



THAILAND ECONOMIC MONITOR

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OVERVIEW

The Economy

The economy in 2012 rebounded from the severe floods but continues to be affected by the slowdown in the global economy. Real GDP in 2012 is estimated to grow by 4.7 percent supported by the rebound in household consumption and greater investments by both the private and public sectors as part of flood rehabilitation and the government's consumption-stimulating measures. Capital inflows especially foreign direct investment (FDI) remained strong. Inflation also remained low at around 3 percent and is expected to be so in 2013. Net exports, on the other hand, contributed negatively to GDP growth as exports were affected by production disruptions in the first half of the year and the sharp slowdown in demand from the EU, China, and ASEAN in the second half.

The economy in 2013 is projected to grow by 5 percent as manufacturing production fully recovers from the floods and the global economy sees a modest recovery. Exports in 2013 are projected to grow by 5.5 percent in US dollar terms compared to only 3.6 percent in 2012. Moreover, domestic demand, particularly investments, will continue its momentum from this year as FDI rises sharply. The Government will also step up its investments particularly in water resource management projects – using around Bt60 billion of the Bt350 billion (USD 11 billion) fund that was approved earlier this year under the Emergency Decree for Water Management¹. Household consumption growth, on the other hand, may slow down somewhat from that of 2012 as the government's consumption stimulus measures, particularly, the First Car Program², ends in end-2012. The main challenge next year for Thailand's growth continues to be the high uncertainty in the global economic prospects, particularly related to the Eurozone crisis. Policies of which impacts are to be closely monitored in 2013 include the paddy pledging scheme and the nation-wide rise in minimum wages. For the longer term, issues of skills development and the need to reduce inequalities in incomes and opportunities will be priorities for Thailand.

Budget deficit will be 2.5 percent of GDP for FY2013 in addition to the off-budget spending for water resource management projects in FY2013. The overall budget for FY2013 is set at Bt2.4 trillion, a 0.8 percent increase from that of last year. Budget deficit is estimated by the Government to be at Bt300 billion in FY2013, compared to Bt400 billion (2.7 percent of GDP) in FY2012. However, the FY2013 budget will be supplemented by the off-budget spending on water resource management projects which is estimated to be around Bt60 billion (under the Emergency Decree for Water Management).

¹ The Emergency Decree on Investment Loan for Water Resource Management and Future Development issued by the Cabinet earlier this year allows the government to borrow at most Bt350 billion by June 2013 to finance infrastructure projects for water resource management. This fund is off-budget similar to the stimulus packages in 2009 (Thai Kemkaeng 1 & 2). It is approved by the Cabinet and its allocation and spending need not go through the budgetary process and Parliamentary scrutiny. Hence, it is not counted in the budget balance, but is counted in public debt.

² Under the First Car Program, the Government provides first-time car and pick-up truck buyers no more than Bt100,000 excise tax rebate on the purchase of each locally manufactured car and pick-up truck on which a purchase contract has been made by the end of 2012. Eligible cars are those below Bt1 million and with engine capacity no more than 1500 cc. Pick-up trucks of any engine size below Bt1 million are eligible. Each vehicle is non-transferable for 5 years. The rebate will be given 1 year after the vehicle is registered with the Land Transport Department.

Incorporating the off-budget spending in both FY2012³ and FY2013, the overall spending envelope for FY2013 is 2.2 percent higher than that of FY2012.

Public debt⁴ is estimated to be close to 50 percent of GDP in 2013. Much of the Government's borrowing planned for FY2013 will be used to finance the off-budget water resource management projects under the Emergency Decree on Water Resource Management and the Government's major policy programs. The former could amount up to Bt330 billion or around 2.8 percent of GDP⁵. Borrowing will also be used to finance the Government's major policy programs. These programs are estimated to cost around 2.4 percent of GDP in 2013, while costing 5.5 percent in 2012. Given these, public debt is estimated to be close to 50 percent of GDP by end-2013 from around 45 percent in end-2012. While this rise in debt level needs to be managed prudently, it is not excessive. Moreover, the structure of Thailand's public debt is such that over 90 percent of the debt is domestic debt and long-term. However, because many of the programs, such as the paddy pledging scheme, are also financed through the government's specialized financial institutions (SFIs), these could weaken their balanced sheets in the future and are contingent liabilities to the Government.

Special Topics

The paddy pledging scheme is estimated to cost around 3.5 percent of GDP each year, while the actual losses will be realized once the rice stocks are sold. Since October 2011, Thailand's paddy⁶ pledging scheme has been expanded to cover all domestically produced rice for sale. The pledged price is set at around 50 percent or around \$200 above international rice prices per metric ton of milled rice. This scheme has cost the government around THB376 billion (\$12.5 billion) for the 2011/2012 harvest season (October 2011 to September 2012) or around 3.4 percent of GDP. The pledged amount is expected to rise from 21.7 million metric tons last harvest season to 25 million this season. Thus, the government is expected to spend around THB 450 billion (\$15 billion) or around 3.8 percent of GDP for the 2012/2013 harvest season. The government has not sold its rice stock so far. The actual losses from the program and the impact on the fiscal stance will be realized only when the government sells its stocks. Given the trend of international rice prices as projected by the World Bank, the losses are estimated to be in the range of Bt115-150 billion (1.0-1.3 percent of GDP) per harvest season. Section 2.1 discusses the fiscal implications of the paddy pledging scheme as well as implications for the rice sector in Thailand in greater detail.

Minimum wages were raised by 40 percent nation-wide in 2012 and will be raised to a uniform rate of Bt300 per day nationwide starting in 2013. On April 1, 2012, minimum wages were raised to Bt300 per day in Bangkok and five other vicinity provinces of Bangkok, plus Phuket province (a 40 percent increase from the previous minimum wage level in 2012) and by 40 percent in the rest of the country. In January 2013, minimum wages will be raised to Bt300 per day nationwide, raising the national average minimum wage by 22.4 percent from that of 2012. These hikes are significantly larger than the previous minimum wage hikes which averaged around 2.5 percent per annum from 2001-2011. A forthcoming World Bank study of the impact of minimum wage hike shows that previous increases in minimum wages have also resulted in higher wages of the higher paying occupations as well. After the 40 percent increase

³ Off-budget spending in FY2012 are from the Thai Kemkaeng 2 stimulus package which was approved in FY2009 in the amount of Bt400 billion for FY2009-2012.

⁴ Public debt includes central government debt and debts of non-financial state-owned enterprises that are guaranteed and nonguaranteed by the central government and debts of financial state-owned enterprises that are guaranteed by central government.

⁵ Of the Bt350 billion, Bt20 billion were already borrowed in 2012. Under the Emergency Decree on Investment Loan for Water Resource Management and Future Development, borrowing must be completed by June 2013.

⁶ Paddy is un-milled rice

in minimum wages on April 1, 2012, average wages in the country in the second and third quarters of 2012 rose by more than 10 percent year-on-year -- partly from the rise in minimum wages and partly from the tight labor market for skilled and semi-skilled workers. However, despite in the rise in wages, unemployment did not rise, but underemployment (number of workers who work less than 35 hours per week and seeking to work more) rose by 16.4 percent year-on-year in the third quarter of 2012. This is a reflection of a tight labor market in which employers adjust to the higher wages and the slower business activities by not firing workers but by reducing the number of hours demanded from each worker.

Developing higher skills is imperative not only for higher incomes and living standards for Thais, but also for Thailand to grow sustainably and inclusively. International evidence reveals a strong correlation between workplace skills and innovation, productivity, and growth. Moreover, skills are increasingly shown to have a major influence on income distribution and social mobility, not only in Thailand but across East Asia. However, major indicators of education outcomes for Thailand such as the PISA scores⁷ have shown that education outcomes for secondary school students have not improved over the last 10 years. Moreover, there is a large disparity between the outcomes in Bangkok and the other regions of Thailand with lower scores in the poorer regions of Thailand. As a result, several firm surveys in Thailand, including the World Bank's, have reported the shortage of skills⁸ is one of the biggest constraints to firm's operations. Improving skills through higher quality of education, especially in regions outside of Bangkok, is therefore critical not only for graduates to be able to access higher paying jobs, but also reduce inequality in incomes across the country⁹. In addition to education via schooling, skills also need to be upgraded post-education while on the job as industries and services change quickly in the current business environment. With higher-skilled individuals in the labor force, Thailand would be able to engage in higher value-added production and remain competitive and grow inclusively. Section 3.1 discusses skills development in Thailand through the lens of the life-cycle or the StEP (Skills toward Employment and Productivity) approach.

Thailand can do better in enabling the poor and vulnerable groups to participate in productive economic activities by pursuing a coordinated approach between universal and targeted social policies. Thailand has successfully provided universal social protection policies in recent years, such as universal health coverage and universal social pension scheme; however, the neediest, discriminated and marginal groups may have difficulty accessing universally provided programs. Thailand's income inequality and regional economic and human development disparities have also been persistently high despite rapid GDP growth in the last 15 years. One possible tool for the Government to help improve the lives of poor and vulnerable populations is implementing social targeting along with the existing universal programs. These have been implemented in Brazil, Indonesia and the Philippines. In Brazil, for example, a combination of targeted resources allocation to poorest municipalities alongside universal coverage for regular provision of services allowed Brazil to significantly reduce education inequalities between 1988 and 2000 with an enrollment rate of more than 90 percent at primary schools. When authorities noticed that financial constraints affected school participation of many children, Brazil launched cash transfer policies targeted to the poor to enable their children to go to school. Section 3.2 presents examples, experience, and lessons learned from various developing countries that have had successful targeting programs which are relevant and may be applicable to Thailand.

⁷ PISA or the Program for International Student Assessment was launched by the OECD with the aim to evaluate education systems worldwide by testing the skills and knowledge of 15-year-old students since the year 2000. To date, more than 70 countries including Thailand have participated in the PISA.

⁸ Firms report acute shortages for technical skills especially at the vocational school level as well as language and IT skills and soft skills such as leadership and creativity.

⁹ Thailand's income inequality as measured by the GINI coefficient has been around 0.45 for the past two decades.