How can fiscal policy contribute to an inclusive and sustainable future?

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Outline of this presentation

1. Context
2. Medium-term options for fiscal consolidation
3. Fiscal impacts of aging
4. Additional spending needs in education, social protection, and climate adaptation, and the potential for efficiency gains
5. Prospects for longer-term fiscal sustainability
Context: Broadly balanced fiscal outcomes pre-COVID, followed by a substantial expansion of spending.
Significant increase in public debt since 2019, though risks remain contained so far

Fiscal consolidation is necessary over the medium-term, but can be gradual; capital spending can be increased even as other spending is scaled back.

Medium-term fiscal consolidation scenarios

Public debt to GDP
Baseline and medium-term fiscal consolidation scenarios

Impacts on GDP and interest costs, 2030
Medium-term fiscal consolidation scenarios
Over the longer-term, aging will be a drag on growth

Demographic shifts (% of total population)

Contributions to long-term growth (Percentage points and percent)

- Working age (15-59)
- Old age (60+)

Labor
Capital
TFP
GDP growth (baseline)
And aging will directly impact spending on health care and pensions.

Projected trends in spending (Percent of GDP)

- Old Age Allowance
- Civil service pensions
- Healthcare

Years: 2019-2049
Thailand also faces unmet spending needs in social protection, education, and climate adaptation

- **Education** spending per student at pre-primary and secondary levels is comparatively low, and learning outcomes are weak.

- **Social assistance** benefits are inadequate, and overall spending (pre-pandemic) was low compared with international benchmarks.

- **Climate adaptation** investments will be required to reduce vulnerability to climate change.

Improvements in **spending efficiency** can help to reduce the amount of additional spending that is needed to achieve social objectives.
Social assistance spending should increase but can also be made more efficient

Social assistance spending
% of GDP

Baseline (BAU) projection
Increase SWC benefit to THB 700 / month; increase the OAA to THB 2000 / month
Better target the increased SWC benefit toward the B40; target and taper the increased OAA

Poverty reduction
< 4.0 ppts
~ 4.5 ppts

Social Welfare Card and other
Old Age Allowance
Thailand’s vulnerability to climate change requires a concerted fiscal response

| Indicative impacts of climate-related policies on Thailand’s fiscal balance (% of GDP) |
|------------------------------------------|----------------|----------------|----------------|----------------|
|                                         | 2025 | 2030 | 2035 | 2040 |
| Adaptation costs                        | -0.6 | -1.6 | -1.6 | -1.6 |
| Manufacturing carbon pricing            | 0.3  | 0.8  | 1.0  | 1.0  |
| Fuel excise duties                      | 0.3  | 0.2  | -0.1 | -0.7 |
| Vehicle excise duties                   | -0.2 | 0.0  | 0.0  | 0.0  |
| Other transport measures                | -0.4 | -0.2 | -0.2 | 0.0  |
| Forestry sector costs                   | -0.1 | -0.1 | -0.1 | -0.1 |
| Other mitigation costs                  | 0.0  | -0.1 | -0.1 | -0.1 |
| **Total**                               | -0.7 | -1.0 | -1.1 | -1.5 |
Adding it all up: Baseline versus reform scenarios for spending and revenue

Primary expenditure (% of GDP)

Revenue (% of GDP)

- Long term baseline no reform
- All expenditure reforms (red line)
- Revenue reform
To meet the identified spending needs while maintaining fiscal sustainability, a significant revenue effort will be required.
Thank you