enhancing governance and implementing anti-corruption measures would improve the efficiency of fiscal spending. In particular, staff welcomes the steps taken by the Office of the National Anti-Corruption Commission (NACC) to advance the implementation of the National Strategy's 2023-27 Master Plan. Moreover, the authorities have taken steps to improve transparency in procurement contracts using the government's e-platform and publishing the winning bids information online (www.gprocurement.go.th).

Authorities' Views

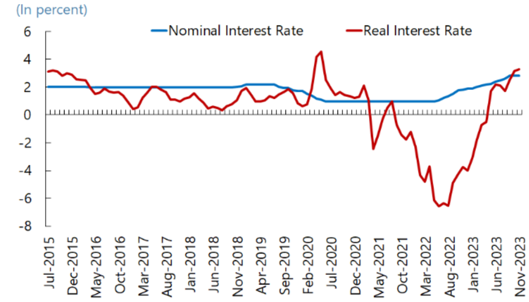
21. The authorities highlighted the need to boost the economy given a lackluster post-pandemic recovery. They emphasized that growth had been weak, and the post-pandemic recovery remains below peers. Therefore, the stimulus package aims to revive the economy and boost growth including in local communities. Fiscal prudence remains a priority for them as outlined in the MTFF with public debt expected to remain below the ceiling of 70 percent. They recently implemented various efficiency-enhancing measures aiming at modernizing the tax system, preventing tax evasion, and facilitating compliance. They agreed that there is room for additional tax reforms, including through VAT rate increases, once the economy is stronger. On governance, the authorities have initiated a review of SOE corporate governance in partnership with the OECD. More broadly, the NACC's master plan for anti-corruption and misconduct (2023-27), encompasses information access, whistleblower protection, law enforcement, and transparency enhancement. The NACC has also continued to collaborate with government agencies and the private sector to ensure strong enforcement of the 2018 anti-corruption law while also focusing on prevention.

B. Monetary and Exchange Rate Policies

22. The current neutral monetary policy stance is appropriate. Both headline and core inflation are below the BOT's target, but there are upside risks from external shocks as well as domestic policies, given a closing output gap. Nonetheless, short-term inflation expectations remain well anchored, with limited signs of price pressures from wage growth despite a tight labor market. Given Thailand's flat Phillips Curve, the impact of the DW program on inflation is projected to be small. With inflation projected to remain within the BOT's target range, this would not necessitate a tangible monetary policy response (Annex II). However, if the inflationary impact of the DW program turns out to be larger than envisaged or significant minimum wage increases over multiple years risk de-anchoring inflation expectations, the BOT should stand ready to further tighten the monetary stance. The BOT should

Nominal and Real Interest Rates

(In percent)



Sources: Haver Analytics, and IMF staff calculations.
Notes: The Interbank Lending Rate is taken as the nominal interest rate. Real interest rates subtract headline inflation from the nominal interest rate.

continue to monitor financial stability risks as vulnerabilities may arise from sharp swings in real interest rates (Table 7).

23. The exchange rate should continue to be the first line of defense against external shocks. The Thai Baht's depreciation against the U.S. dollar in the first nine months of 2023 did not have any notable impact on financial stability or inflation expectations given limited currency mismatches and weak exchange rate pass-through to inflation. The reserves decline (by US$4.3 billion to US$241.5 billion—47.3 percent of GDP) over the same period indicates that the BOT might have resorted to foreign exchange intervention (FXI). Staff noted that the provision of FXI data, with appropriate time lags, would help better assess the rationale for FXI and its effectiveness. As demonstrated in the integrated policy framework (IPF) work from the 2022 Article IV Consultation, the complementary use of FXI could be considered if disorderly exchange rate movements and sharp changes in risk premia threaten to de-anchor inflation expectations or freeze the foreign exchange (FX) market. The authorities' efforts to increase flexibility and reduce the cost of non-residents' foreign exchange transactions by expanding the scope of the Non-Resident Qualified Company (NRQC) scheme—to allow non-residents providing cross-border payment services to participate—are welcome.[14] In line with past advice, staff recommends phasing out capital flow management (CFMs) measures on non-resident baht accounts.

Authorities' Views

24. The BOT shares staff's view that the gradual policy rate normalization up to the current level of 2.5 percent is appropriate. This is in line with the Monetary Policy Committee's (MPC) intention to return the policy rate to a neutral stance while bringing the real policy rate back to a positive territory. The current monetary policy stance ensures sufficient policy space considering the highly-uncertain outlook. Going forward, the MPC will continue to closely monitor the outlook and will maintain its data-dependent approach.

25. The authorities remain committed to a flexible exchange rate regime and to continue the gradual liberalization of capital flows. The authorities concur with staff that tighter global financing conditions and domestic policy uncertainty contributed to non-resident portfolio outflows as well as Thai Baht weakening. The authorities reiterated that the flexible exchange rate continued to act as a shock absorber and to move freely in line with fundamentals, while they may consider intervening at times of excess volatility that could risk turning FX markets shallow. They appreciate the IMF's continued capacity development in implementing a model-based integrated policy approach. They reiterated that FXI data is highly market-sensitive, and any data leak or misinterpretation of the intervention data would be detrimental to central bank operations and monetary stability especially during episodes of market volatility. Given these risks, the authorities suggested that specific examples on how FXI data would be used across various surveillance tools should be provided so as to determine together with staff the necessity of FXI data provision and possible alternatives. The authorities remain committed to gradually liberalize the FX ecosystem and make it more resilient.

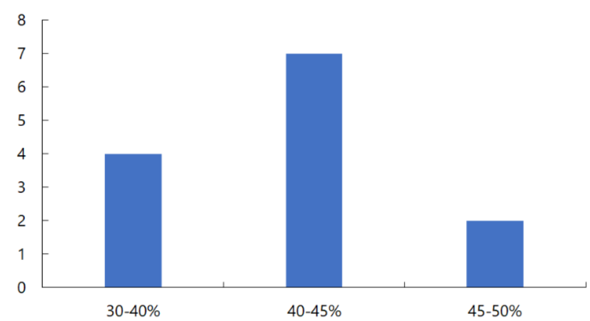
[14] The Non-Resident Qualified Company scheme is being assessed under the Institutional View for the Liberalization and Management of Capital Flows.

C. Financial Sector Policies

26. The authorities are appropriately unwinding policy interventions in the banking system as the economy recovers and should continue to strengthen the risk analysis and the bank resolution toolkit. The BOT has gradually phased out pandemic-related forbearance measures such as reverting the Loan-to-Value ratio to pre-pandemic levels (Table 9). The authorities should continue to enhance risk analysis and stress testing of commercial banks, SFIs, and other non-bank institutions. Staff welcomes the BOT's enhancement of regulations on SFIs supervision and encourages the authorities to continue to strengthen the bank resolution toolkit and the financial safety net in line with the 2019 FSAP recommendations (Table 10).

27. A comprehensive approach to addressing excessive private sector leverage while ensuring financial stability is needed. Staff welcomes the BOT's plans to introduce new measures to address elevated household debt, with a focus on responsible lending guidelines, while also assisting those with persistent debt issues. The risk-based pricing (RBP) measure, tentatively scheduled to start by 2024Q2, aims to offer opportunities for risky borrowers to access credit through formal channels, and to provide incentives for borrowers to build a credit history. The BOT is also working on setting a debt service ratio (DSR) to limit households' borrowing with implementation tentatively scheduled for 2025. Staff recommends to consider accelerating implementation of DSR limits, ensuring their broad-based implementation, and setting these limits in line with international benchmark thresholds. Furthermore, staff encourages the authorities to enhance the coverage of the macroprudential framework to include cooperatives and nonbank financial institutions (NBFIs) to avoid regulatory arbitrage.

Caps on DSTI Ratios
(Number of countries)



Source: Staff Guidance Note on Macroprudential Policy (2014) and IMF staff calculations.

28. Debt moratorium measures will only delay the resolution of debt-related challenges. The government recently approved a debt moratorium for small farmers which suspends both interest and principal payments including on existing NPLs. Staff highlighted that these measures would only postpone the inevitable exit of unviable economic agents, weigh on growth, and create moral hazard. A debt moratorium has also been proposed (but not yet finalized) for SMEs that were hard-hit by the COVID-19 pandemic but were in good credit standing beforehand. As previously recommended, strengthening the insolvency regime, including by adding informal and hybrid restructuring options, would help facilitate debt resolution.

29. The BOT's balanced approach towards promoting FinTech and sustainable finance while managing related risks is welcome. The BOT has introduced several key initiatives such as the creation of virtual banks and strengthening supervision of banks' digital asset business. Moreover, the BOT has issued guidance encouraging financial institutions to strengthen resilience, lower regulatory burden and promote environmentally-sustainable products. Staff encourages the authorities to continue with their efforts to enhance financial institutions' ability to assess environment-related risks and provide financial products and services needed to support climate transition and mitigation, including by providing climate-related training (Annex VII).[15]

30. The authorities are making progress towards enhancing the AML/CFT legal framework, but further efforts are needed.[16] As recommended previously, the authorities are in the process of finalizing the Beneficial Ownership Information Act and the Operation of Non-Profit Organizations (NPOs) Act. These Acts will require legal persons, legal arrangements, cooperatives, and NPOs to disclose their beneficial ownership information. The authorities also plan to enhance the scope of the Anti-Money Laundering Act by expanding the coverage of predicate offenses and reporting entities.

Authorities' Views

31. The authorities shared staff's views on the importance of addressing elevated household debt. They are carefully evaluating the cost of implementing DSR limits on the economy, considering the current moderate growth environment. They are also assessing the readiness of households to adapt to these new measures, by giving households time to adjust, aiming to prevent shifts towards informal sector borrowing. They continue to closely monitor the banking system's health, including through stress testing. The authorities agreed with staff's recommendations of taking a cautious approach towards digital assets. They noted that banks are only allowed to participate in digital assets business via separate entities within a banking group and for a maximum stake of 3 percent of the banking group's capital. The BOT welcomed the recent IMF's regional climate course for public officials and the high-level climate finance peer learning event, as part of their efforts to support the transition to a more sustainable and resilient economy.

D. Structural Policies

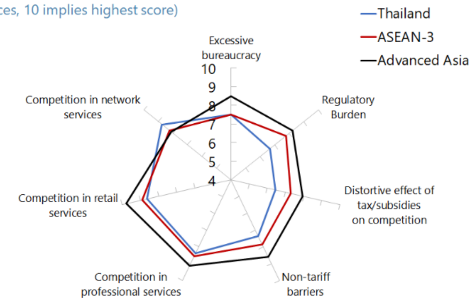
32. Comprehensive and coordinated structural reforms are essential to tackle Thailand's long-standing structural weaknesses and address emerging headwinds. Harnessing new growth drivers will require prioritizing the following:

[15] The IMF (through CDOT and SARTTAC) and the BOT organized a high-level seminar on climate change issues for governors and financial sector policy makers in Bangkok in December 2023.

[16] The Asia Pacific Group on money laundering (APG) acknowledged that Thailand has made progress in strengthening anti-money laundering (AML) and combating the financing of Terrorism (CFT) measures and addressing technical compliance deficiencies. The October-2023 Follow-up Report has also upgraded two ratings from Partially Compliant to Largely Compliant (including R. 26 on the regulation and supervision of financial institutions). However, Thailand remains partially compliant on six recommendations, including on transparency and beneficial ownership of legal persons and arrangements and non-compliant on one recommendation (R. 24-25).

- *Enhancing competition*. Staff's analysis suggests that increased market power of Thai firms could be behind weak investment and productivity (Annex VIII). Staff welcomes the authorities' intention to streamline regulatory barriers to entry. Further liberalizing the services sector and minimizing tax incentives and subsidies that distort competition would enhance competition and facilitate external rebalancing. Trade and investment measures should remain narrowly targeted and consistent with WTO obligations, and the authorities should resist calls to use such tools to provide a competitive advantage to domestic industries. The limits on foreign ownership of firms in some sectors could also be relaxed.

Regulatory Policy Environment
(Indices, 10 implies highest score)



Sources: World Economic Forum, Economist Intelligence Unit, and IMF staff calculations.
Notes: Advanced Asia includes Australia, New Zealand, Singapore, Korea and Japan. ASEAN-3 includes Malaysia, Indonesia and Philippines.

- *Upskilling the labor force*. Upskilling/reskilling Thailand's labor force through active labor market policies and well-designed education policies would help reduce the skills mismatch, close gender gaps in employment opportunities, and facilitate labor reallocation.[17] Strengthening coordination between government agencies responsible for reskilling/upskilling programs would enhance these programs' effectiveness. Combined with the streamlining of business regulations, this will also incentivize movement out of informality, thereby raising productivity. Investing in human capital would be a more efficient and sustainable way to improve the population's living standards than a significant increase in the minimum wage. The government's intention to streamline administrative requirements for hiring non-resident skilled workers and offer SMART visa program to high-skilled professionals are steps in the right direction.

- *Reducing vulnerabilities to geo-economic fragmentation (GEF)*. There are early signs that Thailand is benefiting from FDI diversion in the electric vehicle (EV) sector in spite of higher production costs than in some regional competitors. Improving the business environment would enable Thailand to durably capitalize from trends in the redirection of FDI, leveraging its manufacturing base. In addition, structural reforms and investments in infrastructure will enhance private sector's resilience and attract new FDI, thus reducing vulnerability to GEF. Diversifying trading partners would help maintain a resilient trade network. Public investments in digital infrastructure, as also envisaged in the EEC plan, would facilitate digitalization, and help firms move up the value chain.

- *Reforming the social protection system to make it more inclusive and sustainable*. Thailand's social spending is relatively low at about 0.8 percent of GDP annually, compared to an average of 1.6 percent of GDP in upper middle-income countries.[18] The coverage for social insurance is low at about 3.6 percent of the population due to a relatively young pension system and the large informal sector (Text Table 4). Over the medium term, staff recommends reducing overlaps

[17] IMF Country Report No. 22/301.

[18] World Bank (2021), ''Towards Social Protection 4.0: An assessment of Thailand's social protection and labor market system''.

between various social protection programs and increasing the focus on the vulnerable.[19,20] Targeting the DW program to social welfare card (SWC) recipients could be used as an opportunity to improve SWC targeting, as well as streamline and convert SWC benefits to a single monthly cash transfer. Raising the retirement age and/or the contribution rate would help manage age-related spending and preserve pension system's sustainability.[21]

Text Table 4. ASEAN: Coverage for Social Protection

Social Assistance
(Percentage of population)

	Pre-COVID-19 Beneficiaries	New Beneficiaries	Total Beneficiaries
Indonesia	13.3	51.7	64.9
Malaysia	63.5	24.7	88.2
Philippines	39.8	44.5	84.3
Thailand	71.3	10.4	81.5

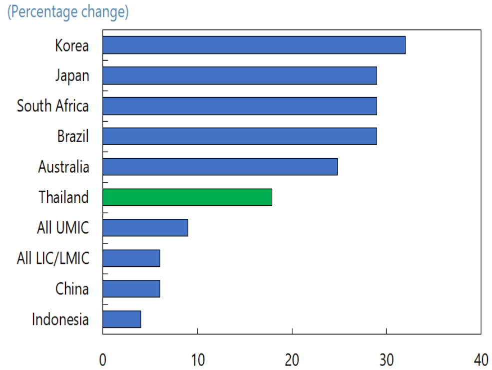
Social Insurance
(Percentage of population)

	All Social Insurance	Contributory Pensions	Other Social Insurance
Indonesia	10.9	8.7	7.5
Malaysia	8.4	8.4	N/A
Philippines	8.9	7.2	2.1
Thailand	3.6	3.6	14.1

Sources: World Bank ASPIRE database and IMF FAD Social Protection & Labor - Assessment Tool.

33. Effective carbon pricing would help meet Thailand's climate goals (Annex VIII). Thailand has recently increased its pledge to reduce greenhouse gas emissions by 30-40 percent (previously 20-25 percent) from the business-as-usual scenario by 2030 at the COP27 in 2022, while aiming to reach carbon neutrality in 2050 and net-zero emissions by 2065. At the COP28 in 2023, Thailand joined the Global Cooling Pledge to reduce cooling-related emissions by 68 percent. Thailand has already launched a voluntary emission trading system (ETS) and a green taxonomy and issued green bonds to finance mitigation projects. Staff recommends implementing a broader and more binding ETS and adopting carbon pricing to meet the new climate targets, including through the forthcoming "Climate Change Act", while protecting the vulnerable.

Current Target for NDC 2023
(Percentage change)



Sources: IMF staff using IMF CPAT Tool.
Notes: Bars show the percentage difference between a business as usual scenario and countries implementing their NDC.

[19] For example, the Ministry of Finance and the Ministry of Social Development manage various social assistance benefits that are not shared across ministries. They could be merged by building on the well-developed State Welfare Card scheme.

[20] According to the World Bank, about a third of all transfers goes to the richest half of the population and nearly 10 percent to the richest two deciles. Improving targeting of the Old Age Allowance (OAA) and the State Welfare Card (SWC) schemes could also yields important savings. See 'Thailand Public Revenue and Spending Assessment: Promoting an Inclusive and Sustainable Future', World Bank (2023).

[21] The minimum retirement age and the mandatory retirement age are set at 55 years and 60 years, respectively. The normal retirement ages in most OECD countries are at 65 about or above.

Authorities' Views

34. The authorities reaffirmed their commitment to broad-based structural reforms.

- *Enhancing competition.* Upgrading and streamlining the regulatory environment is one of the government's main priorities. The government is revising Thailand's Anti-Trust Act to align it with the changing business environment. Furthermore, the authorities plan to extend the competitiveness neutrality review done jointly with the OECD to more sectors.

- *Upskilling the labor force.* The authorities have stepped up efforts to upskill/reskill the labor force, including through engaging with the private sector to design curriculum and provide specialized instructors under the New Generation of Graduates project. In addition, the government provides tax incentives for companies to upgrade the science, technology, engineering, and mathematics (STEM) skills of their employees or to recruit new STEM professionals. Moreover, the government is streamlining administrative requirements for hiring nonresident skilled professionals through long-term and SMART visa programs.

- *Reducing vulnerabilities to geo-economic fragmentation.* The authorities are scaling up public investments in infrastructure and transportation systems to enhance connectivity, which would make Thailand even more attractive to foreign investors. Efforts to accelerate negotiations of free trade agreements aim at diversifying Thailand's trading partners.

- *Improving social safety nets.* The authorities reiterated their goals to reduce inequality and expand social protection through tax reforms.

- *Tackling climate change.* The authorities set up the new Department of Climate Change and Environment (DCCE) by merging various agencies to better coordinate and implement Thailand's climate policies. The authorities are committed to meet Thailand's pledge to reduce greenhouse gas emissions but highlighted the importance of international support, particularly technological transfer, and financing. The draft ''Climate Change Act'' is being revised to incorporate carbon pricing instruments (a carbon tax and an emission trading system).

STAFF APPRAISAL

35. Thailand's economy is recovering from multiple shocks. The authorities have gradually withdrawn the unprecedented COVID-19 pandemic support amidst volatile commodity prices and tighter global financial conditions, while shielding the population from high inflation. The return of foreign tourists has supported a rebound in private consumption, but weak export demand and timid investment have weighed on growth. The almost-complete recovery has thus been weaker than in ASEAN peers, owing to both long-standing structural weaknesses and new headwinds.

36. The new government has an opportunity to implement bold structural reforms to boost productivity and potential growth. Enhancing competition, removing excessive regulation, upskilling the labor force including by leveraging digitalization, and reforming the fragmented social protection system will help boost private investment and harness new growth drivers. Managing climate transition risks and building resilience to natural disasters are key for a stronger economy. Carbon pricing is essential to align incentives and to finance the transition and mitigation costs.

37. Near-term policies should continue to normalize amidst elevated uncertainty and depleted buffers. Heightened global uncertainty, prospects of tighter-for-longer global financial conditions, weakening global growth, and narrowed policy buffers put an extra premium on prudent macroeconomic management. Staff recommend maintaining a neutral fiscal stance in FY24 as envisaged under the revised MTFF, also to complement monetary policy. Well-targeted support to vulnerable groups that haven't benefited from the recovery could easily be accommodated within the existing budget envelope.

38. A large short-term demand stimulus is not needed at the current juncture. Providing large, untargeted, and debt-financed quasi-universal transfers would only generate a short-lived boost to growth while worsening debt dynamics. To sustainably address poverty and inequality, the government could focus on enhancing social safety nets and the progressivity of the tax system.

39. Over the medium term, staff recommends implementing a high-quality fiscal consolidation underpinned by revenue mobilization and improved spending efficiency. This would help rebuild buffers, put public debt on a declining trajectory, and provide fiscal space for investment in physical and human capital. Gradually increasing the VAT rate while rationalizing tax exemptions is a priority. Universal energy subsidies are costly, benefit mostly the rich, distort price signals and pose significant fiscal risks: they should be phased out and replaced by well-targeted support to vulnerable groups. Scaling up investment in education, health and physical infrastructure will help boost potential output. Combined with measures to reduce informality, this would improve the population's living standards more effectively and sustainably than a significant minimum wage increase.

40. Monitoring fiscal risks and enhancing governance would help improve the efficiency of fiscal policies. With the pandemic and rising energy prices, the authorities have increasingly resorted to off-budget and quasi-fiscal operations. All spending should be transparently brought on budget, while ensuring cost recovery for SOEs and extra-budgetary funds.

41. The current neutral monetary policy stance is appropriate, but risks require vigilance. Inflation has declined, but risks are on the upside. Global commodity prices could increase sharply if the conflict in the Middle East escalates. Domestically, the government's stimulus package could generate inflationary pressures and risk de-anchoring inflation expectations. In any case, monetary policy should be ready to tighten if inflation risks materialize. The exchange rate should continue to act as a shock absorber given Thailand's relatively liquid FX market, with no strong evidence of FX mismatches. However, FXI could be a useful part of the policy mix when the FX market becomes dysfunctional and deviations in hedging and financing premia become excessive due to large non-fundamental shocks.

42. Thailand's external position in 2023 was stronger than warranted by medium-term fundamentals and desirable policies.[22] Going forward, enhancing social safety nets, boosting investment in human and physical capital will help reduce Thailand's persistent saving-investment gap.

43. Elevated private debt remains a source of financial sector vulnerability and requires a comprehensive approach. An acceleration of ongoing efforts to facilitate private debt restructurings is needed, including by addressing remaining gaps in the insolvency regime, complemented by macro-prudential measures to limit excessive leverage and related financial stability risks. Implementing a well-calibrated DSR would be an important step in the right direction. Debt moratoriums would only delay the inevitable exit of unviable agents and create moral hazard.

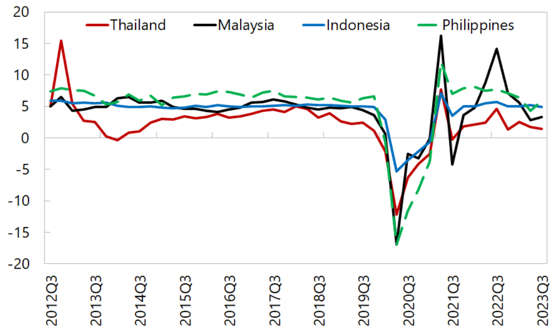
44. It is recommended that the next Article IV consultation with Thailand takes place on a standard 12-month cycle.

[22] The assessment for 2023 is based on the preliminary staff estimates.

Figure 1. Thailand: Real Sector Developments

Thailand's recovery has been weaker than for its peers.

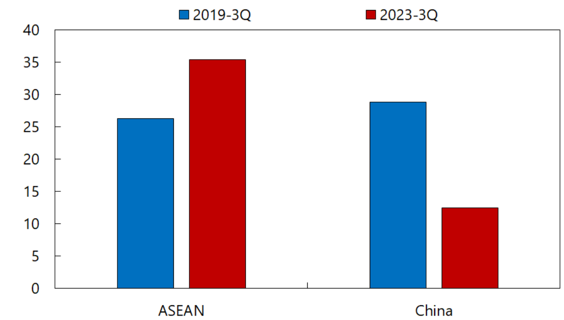
ASEAN-4: Real GDP Growth
(In percent, year-over-year)



Sources: Haver Analytics and IMF staff calculations.

Growth is supported by the return of foreign tourists, particularly from ASEAN countries....

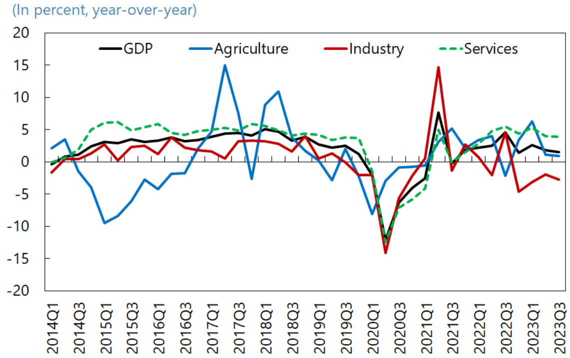
Tourism from ASEAN & China
(In percent of total international tourists, for first 3 quarters)



Sources: Thai authorities, Haver Analytics, and IMF staff calculations.

...which fueled services sector growth....

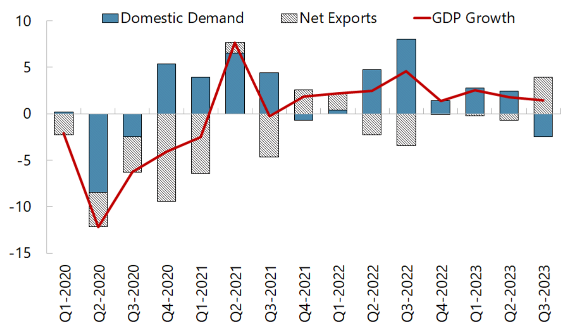
Real GDP Growth, Supply
(In percent, year-over-year)



Sources: Thai authorities; Haver Analytics and IMF staff calculations.

...and boosted net exports and private consumption.

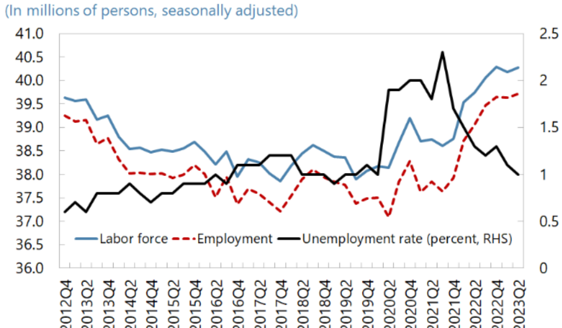
Contribution to GDP Growth, Expenditure
(In percent, year-over-year)



Sources: Thai authorities; and IMF staff calculations.

The ongoing recovery improved labor market outcomes...

Labor Market[1]
(In millions of persons, seasonally adjusted)

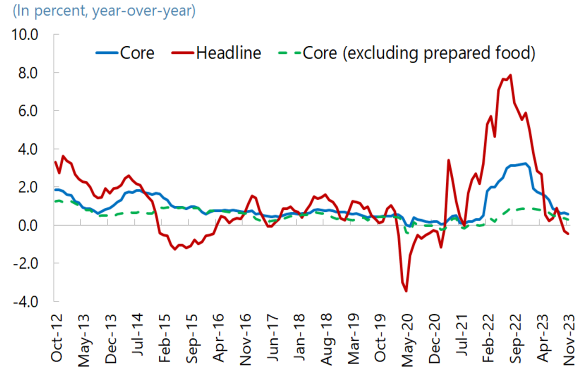


Source: Haver Analytics

[1] All series are affected by a methodological break in 2014 Q1 as the methodology for calculating the population structure was modified.

...without generating significant price pressures.

Inflation
(In percent, year-over-year)

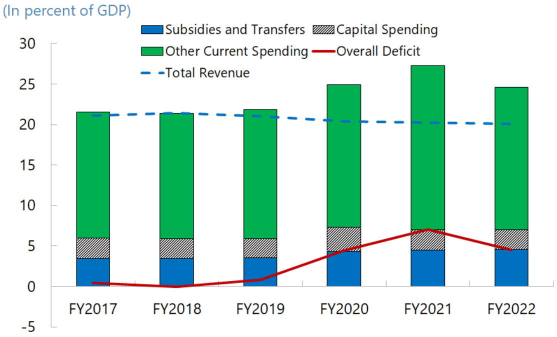


Sources: Haver Analytics; and IMF staff calculations.

Figure 2. Thailand: Fiscal Sector Developments

The fiscal balance improved in FY2022 following the end of COVID-19-related support measures…

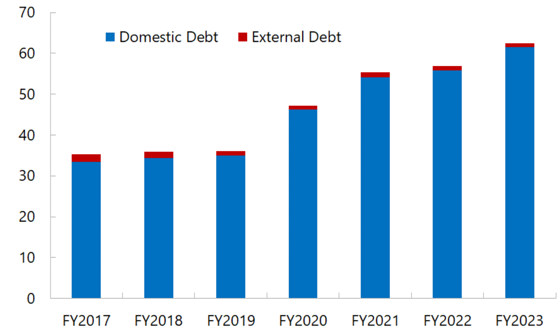
Evolution of Revenues, Expenditure and Overall Deficit
(In percent of GDP)



Sources: Thai authorities; Haver Analytics and IMF staff calculations.
Notes: Subsidies and Transfers include Social Benefits.

…and thus, public debt is stabilizing after a sharp increase.

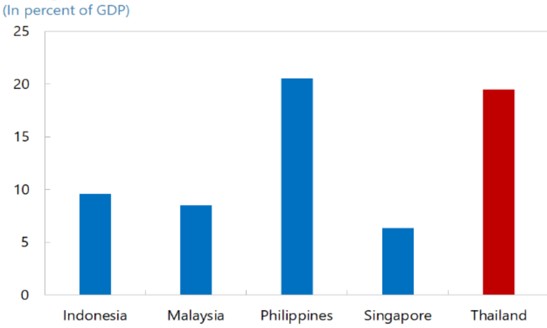
Public Debt Evolution
(In percent of GDP)



Sources: Thai authorities; and IMF staff calculations.

Thailand accumulated significant debt during the pandemic, reflecting the strong fiscal response.

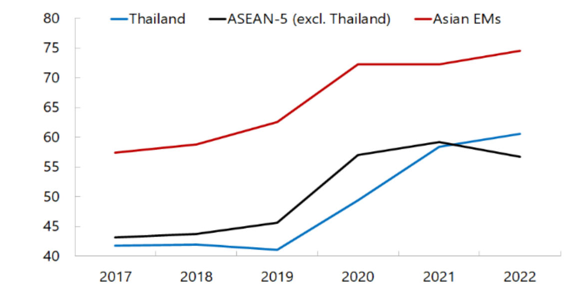
Change in Public Debt between 2022 and 2019
(In percent of GDP)



Sources: Country authorities; CEIC Data Co. Ltd.; and IMF staff calculations.

Nonetheless, Thailand's public debt remains on par with other ASEAN-5 countries despite a broader coverage.

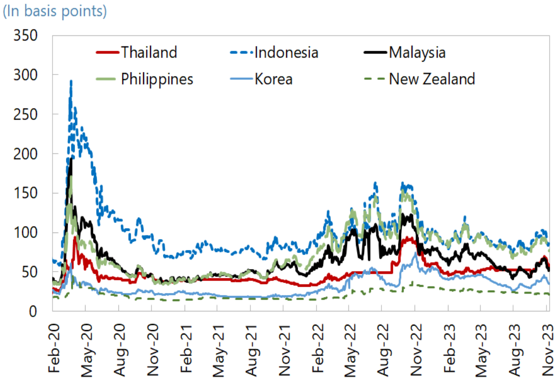
ASEAN and EMs: Public Debt
(In percent of GDP)



Sources: Country authorities; Haver analytics and IMF staff calculations.
Notes: Public Debt is GDP weighted for ASEAN-5 and Asian Emerging Markets exclude ASEAN-5 countries.

Thailand's sovereign spreads are also among the lowest in Asia.

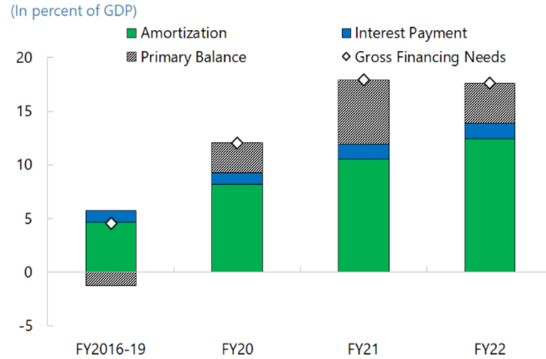
5-year Sovereign CDS Spreads
(In basis points)



Sources: Bloomberg LP and IMF staff calculations.

Gross financing needs increased because of the large COVID-19 related borrowing.

Public Gross Financing Needs
(In percent of GDP)

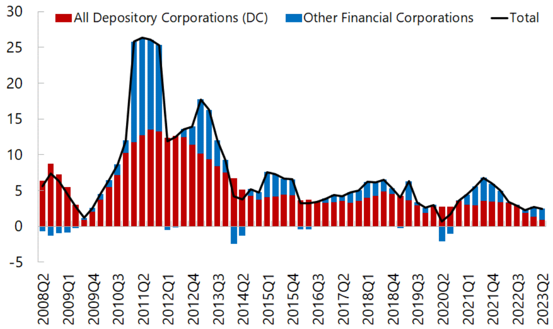


Sources: Thai authorities and IMF staff estimations and projections.

Figure 3. Thailand: Financial Sector Developments

Credit growth remained modest in FY23, in line with the slow economic recovery…

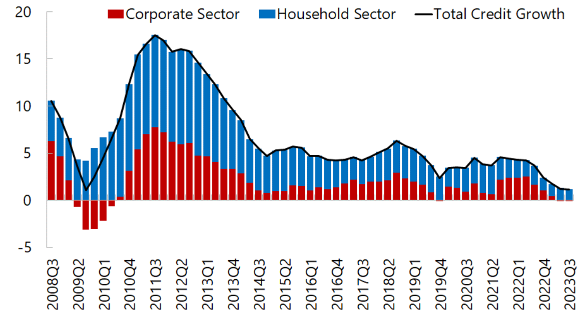
Contribution to Credit Growth - All Corporations
(In percent, year-over-year)



Sources: CEIC Data Co. Ltd; and IMF staff calculations.

…and was driven by reduced lending to the corporate sector.

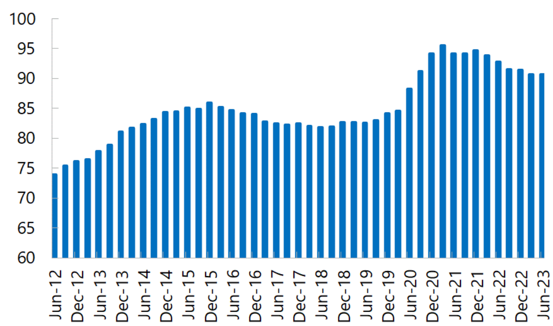
Contribution to Credit Growth - Other Depository Corporations
(In percent, year-over-year)



Sources: CEIC Data Co. Ltd; and IMF staff calculations.

Household debt has declined from its pandemic peak, but remains elevated…

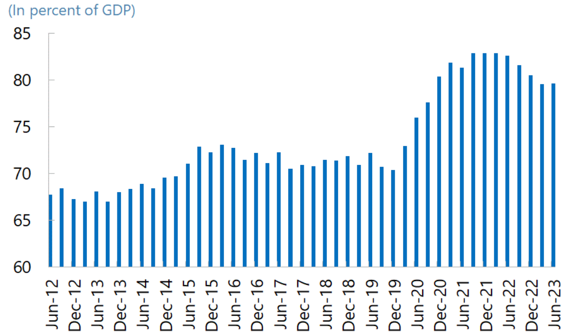
Household Debt
(In percent of GDP)



Source: Bank of Thailand.

… and corporate leverage also remained persistently high despite the recovery.

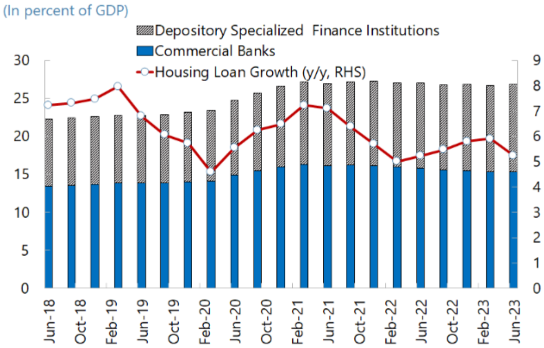
Corporate Debt
(In percent of GDP)



Source: CEIC and IMF staff calculations.
Notes: Corporate debt refers to nonfinancial corporations' excluding state-owned enterprises.

Rising interest rates and reinstated Loan-to-Value (LTV) requirements lowered housing loans growth in FY23…

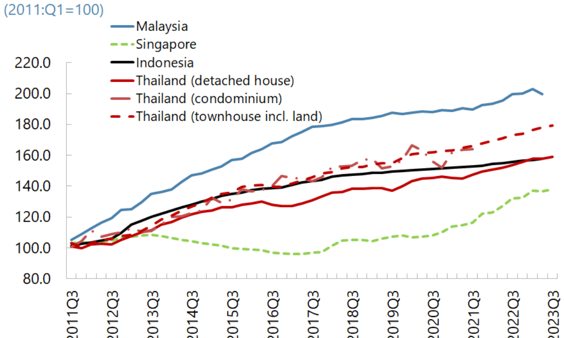
Housing Loans
(In percent of GDP)



Sources: Bank of Thailand, and IMF staff calculations.

…while the housing prices continued to increase.

House Price Index [1/]
(2011:Q1=100)

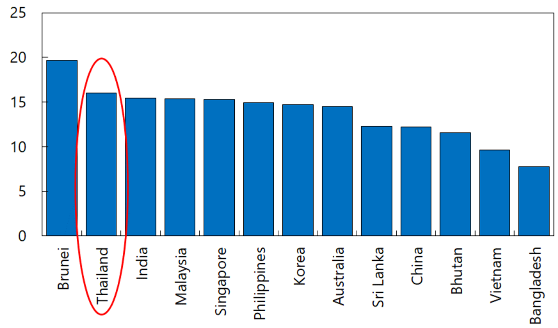


Sources: Haver Analytics; and IMF staff calculations.
1/ Quarterly averages. House price indices for Thailand start in 2008:q1

Figure 4. Thailand: Banking Sector Developments

Commercial banks have strong capital adequacy as compared to regional peers…

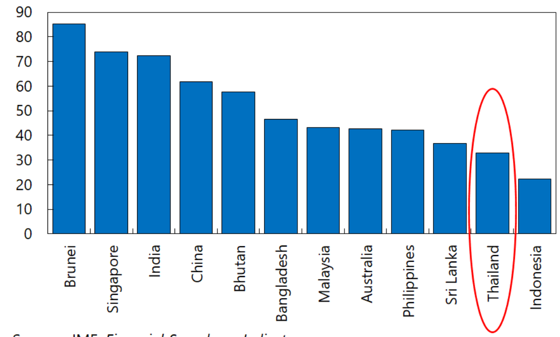
Regulatory Tier 1 Capital to Risk-Weighted Assets
(In percent, latest quarterly data)



Sources: IMF, *Financial Soundness Indicators.*

…while the liquidity coverage ratio lags due to reliance on short-term liabilities.

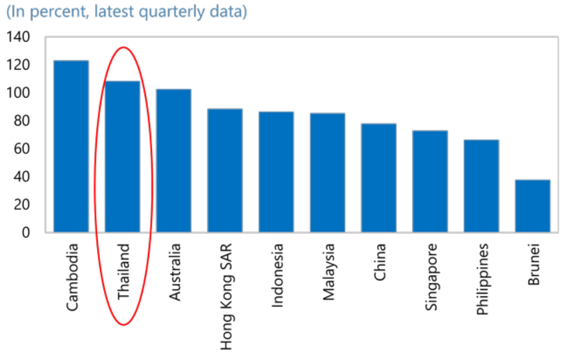
Liquid Assets to Short-Term Liabilities
(In percent, latest quarterly data)



Sources: IMF, *Financial Soundness Indicators.*

Loans-to-Deposits Ratio (LDR) remained high, suggesting increased liquidity risk…

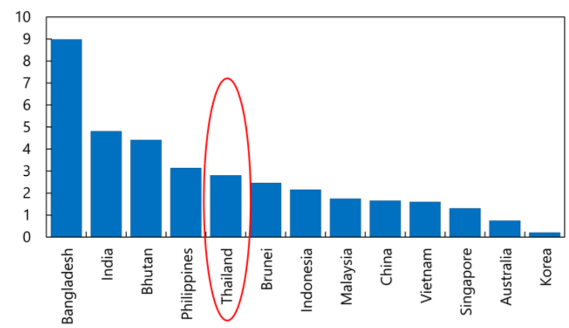
Loans to Deposits
(In percent, latest quarterly data)



Sources: CEIC Data Co. Ltd.; and IMF staff calculations.

…while credit risk remained low.

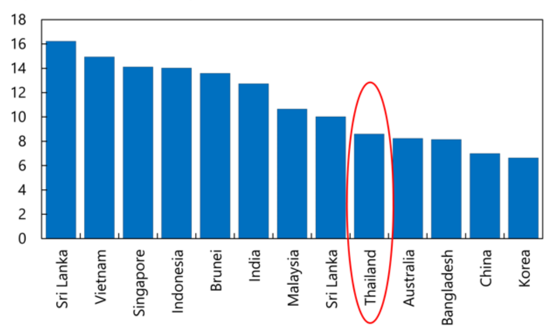
Nonperforming Loans to Total Gross Loans
(In percent, latest quarterly data)



Sources: IMF, *Financial Soundness Indicators.*

Banks' profitability has remained sound…

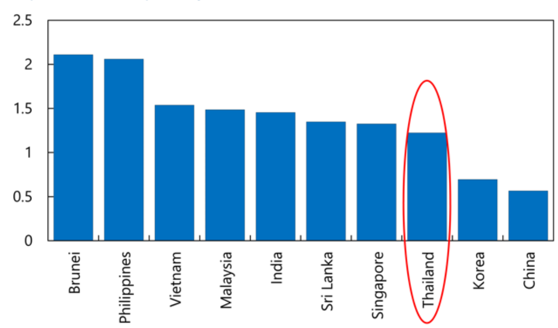
Return on Equity
(In percent, latest quarterly data)



Sources: IMF, *Financial Soundness Indicators.*

while consistently below peers.

Return on Assets
(In percent, latest quarterly data)

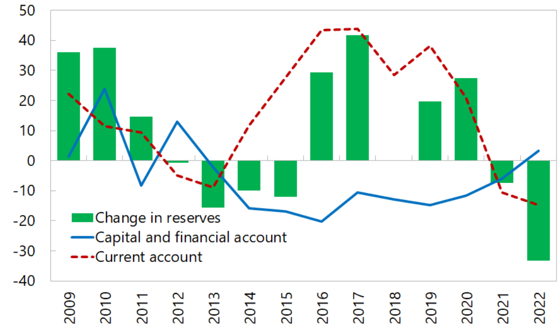


Sources: IMF, *Financial Soundness Indicators.*

Figure 5. Thailand: External Sector Developments

The current account deficit increased in 2022, while reserves declined further.

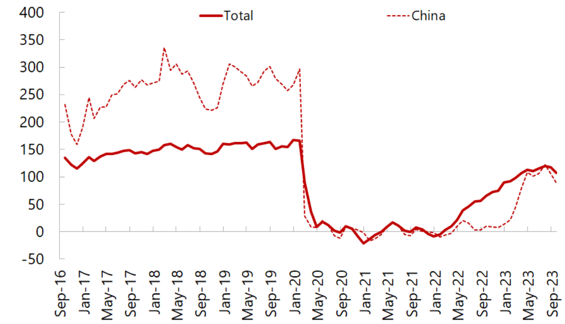
Current, Capital and Financial Account, and Reserves
(In billions of U.S. Dollars)



Sources: CEIC; and IMF staff calculations.

Tourist arrivals are gradually recovering, including from China.

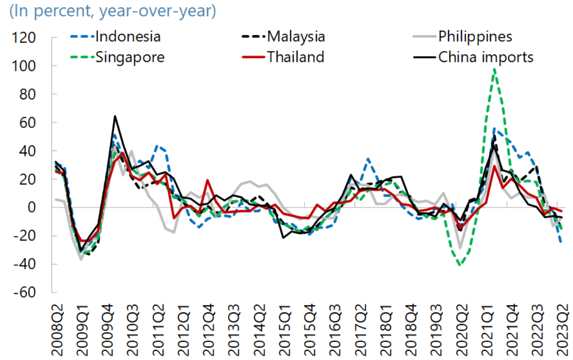
Tourist Arrivals in Thailand
(Index sa, Jan-2013=100)



Sources: Haver Analytics; and IMF staff calculations.

Export growth has been declining, in line with peers.

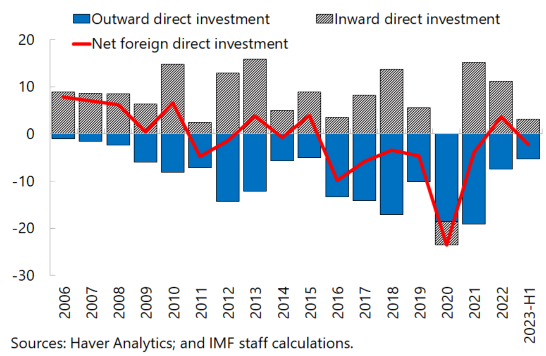
ASEAN-5 Export Growth and China's Imports
(In percent, year-over-year)



Sources: IMF, *Direction of Trade*; and IMF staff calculations.

Net foreign direct investment turned positive in 2022, despite a slowdown in inward direct investment

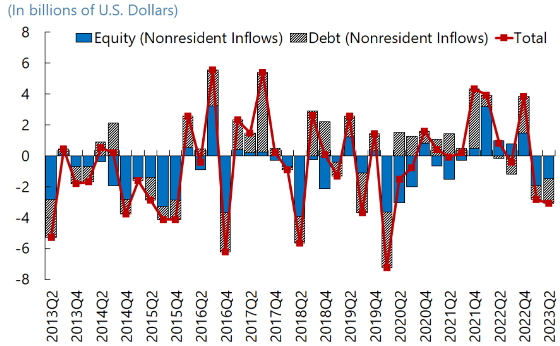
Inward and Outward Direct Investment
(In billions of U.S. Dollars)



Sources: Haver Analytics; and IMF staff calculations.

Nonresident portfolio outflows in the first half of 2023…

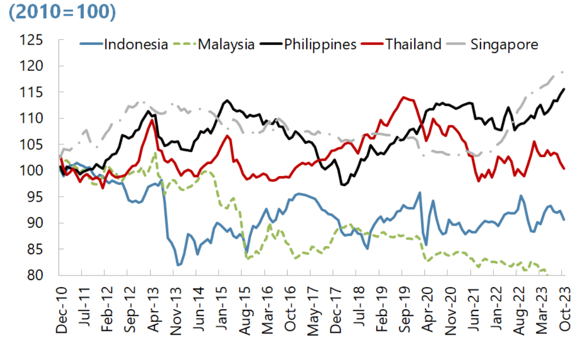
Nonresident Equity and Bonds Inflows
(In billions of U.S. Dollars)



Sources: Bank of Thailand; Haver Analytics; and IMF staff calculations.

… have contributed to a depreciation of the real effective exchange rate.

ASEAN-5: Real Effective Exchange Rate (2010=100)

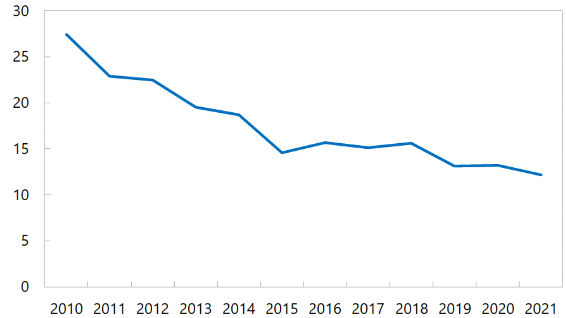


Source: Thai authorities; Haver Analytics; and IMF staff calculations.

Figure 6. Thailand: Socio-Economic Developments

After a slight setback during the pandemic, the poverty rate has declined…

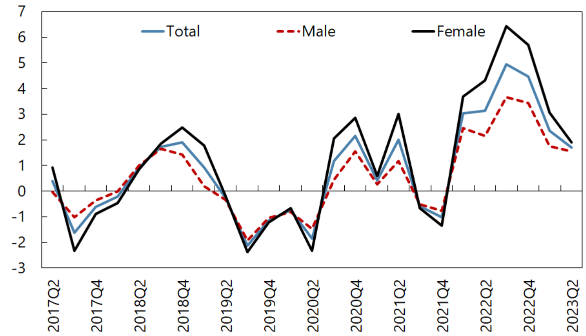
Poverty Headcount Ratio
(at $5.50 a day, 2011 PPP; percent of population)



Sources: World Bank's World Development Indicators database.

…reflecting a strong employment performance, particularly for women…

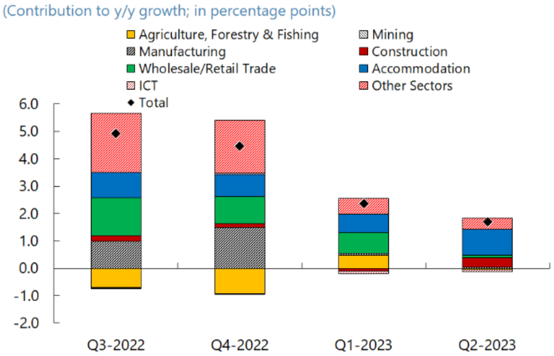
Employment by Gender
(In percent, year-over-year)



Sources: Thai authorities; Haver Analytics; and IMF staff calculations.

…driven by tourism related sectors…

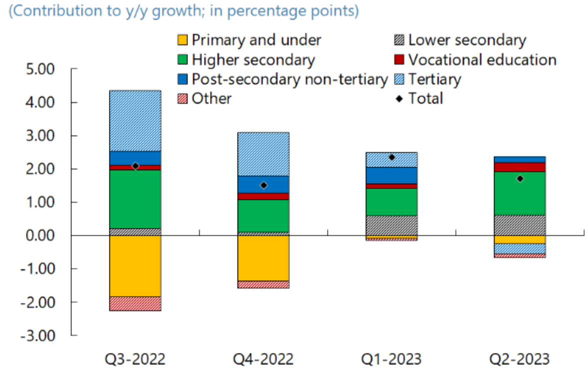
Employment Growth by Sectors
(Contribution to y/y growth; in percentage points)



Sources: Office of the National Economic and Social Development Council; and IMF staff calculations.

…which employ mostly low-to-medium skilled workers.

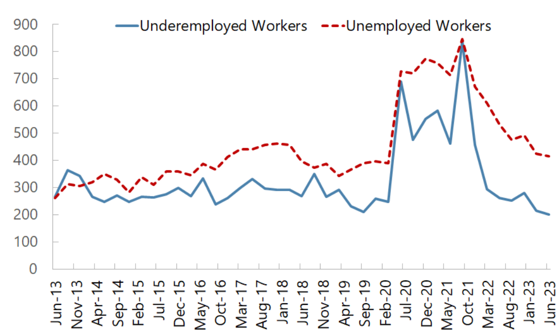
Employment Growth by Educational Attainment
(Contribution to y/y growth; in percentage points)



Sources: Office of the National Economic and Social Development Council; and IMF staff calculations.

Unemployment and underemployment have declined substantially from their peak…

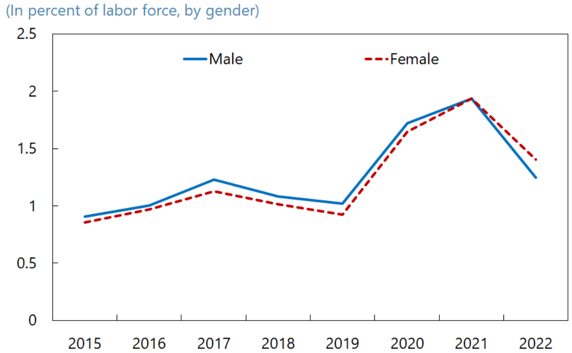
Underemployed and Unemployed Workers
(In thousands of people, quarterly, sa)



Sources: Bank of Thailand; Haver Analytics; and IMF staff calculations.

…but the unemployment rate is now higher for women.

Unemployment Rate
(In percent of labor force, by gender)

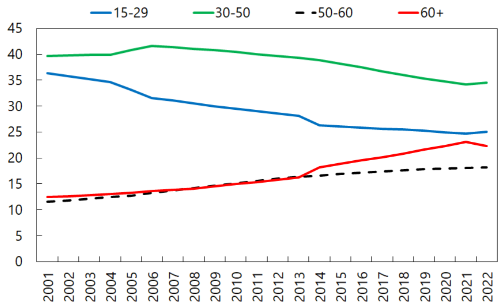


Sources: Thai authorities; Haver Analytics and IMF staff calculations.

Figure 7. Thailand: Structural Challenges

Thailand's population is aging fast...

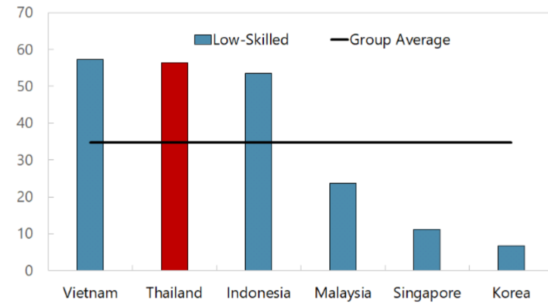
Composition of Labor Force, by Age
(In percent of labor force)



Sources: Thai authorities, Haver Analytics, and IMF staff calculations.

...amidst a large share of low-skilled workers in the labor force....

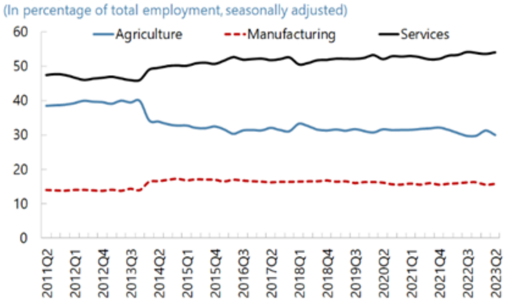
Share of Low-Skilled Labor in Labor Force
(In percent)



Sources: ILO and IMF Staff calculations
Notes: Data pertains to 2021 for Indonesia, Korea and Vietnam, and 2020 for Thailand, Malaysia and Singapore

...that are mostly employed in tourism related services sectors.

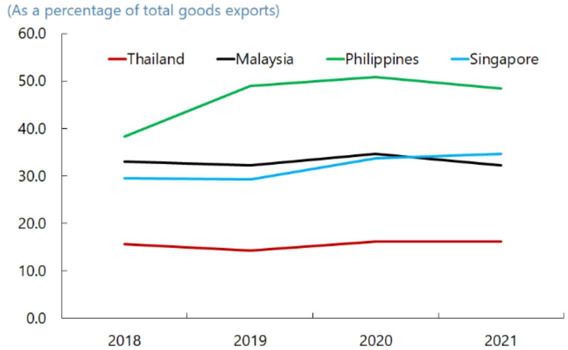
Employment by Sector[1]
(In percentage of total employment, seasonally adjusted)



Source: Haver Analytics.
[1] All series are affected by a methodological break in 2014 Q1 as the methodology for calculating the population structure was modified

Thailand lags peers in terms of export sophistication...

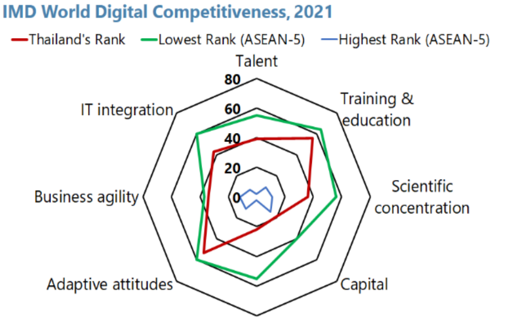
Selected ASEAN: ICT Goods Exports
(As a percentage of total goods exports)



Sources: World Bank's World Development Indicators.

...reflecting structural factors that weigh on competitiveness...

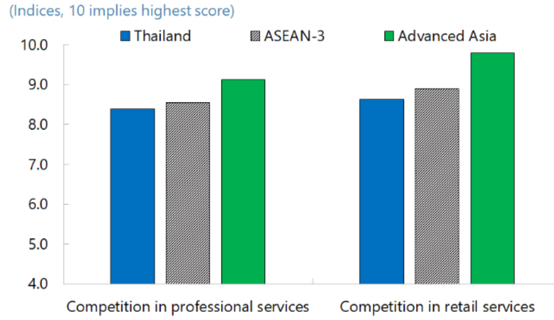
IMD World Digital Competitiveness, 2021



Source: IMD Business School;
Notes: Numbers indicate rankings received by countries and measure the relative capacity of economies to adopt digital technologies to drive economic transformation. Rankings are based on data from country authorities, international organizations, and surveys of business executives and government officials.

...including in the professional and retail services.

Competition across Various Industries
(Indices, 10 implies highest score)



Sources: World Economic Forum, Economist Intelligence Unit, and IMF staff calculations.
Notes: Advanced Asia includes Australia, New Zealand, Singapore, Korea and Japan. ASEAN-3 includes Malaysia, Indonesia and Philippines.

Table 1. Thailand: Selected Economic Indicators, 2019–25

Per capita GDP (2022): US$7,070
Exchange Rate (2022): 35.06 Baht/USD
Unemployment rate (2022): 1 percent
Poverty headcount ratio at national poverty line (2020): 6.8 percent
Net FDI (2022): US$ 3.72 billion
Public debt (2007/08): 38.1 percent of GDP
Foreign public debt (2006/7): 12.8 percent of total public debt
Population (2022): 70.1 million

	Actual				Est.	Projections	
	2019	2020	2021	2022	2023	2024	2025
Real GDP growth (y/y percent change) 1/	2.1	-6.1	1.5	2.6	2.5	4.4	2.0
Consumption	3.4	-0.3	1.3	5.0	4.8	6.0	0.3
Gross fixed investment	2.0	-4.8	3.1	2.3	2.0	3.0	2.1
Inflation (y/y percent change)							
Headline CPI (end of period)	0.9	-0.3	2.2	5.9	-0.4	1.7	2.0
Headline CPI (period average)	0.7	-0.8	1.2	6.1	1.3	1.7	1.9
Core CPI (end of period)	0.5	0.2	0.3	3.2	0.4	1.3	2.0
Core CPI (period average)	0.5	0.3	0.2	2.5	1.2	1.4	1.6
Saving and investment (percent of GDP)							
Gross domestic investment	23.8	23.7	28.6	27.8	21.9	19.7	20.7
Private	16.9	16.8	17.0	17.4	17.7	17.5	17.5
Public	5.7	6.4	6.5	6.0	5.8	5.8	5.9
Change in stocks	1.2	0.5	5.1	4.4	-1.6	-3.6	-2.6
Gross national saving	30.8	27.9	26.6	24.6	22.6	17.5	20.2
Private, including statistical discrepancy	25.8	26.1	26.9	23.1	21.3	17.5	17.9
Public	5.1	1.8	-0.3	1.5	1.4	0.0	2.3
Foreign saving	-7.0	-4.2	2.0	3.2	-0.8	-1.4	-2.1
Fiscal accounts (percent of GDP) 2/							
General government balance 3/	0.4	-4.5	-6.8	-4.5	-3.2	-6.2	-3.4
SOEs balance	0.4	0.6	-0.3	-0.6	-0.1	0.0	0.0
Public sector balance 4/	0.8	-3.8	-7.1	-5.1	-3.3	-6.2	-3.4
Public sector debt (end of period) 4/	41.1	49.4	58.4	60.5	62.4	65.8	66.9
Monetary accounts (end of period, y/y percent change)							
Broad money growth	3.6	10.2	4.8	3.9	1.3	5.6	3.6
Narrow money growth	5.7	14.2	14.0	3.1	1.3	5.6	3.6
Credit to the private sector (by other depository corporations)	2.4	4.5	4.5	2.4	1.3	3.8	2.4
Balance of payments (billions of U.S. dollars)							
Current account balance	38.3	20.9	-10.3	-15.7	4.1	7.7	12.3
(In percent of GDP)	7.0	4.2	-2.0	-3.2	0.8	1.4	2.1
Exports of goods, f.o.b.	242.7	227.0	270.6	285.2	279.1	298.8	313.2
Growth rate (dollar terms)	-3.3	-6.5	19.2	5.4	-2.1	7.1	4.8
Growth rate (volume terms)	-3.7	-5.8	15.4	1.2	-2.9	3.7	3.8
Imports of goods, f.o.b.	216.0	186.6	238.2	271.6	263.3	282.8	295.9
Growth rate (dollar terms)	-5.6	-13.6	27.7	14.0	-3.1	7.4	4.6
Growth rate (volume terms)	-5.8	-10.4	17.8	0.9	-4.2	5.7	3.5
Capital and financial account balance 5/	-24.7	-2.6	3.2	5.5	-4.1	-7.7	-12.3
Overall balance	13.6	18.4	-7.1	-10.2	0.0	0.0	0.0
Gross official reserves (including net forward position, end of period) (billions of U.S. dollars)	259.0	286.5	279.2	245.8	245.8	245.8	245.8
(Months of following year's imports)	16.7	14.4	12.3	11.2	10.4	10.0	9.5
(Percent of short-term debt) 6/	326.3	310.7	291.8	245.9	252.9	243.6	231.9
(Percent of ARA metric)	251.5	277.8	259.6	224.8	219.1	209.0	200.2
Forward position of BOT (end of period)	-34.7	-28.3	-33.2	-29.2	-29.2	-29.2	-29.2
Exchange rate (baht/U.S. dollar)	31.0	31.3	32.0	35.1	34.3	34.0	33.8
NEER appreciation (annual average)	7.2	-0.3	-4.5	-1.8	...	...	...
REER appreciation (annual average)	5.8	-2.6	-5.7	-1.1	...	...	...
External debt							
(In percent of GDP)	31.7	38.0	38.8	40.4	41.0	40.4	41.0
(In billions of U.S. dollars)	172.6	190.1	196.2	200.3	213.2	223.7	236.6
Public sector 7/	38.0	37.2	41.5	41.2	44.6	46.2	48.0
Private sector	133.9	152.9	154.7	159.1	170.3	179.1	190.2
Medium- and long-term	74.6	79.4	82.3	82.3	95.8	100.3	106.6
Short-term (including portfolio flows)	59.3	73.5	72.4	76.8	74.5	78.8	83.6
Debt service ratio 8/	6.9	8.4	6.7	7.3	9.2	7.3	7.3
Memorandum items:							
Nominal GDP (billions of baht)	16889.2	15661.1	16166.6	17370.2	17839.5	18829.8	19509.2
(In billions of U.S. dollars)	544.0	500.5	505.6	495.4	519.7	554.4	577.5

Sources: Thai authorities; CEIC Data Co. Ltd.; and IMF staff estimates and projections.

1/ This series reflects the new GDP data based on the chain volume measure methodology, introduced by the Thai authorities in May 2015.
2/ On a fiscal year basis. The fiscal year ends on September 30.
3/ Includes budgetary central government, extrabudgetary funds, and local governments.
4/ Includes general government and SOEs.
5/ Includes errors and omissions.
6/ With remaining maturity of one year or less.
7/ Excludes debt of state enterprises.
8/ Percent of exports of goods and services.

Table 2. Thailand: Macroeconomic Framework, 2019–29

	Actual				Est.	Projections					
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Real GDP growth (y/y percent change)	2.1	-6.1	1.5	2.6	2.5	4.4	2.0	3.0	3.0	3.0	3.0
Consumption	3.4	-0.3	1.3	5.0	4.8	6.0	0.3	2.8	2.9	3.3	3.2
Gross fixed investment	2.0	-4.8	3.1	2.3	2.0	3.0	2.1	1.8	2.7	2.2	2.7
Headline CPI inflation (period average, y/y percent change)	0.7	-0.8	1.2	6.1	1.3	1.7	1.9	2.0	2.0	2.0	2.0
Core CPI inflation (period average, y/y percent change)	0.5	0.3	0.2	2.5	1.2	1.4	1.6	2.0	2.0	2.0	2.0
Saving and investment (percent of GDP)											
Gross domestic investment	23.8	23.7	28.6	27.8	21.9	19.7	20.7	20.1	20.1	19.8	19.8
Private	16.9	16.8	17.0	17.4	17.7	17.5	17.5	17.2	16.9	16.6	16.5
Public	5.7	6.4	6.5	6.0	5.8	5.8	5.9	5.7	5.7	5.7	5.7
Change in stocks	1.2	0.5	5.1	4.4	-1.6	-3.6	-2.6	-2.8	-2.6	-2.6	-2.4
Gross national saving	30.8	27.9	26.6	24.6	22.6	21.1	22.8	22.6	22.9	22.8	22.9
Private, including statistical discrepancy	25.8	26.1	26.9	23.1	21.3	21.1	20.5	20.2	20.3	20.0	17.0
Public	5.1	1.8	-0.3	1.5	1.4	0.0	2.3	2.4	2.6	2.8	5.9
Foreign saving (- = current account surplus)	-7.0	-4.2	2.0	3.2	-0.8	-1.4	-2.1	-2.5	-2.9	-3.0	-3.0
Credit to the private sector	2.4	4.5	4.5	2.4	1.3	3.8	2.4	4.4	4.8	5.1	5.0
(by other depository corporations, y/y percent change)											
Fiscal accounts (percent of GDP, fiscal year basis)											
General government balance	0.4	-4.5	-6.8	-4.5	-3.2	-6.2	-3.4	-3.4	-3.2	-3.0	-2.9
Revenue and grants	21.0	20.4	20.0	20.1	20.0	20.3	20.3	20.4	20.6	20.8	21.0
Expense and net acquisition of nonfinancial assets	20.6	24.9	26.8	24.5	23.2	26.5	23.7	23.8	23.8	23.8	23.9
Public sector balance	0.8	-3.8	-7.1	-5.1	-3.3	-6.2	-3.4	-3.1	-2.9	-2.6	-2.5
Non-financial public enterprise balance	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Public sector debt (end of period)	41.1	49.4	58.4	60.5	62.4	65.8	66.9	66.8	66.2	65.4	64.7
Balance of payments (billions of U.S. dollars)											
Exports, f.o.b.	242.7	227.0	270.6	285.2	279.1	298.8	313.2	330.3	347.7	366.9	386.2
(Volume growth)	-3.7	-5.8	15.5	1.3	-2.9	3.7	3.8	4.0	3.5	3.8	3.6
Imports, f.o.b.	216.0	186.6	238.2	271.6	263.3	282.8	295.9	310.7	326.0	343.0	361.0
(Volume growth)	-5.8	-10.5	17.9	2.0	-4.2	5.7	3.5	4.0	4.0	4.0	4.0
Trade balance	26.7	40.4	32.4	13.5	15.7	16.0	17.3	19.5	21.7	23.9	25.2
Services, income, and transfers	11.5	-19.5	-42.6	-29.3	-11.6	-8.3	-5.0	-4.1	-3.3	12.0	12.5
Current account balance	38.3	20.9	-10.3	-15.7	4.1	7.7	12.3	15.5	18.4	20.7	21.6
(Percent of GDP)	7.0	4.2	-2.0	-3.2	0.8	1.4	2.1	2.5	2.9	3.0	3.0
Financial account balance 1/	-24.7	-2.6	3.2	5.5	-4.1	-7.7	-12.3	-15.5	-18.4	-20.7	-21.6
Overall balance	13.6	18.4	-7.1	-10.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross official reserves (including net forward position, billions of U.S. dollars)	259.0	286.5	279.2	245.8	245.8	245.8	245.8	245.8	245.8	245.8	245.8
(Percent of ARA metric)	251.5	277.8	259.6	224.8	219.1	209.0	200.2	192.0	183.4	176.5	169.5
External debt											
External debt (billions of U.S. dollars)	172.6	190.1	196.2	200.3	213.2	223.7	236.6	252.2	268.4	286.2	305.3
External debt (percent of GDP)	31.7	38.0	38.8	40.4	41.0	40.4	41.0	41.3	41.6	42.1	42.7

Sources: Thai authorities; CEIC Data Co. Ltd.; and IMF staff estimates and projections.

1/ Includes errors and omissions.

Table 3a. Thailand: Medium-Term Fiscal Scenario, FY2020–FY2028 1/

(In billions of baht, unless otherwise stated)

	Actual			Est.	Projections				
	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
General Government									
Revenue	3244.4	3204.7	3437.8	3569.5	3786.1	3926.1	4144.6	4405.0	4688.6
Tax revenue	2462.8	2517.1	2742.9	2847.0	3001.1	3101.4	3262.2	3453.7	3664.0
Taxes on income	912.6	923.8	1064.1	1079.1	1151.6	1196.8	1241.9	1315.0	1391.3
Personal income tax	297.3	295.3	329.9	344.6	362.6	376.8	395.4	417.2	439.9
Corporate income tax	615.4	628.5	734.2	734.5	789.0	820.0	846.5	897.8	951.5
Taxes on goods and services	1441.8	1477.1	1523.6	1607.5	1681.2	1728.4	1835.3	1944.0	2067.7
o/w Value added tax	552.5	625.3	719.3	750.9	792.7	807.6	858.7	901.3	949.1
o/w Excises	635.3	621.7	591.6	635.3	656.7	680.8	724.8	776.9	838.4
Taxes on international trade	84.2	93.0	100.2	103.3	108.3	114.2	120.0	126.0	132.5
Other	24.2	23.2	55.0	57.2	59.9	62.1	65.1	68.7	72.4
Social contributions	151.3	107.2	119.9	124.8	130.7	135.4	142.1	149.9	158.0
Other revenue	628.8	608.7	572.3	595.4	652.0	686.9	737.7	798.8	863.8
Total expenditure	3952.0	4284.4	4202.4	4133.0	4942.1	4578.0	4826.9	5093.7	5370.5
Expense	3480.0	3924.9	3776.0	3749.6	4537.3	4116.0	4342.0	4582.1	4831.2
Compensation of employees	956.7	955.4	975.4	984.6	1063.0	1100.9	1175.6	1261.8	1352.9
Purchase/use of goods and services	989.4	1072.0	1186.5	1022.3	1127.4	1203.7	1263.2	1332.9	1405.2
Interest	153.8	201.9	226.1	212.5	242.8	270.2	286.1	302.5	319.1
Social benefits	505.4	541.5	618.9	629.5	1155.8	621.2	651.8	687.8	725.1
Subsidies	178.8	168.6	165.0	277.7	198.5	205.6	215.8	227.7	240.0
Consumption of fixed capital	182.4	209.9	229.9	238.9	250.6	259.5	272.3	287.4	303.0
Expense not elsewhere classified	513.6	775.5	374.0	384.0	499.2	454.8	477.3	482.2	485.8
Net acquisition of nonfinancial assets	472.0	359.5	426.4	383.4	404.8	462.0	484.8	511.6	539.3
o.w. fixed assets	509.3	474.9	426.5	382.7	404.8	462.0	484.8	511.6	539.3
o.w. nonproduced assets	-37.6	-115.9	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Overall fiscal balance	-707.5	-1079.7	-764.5	-563.5	-1156.0	-651.9	-682.3	-688.7	-681.9
Cyclically adjusted primary balance	-430.4	-727.9	-461.0	-368.2	-1005.9	-506.0	-487.0	-515.0	-313.6
SOEs									
Overall fiscal balance 2/	96.6	-49.7	-110.0	-24.3	-5.4	3.8	58.9	75.3	93.3
Public Sector									
Overall fiscal balance 3/	-610.9	-1129.4	-874.5	-587.8	-1161.4	-648.1	-623.4	-613.3	-588.5
Debt	7848.2	9337.5	10373.9	11131.6	12291.3	12938.7	13561.8	14175.0	14763.4
Memorandum items:									
Public sector investment 4/	1030.4	988.8	1101.5	968.2	1015.1	1092.4	1102.5	1163.3	1226.5
General government	654.4	569.4	656.4	622.4	655.4	721.5	757.1	798.9	842.3
Public enterprises	376.0	419.4	445.1	345.8	359.8	370.9	345.3	364.4	384.2

Sources: Thai authorities; and IMF staff estimates and projections.

1/ Fiscal year runs from October to September.

2/ Estimated from the evolution of SOEs debt.

3/ Includes General Government and SOEs.

4/ Official GFS data are not available for the Public Sector. Historical data are estimated based on GFS General Government official data, and information from SEPO and national accounts.

Table 3b. Thailand: Medium-Term Fiscal Scenario, FY2020–FY2029 1/

(In percent of fiscal year GDP, unless otherwise stated)

	Actual			Est.	Projections					
	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
General Government										
Revenue and grants	20.4	20.0	20.1	20.0	20.3	20.3	20.4	20.6	20.8	21.0
Tax revenue	15.5	15.7	16.0	16.0	16.1	16.0	16.1	16.1	16.2	16.3
Taxes on income	5.7	5.8	6.2	6.1	6.2	6.2	6.1	6.1	6.2	6.2
Personal income tax	1.9	1.8	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Corporate income tax	3.9	3.9	4.3	4.1	4.2	4.2	4.2	4.2	4.2	4.2
Taxes on goods and services	9.1	9.2	8.9	9.0	9.0	8.9	9.0	9.1	9.2	9.2
o/w Value added tax	3.5	3.9	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2
o/w Excises	4.0	3.9	3.5	3.6	3.5	3.5	3.6	3.6	3.7	3.8
Taxes on international trade	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Other	0.2	0.1	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Social contributions	1.0	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Other revenue	4.0	3.8	3.3	3.3	3.5	3.6	3.6	3.7	3.8	3.9
Total expenditure	24.9	26.8	24.5	23.2	26.5	23.7	23.8	23.8	23.8	23.9
Expense	21.9	24.5	22.0	21.0	24.3	21.3	21.4	21.4	21.4	21.5
Compensation of employees	6.0	6.0	5.7	5.5	5.7	5.7	5.8	5.9	6.0	6.0
Purchase/use of goods and services	6.2	6.7	6.9	5.7	6.0	6.2	6.2	6.2	6.2	6.2
Interest	1.0	1.3	1.3	1.2	1.3	1.4	1.4	1.4	1.4	1.4
Social benefits	3.2	3.4	3.6	3.5	6.2	3.2	3.2	3.2	3.2	3.2
Subsidies	1.1	1.1	1.0	1.6	1.1	1.1	1.1	1.1	1.1	1.1
Consumption of fixed capital	1.1	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Net acquisition of nonfinancial assets	3.0	2.2	2.5	2.2	2.2	2.4	2.4	2.4	2.4	2.4
o.w. fixed assets	3.2	3.0	2.5	2.1	2.2	2.4	2.4	2.4	2.4	2.4
o.w. nonproduced assets	-0.2	-0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall fiscal balance	-4.5	-6.8	-4.5	-3.2	-6.2	-3.4	-3.4	-3.2	-3.0	-2.9
Cyclically adjusted primary balance	-2.7	-4.6	-2.7	-2.1	-5.4	-2.6	-2.4	-2.4	-1.4	-1.3
SOEs										
Overall fiscal balance 2/	0.6	-0.3	-0.6	-0.1	0.0	0.0	0.3	0.4	0.4	0.5
Public Sector										
Overall fiscal balance 3/	-3.8	-7.1	-5.1	-3.3	-6.2	-3.4	-3.1	-2.9	-2.6	-2.5
Debt	49.4	58.4	60.5	62.4	65.8	66.9	66.8	66.2	65.4	64.7
Memorandum items:										
Public sector investment 4/	6.5	6.2	6.4	5.4	5.4	5.6	5.4	5.4	5.4	5.4
General government	4.1	3.6	3.8	3.5	3.5	3.7	3.7	3.7	3.7	3.7

Sources: Thai authorities; and IMF staff estimates and projections.

1/ Fiscal year runs from October to September.

2/ Estimated from the evolution of SOEs debt.

3/ Includes General Government and SOEs.

4/ Official GFS data are not available for the Public Sector. Historical data are estimated based on GFS General Government official data, and information from SEPO and national

Table 4. Thailand: Financial Soundness Indicators, 2017–23

	2017	2018	2019	2020	2021	2022	2023 June
			(In percent)				
Capital adequacy							
Regulatory capital to risk-weighted assets	18.0	17.9	19.4	19.8	19.6	18.9	19.0
Regulatory Tier 1 capital to risk-weighted assets	15.1	15.0	16.1	16.7	16.4	15.9	16.0
Asset quality							
Nonperforming loans net of provisions to capital	9.1	9.1	9.1	8.9	8.5	7.7	7.6
Nonperforming loans to total gross loans	3.1	3.1	3.1	3.2	3.1	2.8	2.8
Earnings and profitability							
Return on assets	1.3	1.3	1.7	0.8	1.0	1.2	1.3
Return on equity	8.9	9.3	11.4	5.5	6.8	8.4	9.7
Liquidity							
Liquid assets to total assets (liquid asset ratio)	19.9	18.9	19.7	22.2	22.9	21.4	20.9
Liquid assets to short term liabilities	32.6	30.7	33.6	34.5	34.4	32.4	33.0
Loan-deposit ratio 1/	96.3	98.3	96.3	92.2	94.2	92.0	92.0

Sources: Bank of Thailand; and Haver Analytics.

1/ This ratio excludes interbank data and covers all commercial banks (commercial banks registered in Thailand and foreign bank branches).

Table 5. Thailand: Monetary Survey, 2018–23

	2018	2019	2020	2021	2022	2023 September
Central bank survey						
Net foreign assets	6,523	6,617	7,679	7,915	7,210	7,561
Net domestic assets	-4,523	-4,546	-5,348	-5,334	-4,662	-5,022
Reserve money - Monetary base (M0)	2,001	2,071	2,332	2,580	2,548	2,539
Depository corporations survey						
Net foreign assets	6,715	6,823	7,775	7,763	7,571	7,854
Net domestic assets	13,395	14,018	15,183	16,299	17,423	17,185
Domestic credit	20,196	20,750	22,300	24,396	25,421	25,835
Net credit to central government	408	464	1,115	2,277	2,532	2,632
Credit to local government	14	12	10	9	9	9
Credit to nonfinancial public enterprises	339	373	400	455	653	748
Credit to other financial corporations	1,072	1,102	1,127	1,132	1,214	1,236
Total credit to private sector	18,364	18,799	19,647	20,524	21,014	21,209
Credit to other nonfinancial corporations	7,138	7,114	7,444	7,904	8,118	8,099
Credit to other resident sector	11,226	11,685	12,203	12,620	12,896	13,110
Other items (net)	-6,801	-6,732	-7,117	-8,098	-7,998	-8,650
Broad money	20,110	20,841	22,958	24,062	24,994	25,039
Narrow money	2,095	2,214	2,530	2,884	2,974	2,963
Currency in circulation	1,504	1,591	1,813	2,070	2,111	2,136
Deposits at depository corporations	591	624	717	814	863	827
Quasi-money	18,014	18,627	20,429	21,178	22,020	22,076
Memorandum items: (y/y percent change)						
Broad money growth	4.7	3.6	10.2	4.8	3.9	1.9
Narrow money growth	2.8	5.7	14.2	14.0	3.1	1.7
Credit to private sector (by other depository corporations)	5.8	2.4	4.5	4.5	2.4	1.1
Households	5.6	4.1	4.4	3.4	2.2	1.9
Nonfinancial corporations	6.0	-0.3	4.6	6.2	2.7	-0.2
Contribution to broad money growth						
Net foreign assets (in percent)	1.6	0.5	4.6	-0.1	-0.8	0.6
Net domestic assets (in percent)	3.1	3.1	5.6	4.9	4.7	1.3
Domestic credit (in percent)	4.8	2.8	7.4	9.1	4.3	3.2

Sources: CEIC Data Co. Ltd.; and IMF staff calculations.

Table 6. Thailand: Balance of Payments, 2019–29 1/

	Actual				Est.	Projections					
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
	(In billions of U.S. dollars)										
Current account balance	**38.3**	**20.9**	**-10.3**	**-15.7**	**4.1**	**7.7**	**12.3**	**15.5**	**18.4**	**20.7**	**21.6**
Trade balance	26.7	40.4	32.4	13.5	15.7	16.0	17.3	19.5	21.7	23.9	25.2
Exports, f.o.b.	242.7	227.0	270.6	285.2	279.1	298.8	313.2	330.3	347.7	366.9	386.2
Imports, f.o.b.	216.0	186.6	238.2	271.6	263.3	282.8	295.9	310.7	326.0	343.0	361.0
Services balance	24.3	-14.5	-32.5	-24.0	-6.9	-3.1	0.5	2.6	3.7	4.1	4.7
Of which: tourism receipts	59.8	13.4	5.1	14.9	36.1	48.4	54.2	58.7	62.1	64.8	67.6
Primary Income balance	-20.0	-11.1	-17.6	-14.4	-14.3	-15.4	-16.2	-17.5	-18.4	-19.4	-20.7
Secondary Income balance	7.2	6.1	7.4	9.0	9.6	10.2	10.7	10.8	11.4	12.0	12.5
Capital and financial account balance	**-14.8**	**-11.6**	**-5.0**	**7.1**	**-4.1**	**-7.7**	**-12.3**	**-15.5**	**-18.4**	**-20.7**	**-21.6**
Foreign direct investment	-4.6	-23.5	-4.0	3.7	-4.7	-5.0	-5.3	-5.6	-6.0	-6.3	-6.7
Abroad	-10.2	-18.6	-19.1	-7.5	-16.5	-17.1	-17.7	-18.3	-19.0	-19.7	-20.4
In reporting economy	5.5	-4.9	15.2	11.2	11.8	12.1	12.4	12.7	13.0	13.4	13.7
Portfolio investment	-8.8	-11.9	-12.0	5.8	-9.8	-10.3	-10.7	-11.2	-11.9	-12.6	-13.4
Financial derivatives	0.8	-0.4	-1.2	0.3	0.6	0.5	0.7	0.2	0.2	0.6	0.4
Other investment	-2.1	24.3	12.1	-3.2	9.8	7.1	3.0	1.1	-0.7	-2.3	-2.0
Errors and omissions	-9.9	9.0	8.2	-1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Changes in official reserves (increase -)	**-13.6**	**-18.4**	**7.1**	**10.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
	(In percent of GDP)										
Current account balance	**7.0**	**4.2**	**-2.0**	**-3.2**	**0.8**	**1.4**	**2.1**	**2.5**	**2.9**	**3.0**	**3.0**
Trade balance	4.9	8.1	6.4	2.7	3.0	2.9	3.0	3.2	3.4	3.5	3.5
Exports, f.o.b.	44.6	45.4	53.5	57.6	53.7	53.9	54.2	54.1	53.9	53.9	54.0
Imports, f.o.b.	39.7	37.3	47.1	54.8	50.7	51.0	51.2	50.9	50.6	50.4	50.4
Services balance	4.5	-2.9	-6.4	-4.8	-1.3	-0.6	0.1	0.4	0.6	0.6	0.7
Of which: tourism receipts	11.0	2.7	1.0	3.0	6.9	8.7	9.4	9.6	9.6	9.5	9.4
Primary Income balance	-3.7	-2.2	-3.5	-2.9	-2.8	-2.8	-2.8	-2.9	-2.9	-2.8	-2.9
Secondary Income balance	1.3	1.2	1.5	1.8	1.8	1.8	1.9	1.8	1.8	1.8	1.7
Capital and financial account balance	**-2.7**	**-2.3**	**-1.0**	**1.4**	**-0.8**	**-1.4**	**-2.1**	**-2.5**	**-2.9**	**-3.0**	**-3.0**
Foreign direct investment	-0.9	-4.7	-0.8	0.8	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9
Abroad	-1.9	-3.7	-3.8	-1.5	-3.2	-3.1	-3.1	-3.0	-2.9	-2.9	-2.8
In reporting economy	1.0	-1.0	3.0	2.3	2.3	2.2	2.1	2.1	2.0	2.0	1.9
Portfolio investment	-1.6	-2.4	-2.4	1.2	-1.9	-1.9	-1.9	-1.8	-1.8	-1.9	-1.9
Financial derivatives	0.2	-0.1	-0.2	0.1	0.1	0.1	0.1	0.0	0.0	0.1	0.1
Other investment	-0.4	4.8	2.4	-0.6	1.9	1.3	0.5	0.2	-0.1	-0.3	-0.3
Errors and omissions	-1.8	1.8	1.6	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Changes in official reserves (increase -)	**-2.5**	**-3.7**	**1.4**	**2.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum items											
Gross official reserves (In billions of U.S. dollars)	224	258	246	217	217	217	217	217	217	217	217
Gross official reserves (incl. net forward position) (In billions of U.S. dollars)	259	286	279	246	246	246	246	246	246	246	246
(Percent of GDP)	47.6	57.2	55.2	49.6	47.3	44.3	42.6	40.3	38.1	36.1	34.4
(Months of following year's imports)	16.7	14.4	12.3	11.2	10.4	10.0	9.5	9.0	8.6	8.2	8.0
(In percent of short-term debt)	327.0	310.7	291.8	245.9	252.9	243.6	231.9	220.9	211.8	205.0	201.0
Forward/swap position of BOT	-34.7	-28.3	-33.2	-29.2	-29.2	-29.2	-29.2	-29.2	-29.2	-29.2	-29.2
Export growth (y/y percent change)	-3.3	-6.5	19.2	5.4	-2.1	7.1	4.8	5.5	5.3	5.5	5.3
Export volume growth	-3.7	-5.8	15.5	1.3	-2.9	3.7	3.8	4.0	3.5	3.8	3.6
Export unit value growth	0.3	-0.8	3.3	4.2	0.8	3.3	1.0	1.4	1.7	1.6	1.6
Import growth (y/y percent change)	-5.6	-13.6	27.7	14.0	-3.1	7.4	4.6	5.0	4.9	5.2	5.3
Import volume growth	-5.8	-10.5	17.9	2.0	-4.2	5.7	3.5	4.0	4.0	4.0	4.0
Import unit value growth	0.3	-3.6	8.3	13.0	1.2	1.6	1.1	1.0	0.9	1.2	1.2
External debt (percent of GDP)	31.7	38.0	38.8	40.4	41.0	40.4	41.0	41.3	41.6	42.1	42.7
(Billions of U.S. dollars)	173	190	196	200	213	224	237	252	268	286	305
Debt service ratio (percent) 2/	6.9	8.4	6.7	7.3	9.2	8.8	8.5	8.2	8.0	7.8	7.6
GDP (billions of U.S. dollars)	544	500	506	495	520	554	578	610	645	680	716

Sources: Thai authorities; CEIC Data Co. Ltd.; and IMF staff estimations and projections.

1/ Includes financing facilities arranged by AsDB and IBRD and disbursements under the Miyazawa Plan.

2/ Percent of exports of goods and services.

Table 7. Thailand: Risk Assessment Matrix 1/			
Source of Risk	**Likelihood**	**Impact of Risk**	**Policy Response**
Domestic Risks			
The lack of fiscal discipline could undermine macro stability and force the authorities to implement countercyclical policies	**High**	The authorities' intention to provide 2.7 percent of GDP universal transfers in 2024, increase the minimum wage by 70 percent during 2024-27, and offer a debt moratorium to indebted farmers and SMEs, could worsen public debt dynamics, generate significant inflationary pressures, and just delay household debt problem, while giving rise to moral hazard.	Implement substantial and high-quality fiscal consolidation to put public debt on a firm downward trend. Tighten monetary policy to contain inflationary pressures and accelerate structural reforms to boost productivity.
Elevated private sector debt is a threat to financial stability and a drag on medium term growth.	**Medium**	Tightening financial conditions and a slower than expected recovery could trigger insolvencies and negatively impact growth. Moreover, this could weigh on medium term growth since over indebted firms have difficulties in accessing finance particularly during weak growth episodes in which balance sheet distortions occur more frequently.	Implement stronger lending standards informed by comprehensive credit information systems and provide legal and financial advice to indebted consumers. Adopt broad-based debt-service-to-income (DSTI) ratio and enhance the coverage of its macroprudential framework by including saving cooperatives and NBFIs to avoid regulatory arbitrage.
Over reliance on tourism could weigh on medium term growth.	**Medium/Low**	Tourism is an important driver of the Thai economy comprising 20 percent of GDP in 2019 when including indirect and induced contributions. While rising tourism revenues boosts short term growth, the medium-term impact is negative due to misallocation of resources towards a relatively low value-added sector.	Transitioning to lower-density tourism with higher unit revenue to reduce risks.

Table 7. Thailand: Risk Assessment Matrix (continued)			
External Risks			
Abrupt global slowdown or recession. Global and idiosyncratic risk factors combine to cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and market fragmentation causing sudden stops in EMDEs. • **U.S.:** Amid tight labor markets and/or commodity price shocks, inflation remains elevated, prompting the Fed to keep rates higher for longer and resulting in more abrupt financial, housing and commercial real estate market correction, and "hard landing". • **Europe:** Intensifying fallout from the war in Ukraine, recurrent energy crisis and supply disruptions, and monetary tightening exacerbate economic downturns, and housing and commercial real estate market corrections. • **China:** Sharper-than-expected slowdown in the property sector, unexpected fiscal tightening due to local government financing stress and decline in investment, and/or rising geopolitical tensions disrupt economic activity.	**Medium**	Higher for longer interest rates and abrupt market corrections in the U.S could result in sharper-than-anticipated tightening of global financial conditions and spiking risk premia generating sizable financial spillovers, leading to further currency depreciations, asset market selloffs, bankruptcies, and contagion across EMDEs. A sharper-than-expected slowdown in China's property sector, and/or inadequate policy responses could result in a further growth slowdown of economic activity, with spillovers affecting Thailand through supply chain disruptions, trade, including tourist arrivals from China, commodity-price, and financial channels.	Allow exchange rate flexibility to be the first line of defense, with judicious intervention to address disorderly market conditions if needed. Continue to implement prudent fiscal policy and promote labor and product market flexibility, while providing targeted fiscal support to vulnerable groups and viable firms. Strengthen the macroprudential framework and policies through addressing current leakages in the macroprudential toolkit by covering cooperatives and nonbanks and broadening the set of macroprudential tools used.
Commodity price volatility. A succession of supply disruptions (e.g., due to conflicts, uncertainty, and export restrictions) and demand fluctuations causes recurrent commodity price volatility, external and fiscal pressures in EMDEs, contagion effects, and social and economic instability.	**High**	This could slow growth, disrupt the green transition and lead to bouts of price and real sector volatility, food insecurity, social unrest, and acute food and energy crises.	Accommodate the first-round effect of the cost-push shock, given the remaining slack in the economy and anchored inflation expectations while providing targeted support to vulnerable groups. Stand ready to address second-round effects of the shock that threaten to de-anchor inflation expectations.

Table 7. Thailand: Risk Assessment Matrix (concluded)			
Systemic financial instability. Sharp swings in real interest rates, risk premia, and asset repricing amid economic slowdowns and policy shifts trigger insolvencies in countries with weak banks or non-bank financial institutions, causing market dislocations and adverse cross-border spillovers.	**Medium**	Given close linkages to international financial markets, global financial instability could cause disorderly domestic market conditions and exacerbate vulnerabilities in weak NBFIs.	Allow automatic stabilizers to work. Provide adequate liquidity to banks to minimize disruptions in the financial system. Let the exchange rate be the first line of defense in case of capital outflows but use FX intervention to address disorderly market conditions.
Deepening geo-economic fragmentation. Broader and deeper conflict(s) and weakened international cooperation result in a more rapid reconfiguration of trade and FDI, supply disruptions, protectionism, technological and payments systems fragmentation, rising input costs, financial instability, a fracturing of international monetary and financial systems, and lower potential growth.	**High**	As a highly open economy with close trade and financial linkages to the rest of world, Thailand is vulnerable to geoeconomic fragmentation. Broader and deeper conflicts would reduce potential growth by reducing global trade and lowering investor confidence. Associated supply chain disruptions and commodity price shocks could lead to shortages of intermediate and final consumer goods, growth slowdowns, and price surges, compounded by the passthrough from currency depreciations. This would adversely affect Thailand's trade-dependent economy. In particular, Thailand's auto sector could be negatively affected by the continued shortages in semiconductors.	Structural reforms and infrastructure development to boost productivity growth, diversify trade markets and supply chains would raise returns to private investment and strengthen domestic-demand-led growth. Allow exchange rate flexibility to be the first line of defense. Advance structural reforms to boost productivity growth.
Extreme climate events. Extreme climate events driven by rising temperatures cause loss of human lives, severe damage to infrastructure, supply disruptions, lower growth, and financial instability.	**High**	Extreme climate events, notably from typhoons, flooding, droughts, heat and cold waves could disrupt economic activity and affect human livelihoods in Thailand. Higher frequency of natural disasters could disrupt vulnerable economies and accelerate emigration. Severe events in large economies hitting key infrastructure reduce global GDP, cause further supply chain disruptions and inflationary pressures, and prompt a recalculation of risk and growth prospects.	Improve social safety net programs to better target most vulnerable populations. Use efficient carbon pricing and scale up investments in climate resilient infrastructure and in research and development. Incorporate climate risks in prudential policies and in stress and financial sector assessments. Encourage a shift toward a more sustainable and higher value-added tourism mode, which may help reduce the health risks and foster a greener recovery.

1/ The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenarios highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

Table 8. Thailand: Implementation of the Main Recommendations of the 2022 Article IV Consultation

Fund Recommendations	Policy Actions
Fiscal Policy:	
• Continue to gradually withdraw the pandemic-era fiscal stimulus. • Gradually phase out universal energy subsidies as planned. • Implement a more gradual and growth-friendly medium-term consolidation plan to accommodate higher priority spending. • Implement structural tax reforms to mobilize revenue. • Scale up public spending on education and investment. • Expand coverage of the social protection system while ensuring its sustainability. • Improve public investment management. • Enhance fiscal risks monitoring including from quasi-fiscal operations. • Step-up efforts to boost fiscal transparency, including by managing subsidies on budget, and publishing the audits related to COVID-19 related spending and investigations of potential misuse of funds. • Move to an efficient carbon pricing over time.	• The withdrawal of the pandemic-related measures helped to contain expenditures and the deficit in FY22 and FY23. • Broad-based subsidies to shield households from rising energy prices and election-related spending have slowed the consolidation in FY23. • The State Audit Office (SAO) audited the government's response to the pandemic and published the results online www.gprocurement.go.th.
Monetary and Exchange Rate Policies:	
• Implement a data-dependent monetary policy normalization path to avoid the risk of de-anchoring inflation expectations. • Continue to closely monitor inflation developments and react timely to generalized price pressures. • The exchange rate should continue to act as a shock absorber, with foreign exchange intervention (FXI) limited to disorderly market conditions. • Use an integrated policy approach to analyze adverse macroeconomic scenarios. • Publish data on FXI. • Phase out of the remaining capital flow management (CFMs) measures on nonresident baht accounts.	• The BOT has been proactive in normalizing the monetary policy stance gradually, in a data-dependent manner, to curb the inflationary pressures, while limiting financial stability risks. • FXI has been largely two-sided in line with capital flow movements. • The BOT, Bank Indonesia (BI), and Bank Negara Malaysia (BNM), signed three bilateral Memorandum of Understanding (MoUs) on 25 August 2023 to include more eligible cross-border transactions beyond trade and direct investment in the Framework for Cooperation to Promote Bilateral Transactions in Local Currencies between the countries. • The BOT provided in September 2023 more flexibility for non-residents having trade and investment in Thailand in undertaking transactions related to Thai Baht with financial institutions in Thailand as well as eased the requirements for supporting documents. Non-residents providing cross-border payment services can now participate in the Non-resident Qualified Company Scheme without being subject to the end-of-day outstanding balance limit.

Table 8. Thailand: Implementation of the Main Recommendations of the 2022 Article IV Consultation (concluded)

Financial Policies:	
• Gradually unwind policy interventions in the banking system while further strengthening risk analysis and the bank resolution toolkit. • Conduct timely asset quality reviews of loans under relief (LUR) to identify non-viable borrowers—particularly for SFIs given their high exposure to LUR. • Accelerate ongoing efforts to facilitate private debt restructurings, including by strengthening the insolvency regime. • Enhance the monitoring of financial sector risks stemming from physical asset losses. • Implement macro-prudential measures to limit excessive private leverage and related financial stability risks. • Enhance AML/CFT risk-based supervision to ensure that financial institutions effectively comply with preventive measures.	• BOT has appropriately let broad-based support measures expire while focusing on targeted interventions to promote voluntary debt restructurings. • The BOT announced new measures aimed at promoting responsible lending that will become effective on January 1, 2024 and measures aimed at addressing persistent debt that will become effective on April 1, 2024. • The BOT plans to allow creditors to adopt risk-based pricing (RBP) for retail borrowers through the regulatory sandbox and apply debt service ratio (DSR) limits for loan origination. • Thailand performed National Risk Assessment in August 2022 on money laundering (ML), terrorism financing (TF) and proliferation of weapons of mass destruction financing (PF). The assessment resulted in short- and long-term recommendations for effective prevention of ML/TF/PF including enhanced supervision and criminalizing suspicious bank accounts for crime prevention.
Structural Policies:	
• Enhance active labor market policies in a coordinated fashion with information sharing across government agencies. • Strengthen the cooperation with the private sector, including to scale up vocational training. • Leverage digitalization to boost productivity and resilience. • Adopt a comprehensive climate strategy to meet Thailand's ambitious climate mitigation and adaptation goals.	• The authorities have stepped up efforts to upskill and reskill the labor force, including in cooperation with the private sector to cultivate skills that are in demand. In addition, the government provides tax incentives for companies to upgrade the STEM skills of their employees or to recruit new STEM professionals. • Thailand reiterated its commitment to contribute to the reduction of global greenhouse gas emissions by increasing its pledge to 30-40 percent (previously 20-25 percent) from the business-as-usual scenario by 2030 at the COP27 in 2022.

Table 9. Thailand: Updates on Financial Sector Support Measures to Mitigate the Impact of COVID-19

	2022	2023	2024 (planned)
Support measures for business	**September 2022** The BOT and the Ministry of Finance have released **SME transformation loans** as part of the **Special Loan Facility**. **December 2022** Terminating applications for assistance from the **Corporate Bond Stabilization Fund (BSF).**	**April 2023** Debt restructuring through **asset warehousing program** ended. 500 debtors with total debt of 74.1 billion baht used the program. **September 2023** The cabinet has approved a 12-month debt moratorium program for the agricultural sector who owe a maximum of 300,000 baht loan with the Bank for Agriculture and Agricultural Cooperatives (BAAC), aiming to alleviate the financial burden of the indebted farmers who are affected by the impact of the Covid-19 pandemic.	**April 2024** SME transformation loans measure and Special Loan Facility measures are expected to end.
Support measures for households	**January 2022** **Long-term debt restructuring program:** Addressing the debt concerns of individuals and entrepreneurs by encouraging financial institutions to support debtors with targeted long-term debt restructuring. **Refinancing and Debt consolidation program:** Encouraging consolidation of housing loan and unsecured retail loan to reduce long-term interest burden.	**January 31, 2023** **Debt Resolution Expo ended.** 188,739 debtors joined with a total of 413,780 transactions**.** **February 2023** BOT published the Directional Paper on **"Sustainable Solutions to Thailand's Structural Debt Overhang Problems"**, on how debt problems must be tackled in a manner that is comprehensive, fair, and appropriate to both creditors and debtors, a process of which require time and stakeholders' involvement. **July 2023** BOT provided details of measures on tackling **household debt problem:** (1) Creditors must lend in a responsible and fair manner for debtors throughout their debt journey; (2) Creditors must assist debtors with persistent debts (interest payment higher than principal payment over the past 5 years) whereby they must assist debtors with revolving personal loans that has low income and persistent debt to be able to fully repay their loans within 5 years at an interest rate not exceeding 15% per year, whilst still having sufficient disposable income to meet their living needs. These measures will be effective on January 1, and April 1, 2024, respectively. Moreover, the BOT is currently exploring additional ways to address household debt problems by allowing creditors to **adopt risk-based pricing (RBP)** for retail borrowers through the regulatory sandbox and applying **debt service ratio (DSR)** limits for loan origination. BOT plans DSR limits to take effect in 2025 although this would ultimately depend on the situation and economic contexts at the time. **December 2023 (planned)** **Long-term debt structuring and Refinancing and Debt consolidation programs** are expected to end**.** **Policy normalization of the relaxation measure** on the regulations on credit card loans and digital personal loans.	**2024Q2** **Risk-based pricing (RBP) sandbox:** In the second quarter of 2024, BOT will permit qualifying creditors to test lending out unsecured personal loan and/or Nano Finance for a period of 1-2 years.

Table 9. Thailand: Updates on Financial Sector Support Measures to Mitigate the Impact of COVID-19 (concluded)

Support measures for financial institutions	**June 2022** **Removal of limit on banks' dividend payout,** which capped the dividend distribution rate at up to 50 percent of net profit for the year to maintain stability and strengthen buffers of banks during the pandemic. **December 2022** **Adjustment of the rate of contribution to the Financial Institutions Development Fund (FIDF)** back to the normal level of 0.46 percent per year starting.	**January 2023** **Tightening loan-to-income (LTI) ratio** by resuming a limit on number of creditors and **tightening loan-to-value (LTV)** for mortgage lending which returns LTV limit from 100% to maximum of 70-90% (excluded first home buyer with housing value less than 10 million baht).	

Source: Bank of Thailand. Note: The table does not include measures to stabilize the financial markets and fiscal measures.

Note: For 2020 and 2021 financial sector support measures, see Annex I Table 2 in IMF Country Report 22/301.

Table 10. Thailand: Implementations of 2019 Financial Sector Assessment Program (FSAP) Key Recommendations

FSAP Recommendations	Policy Actions
Overall Regulatory and Supervisory Framework	
Establish an overarching body to strengthen cooperation, coordination, and information sharing, with a "comply or explain" mechanism where it makes recommendations to member agencies.	For the regular regulatory and supervisory framework, the policies are coordinated, cooperated with information sharing through (1) FIPC Meeting with BOT, SEC, OIC and MOF representatives being committee members and (2) the cross-directorship between regulatory agencies and (3) the 3-regulator steering committee meeting. For the financial stability-related issue, the BOT, SEC, OIC and MOF closely coordinate, cooperate, and share information through our formal joint MPC-FIPC Meeting which happens bi-annually. This acts as the policy recommendation/consulting body for FS-related issues. However, BOT is currently reviewing additional alternatives needed that would be most appropriate for Thai context, including inviting other regulator(s) to the meeting for issues that extend beyond the purviews of the committee.
Improve further the accountability mechanism of the FIPC and the OIC, including by reinforcing the accountability of the FIPC to include hearings to an appropriate legislative body.	See above.
Strengthen further the independence of regulators including by removing representatives of other institutions from the FIPC and boards of regulatory agencies and by removing requirements for MOF approval to issue regulation to SFIs and take corrective actions.	
Risks to the Banking Sector Stability	
Enhance the data management system and improve capacity for liquidity risk analysis.	The BOT has developed and assessed systemic liquidity risk of some Thrift and credit cooperatives (TCC) and credit unions (CU). Currently, the BOT is in the process of developing systemic liquidity risk indicators for non-banks, specialized financial institutions (SFIs) and other TCC/CUs.
Extend the risk analysis to better cover a wider range of sources of risk with potential systemic spillovers, including concentration in loan portfolio.	The BOT has developed a new financial stability dashboard for monitoring key risks that are deemed important for Thailand's financial system. The BOT has included SFIs and non-bank dashboards for coverage of other financial institutions adding from digital asset dashboards which play an increasing role in the current financial system with possible implications on financial stability going forward. The degree of concentration of the loan portfolio is constantly being monitored through the annual bank examination, as this serves as an input to assess the concentration risk in Pillar II.
Collect more granular data on SFIs to refine the stress tests on solvency and liquidity.	SFIs in Thailand have conducted solvency and liquidity stress test, and the BOT is currently reviewing and advising SFIs to improve the model.
Macroprudential and Financial Stability	
Clarify the financial stability mandate of the FIPC and the MPC	MPC don't have explicit mandate on financial stability, but the monetary policy discussions and decisions have considered financial stability as it is one of the three objectives for monetary policy. While FIPC has the commitment to ensure financial institution stability, contributing to strategic decision-making and effectiveness of supervisory and regulatory framework. However, macroprudential policy decisions should not be the sole responsibility of the FIPC, but also involve MPC in order to have a holistic macroeconomic view and help put in perspective the need to deploy other policy tools to help safeguard the overall stability of the financial system.

Table 10. Thailand: Implementations of 2019 Financial Sector Assessment Program (FSAP) Key Recommendations (Continued)

Address potential leakages by extending BoT's macroprudential authority, including extending DTIs to personal loans granted by SFIs, TCCs, and CUs.	See progress in Thrift and Credit Cooperatives and Credit Unions.
Introduce a broad-based DSTI ratio	BOT has issued the Directional Paper (DP) on coping with household debt and implementing DSR is one of the tools mentioned in the DP. However, BOT is in the process of issuing the Consultation Paper (CP) for DSR implementation along with the studying on the implication of having DSR limit on the debtors, creditors, and the economy as a whole. During the initial phase, the DSR limits will apply to uncollateralized consumer loans (credit card and personal loan under supervision). The BOT plans for this measure to take effect in 2025 at the earliest, pending the favorable economic condition.
Amend internal guidelines on preventive and corrective action to reflect flexibility granted under FIBA.	The BOT amended the PPA/PCA internal guideline, which enhanced the BOT's flexibility in taking PPA actions before a bank's supervisory rating of 4 (weak bank) is reached.
Implement new definitions of loan restructuring and rescheduling and current practices surrounding NPL identification to meet international standards.	IFRS 9 became effective in Thailand since January 2020. The BOT revised relevant regulations and coordinated with the Thailand Federation of Accounting Profession (TFAC) to support the adoption of IFRS9.
Banking and SFIs Oversight	
Continue reforms to supervise the three largest retail deposit taking SFIs under the same standards as commercial banks.	The BOT enhance regulation to supervise SFIs using a phasing approach. • Phase 1-2: The BOT issued rules and regulations as well as guidelines aiming at stability and prudence, which include standards on governance, capital requirement, liquidity reserve requirement, credit process, single lending limit, accounting, branches services, outsourcing, KYC, IT risk management, mortgage loan, and market conduct. • Phase 3: To enhance the efficiency, security, and sustainability of SFIs in conducting the businesses relating to their mandates, the BOT issued the Regulation on Telebanking and Digital banking Channel, the Guideline on Operational Risk Management, and the Guideline on Internal Control.
Thrift and Credit Cooperatives and Credit Unions	
Define and initiate the implementation of a regulatory and supervisory regime for financial cooperatives that is proportionally equivalent to that applied to the banking system.	The BOT has supported the CPD in issuing more stringent regulations, such regulation that have been issued are corporate governance, disclosure, and capital requirement. The Thai authorities finalized the White Paper for enhancing TCCs/CUs supervision and future financial landscape of TCCs/CUs. Currently, regulation covering loan underwriting standard, asset classification & loan provisioning as well as liquidity requirement is in progress.
Address a potential over-indebtedness problem including by defining maximum DTI ratios and requiring TCCs and CUs to report to the NCB.	
AML/CFT	
Enhance scope and capacity for risk-based AML/CFT supervision	The Anti-Money Laundering Act is being amended to expand the coverage of reporting entities. The Counterterrorism and Proliferation of Weapon of Mass Destruction Financing Act is being amended to provide the mechanism for delisting request and procedure relating to false positives. The draft Beneficial Ownership Information Act is being drafted with an aim to improve transparency of legal persons, trusts, cooperatives, and NPOs. The draft Operation of Non-Profit Organizations Act is being drafted with an aim to enhance transparency of NPOs. The National Money Laundering and Counter Terrorism Financing Risk Assessment was updated.

Table 10. Thailand: Implementations of 2019 Financial Sector Assessment Program (FSAP) Key Recommendations (Concluded)

Crisis Management and Resolution	
Review and amend bank and SFI resolution law to align with Key Attributes. Develop bank and SFI resolution toolkit and implement bank-specific resolution planning.	*Banks*. Given that the BOT Act was only amended in July 2018 to set out the current resolution framework which lays down principles and provides adequate resolution tools that are broadly aligned with Key Attributes, the authorities' focus is on the preparation to ensure effective operationalization of the framework. The BOT has developed a resolution toolkit in 2020. To enhance executability, a playbook to assist relevant committees in decision-making has also been developed in 2021. The BOT has also developed a sample resolution plan that may be applied to D-SIBs as appropriate. Bank-specific resolution planning for D-SIBs is ongoing. *SFIs*. The Financial Institutions Business Act provides the statutory ground for the Minister of Finance to assign the BOT as regulator of SFIs. In the event that the condition or the operation of a SFI may cause damage to state interest, the BOT with the approval of the MoF, shall propose to the authorized person (Minister of Finance or the Cabinet) to consider giving an order for the SFI to resolve its financial position or operation, or suspend business operation entirely or partially for a for a temporary period within the time prescribed, or suspend managers or persons with power of management of the SFI from the performance of their duties within the time prescribed, or to decrease or increase its capital.
Strengthen ELA and deposit insurance arrangements in line with best practice.	To strengthen ELA arrangements, the principles and guidelines for accepting loan portfolio collaterals were approved in 2020. Key progress has been made in the assessment and pricing of loan portfolio collaterals, the review of financial haircuts, finalizing the process to set-off loans in case of default, and drafting of loan documentations for Section 42 ELA.

Source: Thai authorities and IMF 2019 FSAP.

Annex I. External Sector Assessment

<table>
<tr><td colspan="7">Overall Assessment: Preliminary staff estimates for 2023 suggest that the external position is stronger than the level implied by medium-term fundamentals and desirable policies, although current account (CA) and real effective exchange rate (REER) gaps are narrowing.[1] The CA balance is expected to improve to 0.8 percent of GDP in 2023 from -3.2 percent of GDP in 2022, as tourism receipts recover further, and return to a surplus of around 3 percent of GDP in the medium term.

Potential Policy Responses: Policies aimed at promoting investment, diminishing precautionary savings, and supporting domestic demand would bring the CA balance more in line with medium-term fundamentals and desirable policies. Public expenditures should be focused on targeted social transfers to continue to support the most vulnerable, as well as infrastructure investment to support a green recovery and reorientation of affected sectors. Efforts to reform and expand social safety nets, notably the fragmented pension schemes, should continue, and measures to address widespread informality should help reduce precautionary savings and support consumption.</td></tr>
<tr><td>Foreign Asset and Liability Position and Trajectory</td><td colspan="6">Background. Thailand's NIIP is projected to slightly strengthen to -3.2 percent of GDP in 2023 (from -3.4 percent in 2022), after weakening over the past two years. Gross assets and gross liabilities are estimated to marginally decline to 115.3 percent of GDP (from 117.6 percent) and to 118.5 (from 121 percent of GDP), respectively. Gross assets primarily consist of gross reserve assets (42 percent of GDP) and direct investment (38 percent of GDP). Gross liabilities mainly comprise of direct (about half) and portfolio (about one-fourth) investment. Net direct and portfolio investment assets are expected to pick up by 1.8 and 2.2 percentage points of GDP, respectively, while net other investment assets are projected to decline by 1.6 percentage points of GDP.

Assessment. The NIIP is projected to remain in a small creditor position over the medium term given CA surpluses. External debt is expected to increase to 41.0 percent of GDP in 2023 from 40.4 percent of GDP in 2022, of which short-term debt (on a remaining maturity basis) amounts to about 15 percent of GDP. External debt stability and liquidity risks are limited.</td></tr>
<tr><td>2023 (% GDP)</td><td>NIIP: -3.2</td><td>Gross Assets: 115.3</td><td>Debt Assets: 39.0</td><td colspan="2">Gross Liab.: 118.5</td><td>Debt Liab.: 41.0</td></tr>
<tr><td>Current Account</td><td colspan="6">Background. Thailand's CA balance registered a surplus in 2023, as the partial recovery in tourist arrivals and improvement in transportation balance offset the weak performance of merchandise exports. The CA balance is projected to strengthen to 0.8 percent of GDP from -3.2 percent of GDP in 2022. The decline in shipping costs and post-pandemic tourism recovery, albeit still partial, improved the services account by 3.5 percent of GDP. Going forward, the current account balance is expected to stabilize at around 3 percent of GDP as foreign tourist arrivals reach pre-pandemic levels.

Assessment. Preliminary results from the EBA CA model estimate a cyclically adjusted CA of 0.7 percent of GDP and a CA norm of 0.8 percent of GDP for 2023. The CA gap of –0.1 percent of GDP consists of an identified policy gap of –0.2 percent of GDP and an unexplained residual of 0.1 percent of GDP, which partly reflects structural factors not captured by the EBA model. As the large shocks to the travel and transport sectors are not accounted for by the standard EBA cyclical adjustment, adjustors of 1.3 percent and 1.1 percent of GDP respectively are applied. Overall, the IMF staff assesses the CA gap to be in the 1.7 to 3.1 percent of GDP range, with a midpoint of 2.4 percent of GDP for 2023. However, the results are subject to uncertainties regarding the adjustors and data revisions. This CA gap is expected to narrow over the medium term as domestic demand recovers and steps are taken to reform the social protection system.</td></tr>
<tr><td>2023 (% GDP)</td><td>CA: 0.8</td><td>Cycl. Adj. CA: 0.7</td><td>EBA Norm: 0.8</td><td>EBA Gap: -0.1</td><td>Adjustors: 2.4</td><td>Staff Gap: 2.4</td></tr>
<tr><td>Real Exchange Rate</td><td colspan="6">Background. The baht has been on a gradual real appreciation trend since the mid-2000s, despite occasional bouts of volatility. Despite Thailand's strong recovery in 2022, the real exchange rate depreciated further by 1.1 percent due to high global volatility amid advanced economies' monetary policy normalization. As of October 2023, the real exchange rate has appreciated by 1.9 percent year-to-date relative to 2022, partly reflecting the partial recovery of tourism receipts. However, portfolio outflows during the first three quarters have contributed to the depreciation of the real exchange rate during the year.

Assessment. Using an elasticity of 0.47 and based on the IMF staff CA gap, IMF staff assesses the 2023 REER to be undervalued in the 3.6 to 6.5 percent range, with a midpoint of 5.0 percent. The EBA index REER gap in 2023 is estimated at 8.0 percent, and the EBA level REER gap is estimated at 0.8 percent.</td></tr>
<tr><td>Capital and Financial Accounts: Flows and Policy Measures</td><td colspan="6">Background. In 2023, the capital and financial account balance (excluding change in reserves) weakened to -0.8 percent of GDP from 1.4 percent in 2022, driven by the decline in portfolio investment (from 1.2 percent in 2022 to -1.9 percent of GDP in 2023) and increase in outward FDI from 1.5 percent in 2022 to 3.2 percent of GDP in 2023. Other net investments increased from -0.6 to 1.9 percent of GDP.

Assessment. Thailand maintains strong external buffers and fundamentals that have helped weather episodes of volatility reflecting external financial conditions, political uncertainty, and shocks related to COVID-19 and the war in Ukraine. IMF staff welcome the authorities' efforts to provide more flexibility and reduce the cost of non-residents' foreign exchange transactions including by expanding the scope of the Non-resident Qualified Company (NRQC) scheme—to allow non-residents providing cross-border payment services to participate.[2] In line with past advice, the IMF team recommends phasing out capital flow management (CFMs) measures on non-resident baht accounts. A comprehensive package of macroeconomic, financial, and structural policies should be pursued to address volatile capital flows, complemented with gradual and prudent financial account liberalization.</td></tr>
<tr><td>FX Intervention and Reserves Level</td><td colspan="6">Background. The exchange rate regime is classified as (de jure and de facto) floating. International reserves (including the net forward position) are projected to decline to 47.3 percent of GDP from 49.6 percent of GDP in 2022, which is around 2.5 times the short-term debt, 10 months of imports, and 219 percent of the IMF's standard reserve adequacy (ARA) metric. The exchange rate has been allowed to adjust, with some two-sided FX interventions in periods of large volatility.

Assessment. Reserves are higher than the range of the IMF's reserve adequacy metrics and there continues to be no need to build up reserves for precautionary purposes. The exchange rate should move flexibly to act as a shock absorber, with FX intervention limited to avoiding disorderly market conditions.</td></tr>
<tr><td colspan="7">1/ The assessment for 2023 is preliminary as it is based on projected values. The final assessment of the external sector for 2023 will be that of the External Sector Report.

2/ The Non-Resident Qualified Company scheme is being assessed under the Institutional View for the Liberalization and Management of Capital Flows.</td></tr>
</table>

Annex II. Macroeconomic Implications of The Government's Fiscal and Labor Market Policies[1]

1. **Thailand's new government that took office in September 2023 announced its intention to accelerate growth and improve the population's living standards** (see Box 1). The government's main near-term priority is to stimulate the economy through universal cash handouts to 90 percent of the Thai adult population or about 50 million people, for a total cost of US$14 billion or 2.7 percent of GDP. The package will be financed by additional borrowing.[2] Another important near-term priority for the government is to increase the minimum wage by about 70 percent by 2027. However, given remaining uncertainty on timing and size of the minimum wage increases this measure is not included in staff's baseline scenario. Rather, it is separately being discussed in this annex as an alternative scenario.

2. **This annex uses a model-based approach to analyze the macroeconomic implications of the new government's flagship policies, in comparison with alternative policy options**. MCM's Quantitative IPF model (QIPF) is used to simulate the impact of the government's proposed measures on the main macroeconomic indicators and calibrate an appropriate policy response to these measures.[3] This annex investigates the implications of debt-financed universal cash handouts, compares it with the outcomes of universal cash handouts with a debt-neutral financing and of debt-financed but targeted transfers. It also looks into the impact of minimum wage increases, assuming different degree of spillovers to the informal workers that currently earn below the minimum wage, as well as the implications of the combination of universal cash handouts with minimum wage increase.

Universal Transfers

3. **The debt-financed universal transfers achieve a short-lived improvement in output at the expense of worsening debt dynamics**. However, if the transfers are financed by raising taxes and cutting government consumption to limit their impact on debt, the growth effect is going to be negative due to a smaller fiscal multiplier for transfers compared with other government spending and taxes. This would be contrary to the government's objective to stimulate demand.

- **Baseline Scenario**: In this scenario, we consider debt-financed and temporary universal transfers of 3 percent of GDP implemented within a year (Figure 1). The increase in consumption resulting from the 3 percent of GDP government transfers provides a short-term boost to output, increasing it by about 1.5 percent. The stronger demand results in higher imports, which deteriorates the external balance, and in slightly higher inflation, given the relatively flat Philips curve in Thailand. Monetary policy tightens marginally in response to the higher inflation. Public debt relative to trend GDP increases amidst the need to roll over debt contracted during the pandemic and remains elevated as the growth impact from transfers fades after a year.

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[1] Prepared by Marcin Kolasa (MCM) and Ara Stepanyan (APD).

[2] Since the details of the universal cash handouts have not yet been finalized, the actual implementation could be different from what is assumed in this Annex.

[3] The scenarios are constructed using the IPF model presented in the 2022 Article IV Consultation.

- **Alternative Scenario 1**: This scenario considers 1.5 percent of GDP debt-financed and temporary transfers targeted to vulnerable households. The results suggest that better targeting the transfers allows to achieve a broadly similar growth boost with half of the transfers assumed in the baseline scenario (Figure 2). Output improves by about 1 percent compared with the 1.5 percent in the scenario 1, but the debt increase is milder at about 1 percent of trend GDP against the 3 percent of GDP increase in the baseline scenario.
- **Alternative Scenario 2**: In this scenario we considered a 3 percent of GDP temporary increase in untargeted transfers financed by temporarily raising labor income tax and cutting government consumption. The budget-neutral increase in untargeted transfers actually reduces output because the fiscal multiplier for government transfers is smaller than the multipliers for government consumption and taxes (Figure 2).[4] Because of weak demand, inflation falls and monetary policy loosens, while the public debt-to-GDP ratio remains largely unchanged.
- **Policy advice**. Providing untargeted transfers financed through debt or a combination of higher taxes and spending cuts is not advisable. Thailand's private consumption has been very strong, and there is no merit in stimulating it further. Untargeted transfers will also not help address Thailand's growth weaknesses that are mostly structural. The available fiscal space should be used to invest in human and physical capital and strengthen social safety nets, while ensuring that they are well-targeted to vulnerable groups. Under the debt-financed scenario, further monetary tightening is needed to contain possible inflationary pressures and a much faster medium-term fiscal consolidation is required to put public debt on a firm declining trend.

Minimum Wage Increase

4. A significant increase in the minimum wage would generate substantial growth losses in the medium term due to loss of cost competitiveness and monetary tightening to keep inflation in check.[5] For these simulations, we assumed a frontloaded path for minimum wage increases during 2024-27 that accumulate to 70 percent (text table). The reason behind the frontloaded increase is the anticipation of economic agents since the measure has already been announced.

	2024	2025	2026	2027
Minimum wage increase	35.0	8.6	8.0	7.4

- **Scenario 1**: To calibrate the impact of the minimum wage increase on the aggregate economy we used household survey data to assess the share of workers that will be affected by the increase in the minimum wage. Simulation results suggest a gradual fall in output below the baseline in the medium- to long-term as the increased cost for businesses and tighter monetary policy to contain inflation more than offsets the demand boost from consumption (Figure 3). Inflation responds strongly to the increase in the minimum wage triggering considerable monetary policy tightening and appreciation of the real exchange rate. The latter, combined with increased costs for businesses, results in a competitiveness loss that deteriorates the trade

[4] See, for example, Kedphitthaya, T., Annonjarn, C., and Tonghui, T. (2015). Thailand's Fiscal Stimulus Policies in 2015-2016: An Analysis of Fiscal Stance, Fiscal Impulse, and Fiscal Multiplier.

[5] Th analysis in this section assume full enforcement of the new minimum wage.

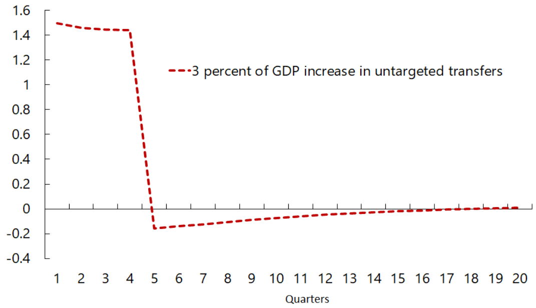
balance. The near-term impact on public debt is positive due to higher revenues from consumption and labor income taxes, but in the medium term the impact is negative due to lower GDP.

- **Scenario 2**: In this scenario, we assume that in addition to formal workers that will be directly affected by the minimum wage increase, informal workers earning below the minimum wage will also experience an increase in their wages proportional to their current distance from the minimum wage. The simulation suggests a stronger boost to consumption (Figure 3). However, it also generates much higher inflation and a more aggressive monetary policy response which, combined with a larger increase in the costs for businesses, results in much lower output in the medium term.
- **Policy advice.** Reducing informality and investing in human capital would be a more efficient and sustainable way to improve the population’s living standards given Thailand’s high informality and skill gaps. If this measure is implemented, a sustained monetary policy tightening for the following two years will be needed. The loss in cost competitiveness and lower medium-term output will increase the urgency of structural reform implementation.

Figure 1. Thailand: Response to the Increase in Debt-Financed Untargeted Transfers

Real GDP

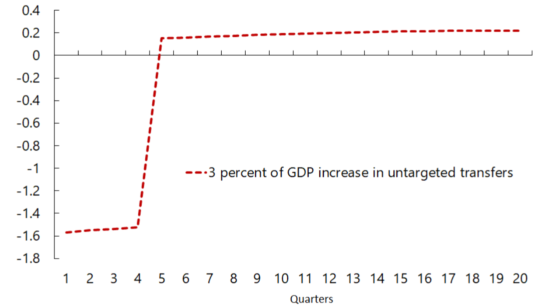
(In percent, deviation from the baseline)



Sources: IMF staff estimations and projections.

Real Net Exports to GDP

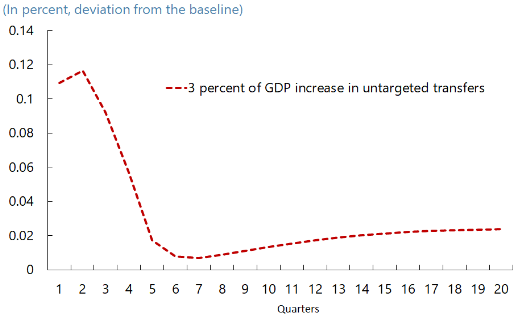
(In percentage points, deviation from the baseline)



Sources: IMF staff estimations and projections.

Core Inflation

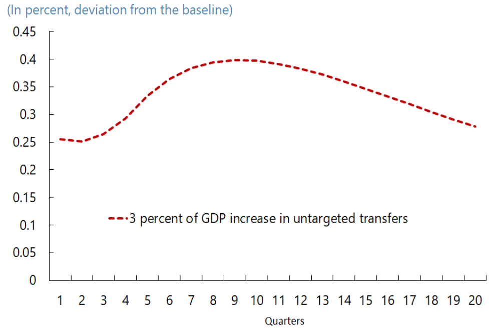
(In percent, deviation from the baseline)



Sources: IMF staff estimations and projections.

Real Exchange Rate

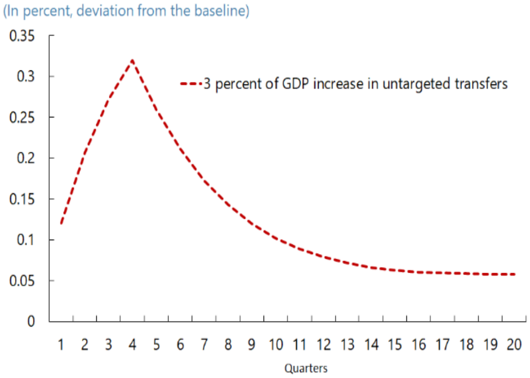
(In percent, deviation from the baseline)



Sources: IMF staff estimations and projections.

Nominal Policy Rate

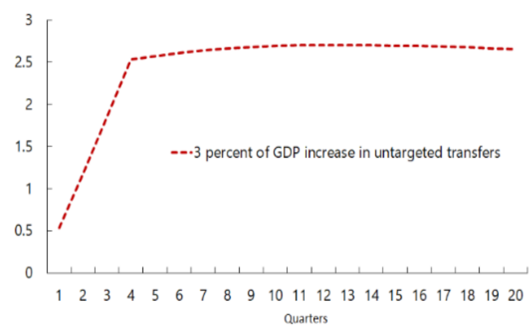
(In percent, deviation from the baseline)



Sources: IMF staff estimations and projections.

Public Debt to Potential GDP

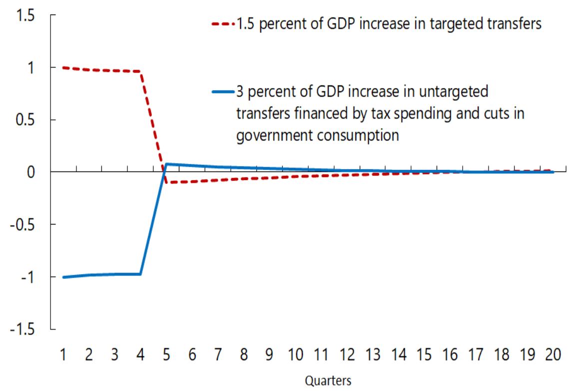
(In percentage points, deviation from the baseline)



Sources: IMF staff estimations and projections.

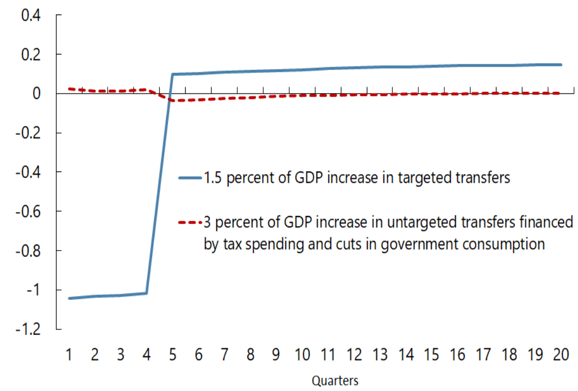
Figure 2. Thailand: Response to the Increase in Transfers

Real GDP
(In percent, deviation from the baseline)



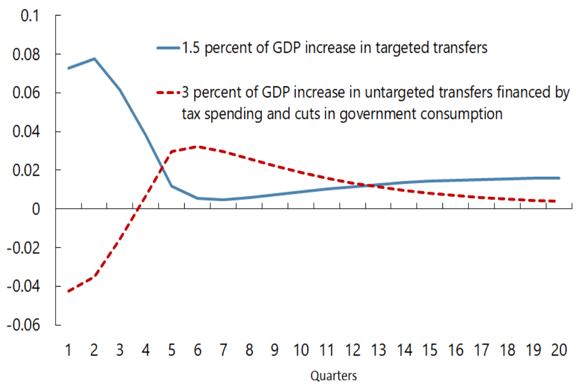
Sources: IMF staff estimations and projections.

Real Net Exports
(In percent, deviation from the baseline)



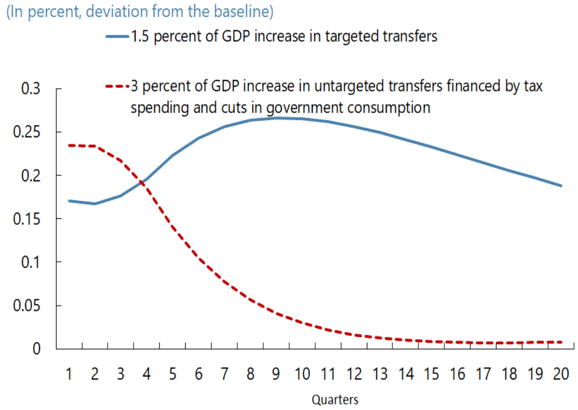
Sources: IMF staff estimations and projections.

Core Inflation
(In percent, deviation from the baseline)



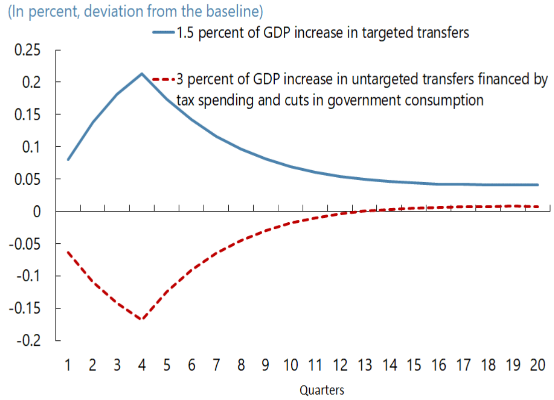
Sources: IMF staff estimations and projections.

Real Exchange Rate
(In percent, deviation from the baseline)



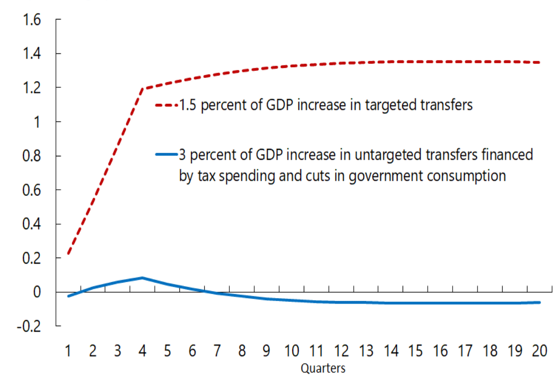
Sources: IMF staff estimations and projections.

Nominal Policy Rate
(In percent, deviation from the baseline)



Sources: IMF staff estimations and projections.

Public Debt to Potential GDP
(In percentage points, deviation from the baseline)

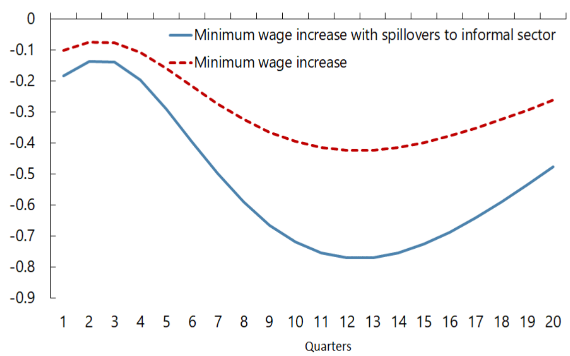


Sources: IMF staff estimations and projections.

Figure 3. Thailand: Response to the Increase in Minimum Wage

Real GDP

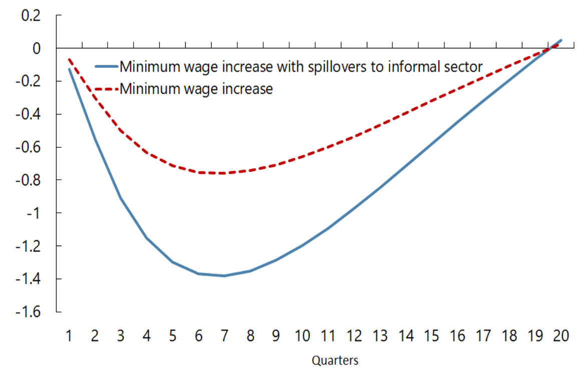
(In percent, deviation from the baseline)



Sources: IMF staff estimations and projections.

Real Net Exports to GDP

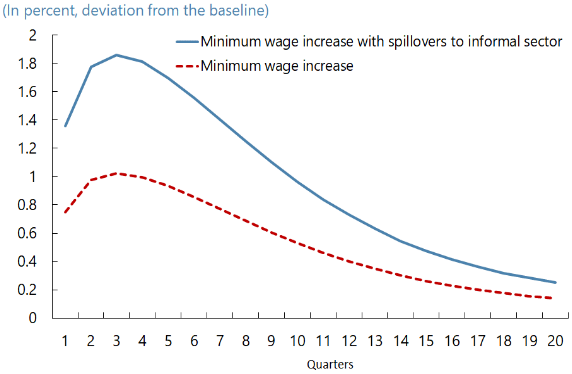
(In percentage points, deviation from the baseline)



Sources: IMF staff estimations and projections.

Core Inflation

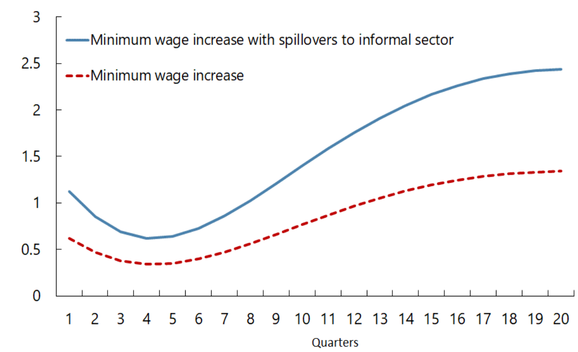
(In percent, deviation from the baseline)



Sources: IMF staff estimations and projections.

Real Exchange Rate

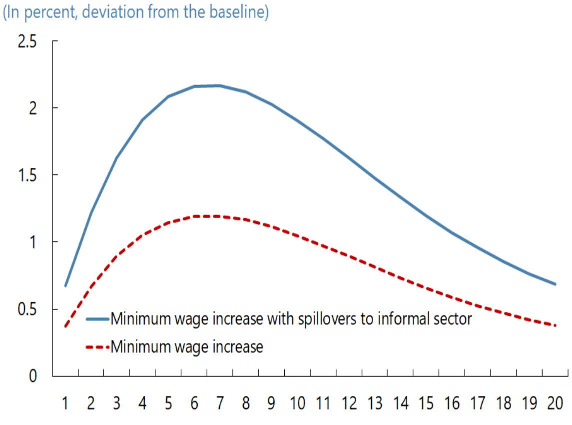
(In percent, deviation from the baseline)



Sources: IMF staff estimations and projections.

Nominal Policy Rate

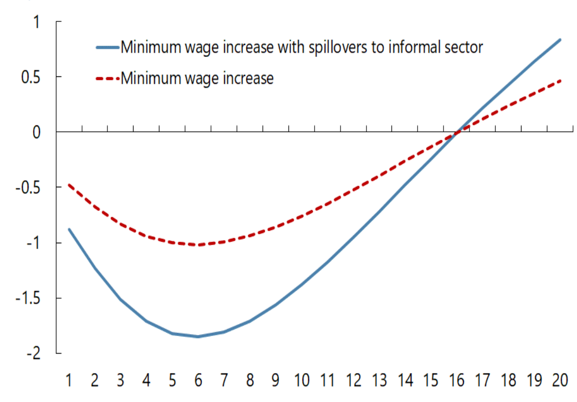
(In percent, deviation from the baseline)



Sources: IMF staff estimations and projections.

Public Debt to GDP

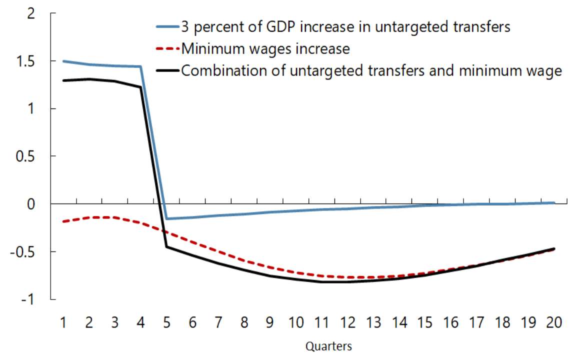
(In percent, deviation from the baseline)



Sources: IMF staff estimations and projections.

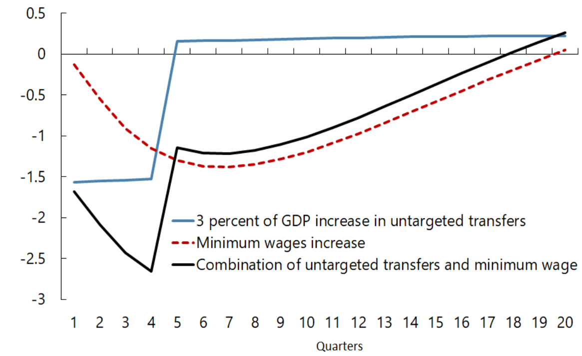
Figure 4. Thailand: Response to Debt-Financed Untargeted Transfers and Minimum Wage Increase

Real GDP
(In percent, deviation from the baseline)



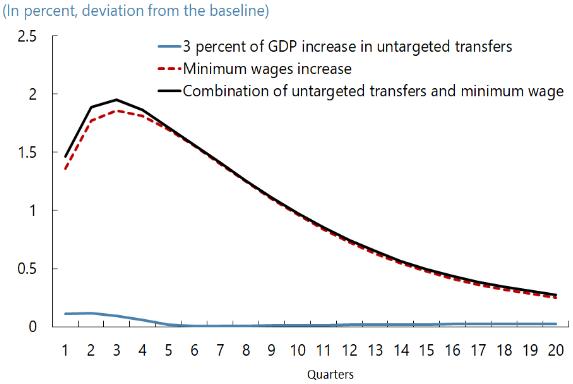
Sources: IMF staff estimations and projections.

Real Net Exports
(In percent, deviation from the baseline)



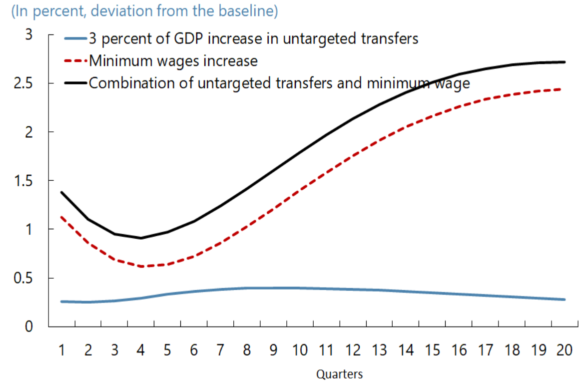
Sources: IMF staff estimations and projections.

Core Inflation
(In percent, deviation from the baseline)



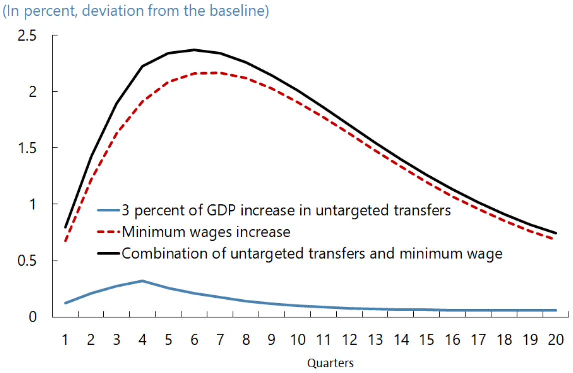
Sources: IMF staff estimations and projections.

Real Exchange Rate
(In percent, deviation from the baseline)



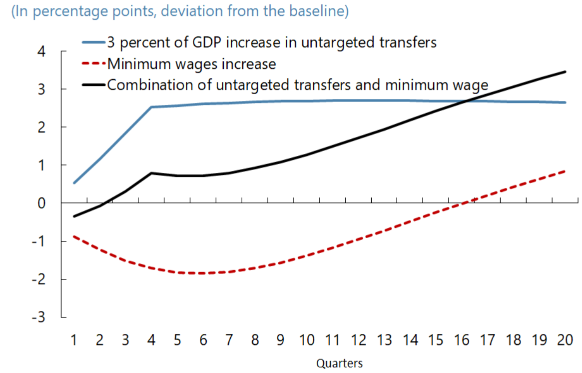
Sources: IMF staff estimations and projections.

Nominal Policy Rate
(In percent, deviation from the baseline)



Sources: IMF staff estimations and projections.

Public Debt to Potential GDP
(In percentage points, deviation from the baseline)



Sources: IMF staff estimations and projections.

Note: The simulation assumes: (i) an increase of 3 percent of GDP debt-financed and short-term untargeted transfers implemented within a year; (ii) a frontlowaded increase in minimum wages amounting to comulative 70 percent during 2024-27; and (iii) combination of untergeted transfers and minimum wage increase. The simulation for the minimum wage shock assumes that due to hikes in the minimum wage, informal workers that earn below the currently minimum wage will also experience an increase in their wages proportional to their distance to the minimum wage. All simulations assume somewhat steeper Phillips curve given the recent inflationary environement.

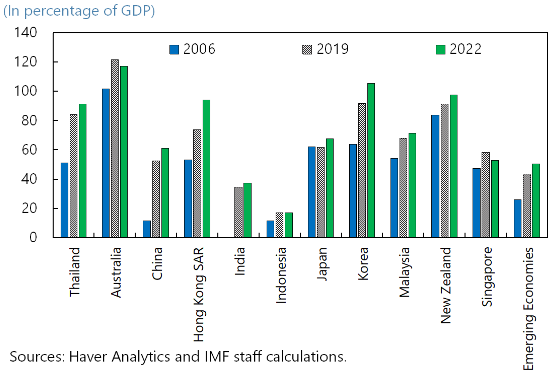
Annex III. Rising Private Debt and Tourism Dependence in Thailand: Growth-at-Risk Analysis[1]

This annex examines the role of rising private debt and tourism dependence on Thailand's growth prospects. Considering the elevated private debt and the significant reliance on tourism revenues in the Thai economy, we aim to understand whether these factors pose risks on growth in Thailand. We use a growth-at-risk model to shed some light on these issues. We find that increases in both corporate and household debt raise downside risks to growth in the medium term. In particular, elevated household debt poses risks for near-term growth, especially when growth is low. Lastly, we discuss the tradeoffs between near-term and medium-term growth as a result of increasing dependence on tourism.[2]

Introduction

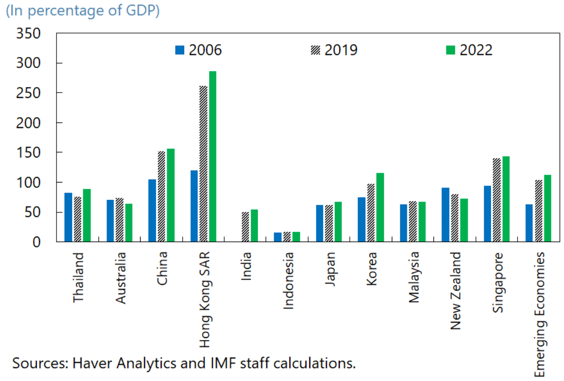
1. **During the pandemic, both household and corporate debt have increased in Thailand, posing downside risks on growth**. The household debt-to-GDP ratio had already been increasing before the pandemic, reaching 84.1 percent in 2019, a level above that of peer countries. During the pandemic, this trend has continued partly due to the fall in GDP, and household debt-to-GDP reached a record-high level of 94.7 percent in 2021. The corporate debt-to-GDP ratio was already high before the pandemic with a slightly declining trend between 2006 and 2019, which has been reversed, and corporate debt amounted to 87.9 percent of GDP at end-2021.[3] High private debt has a potential to drag down growth and generate financial vulnerabilities, particularly during turbulent times. While moderate household debt levels can help boost demand and build personal wealth, high indebtedness can curtail growth over the medium term (IMF 2012; IMF GFSR 2017). Elevated corporate debt can also weigh on investment and distort resource allocation by lowering investment, subsequently dampening productivity growth (IMF 2018; IMF 2022).

Selected Asia: Household Debt to GDP Ratio
(In percentage of GDP)



Sources: Haver Analytics and IMF staff calculations.

Selected Asia: Corporate Debt to GDP Ratio
(In percentage of GDP)



Sources: Haver Analytics and IMF staff calculations.

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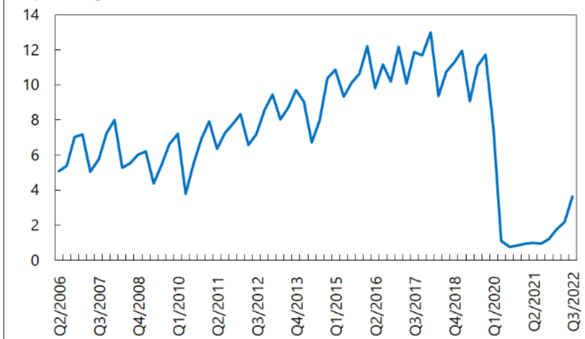
[1] Prepared by Melih Firat (APD).

[2] The analysis in this note updates and expands the analysis in Annex VII. "Practical Lessons in Addressing Private Debt Overhang" from IMF Country Report No. 19/309.

[3] Since 2022, corporate and household debt-to-GDP have been decreasing in Thailand, in line with the recovery in GDP.

2. The tourism sector is an important growth determinant in Thailand, but over-reliance on tourism receipts might exacerbate downside risks, as experienced during the pandemic. The significance of the tourism sector in Thailand has increased steadily over time, with the direct share of tourism revenues to GDP rising from 4.9 percent to 11.7 percent between 2005 and 2019. However, both domestic and global lockdown measures led to a sharp decline in tourism receipts during the pandemic, significantly impacting Thailand. Considering the labor-intensive structure besides low-skill intensity and a high degree of informality of the tourism sector, labor markets were also proportionally affected.

Tourism Revenues
(In percentage of GDP)



Sources: Haver Analytics and IMF staff calculations.

Growth at Risk Model for Thailand

3. To evaluate the impact of elevated private leverage and the dependence on tourism on Thailand's growth, we employ the Growth-at-Risk (GaR) framework introduced by Adrian et al. (2019) to estimate the conditional distribution of GDP growth. The GaR methodology enables us to focus on the entire conditional distribution of GDP growth instead of relying solely on a point estimate, thus allowing us to capture underlying nonlinearities. Initially, we estimate quantile regressions of GDP growth while considering various variables, including household and corporate debt-to-GDP ratios, as well as the tourism revenue-to-GDP ratio. In particular, we employ the subsequent quantile regressions to model the quarterly growth rates across different segments. These segments encapsulate groups of correlated variables through the utilization of principal component analysis to reduce dimensionality. The specification is such that:

$$y_{t+q} = \beta_y^q y_t + \beta_{fci}^q fci_t + \beta_{tp}^q tp_t + \beta_{lvg}^q lvg_t + \beta_{tour}^q tour_t + \epsilon_{t+4}^q \qquad (1)$$

where y_t is real GDP growth and q is either 4 (near-term) or 12 (medium-term). fci_t denotes financial conditions and consists of credit growth, sovereign spread, the Chicago Board Options Exchange Volatility Index (VIX), house price growth, REER change, and terms of trade growth. tp_t is trade partner variable and includes US GDP growth, China imports and exports growth. lvg_t consists of household debt level, household debt to GDP ratio, corporate debt level, and corporate debt to GDP ratio. tr_t denotes tourism revenues, and tourism revenues to GDP ratio. To leave out idiosyncratic effects of pandemic on real GDP growth, we focus on period between 2005Q1 and 2019Q4.

Results and policy implications

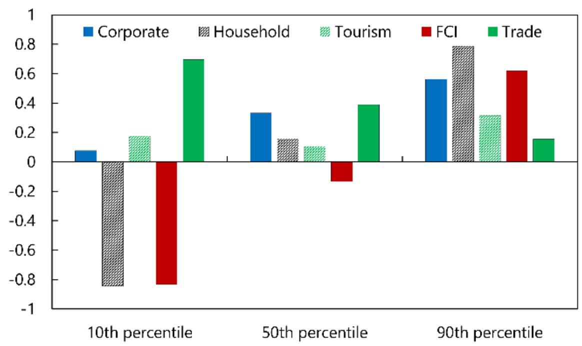
4. Our results suggest that the growth impact of increased corporate and household debt varies across time horizons and states of the economy. In line with existing literature, both higher corporate and household debt-to-GDP ratios bolster economic growth in the short term (figure below). However, the coefficients estimated across the quartiles exhibit variation over the distribution for household debt, displaying a negative impact on growth at lower percentiles, particularly when growth is vulnerable. Consequently, these findings suggest that elevated household debt poses even greater risks to growth during economic downturns. The ascent in leverage, while advantageous in the short term, leads to diminished growth in the medium-term.

5. **While reliance on tourism boosts short-term growth, the effect is negative at longer horizons**. The positive correlation is evident across all percentiles of the growth distribution, with a slightly higher correlation during economic booms (90th percentile). Nevertheless, rising tourism reliance is associated with a decline in medium-term growth possibly due to misallocation of resources towards a relatively low value-added tourism sector.

Growth Response to One Standard Deviation Increase in Macro Variables

Near-term Quantile Regression Coefficients

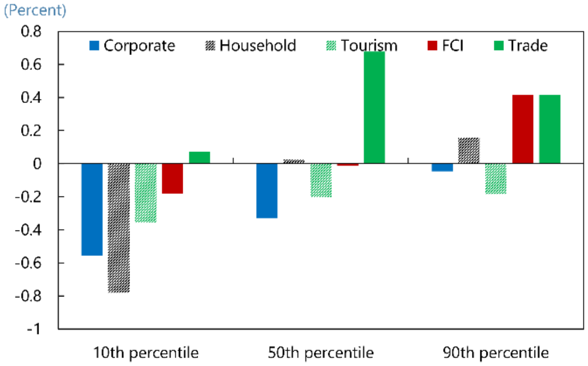
(Percent)



Sources: Haver Analytics and IMF staff calculations.

Medium-term Quantile Regression Coefficients

(Percent)



Sources: Haver Analytics and IMF staff calculations.

Note: Coefficients are from estimation of Growth at Risk (GAR) model. Y-axis is in percent. Near-term and medium-term denote 4-quarters and 12-quarters ahead change in GDP growth. Corporate, household, and tourism denote corporate debt to GDP ratio, household debt to GDP ratio and tourism revenues to GDP ratio, respectively. FCI denotes financial condition index which is a principal component of several domestic and international financial variables. Trade denotes principal component of USD GDP growth and China import growth.

6. **Overall, the results suggest that although rising leverage and tourism-dependence may contribute to economic growth in the short term, they could potentially hinder growth in the medium term**. Decreasing household or corporate debt, and reducing tourism dependence increases medium-term real GDP growth, whereas the impact on near-term growth is negative. Therefore, policies aimed at deleveraging and sectoral reallocation should be designed to minimize short-term economic costs while fostering long-term sustainable growth.

7. **Given the already elevated levels of private sector debt, it is essential to address existing private debt while reinforcing preventive measures for future debt accumulation**. Strengthening the insolvency regime, including by adding informal and hybrid restructuring options,

while avoiding moral hazard would help facilitate debt restructurings. [4] Going forward, stronger lending standards informed by comprehensive credit information systems, a broad-based DSTI ratio, and a provision of legal and financial advice to indebted consumers could help prevent excessive debt accumulation.[5] BOT has made progress regarding extending the coverage of MaPP implementation to NBFIs and cooperatives. This process should continue to ensure that the regulatory arbitrage is minimized.

8. Finally, the authorities should aim to transition from mass tourism to high-end, higher value-added tourism, with complementary efforts to upskill and reduce informality of workers in the sector. Currently, the majority of incoming tourists to Thailand are mainly mass-market tourists, with a smaller luxury segment. Notably, the average spending per tourist in Thailand lags behind countries with higher or comparable arrivals numbers (Goretti et al. 2021), and has declined in 2023 compared to pre-pandemic levels due to an increase in regional arrivals. Rather than focusing on short-term measures to attract more tourists (visa and cost-free entry for tourists from a larger group of countries), the authorities should consider more fundamental reforms to Thailand's tourist model. A shift from mass tourism to low-density, high-end tourism also aligns with the authorities' intended long-term objective of promoting more sustainable tourism that has a reduced ecological footprint.

[4] For a more detailed analysis on informal and hybrid debt restructuring options, see Annex VII. "Practical Lessons in Addressing Private Debt Overhang" from IMF Country Report No. 19/309 and SIP. "Private Debt Restructuring—Lessons from International Experiences" from IMF Country Report No. 22/301.

[5] BOT will start implementing DSR limits, while noting the risks that some debtors might face liquidity shortage in the short run and will be forced to turn to financial institutions that are not under the BOT supervision such as cooperatives, or worse, to informal lending channels. Hence, during the initial phase, DSR limits will be applied to a certain segment of uncollateralized consumer loans, which is where most household debt problems lie, before extending to other types of retail loan in the latter phase. For details, see the following: Joint Press Release BOT collaborates with financial institutions to sustainably address household debt problems.

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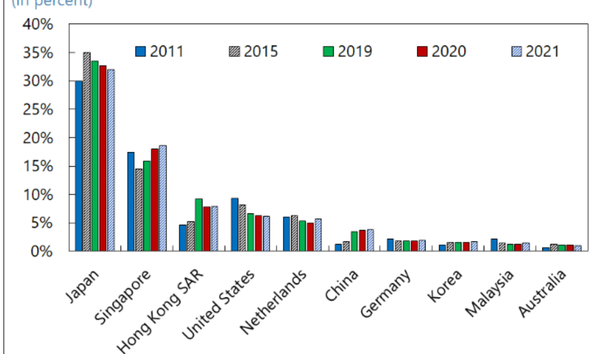
Annex IV. China and the U.S. Spillovers to Thailand[1]

While Thailand has benefited from its integration into global markets, it remains vulnerable to potential trade fragmentation scenarios and subsequent demand spillovers from both China and the U.S. This annex examines the spillover effects from China and the U.S. on Thai sectors and firms. The analysis finds significant negative impacts on sectoral exports, firm revenues, and investment after a decline in the GDP of China and the U.S., separately. The adverse effects are more pronounced in sectors with higher Global Value Chain (GVC) integration. However, the diversification of Thai exports across countries could help mitigate negative spillovers.

1. **Thailand's highly open economy is deeply integrated with global markets**. Thailand's trade openness, measured by the proportion of both exports and imports to GDP, experienced a substantial upsurge from the 1980s to the mid-2000s. This upward trajectory played a pivotal role in fostering the rapid increase in per capita income over this time span. Thailand's export destinations evolved significantly over the years. In the early 1990s, around 40 percent of Thai exports were directed towards Japan and the U.S.. However, this ratio underwent a notable decline, dwindling to around 21 percent by 2010, with the U.S. and Japan accounting for 10.5 and 10.4 percent, respectively. The reliance on the U.S. climbed back to 17 percent in 2022, while Japan constituted a mere 8.6 percent of the total exports. Since the 2000s, China's significance as an export destination increased remarkably, making it the second most important export destination in 2022, following the U.S.

2. **Thailand's integration in global markets also resulted in significant inflows of foreign direct investment (FDI)**. Japan is the largest source of FDI to Thailand followed by two financial centers, Singapore, and Hong Kong SAR. Despite the substantial role of China and the U.S. as an export destination, their role as a source of FDI remains limited.

Share of FDI to Thailand, by Economy
(In percent)

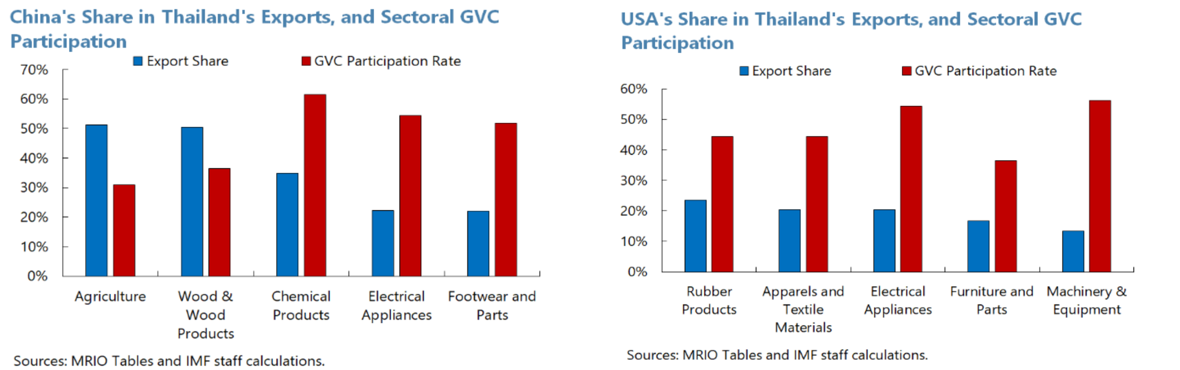


Sources: IMF Inward Direct Investment Positions database and IMF staff calculations.

3. **The sectors that generate most of Thailand's exports to China and the U.S. vary significantly by destination, and these sectors have different positions in GVCs.** China accounts for half of Thailand's agriculture and wood products exports, roughly one-third of its chemical products exports and more than 20 percent of its exports in electrical appliances and footwear and parts. Except agriculture and wood products, the latter three sectors have relatively higher GVC participation rates (above sectoral average of 46 percent). On the other hand, the sectors with the highest share of exports to the U.S. are rubber products, apparel and textile, electrical appliances, furniture, and machinery and equipment. These sectors also have relatively higher GVC participation rates compared to other sectors.

[1] Prepared by Melih Firat (APD) and Umang Rawat (MCD, formerly APD).

Top 5 Sectors with the Highest Share of China and the U.S. in Thailand Exports in 2021



Notes: The figure presents (with blue bars) the sectors with the highest share of China and the U.S. in total Thai exports, separately. The red bars display GVC participation rates which are the sum of backward and forward GVC participation rates. Average GVC participation rate across all Thai sectors is 46 percent.

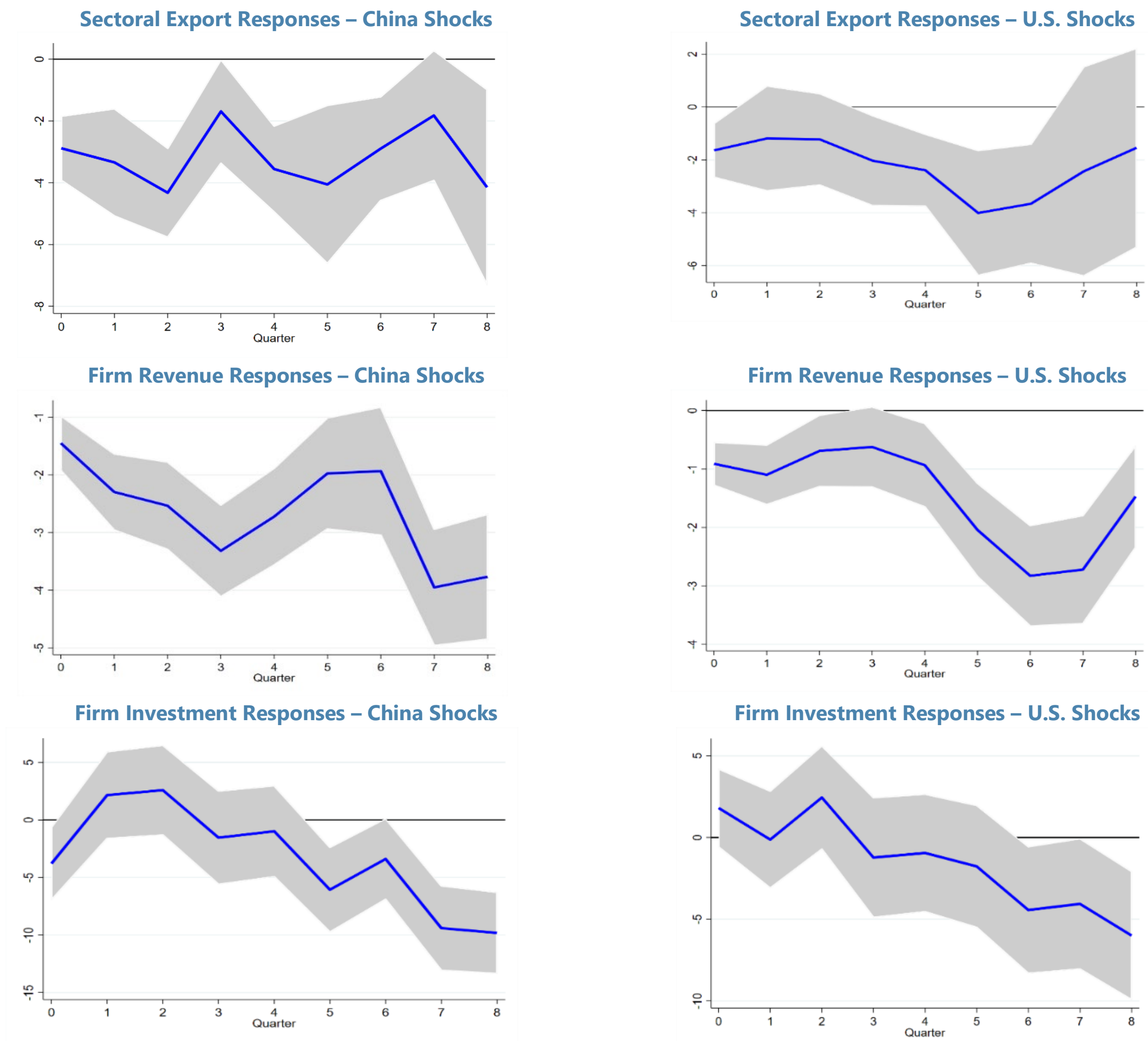
4. **However, the rise of geopolitical tensions could reverse Thailand's gains in a fragmented world economy**. The IMF (2022) shows that deepening geoeconomic fragmentation due to decoupling between the U.S. and China can have large negative economic effects on global economy, and on the U.S. and China, the world's two major economies. Considering their importance for the Thai economy as two main export destinations, it is important to understand potential spillovers from these economies to Thailand since demand shocks originating in the U.S. or China can have significant impacts on Thailand.

5. **Expanding on the previous literature, we examine both U.S. and China spillovers, and importantly, investigate the heterogeneities in spillovers across sectors and firms**. Specifically, we estimate the impact of demand shocks originating in China and the U.S. on Thai exports (using sectoral data) and on Thai firm revenues and investment (using S&P Capital IQ firm-level data). We use demand shocks for China and the U.S. identified by Copestake et al. (2023) and sectoral exports in 28 different sub-sectors in agriculture and manufacturing sectors.[2] We complement this with firm-level revenues and capital expenditures across 661 listed firms in Thailand from the Capital IQ dataset.

6. **Demand shocks from China and the U.S. generate significant spillovers to Thai exports and firm revenues**. China and the U.S. shocks generate a sizable decline on Thai exports, by 4 and 1.7 percent, respectively, at their peaks. Both shocks generate an instant decline in Thai exports, whereas the negative impacts of China shocks are more persistent than the U.S. shocks which becomes insignificant by the 7th quarter. Firm-level analysis suggests a stronger role for China shocks than the U.S. shocks on Thai firms-showing that firm revenues and investment drop against shocks, at a higher rate against shocks from China than in the U.S.

[2] China and the U.S. demand shocks are identified, separately, from a Structural Vector Autoregression (SVAR) model with sign restrictions for 2001Q3-2021Q4. Demand shocks are those associated with falling activity and prices and supply shocks equivalently with falling activity yet rising prices. The results of the SVAR model indicate that demand shocks have been dominant before the pandemic whereas supply shocks have been more important recently, especially during lockdown periods associated with the COVID-19 pandemic.

Spillovers to Exports and Firm Revenues

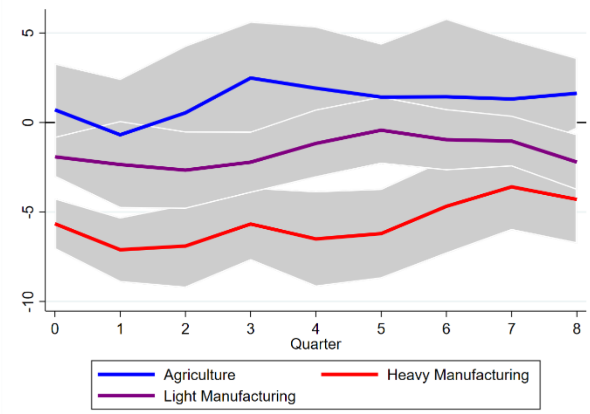


Source: Firat and Rawat (forthcoming).
Note: Blue lines show the impulse responses following demand shocks. Gray areas indicate 90 percent confidence bands. Standard errors are clustered in sectors or firms.

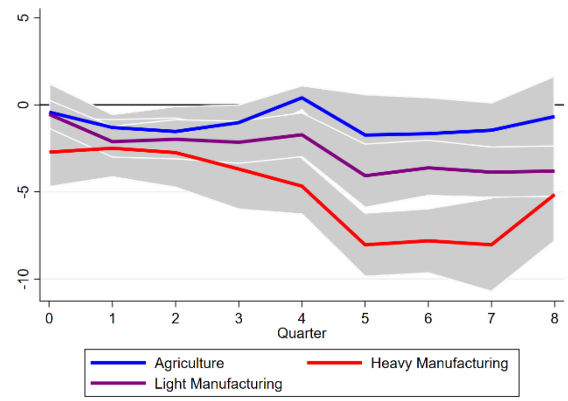
7. **The negative spillovers from negative demand shocks in China and the U.S. vary across sectors**. We document the heterogeneity in spillovers across three sectoral categories: 1) Agriculture sector, 2) Light Manufacturing sector, and 3) Heavy Manufacturing sector. Figure below shows that both (negative) China and the U.S. demand shocks imply stronger negative spillovers on heavy manufacturing sectors, the effect reaching 5 percent in 8 quarters from China (Panel A) and the U.S. shocks (Panel B). Export responses in agriculture sector has been subdued. Light manufacturing sector exports experience negative spillovers but less than heavy manufacturing sectors. The results are similar for firm responses that revenues and investment decline more in heavy manufacturing sectors than light manufacturing sectors, with a lower differentiation across sectors in investment responses.

Figure 1. Heterogeneity in Responses of Exports and Firm Revenues

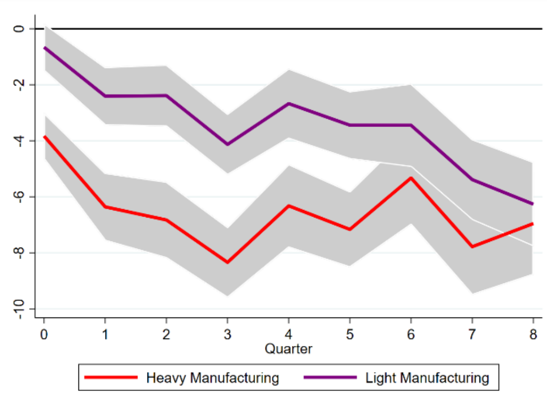
Sectoral Export Responses – China Shocks



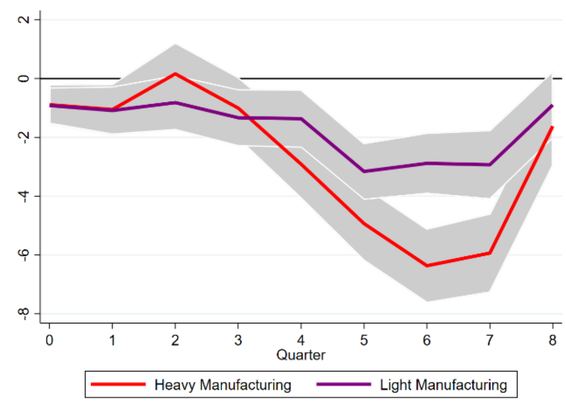
Sectoral Export Responses – U.S. Shocks



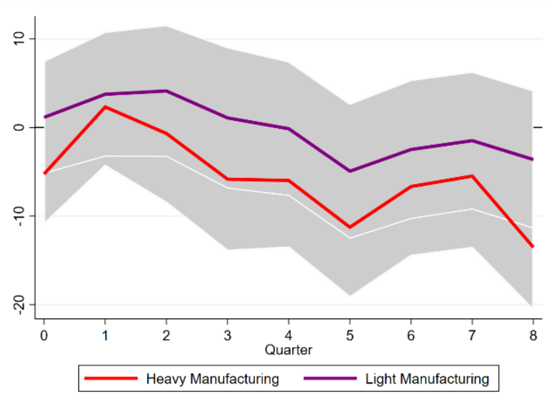
Firm Revenue Responses – China Shocks



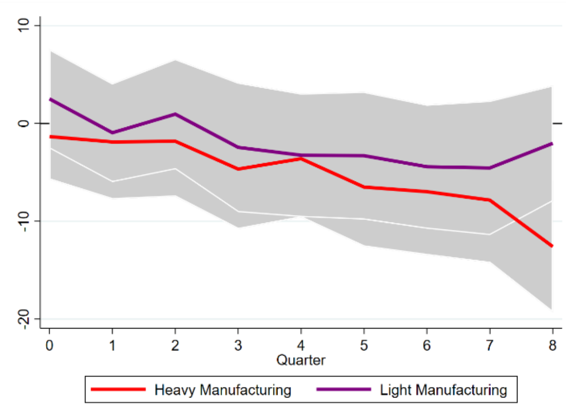
Firm Revenue Responses – U.S. Shocks



Firm Investment Responses – China Shocks



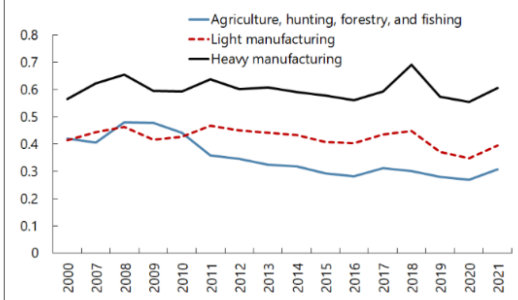
Firm Investment Responses – U.S. Shocks



Source: Firat and Rawat. (forthcoming).
Note: Red, purple, and blue lines represent the impulse responses in heavy manufacturing, light manufacturing, and agriculture sectors. Gray lines indicate 90 percent confidence intervals. Standard errors are clustered in sectors or firms.

8. The heterogeneous impact across sectors reflects the sectors' GVC participation. The text figure displays the difference in GVC participation across three major sector categories. Heavy manufacturing sectors has the highest GVC participation rate followed by light manufacturing and agriculture sectors. The GVC participation rankings of the sectors are consistent with the results from previous figures that the magnitude of the spillovers is increasing with the level of GVC participation.

GVC Participation by Subcategories in Thailand

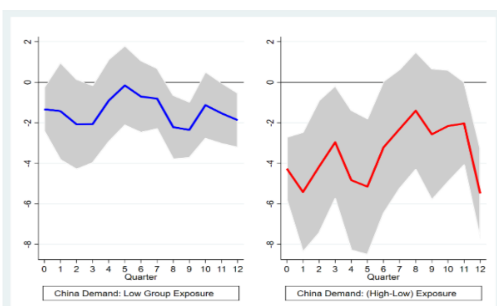


Sources: ADB MRIO tables and IMF staff calculations.
Notes: GVC participation rate is the sum of forward and backward GVC participation rate.

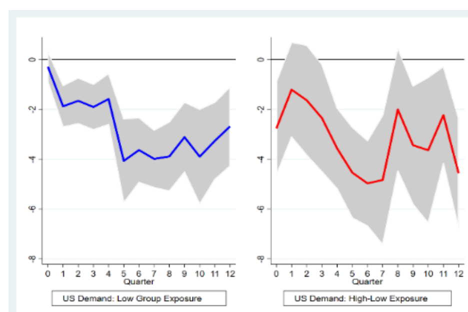
9. Finally, we analyze the role of export market diversification to mitigate the negative spillovers from China and the U.S. We first calculate an export diversification measure, Herfindahl index, for each sector and time using sector-country export shares.[1] Then, we estimate export responses in sectors with high export diversification group and the additional spillovers due to having low export diversification in a sector. Blue lines present the decline in exports in low concentration (high diversification) sectors against shocks from China and the U.S. Importantly, the red lines indicate the additional decline in sectors with higher export concentration (lower diversification), implying that exports in these sectors are more negatively affected following China and the U.S. demand shocks.

Role of Export Market Diversification on Mitigating Spillovers

Export Responses – China Shocks



Export Responses – U.S. Shocks



Source: Firat and Rawat (forthcoming).
Note: Blue lines represent the impulse responses in more diversified group and the red lines show the additional impulse responses due to being in low diversified group. Gray lines indicate 90 percent confidence intervals. Standard errors are clustered in sectors or firms.

10. These results suggest that increasing the diversification in export markets could help mitigate the negative external spillovers of U.S. and demand shocks on Thailand. Thailand could pursue expanded trade relationship with a wider range of countries, including greater trade integration with other ASEAN countries, while seeking to exploit complementarities among this diverse group of economies along global value chains. For example, as Thailand wants to position itself as a regional leader in EV production, synergies with Indonesia and Vietnam on battery production could usefully be better exploited.

[1] For example, the construction sector has a high Herfindahl index (low diversification) and the food, beverages, and tobacco sector have a low Herfindahl index (high diversification).

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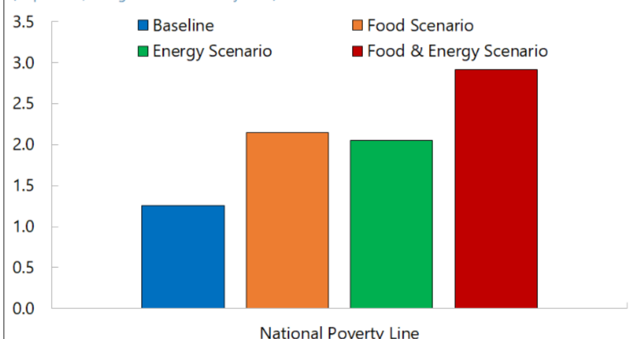
Annex V. Distributional Consequences of Inflation in Thailand[1]

1. **Significant spikes in energy and food costs carry important distributional consequences**. Thailand recently experienced a significant surge in inflation after substantial declines starting nearly two decades ago as Thailand adopted inflation targeting regime. These pronounced price hikes, especially in the case of food and energy, affect the distribution of resources among households. For instance, it is well documented that households with lower incomes tend to allocate a disproportionately higher portion of their spending toward food. Consequently, in Thailand, the heaviest toll of escalating food prices is borne by vulnerable households: the poorest are affected by both higher food and energy prices, while the wealthiest are mainly affected by rising energy prices.

2. **Rising inflation could also considerably impact poverty**. To further study the effect of inflation on households, it is instructive to see how rising food and energy prices could push a significant number of households below the poverty line. The simulations show that, in the absence of any government intervention, the large increase in food and energy prices observed in 2022 may increase poverty. Under the baseline, poverty could increase by about 1.3 percentage points based on the national poverty line in the absence of the government's intervention.

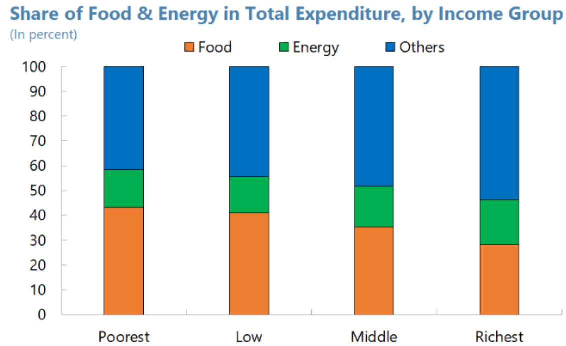
Thailand: Inflation's Impact on Poverty
(In percent, using National Poverty Line)



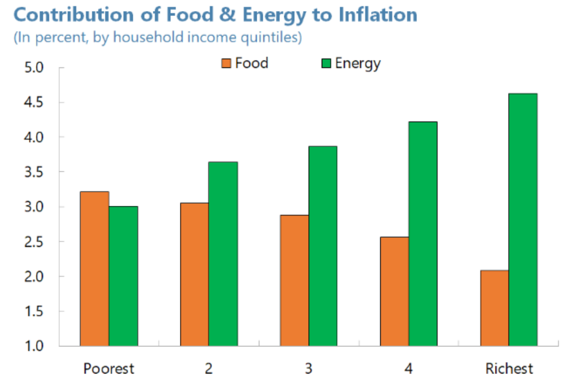
Sources: Thailand Household Socioeconomic Survey 2021, and authors' calculations.
Notes: Baseline is defined as 2022 inflation for Thailand. For food scenario, we double food inflation keeping other components constant. For energy scenario, we double energy inflation keeping other components constant. For food & energy scenario, we double food inflation and energy inflation keeping other components constant.

3. **The fiscal cost to fully compensate all households from rising inflation can be sizable**. The fiscal cost to compensate vulnerable households is about 0.05 percent of GDP. However, to compensate the entire Thai population for their income erosion from inflation, the fiscal cost is much higher at 1.9 percent of GDP. Untargeted fiscal support benefit mostly high income households. Households under the poverty line account only for 2.4 percent of the total fiscal cost. Those with incomes above the 50th percentile of the population account for 70 percent of the fiscal cost (1.4 percent of GDP).

[1] This annex is prepared in collaboration with the Bank of Thailand (BOT) and the National Statistical Office (NSO) of Thailand. For more details see P. Chote (BOT), C. Deléchat (IMF), T. Kongphalee (NSO), P. Manopimoke (BOT), V. Nahata (IMF), M. Sy (IMF), and T. Yungvichit (NSO). 2024. ''Rising Inflation and Household Vulnerabilities in Thailand'', IMF Working Paper, forthcoming.



Sources: Thailand Household Socioeconomic Survey 2021, and IMF staff calculations.
Notes: income classifications exclude 4th quintile. Low corresponds to 2nd quintile and Middle corresponds to 3rd quintile.



Sources: Thailand Household Socioeconomic Survey 2021, and IMF staff' calculations.

4. To mitigate the effect of rising energy prices, the Thai government mostly provided universal subsidies. Total measures to mitigate the effect of rising energy prices are estimated so far at 233.2 billion baht or 1.4 percent of GDP in FY22-FY23Q1. About 70 percent of energy-related support comprised of universal price caps on diesel, natural gas for vehicles, and. Excise tax reduction (29 percent) on diesel and targeted measures (1 percent) account for the rest. The total subsidies owing to the onset of increasing commodity prices (1.3 percent of GDP) are much higher than the cost to compensate only households that are below the poverty line (0.05 percent of GDP) but lower than the total cost to fully compensate all households (1.9 percent of GDP).

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Annex VI. Sovereign Debt and Debt Sustainability Framework

Figure 1. Thailand: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	...	Low	The overall risk of sovereign stress is low on the basis of the strength of institutions. Despite large increase during Covid-19, public debt in Thailand is almost entirely in local currency, long-term, and low interest rates.
Near term 1/	Moderate	n.a.	The near-term risk of sovereign stress is low. This is because the stess probability is very close to the low risk.
Medium term	Low	Moderate	Medium-term risks are assessed as moderate. GFNs increased substantially because of large borrowing during Covid-19 but are expected to decrease over the medium-term.
Fanchart	Moderate	...	
GFN	Low	...	
Stress test		...	
Long term	...	n.a.	Country teams must input comments on the module in this section.
Sustainability assessment 2/	Not required for surveillance countries	Not required for surveillance countries	
Debt stabilization in the baseline			Yes

DSA summary assessment

Commentary: Thailand is at "low" overall risk of sovereign stress. Public debt was low prior to the pandemic. But with large fiscal stimulus measures during Covid-19, public debt-to-GDP ratio increased. However, public debt-to-GDP ratio will slightly increase—partly due to the financing of the digital wallet— over the medium-term before starting to decline. Thailand's public debt is almost in local currency, fixed rate and long maturity. Foreign currency denominated debt is less than 1.5 percent of the outstanding public debt as of end FY2023 and largely owned by international official creditors.

Source: Fund staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Figure 2. Thailand: Debt Coverage and Disclosures

1. Debt coverage in the DSA: 1/

CG	GG	NFPS	CPS	Other	Comments
		NFPS (chosen)			

1a. If central government, are non-central government entities insignificant? n.a.

2. Subsectors included in the chosen coverage in (1) above:

		Subsectors captured in the baseline	Inclusion	Comments
CPS / NFPS / GG: expected / CG	1	Budgetary central government	Yes	
	2	Extra budgetary funds (EBFs)	Yes	
	3	Social security funds (SSFs)	Yes	
	4	State governments	No	See commentary below
	5	Local governments	No	See commentary below
	6	Public nonfinancial corporations	Yes	
	7	Central bank	No	
	8	Other public financial corporations	No	

3. Instrument coverage:

Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/
chosen coverage	chosen coverage	chosen coverage	Missing from recommended coverage	Missing from recommended coverage

4. Accounting principles:

Basis of recording		Valuation of debt stock		
Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/
	chosen	chosen		

5. Debt consolidation across sectors:

Consolidated	Non-consolidated
	chosen

Color code: chosen coverage (green); Missing from recommended coverage (red); Not applicable (grey)

Reporting on intra-government debt holdings

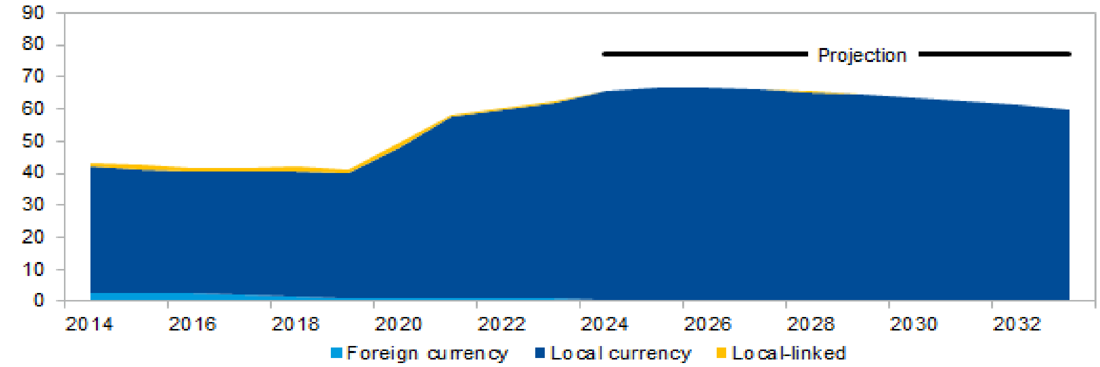
Issuer \ Holder		Budget. central govt	Extra-budget. funds (EBFs)	Social security funds (SSFs)	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
1	Budget. central govt									0
2	Extra-budget. funds									0
3	Social security funds									0
4	State govt.									0
5	Local govt.									0
6	Nonfin pub. corp.									0
7	Central bank									0
8	Oth. pub. fin. corp									0
	Total	0	0	0	0	0	0	0	0	0

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

Commentary: The coverage of public debt is established by the Public Debt Management Act. Public debt includes central government debt, non-financial state-owned enterprise debt, special financial institutions guaranteed debt, FIDF debt and government agency debt (e.g., Oil Fund and Social Security). Public debt does not include local governments' debt. However, their debt is less than 0.2 percent of GDP as of end FY2023.

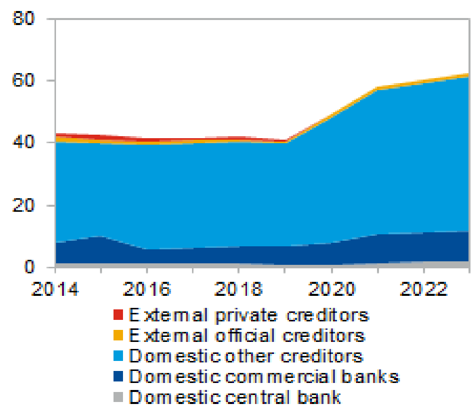
Figure 3. Thailand: Public Debt Structure Indicators

Debt by currency (percent of GDP)



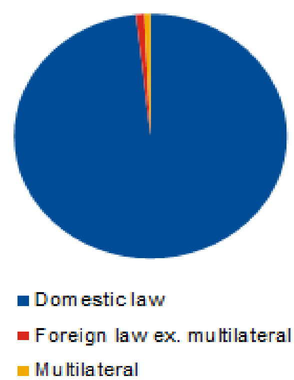
Note: The perimeter shown is nonfinancial public sector.

Public debt by holder (percent of GDP)



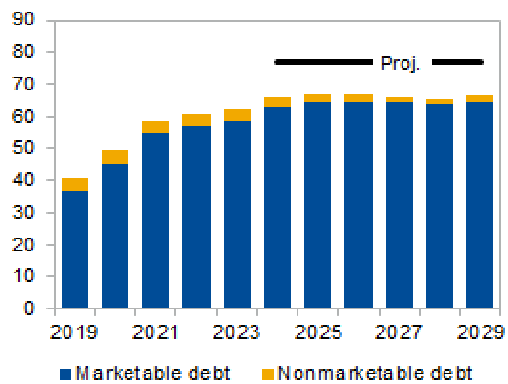
Note: The perimeter shown is nonfinancial public sector.

Public debt by governing law, 2023 (percent)



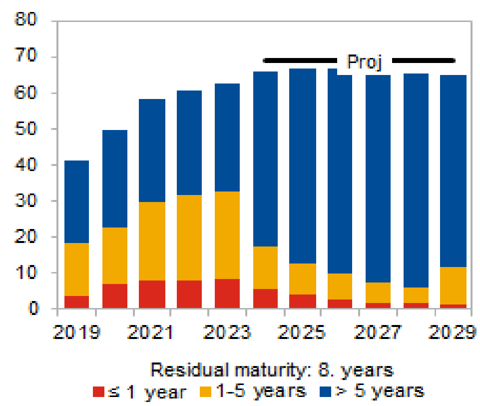
Note: The perimeter shown is nonfinancial public sector.

Debt by instruments (percent of GDP)



Note: The perimeter shown is nonfinancial public sector.

Public debt by maturity (percent of GDP)



Note: The perimeter shown is nonfinancial public sector.

Commentary: The currency composition and maturity profile of public debt are expected to remain about the same over the projection period. The bulk of financing needs is expected to continue to be met through the issuance of medium and long-term debt denominated in domestic currency and held by domestic non-banking creditors. Maturities are expected to remain long following their shorting during the pandemic.

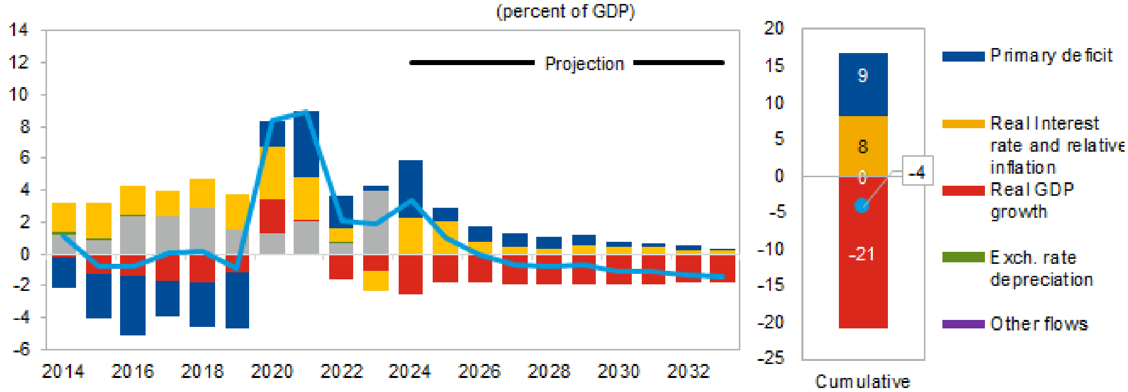
Figure 4. Thailand: Baseline Scenario

(Percent of GDP and Fiscal Year unless indicated otherwise)

	Actual	Medium-term projection						Extended projection			
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Public debt	62.4	65.8	66.9	66.8	66.2	65.4	64.7	63.6	62.4	61.1	59.7
Change in public debt	1.9	3.4	1.1	-0.1	-0.6	-0.8	-0.7	-1.1	-1.1	-1.3	-1.4
Contribution of identified flows	-2.1	3.4	1.1	-0.1	-0.6	-0.8	-0.7	-1.1	-1.1	-1.3	-1.4
Primary deficit	0.3	3.6	0.8	1.0	0.8	0.8	0.6	0.3	0.3	0.3	0.1
Noninterest revenues	22.0	22.3	22.4	22.5	22.7	23.0	23.2	23.4	23.5	23.7	23.8
Noninterest expenditures	22.2	25.9	23.2	23.5	23.6	23.8	23.9	23.8	23.7	23.9	23.9
Automatic debt dynamics	-2.4	-0.2	0.3	-1.1	-1.5	-1.6	-1.4	-1.4	-1.4	-1.5	-1.5
Real interest rate and relative inflatior	-1.3	2.3	2.1	0.7	0.5	0.3	0.5	0.4	0.5	0.3	0.3
Real interest rate	-1.3	2.3	2.1	0.7	0.5	0.3	0.5	0.4	0.5	0.3	0.3
Relative inflation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Real growth rate	-1.1	-2.5	-1.8	-1.8	-1.9	-1.9	-1.9	-1.9	-1.9	-1.8	-1.8
Real exchange rate	0.0	...	...	...	...	...	...	...	...	...	...
Other identified flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(minus) Interest Revenues	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contribution of residual	4.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing needs	12.5	16.1	8.9	8.8	8.0	7.6	7.9	7.6	8.0	7.9	8.2
of which: debt service	12.2	12.5	8.1	7.8	7.2	6.8	7.3	7.3	7.8	7.7	8.1
Local currency	12.0	12.3	7.9	7.7	7.1	6.7	7.2	7.2	7.7	7.6	8.1
Foreign currency	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Memo:											
Real GDP growth (percent)	1.8	4.2	2.8	2.7	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Inflation (GDP deflator; percent)	2.2	0.5	0.8	2.1	2.5	2.4	2.1	1.9	1.9	1.9	1.9
Nominal GDP growth (percent)	4.0	4.8	3.6	4.9	5.5	5.4	5.1	5.0	5.0	5.0	5.0
Effective interest rate (percent)	0.0	4.4	4.0	3.3	3.2	2.9	2.9	2.7	2.7	2.4	2.4

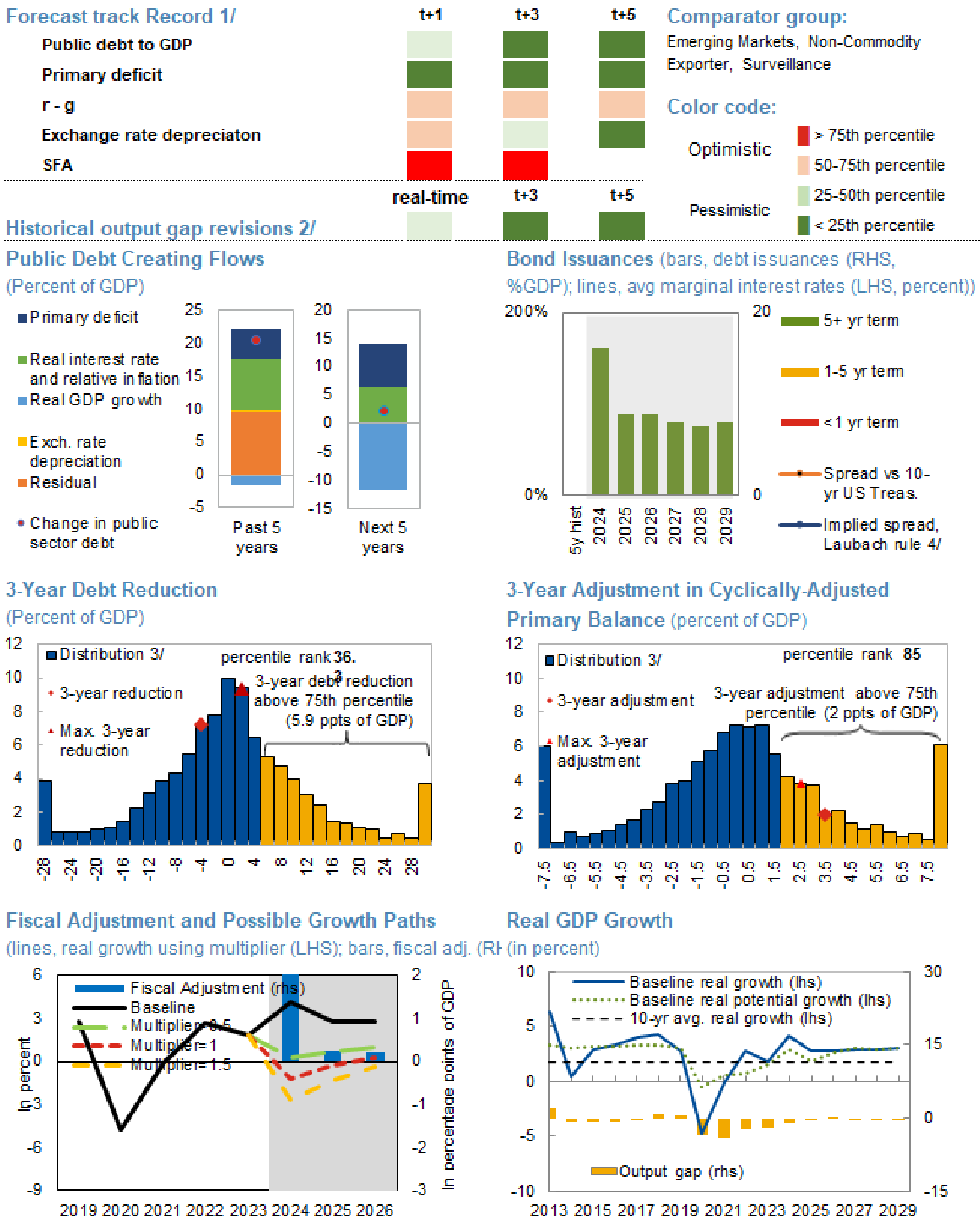
Contribution to change in public debt

(percent of GDP)



Commentary: Public debt will rise but then starting to decline, reflecting favorable interest-growth differential and narrowing primary deficit in the medium-term.

Figure 5. Thailand: Realism of Baseline Assumptions



Commentary: Forecast errors show some signs of past optimism in the debt creating flows largely driven by unexpected outturns during Covid-19. The three year debt adjustment is realistic compared to cross-country countries comparisons and the three years fiscal adjustment is also within norms. Growth is affected during the first years of adjustment.

Source : IMF Staff.

1/ Projections made in the October and April WEO vintage.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates

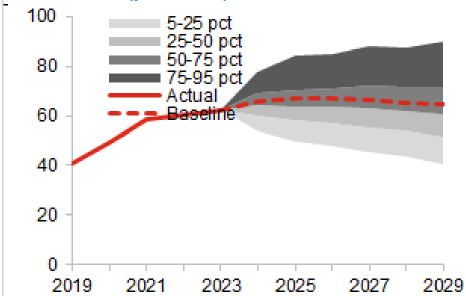
3/ Data cover annual obervations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

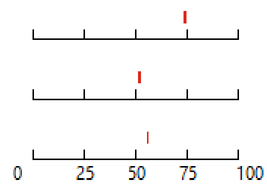
4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

Figure 6. Thailand: Medium-Term Risk Assessment

	Value	Contrib 1/	Percentile in peer group 2/
Debt fanchart module			
Fanchart width *(percent of GDP)*	48.9	0.7	
Probability of debt non-stabilizaiton *(percent)*	22.2	0.2	
Terminal debt-to-GDP x institutions index	33.3	0.7	
Debt fanchart index (DFI)		1.6	
Risk signal: 3/		Moderate	

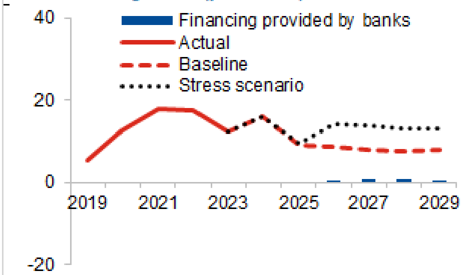
Final fanchart (pct of GDP)

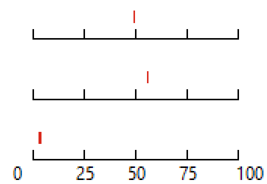




	Value	Contrib 1/	Percentile in peer group 2/
Gross financing needs (GFN) module			
Average baseline GFN *(percent of GDP)*	9.6	3.3	
Initial Banks' claims on the gen. govt *(pct bank assets)*	10.3	3.4	
Chg. In banks' claims in stress *(pct banks' assets)*	0.0	0.0	
GFN financeability index (GFI)		6.6	
Risk signal: 4/		Low	

Gross financing needs (pct of GDP)

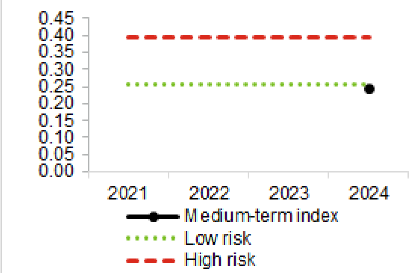




Triggered stress tests (stress tests not activated in gray)

Banking crisis   Commodity prices   Exchange rate   Contingent liab.   Natural disaster

Medium-term index (index number)



Medium-term risk analysis

	Value	Value (normalized)	Weight	Contribution
Debt fanchart index	1.6	0.4	0.5	0.2
GFN finaceability index	6.6	0.1	0.5	0.1
Medium-term index		0.2		
Risk signal: 5/		Low		
Final assessment:		Moderate		

Prob. of missed crisis, 2024-2029, if stress not predicted: 9.1 pct.
Prob. of false alarms, 2024-2029, if stress predicted: 43.2 pct.

Commentary: The Debt Fanchart indicates a moderate risk around the projected debt baseline. There is an increase in gross financing needs in the near-term because of the amortization of the Covid-19 related borrowing. Commercial banks hold a relatively small share of the outstanding public debt.

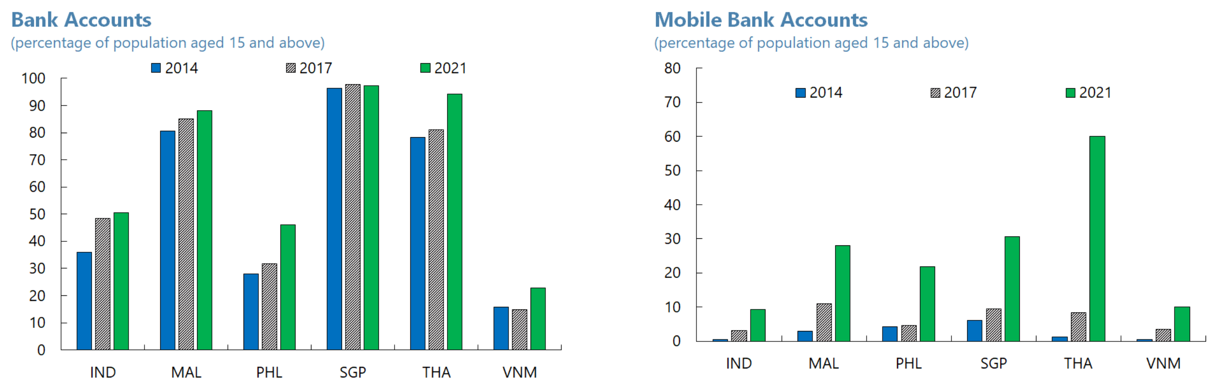
Source: IMF staff estimates and projections.

1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.
2/ The comparison group is emerging markets, non-commodity exporter, surveillance.
3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.
4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.
5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

Annex VII. Financial Innovation Stocktaking[1]

1. **Thailand has made significant efforts in promoting financial inclusion and has become a large Fintech hub in the ASEAN region**. The country ranks high for percentage of eligible population having bank accounts and the highest in mobile accounts penetration (Figure). Moreover, the increase in acceptability of making online transactions has led to an acceleration in the adoption new technology offered by the financial institutions. To meet the rapidly-changing consumer preferences, the financial regulators including the Bank of Thailand (BOT), the Securities and Exchange Commission (SEC) and the Office of Insurance Commission (OIC) have been supportive of innovations in the financial sector while carefully developing regulations to address potential financial stability risks and protect consumers.[2]

Regional Financial Inclusion Comparison



Sources: World Bank's Global Financial Inclusion Database, and IMF staff calculations.

Sources: World Bank's Global Financial Inclusion Database, and IMF staff calculations.

2. **The Bank of Thailand (BOT) has introduced several key initiatives in 2022 to promote competition, develop and facilitate infrastructure for innovation and improving data governance** (2022a). The initiatives are expected to allow new institutions to enter the market and offer services on a level playing field. In this regard, the BOT set forth the framework to grant licenses for establishing virtual banks and lifted the limits on Fintech investments by banking subsidiaries. The policies also include development of a regulatory sandbox in which new innovations and technologies may be introduced under limited scope at initial stage together with appropriate risk management. The key innovations and proposals set under the repositioning of the financial sector are as follows.

- **Strengthening of the digital payment system**: Thailand has witnessed a robust growth in the real-time payment systems introduced by the BOT in collaboration with other financial institutions. The consumer payment system, *PromptPay* launched in 2016 offers person to person (P2P) funds transfer and is also used for disbursement of wages and government

[1] Prepared by Muhammad Shamil Akbar (APD).

[2] The Thai government and the financial sector regulators have played a key role in the promotion of digital finance and financial inclusion. The government established the Digital Economy Promotion Agency (DEPA) in 2016 to further the development of digital finance. Moreover, the Thai Fintech Association was established in 2016 to improve collaboration among participating institutions offering digital products and services.

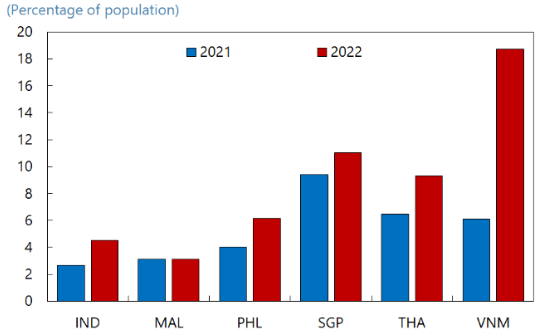
transfers. Similarly, *PromptBiz,* introduced in 2023 supports SME and other businesses in acquiring loans from the banks and facilitating in trade finance activities. The growth in digital payments gained momentum with the introduction of new products such as payment through QR codes and cross-border retail payments. In this regard, the BOT established cross-border payment linkages with various countries in the region to facilitate cross-border retail payment in local currency.[3]

- **Creation of virtual banks**.[4]The BOT (2023), in collaboration with the Ministry of Finance (MOF) has been drafting a policy to allow opening of virtual banks. Besides having lower operational costs, the virtual banks are expected to leverage expertise in technology and data analytics to offer financial services that bring about new value proposition to better serve the needs of customers, particularly in the underserved and unserved segment. Virtual banks must comply with the same regulations and supervision as traditional commercial banks. However, risk-proportionality approach will be applied to the supervision of virtual banks by placing great importance on certain aspects such as IT system continuity. The BOT expects to propose no more than three candidates to the MOF in 2025. Successful applicants are expected to start operation in 2026.

- **Launch of Central Bank Digital Currency (CBDC) pilots**. The BOT launched both retail and wholesale CBDC pilot projects as part of the innovation process and to test their viability. The retail CBDC Project (Project Bang Khun Phrom) was initiated in late 2022 and completed in Oct-2023. The project tested the infrastructure efficiency, technology, and programming design. The BOT also initiated the testing of mBridge project to gauge the efficiency of wholesale CBDC for cross-border P2P transactions eliminating the correspondent bank network with substantial decline in settlement time with almost no risk.

Cryptocurrency Ownership in ASEAN Region

(Percentage of population)



Source: Global Cryptocurrency Adoption Index.

- **Supervisory approach to banks' digital asset business**: The acceptability of the digital assets (DAs) has increased in Thailand with almost 9.3 percent of the population holding DAs worth of 42 billion baht (Sep-2023) and Bangkok ranked as tenth largest financial hub to attract 57 crypto companies.[5] Similarly, the SEC issued regulations to ensure safety of framework allowing banking groups to hold DAs only for the purpose of developing innovations and to enhance the efficiency and quality of financial services. To ensure

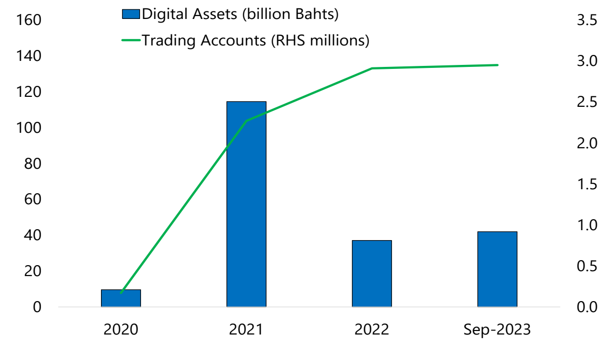
[3] The BOT has made arrangements with Japan in 2018, Cambodia in 2020, Indonesia, Malaysia, Singapore and Vietnam in 2021 and more recently in Dec. 2023 launched QR payment link with Hong Kong SAR.

[4] While the virtual banks are newly introduced in Thailand, they are common in the ASEAN region. The central bank of Philippines has granted license to 6 virtual banks to operate in the country while there are 12 virtual banks operating in Indonesia and 4 in Singapore.

[5] Source: Crypto Readiness Index (2022).

consumer protection and preserve financial stability, the DA business is allowed to be undertaken only by separate entity within the banking group with the maximum limit of 3 percent of the group's capital. Moreover, the BOT has also prescribed prudential regulations in the areas of corporate governance, capital adequacy, intragroup contagion risk within the financial business group. The framework allows the learning and development of the DA business while limiting the potential adverse impacts from new risks and incentivizes banking groups to be prudent in their investments and resource allocation decisions.

Digital Assets in Thailand



Source: Securities and Exchange Commission of Thailand

3. **The reforms also place strong emphasis on achieving environmental sustainability**. The BOT and SEC as representatives of the Working Group on Sustainable Finance (WG-SF) along with relevant stakeholders, both government agencies and industries associations, developed a Taxonomy which can be used for a variety of objectives: (a) steering the market and providing guidance for investors and stakeholders; (b) attracting international climate-oriented capital, (c) enabling and harmonizing data collection and disclosure; (d) assessing environmental risks and risk mitigation options; and (e) modulating state policy in the desired manner. The Phase I of the Thailand Taxonomy focusing on climate mitigation was launched in July-2023 and included identifying activities to decrease emissions in the energy and transportation sectors.[6] The work on Phase II will expand to other important sectors, which are agriculture, construction and real estate, manufacturing, and waste management sectors. The BOT has also taken initiatives towards capacity building in sustainable finance. The BOT in collaboration IMF's Capacity Development Office in Thailand (CDOT) and the South Asia Regional Training and Technical Assistance Center (SARTTAC) organized a high-level seminar on climate change issues in Bangkok in December 2023.

4. **On the supervisory front, the BOT is adopting a more flexible approach to reduce regulatory burdens on financial institutions**. The BOT has adopted risk proportional framework encouraging innovation and service diversification while ensuring strong risk management systems. Similarly, excessive regulations are being reviewed, and exit mechanisms for failing institutions without disrupting the financial sector are being established. The BOT is also addressing cyber and IT-related risks through risk-based IT supervision standards.

[6] Energy and Transportation sectors account for two-third of Thailand's total emissions. The combined sectors in Phase I and II account for 95 percent of total emissions. Source: www.climatebonds.net

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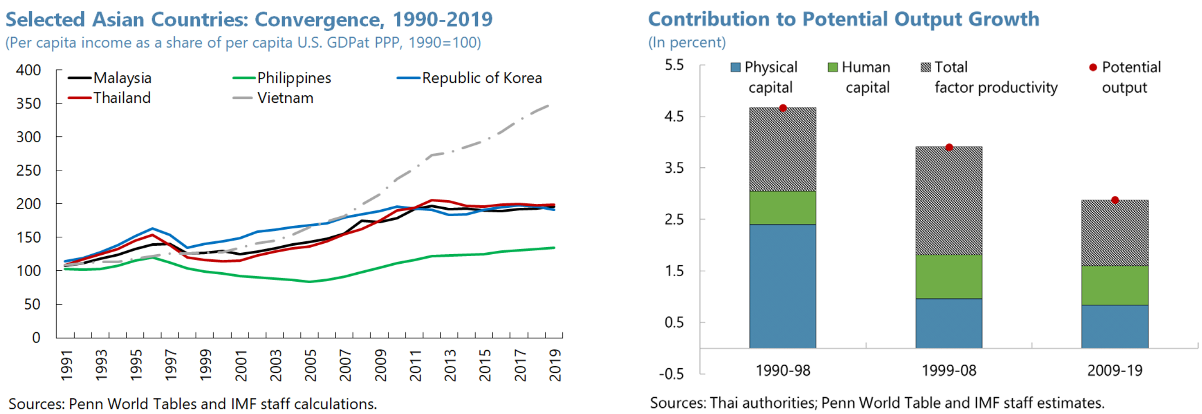
Annex VIII. Corporate Market Power and its Macroeconomic Implications[1]

1. Thailand's per capita income convergence has stalled in the last decade. Thailand managed to double its per capita GDP relative to the US during 1990-2010. However, Thailand's convergence has stalled since then. This was not specific to Thailand, as some of its peers also exhibited a similar pattern.[2] This reflects a downward trend in Thailand's productivity, which is due to lackluster human and physical capital accumulation, and high private sector debt (Figure 1).

Figure 1. Thailand: Convergence and Potential Growth



2. Research and policy interest on corporate market power and its impact on investments and productivity have intensified in recent years. Many studies (De Loecker and Eeckhout 2020, Díez, Fan, and Villegas-Sanchez 2021) have shown that market power has increased in recent years and has negatively impacted investments and inequality. By leveraging financial statements across 2006-2020 from about 1 million firms in Thailand, Malaysia, Philippines and Vietnam, this annex documents the evolution of market power in these ASEAN countries, analyzes its macroeconomic implications, and highlights relevant policy options. Market power is calculated as the ratio of output elasticity of a variable input (free of adjustment costs) and the expenditure share of that input in total revenue. We use the translog production function approach proposed by De Loecker and Warzynski (2012) which yields us firm-level markups (see Stepanyan and Nahata 2023, forthcoming, for more details).

3. Our estimates suggest that aggregate markups increased since 2006 in the three out of four countries analyzed. During 2006-19, aggregate markups (sales weighted) increased by 7 to 14 percent in Malaysia, Philippines, and Thailand (Figure 2), and were largely driven by firms at the tenth decile of the markup distribution. These findings are in line with the literature. Disaggregating these markups reveals that markup increases in the services sector were more broad-based than

[1] Prepared by Ara Stepanyan and Vatsal Nahata.

[2] Vietnam is an exception as its starting level of income per capita is much lower.

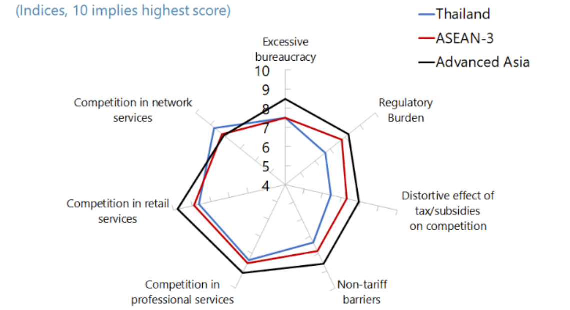
those in the manufacturing sector where firms in the 10th decile have increased their markups by 5-19 percentage points. Analysis of primary drivers of markup changes suggests that in Thailand markup increases are predominantly explained by reallocation of economic activity towards high markup incumbent firms. Moreover, during the pandemic, firms in digitally-intensive sectors have witnessed a significantly larger increase in markups compared with those in digitally non-intensive sectors. Similarly, firms at the 10th decile of contact intensive sectors experienced a decline in markups, while the firms at the top decile of non-contact -intensive sectors saw a significant increase in their markups.

4. **Rising markups have significant macroeconomic implications**. Consistent with the findings in the literature, our estimates suggest that firms at the top decile of the markup distribution tend to have lower productivity growth compared with the overall economy. We have also identified non-monotonic relations between markups and investments. While the increase in markups from a lower level tends to increase investments, after certain threshold, further increases in markups are associated with lower investments. This finding is consistent with the "inverted-U-shaped" relationship between competition and investment documented in the literature (Figure 3).

5. **Changes in market power could also affect inflation outcomes** (Figure 4). In Thailand we observed a strong correlation between the evolution of markups and GDP deflator. In addition, decomposition of GDP deflator suggests that changes in firms' profitability was an important contributing factor to the growth in deflator, including in 2021. At the same time profitability tends to move with markups. During 2012-15 the contribution of profits to GDP deflator diminished, which coincides with the time when corporate markups in Thailand remained flat or declined.

6. **The increased market power of firms and its implications on investments and productivity, emphasize the need for macro-structural policies in Thailand to promote competition**. Comparative analysis of Thailand's regulatory environment highlights areas where Thailand can improve to enhance competition. The largest gaps that Thailand has relative to both ASEAN peers and Asian AEs are in the areas of regulatory burden, distortive taxes and subsidies, and non-tariff barriers. While scoring high on competition in network services, Thailand's competition in the professional and retail services sectors is considerably below Asian AEs. Therefore, cutting domestic regulatory barriers to entry, further liberalizing services sector, and mechanisms to reduce the distortive effects of tax incentives and subsidies should promote competitive neutrality among market players and help Thailand strengthen competition.

Regulatory Policy Environment
(Indices, 10 implies highest score)

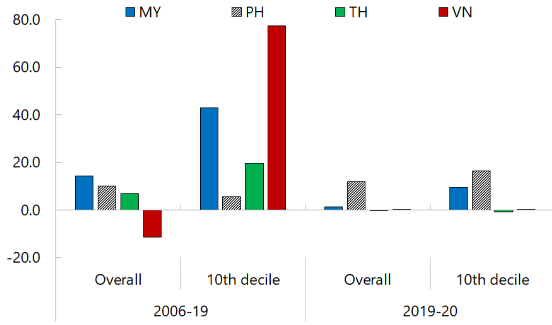


Sources: World Economic Forum, Economist Intelligence Unit, and IMF staff calculations.
Notes: Advanced Asia includes Australia, New Zealand, Singapore, Korea and Japan. ASEAN-3 includes Malaysia, Indonesia and Philippines.

Figure 2. Selected ASEAN Countries: Evolution of Markups

Evolution of Markups in ASEAN Countries

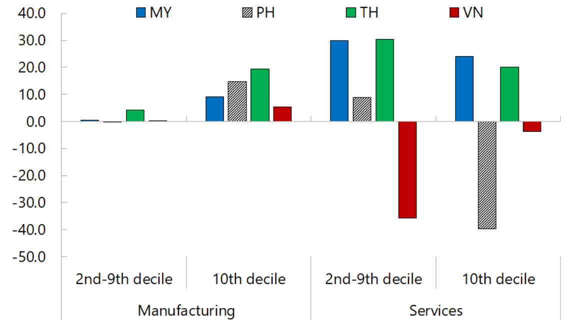
(In percentage points)



Sources: Orbis and IMF staff estimations.

Evolution of Markups: Manufacturing vs. Services

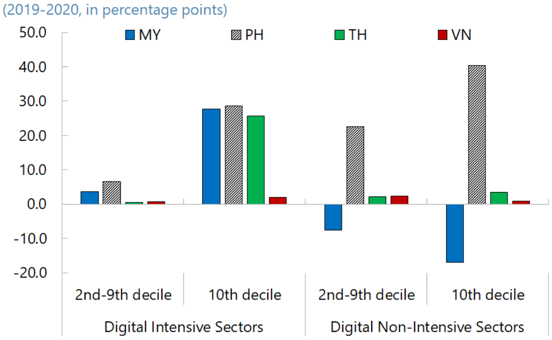
(2006-2019, in percentage points)



Sources: Orbis and IMF staff estimates.

Evolution of Markups by Digital Intensity

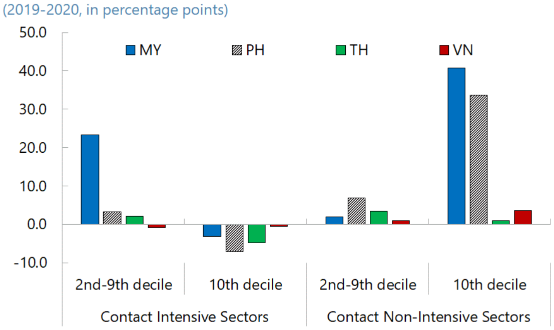
(2019-2020, in percentage points)



Sources: Orbis and IMF staff estimates.

Evolution of Markups by Contact Intensity

(2019-2020, in percentage points)

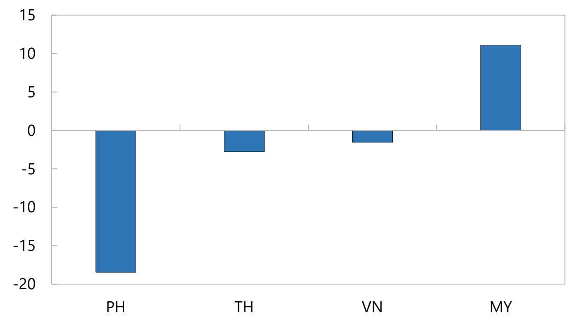


Sources: Orbis and IMF staff estimates.

Figure 3. Thailand: Macroeconomic Implications of Market Power

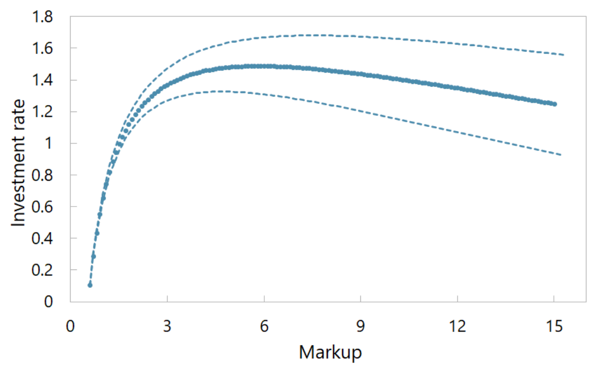
Difference in Productivity Growth, Top Decile vs. Overall

(2006-2020, in percentage points)



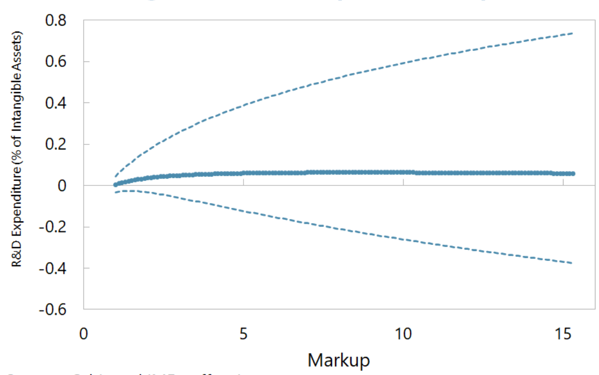
Sources: Orbis and IMF staff estimates.

Manufacturing: Effect of Markups on Investments



Sources: Orbis and IMF staff estimates.
Note: Dotted line indicates 95 percent confidence interval.

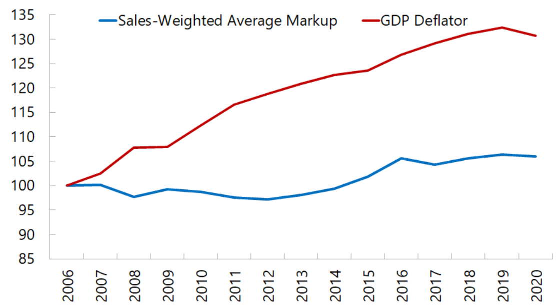
Manufacturing: Effect of Markups on R&D Expenditure



Sources: Orbis and IMF staff estimates.
Note: Dotted line indicates 95 percent confidence interval.

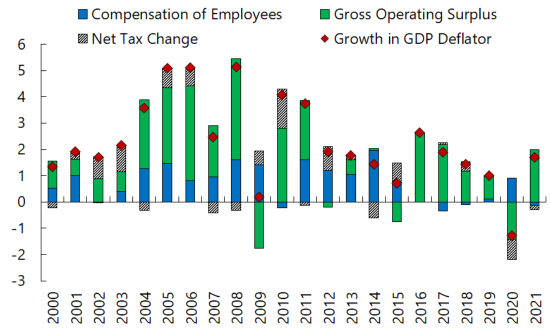
Figure 4. Thailand: Inflation and Markups

GDP Deflator and Markup Evolution
(Index, 2006=100)



Sources: Authors' calculations and Haver Analytics.

Decomposition of GDP Deflator by Components
(In percentage)



Sources: Thai authorities, Haver Analytics and IMF staff calculations.

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Annex IX. Updates on Climate Adaptation and Mitigation Policies in Thailand[1]

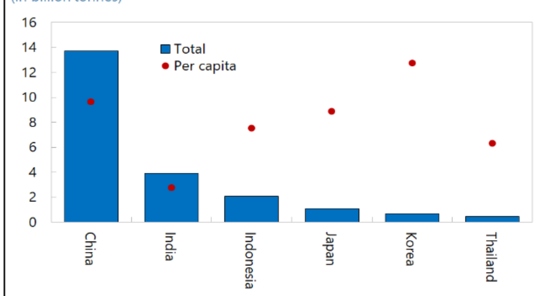
The 2022 AIV studied in-depth climate policies for a balanced climate transition strategy in Thailand. Therefore, this annex focuses on updates on Thailand's new climate initiatives and pledges. It also discusses major gaps in mitigation policies and how to reduce them.

Climate Shocks are Increasing and Remain Macro-Relevant

1. **Thailand is highly vulnerable to climate change**. Thailand is ranked as the ninth most vulnerable country in the world to climate change in the last two decades by Global Climate Risk Index in 2021. Extreme weather events including droughts and floods pose the greatest threat to the country. Floods happen nearly every year with the most recent one in October 2022 that also affected Bangkok.

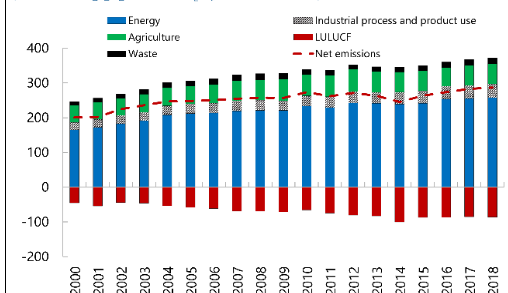
2. **Thailand is a relatively important producer of global emissions**. Thailand accounts for about 0.7 percent of global emissions but only 0.5 percent of global GDP in 2021. The energy sector (including transport) has been the largest contributor to Thailand's GHG emissions (about 69 percent), followed by the agricultural sector (16 percent).

Greenhouse Gas Emissions, 2021
(In billion tonnes)



Sources: Our World in Data; and IMF staff calculations.

National GHG Emissions by Sector
(In thousand gigagrams of CO_2Eq, from 2000-2018)



Source: Thai authorities (Ministry of Natural Resources and Environment)

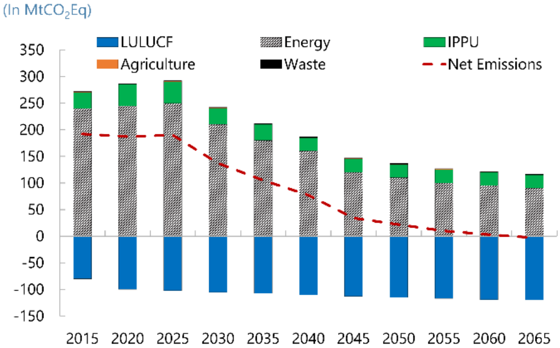
3. **The adaptation costs are sizeable**. Thailand has developed the National Adaptation Plan (NAP), which aims at building adaptative capacity and enhancing climate resilience in key priority sectors including water resources management, agriculture and food security, tourism, public health, natural resources management, and human settlements and security. Thailand needs about 0.4 percent of GDP and 0.7 percent of GDP annually in investments for public and private infrastructure resilience, respectively. The draft ''Climate Change Act'' will contain a chapter on adaptation with the aim to facilitate financing adaptation projects while protecting the vulnerable groups.

[1] Prepared by Mouhamadou Sy (APD).

Recent Pledges and Policies to Achieve Climate Goals

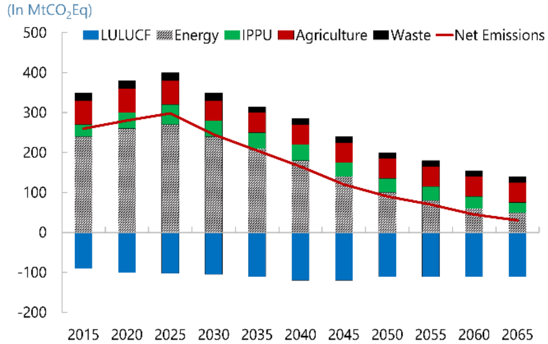
4. **Thailand has further committed to reduce GHG emissions under the Paris Agreement**. The country has framed policies under its Nationally Determined Contribution (NDC) to adapt and mitigate climate change. At the COP27 in 2022, Thailand pledged to reduce its GHS emissions by 30-40 percent from the business-as-usual scenario (BAU) by 2030. Given that the previous pledge aimed to reduce emissions by 20-25 percent below the BAU, Thailand has considerably increased its pledge for the reduction in global emissions. Thailand aims to reach carbon neutrality in 2050, and net-zero emissions by 2065. Many major economies in the region have pledges that are legally bidding. This is not yet the case for Thailand. However, Thailand's year target for carbon neutrality compares well with the major economies in the region. The energy sector (including transport) is expected to be the main contributor to the reduction of emissions. International partnership in the form of technological transfers, capacity building and financial support is necessary for Thailand to meet its climate goals.

2050 Carbon Neutrality Pathway
(In $MtCO_2Eq$)



Source: Thai authorities (Ministry of Natural Resources and Environment)

2065 Net Zero GHG Emission Pathway
(In $MtCO_2Eq$)



Source: Thai authorities (Ministry of Natural Resources and Environment)

Table 1. Thailand: Asia and Pacific: Climate Ambition in Major Economies

	GHGs *($MtCO_{2e}$)*	Latest NDC GHG Reductions	Commitement	Carbon Neutrality By
China	12055.4	60-65 percent per unit of GDP by 2030	Policy	2060
India	3363.6	Intensity of GDP by 33-35 percent by 2030	Pledge	2070
Indonesia	1959.7	29 percent (unconditional) by 2030	Proposed	2060
Japan	1134.4	26 percent below 2013 levels by 2030	Law	2050
Korea	652.7	45.9 percent from 2018 levels by 2030	Law	2050
Thailand	293.0	30-40 percent from BAU by 2030.	Pledge	2065

Source: IMF AIVs; IMF Staff calculations; Our World in Data.

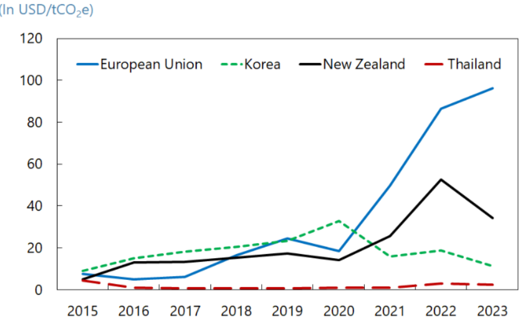
5. **The Thai authorities are tackling climate change through concrete policies**. For example, public expenditure on ''environmental protection'' reached 14.7 billion baht in 2021 from 2 billion baht in 2012. In addition, Thailand issued its first green bond in 2020 for financing various green projects. The Bank of Thailand and the Security Exchange Commission launched the Phase I of Thailand's Taxonomy in June 2023. This phase focuses on energy and transportation sectors given their preponderance on GHS emissions in Thailand. The Thai Taxonomy aims to: (i) steer the market and provide guidance, frameworks, and standards for investors and stakeholders; (ii) attract international climate-oriented capital; (iii) enable and harmonize data disclosure; (iv) assess environmental risks and risk mitigation options; (v) modulate state policy in the desired manner; and (vi) serve as a basis for data collection (see Annex VII).

6. **Nevertheless, there are major constraints and gaps to achieve the climate goals**. Balancing between securing energy production and reducing GHG emissions is the major gap identified by the authorities for achieving their mitigation targets. The energy transition requires advanced technology, technical capacity, and large financing for which Thailand needs international partnerships. For the transport sector, the main constraints are the lack of funding for its electrification and investing in charging technologies. For adaptation, the main barriers are (ONEP 2022): (i) unfinished development of a central database and insufficient data integration and coordination on climate change projection and impacts, (ii) lack of a national climate information center; (iii) insufficient knowledge and research on climate-related risks for key stakeholders; and (iv) limited access to adaptive technology.

Carbon Pricing and Public Awareness to Reduce Major Gaps

7. **An effective carbon pricing could help the transition towards a climate-neutral economy**. Thailand has made progress in creating voluntary carbon markets and is currently considering a national emission trading system (ETS). The country has launched a voluntary ETS in 2015 that was extended in 2018. The ETS now cover the Eastern Economic Corridor area and is expected to cover state-owned enterprises from 2024. However, the ETS is not binding, and its price remains low. A draft law for a mandatory carbon pricing or compulsory reporting of emissions by the private sector is being prepared. It is expected to be submitted to the cabinet for approval in the near future. Nonetheless, there has been little progress on implementing a carbon tax and the ETS remains at a pilot phase. It is not yet clear if the new law will favor ETS or carbon tax or a mix of both. However, IMF staff estimate that a carbon price of at least US$50 per ton is needed to meet Thailand's NDC target for 2030. Recycling the revenue from the carbon tax through high-impact spending could boost growth by 1 percentage point over the medium-term.

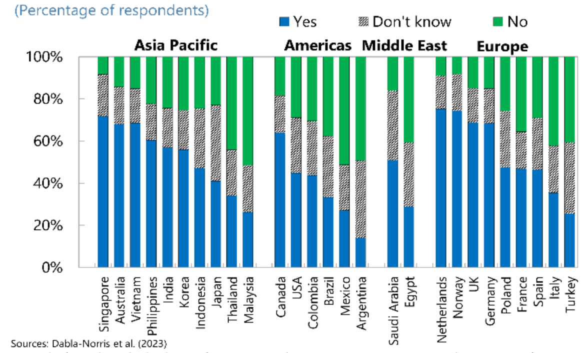
Emission Trading Systems
(In USD/tCO_2e)



Source: Thailand Greenhouse Gas Management Organization and World Bank Carbon Pricing Dashboard.

8. Efforts are needed to inform the public about the authorities' commitments and policies. A recent IMF-APD survey shows that only 34 percent of the Thai population is aware of the government's actions on climate issues—well below the average of 55 percent in other countries. Improving public awareness—e.g., by showing success stories from the ETS pilot or demonstration projects—could help to gather broad public support regarding climate policies.

Public Awareness on Climate Action
(Percentage of respondents)



Sources: Dabla-Norris et al. (2023)
Notes: This figure shows the distribution of responses in each country (in percentage) points) to the question "As far as you know, has your government made a commitment to take action to reduce climate change?"

9. The Thai authorities are also considering other measures—including institutional reforms— to close major gaps. They include carbon capture, utlization, and storage but also the use of carbon sinks through afforestation. The Thai authorities are also reorganzing the complex institutional setting in charge of implementing and enforcing climate polices. This include the creation of the National Committed on Climate Change Policy chaired by the Prime minister (OECD 2023). The creation of the Department of Climate Change and Environnement (DCCE) made with the merging of the department of environment and the Natural Resources and Environmental Policy and Planning (ONEP) aims to make coordination more effective. The DCCE primary job is to coordinate with different stakeholders including various ministries, government 's agencies and the private sector.

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INTERNATIONAL MONETARY FUND

THAILAND

December 18, 2023

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By Asia and Pacific Department

CONTENTS

FUND RELATIONS

(As of December 15, 2023)

Membership Status: Joined 05/03/1949; Article VIII.

Article VIII Status: Thailand has accepted the obligations under Article VIII, Sections 2(a), 3, and 4 of the IMF's Articles of Agreement and maintains an exchange system free of multiple currency practices and restrictions on the making of payments and transfers for current international transactions.

General Resources Account:

	SDR Million	Percent Quota
Quota	3,211.90	100.00
Fund holdings of currency	2,331.78	72.60
Reserve position in Fund	881.57	27.47
Lending to the Fund		
New Arrangements to Borrow	1.96	

SDR Department:

	SDR Million	Percent Allocation
Net cumulative allocation	4,048.73	100.00
Holdings	4,112.88	101.58

Outstanding Purchases and Loans: None

Latest Financial Arrangements:

In millions of SDR				
Type	Approval Date	Expiration Date	Amount Approved	Amount Drawn
Stand-by	8/20/97	6/19/00	2,900.00	2,500.00
Stand-by	6/14/85	12/31/86	400.00	260.00
Stand-by	11/17/82	12/31/83	271.50	271.50

Projected Obligations to Fund
(SDR million; based on existing use of resources and present holdings of SDRs):

	2024	2025	2026	2027	2028
Principal					
Charges/interest	0.05	0.05	0.05	0.05	0.05
Total	0.05	0.05	0.05	0.05	0.05

Exchange Rate Arrangement:

The de jure and de facto exchange rate arrangements are classified as floating. Under the inflation-targeting monetary policy framework, the value of the baht is allowed to be determined by market forces, reflecting demand and supply in the foreign exchange market. The Bank of Thailand may intervene in the foreign exchange market when the resulting movements in Thai baht (THB) are deemed excessive and unjustified by fundamentals.

During 2022, the REER depreciated by 1.11 percent, while the NEER depreciated by 1.78 percent. This reflects a further tightening of global financial conditions and weaker domestic recovery.

Last Article IV Consultation:

Thailand is on the standard 12-month Article IV consultation cycle. The previous Article IV consultation was concluded on August 31, 2022. A copy of the Staff Report can be downloaded from this link.

FSAP Participation

The Financial Sector Assessment Program (FSAP) missions took place in November 2018 and February 2019. The main findings are presented in the published Financial System Stability Assessment (IMF Country Report No. 19/308).

Recent Technical Assistance:

ICD: In collaboration with the IMF's Capacity Development Office in Thailand (CDOT), ICD held a regional Course on Macroeconomics of Climate Change on October 9 – 20, 2023 with participants from Cambodia, Lao, Thailand and Vietnam. The course focused on science and economics of climate change, frameworks for global action, and quantitative analysis of mitigation policies.

MCM: The ongoing technical assistance (TA) on monetary policy modeling that commenced in the spring of 2020 supports the BOT's efforts to develop an analytical framework to enhance its monetary policy analysis and decisions, taking into consideration country-specific features and the interactions of different policy instruments. A follow up mission in December 2022 advised the BOT on developing the estimated Dynamic Stochastic General Equilibrium (DSGE) models for monetary policy analysis as well as enhancing modeling and analytical capacity. In July 2022, a hybrid Technical Assistance mission focused on Bank Resolution and Financial Crisis Management reviewed the Thailand Financial Institutions Development Fund's draft guidance on bank resolution implementation and suggested improvements. The mission also examined the Bank of Thailand's resolvability assessment, resolution planning, and deposit insurance arrangements, and conducted simulation exercises to enhance capacity in addressing acute bank distress or failures.

STA: STA hosted a regional workshop in Bangkok on compiling supply and use tables (SUTs) and input-output tables (IOTs) during November 6-15, 2023. The workshop was attended by participants from Indonesia, Philippines, Vietnam, and Thailand. The workshop covered the topics of compiling IOTs from the SUTs. The participants had practical sessions using their respective national SUTs to help them understand the analytical applications of these tables, including their use in economic impact and environmental modeling. Additionally, participants were introduced to two automated tools that simplified the compilation of SUTs and their conversion into IOTs.

Resident Representative: None

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

World Bank: https://www.worldbank.org/en/country/thailand

Asian Development Bank: https://www.adb.org/countries/thailand/main

STATISTICAL ISSUES

(As of November 15, 2023)

I. Assessment of Data Adequacy for Surveillance
General: Data provision has some shortcomings but is broadly adequate for surveillance. The authorities have continued to improve the quality and coverage of data. The dissemination of additional data such as FXI may enhance the basis for macroeconomic analysis.
National Accounts: The Office of the National Economic and Social Development Council (NESDC) compiles annual and quarterly GDP estimates using both the production and expenditure approaches. The annual GDP volume measures are derived at previous year's prices and as chain-linked indices with 2002 as the reference year. In the 2019 release, the NESDC revised the GDP series back to 2014. The NESDC introduced new quarterly GDP current price and chain-linked volume estimates in May 2015. **Price Statistics**: Since January 2017, the Bureau of Trade and Economic Indexes (BTEI) compiles and disseminates a monthly Consumer Price Index (CPI) with weights based on expenditure data collected from households during the 2015 Socio-Economic Survey. Index coverage is restricted to middle-income urban households. In addition to headline CPI, the BTEI publishes aggregate indexes for the low-income and rural populations. The BTEI also publishes a monthly Producer Price Index (PPI) with base year 2010. The Bank of Thailand disseminates a Residential Property Price Index (RPPI) covering metropolitan Bangkok and STA has provided technical assistance towards broadening coverage to include other regions.
Government Finance Statistics: The authorities submit general government data to the Fund, consistent with the *Government Finance Statistics Manual*, 2014 (*GFSM 2014*), for publication in the annual Government Finance Statistics database and for surveillance purposes. Monthly and quarterly data for key general government GFS-based numbers according to the national budget classification are published on the Ministry of Finance website. The authorities started to compile aggregated *GFSM 2014*-based data for selected nonfinancial state-owned enterprises (SOEs) which are used for internal purposes and fiscal analysis; these data are not published by the authorities. The authorities compile and publish public sector debt data on their website, including debt of nonfinancial SOEs and Specialized Financial Institutions.
Monetary Statistics: The authorities submit the Standardized Reporting Forms (SRFs) for monetary statistics on a timely basis for publication in *IFS*. The reported SRFs include the central bank, other depository corporations, and other financial corporations (OFCs). **Financial Soundness Indicators**: The authorities report all 17 except one core financial soundness indicators (FSIs) and all 12 additional FSIs for deposit takers, 12 FSIs for OFCs, 3 for NFCs, one for households, and 2 FSIs for real estate markets—on a quarterly basis or a monthly basis for some indicators—for posting on the IMF's FSI website with about one quarter lag. **Financial Access Survey:** The authorities also report data on several series and indicators to the Financial Access Survey (FAS), including mobile money and the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).
External Sector Statistics: The Bank of Thailand (BOT) compiles and disseminates balance of payments (BOP) and international investment position (IIP) statistics with quarterly frequency following the sixth edition of the *Balance of Payments and International Investment Position Manual* (*BPM6*). The quarterly BOP and IIP are available for 2023Q2 (at the time of assessment). The historical data on *BPM6* based BOP and IIP goes back to 2005. The methodology for compiling balance of payments data remains adequate. Further improvements are expected to enhance the data coverage and accuracy of BOP and IIP statistics, particularly in areas where new concepts, such as digital trade, have been introduced. Data on external debt and debt service have significantly improved since the introduction of a quarterly survey of private nonbank external debt. The BOT participates in the coordinated direct and portfolio investment surveys of STA and regularly reports International Reserves and Foreign Currency Liquidity Data Template. There is a need to continue to corroborate the methodology and data released with the Ministry of Tourism and Sports (for tourism, which is one of the most important sectors of activity); improve collaboration with the NESDC (further improvement of the integrated business register supporting harmonized current and financial accounts); and liaise closely with Customs Department to gain knowledge on free zone and ecommerce activities. BOT has recently revised their Coordinated Direct Investment Survey (CDIS) data for 2009-2022 due to a systematic inconsistency between CDIS and IIP.

II. Data Standards and Quality	
Subscriber to the Special Data Dissemination Standard (SDDS) since August 9, 1996.	Data ROSC published in April 2006.

Thailand: Table of Common Indicators Required for Surveillance
As of December 15, 2023

	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication[6]
Exchange Rates	12/10/2023	12/10/2023	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	11/30/2023	12/08/2023	M	M	M
Reserve/Base Money	10/2023	11/2023	M	M	M
Broad Money	10/2023	11/2023	M	M	M
Central Bank Balance Sheet	10/2023	11/2023	M	M	M
Other Depository Corporations Sectoral Balance Sheet	10/2023	11/2023	M	M	M
Interest Rates[2]	12/10/2023	12/10/2023	D	D	D
Consumer Price Index	11/2023	12/2023	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]—General Government[4]	5/2023	6/2023	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	10/2023	11/2023	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	10/2023	11/2023	M	M	M
External Current Account Balance	10/2023	11/2023	M	M	M
Exports and Imports of Goods and Services	2023: Q3	10/2023	Q	Q	Q
GDP/GNP	2023: Q3	11/2023	Q	Q	Q
Gross External Debt	2023: Q3	11/2023	Q	Q	Q
International Investment Position	2023: Q2	10/2023	Q	Q	Q

[1] Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.
[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA).

Statement by Ms. Yati Kurniati, Executive Director for Thailand and Mr. Boonrith Pongrasamiroj, Advisor to the Executive Director January 17, 2024

On behalf of the Thai authorities, we thank Ms. Delechat and her team for a comprehensive report. The authorities express their appreciation for a candid and constructive policy discussion during the mission. The authorities broadly concur with staff's appraisal of the Thai economy and take note of the recommendations.

Recent Developments, Outlook, and Risks

The Thai economy continues to expand at a gradual pace driven primarily by the resumption of tourism and private consumption. Weighed down by external headwinds, the authorities expect the economy to grow by 2.4 percent in 2023. Inflation remains well-anchored at 1.2 percent, within the target range. The authorities note that the recent decline in headline inflation was a result of a high base effect from 2022 combined with temporary factors such as energy subsidies and lower raw food prices.

Growth in 2024 is projected to be more balanced, with exports of goods becoming a positive contributor alongside continued expansion in private consumption. GDP growth in 2024 is projected at 3.2 percent. Taking into account the government's digital wallet scheme, growth would rise to 3.8.[1] Meanwhile, headline inflation in 2024 is expected to stay within the target range, at 2 percent, or 2.2 percent when considering the digital wallet scheme.

The economic outlook is subject to important risks. Domestic structural constraints, together with global economic uncertainty and geopolitical tensions, could attenuate the positive effects of the recovery in external demand. At the same time, robust domestic demand and continued recovery in tourism and merchandise exports could result in stronger growth momentum. Meanwhile, risks to inflation are tilted to the upside, stemming from higher food prices due to El Niño and a potential increase in global energy prices arising from ongoing conflicts in the Middle East.

Fiscal Policy

The authorities remain committed to disciplined public finance management, while highlighting the need to support post-pandemic economic recovery for the most vulnerable. According to the latest Medium-Term Fiscal Framework (MTFF) approved by the cabinet on December 26, 2023, the fiscal deficit for FY24 is at 3.6 percent of GDP, while the debt-to-GDP is at 62.7 percent given the ceiling of 70 percent. This reflects available buffer to cushion unexpected external shocks, if needed. Nonetheless, the authorities remain cognizant of the need for fiscal consolidation. A balanced budget and fiscal sustainability are part of a medium-term fiscal plan, as reflected in a decline in fiscal deficit to 2.9 percent of GDP in

[1] As of December 2023, the government's digital wallet scheme is still under legal process.

FY28 and declining debt-to-GDP from FY27 onward. On revenue mobilization, the authorities have implemented various measures to enhance tax collection efficiency and prevent tax evasion.

Monetary Policy, Exchange rate policy and External Balance Assessment

The Bank of Thailand (BOT) has gradually normalized the policy interest rate, and deems the current monetary policy stance to be appropriate for supporting long-term sustainable growth and keeping inflation sustainably within the target range. The current policy setting recognizes the importance of both the need to preserve policy space amidst heightened uncertainty, as well as guarding against the potential buildup of financial imbalances under a low-for-long interest rate environment. Meanwhile, inflation has moderated substantially from 6.1 percent in 2022 to an average of 1.3 percent in 2023, and the authorities expect inflation to remain within the medium-term target range of 1 to 3 percent for both 2024 and 2025. Monetary policy deliberations going forward will be conditioned primarily on developments in the outlook for growth, inflation, and financial stability.

The authorities reiterate the importance of having FXI as part of their toolkit in curbing excessive FX volatility that might be inconsistent with economic fundamentals or lead to market dysfunction. Meanwhile, the authorities have also made continued progress in capital flows liberalization to enhance flexibility and reduce the cost for private sector in foreign exchange transactions, including through streamlined process and less requirements on supporting documents.

The authorities emphasize the limitations of the External Balance Assessment framework but take note of staff's assessment. The authorities are of the view that the framework, at times, is unable to capture large residuals arising from structural issues and relies too heavily on exchange rate as primary adjuster. The authorities, however, take positive note of staff's greater emphasis on structural reforms to narrow the saving- investment gap over the medium term.

Financial Sector Policy

The Thai financial system remains resilient despite the unwinding of pandemic-related policy support and global financial tightening. Financial institutions maintain high levels of capital, loan loss provision and liquidity. At end Q3/2023, BIS ratio stood at 19.9%, liquidity coverage ratio at 196% and NPL coverage ratio at 176%. NPLs have been on a decreasing trend since 2021 and stabilizing around 2.7% in 2023.

The authorities concur with the staff's views that tackling household debt remains a priority. Although household debt increased substantially during the pandemic due to the liquidity need among vulnerable households, the authorities highlight the progress made in lowering the level of household debt to GDP to 90.9 percent in Q3/2023, compared to the peak of 95.5 percent in Q1/2021. This has been a result of appropriate policy measures and continued economic recovery.

The BOT measures are in the pipelines to sustainably address the long-term issue of high household debt, offering various solutions to debtors throughout their debt journey. The "responsible lending measures", effective on 1 January 2024, encourage creditors to lend in a responsible and fair manner, as well as provide a targeted debt restructuring program for debtors with low income and persistent debts.

Structural Policy

The Thai authorities underscore their commitment to the structural reforms to enhance competitiveness, invest in human capital, and transition to a more environmentally sustainable economy.

The authorities aim to enhance the country's competitiveness and resilience. To address risks from geo-economic fragmentation, the authorities have continued to diversify trade partners through ongoing negotiations for more free trade agreements, while also upgrading infrastructure and connectivity to attract foreign investment. They are also modernizing and streamlining the regulatory environment together with revising the Anti-Trust Act. The public sector is adopting e-Government and online public services for faster and more transparent access to government services.

The authorities are committed to implementing active labor market policies and improving social safety nets, in part to address aging demographics. In an effort to enhance productivity of the labor force, the government provides tax incentives for corporate entities in targeted industries to upskill their employees through certified training and education programs. The authorities are also easing administrative requirements to attract non-resident skilled professionals through Long Term Residence (LTR) Visa program which offers multiple incentives including longer visa validity, tax reduction, and the integration with work permit. On social protection, the authorities are in the process of drafting the National Pension Act which will create the National Pension Committee to enhance coordination for pension reform, ensuring consistency, coverage adequacy, and sustainability of the overall pension system.

Recognizing the importance of climate change on the economy, the authorities have made progress on many fronts. The Department of Climate Change and Environment (DCCE) was established in 2023 under the Ministry of Natural Resources and Environment to enhance coordination of national climate policies and minimize overlapping climate agenda. Moreover, the authorities are planning to introduce the first-ever Climate Change Act aiming to enhance climate change implementation. Key elements of the Act include National Climate Change Committee, Climate Change Master Plan, GHG data and reduction, Climate Change adaptation, and measures to promote climate action and penalties. There have also been efforts to transition Thailand towards a greener economy, for instance, by establishing Thailand Voluntary Emission Reduction Program (T-VER) to encourage voluntary carbon credit trading participation. Thai financial supervisory authorities have also set clear directions in the Sustainable Finance Initiatives for Thailand, focusing on transitioning towards environmental sustainability with five key strategic initiatives namely, developing a practical taxonomy;

improving the data environment; implementing effective incentives; creating demand-led products and services; and building human capital. Phase 1 of Thailand Taxonomy, covering the transportation and energy sector, was published in June 2023, serving as a guiding reference for businesses and investors to navigate the green transition and for the financial sector to allocate capital to environmentally friendly activities. The authorities also underscore the vital role of multilateral support in knowledge transfers and blended finance to meet the pledge to reduce greenhouse gas emissions. To demonstrate the financial sector's joint effort towards climate change and pollution mitigation, the authorities together with participating commercial banks recently launched a pilot project to support the sugarcane and sugar industry through a concessional loan for agricultural machinery. This support is conditioned on the decline in the sugar field burning to help reduce the air pollution.

Finally, the Thai authorities would like to express their appreciation to the Fund for the continued engagement and support. The authorities emphasize the value and importance of the Fund's work, particularly in surveillance, capacity development, and meaningful policy dialogues.