

**PROMOTING  
AN INCLUSIVE AND  
SUSTAINABLE FUTURE**

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

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29 May 2023

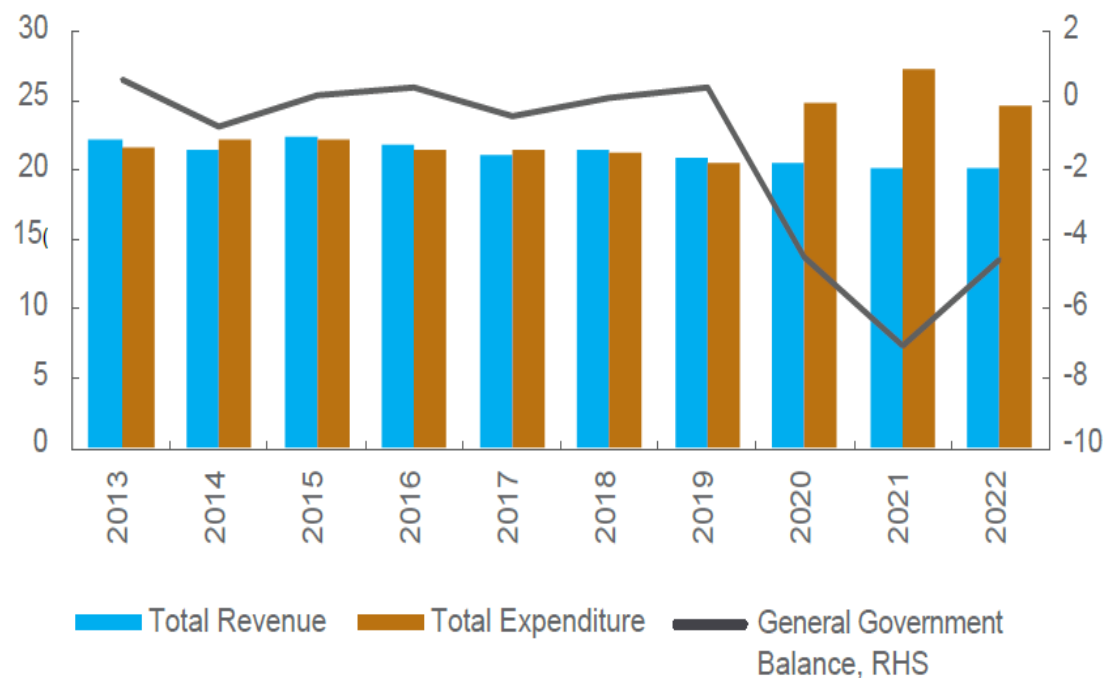


## Outline of this presentation

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

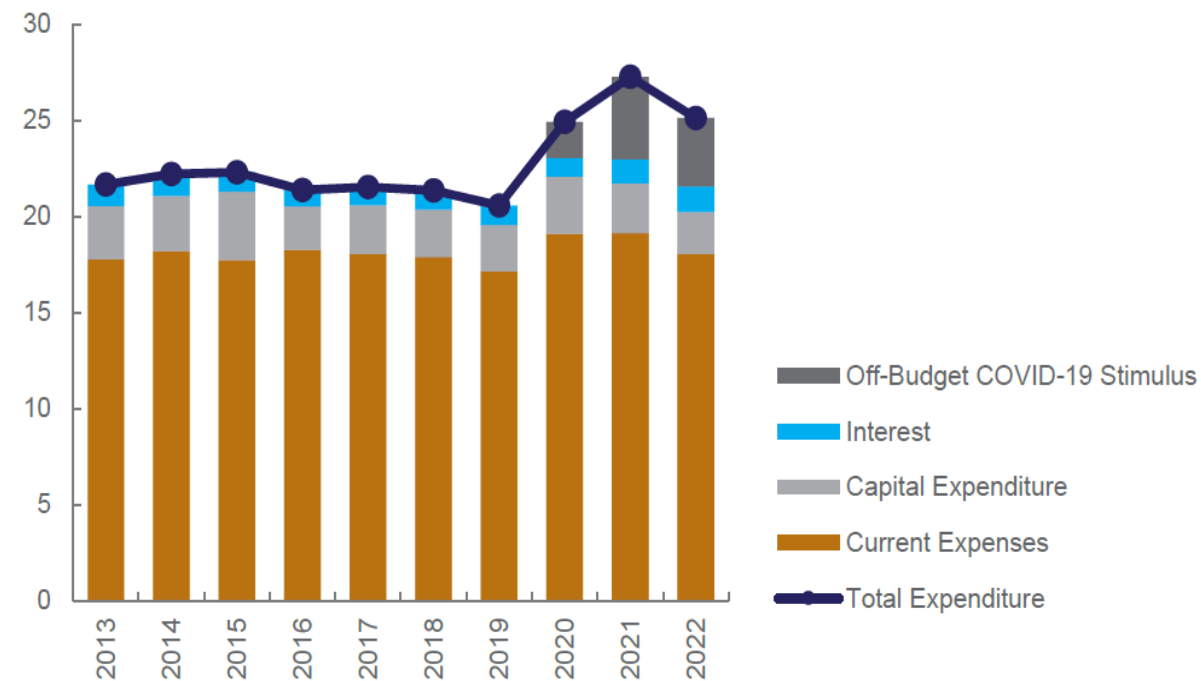
# Context: Broadly balanced fiscal outcomes pre-COVID, followed by a substantial expansion of spending

General government revenues, expenditure, and fiscal balance (% of GDP, GFS basis)



Source: Fiscal Policy Office, Ministry of Finance

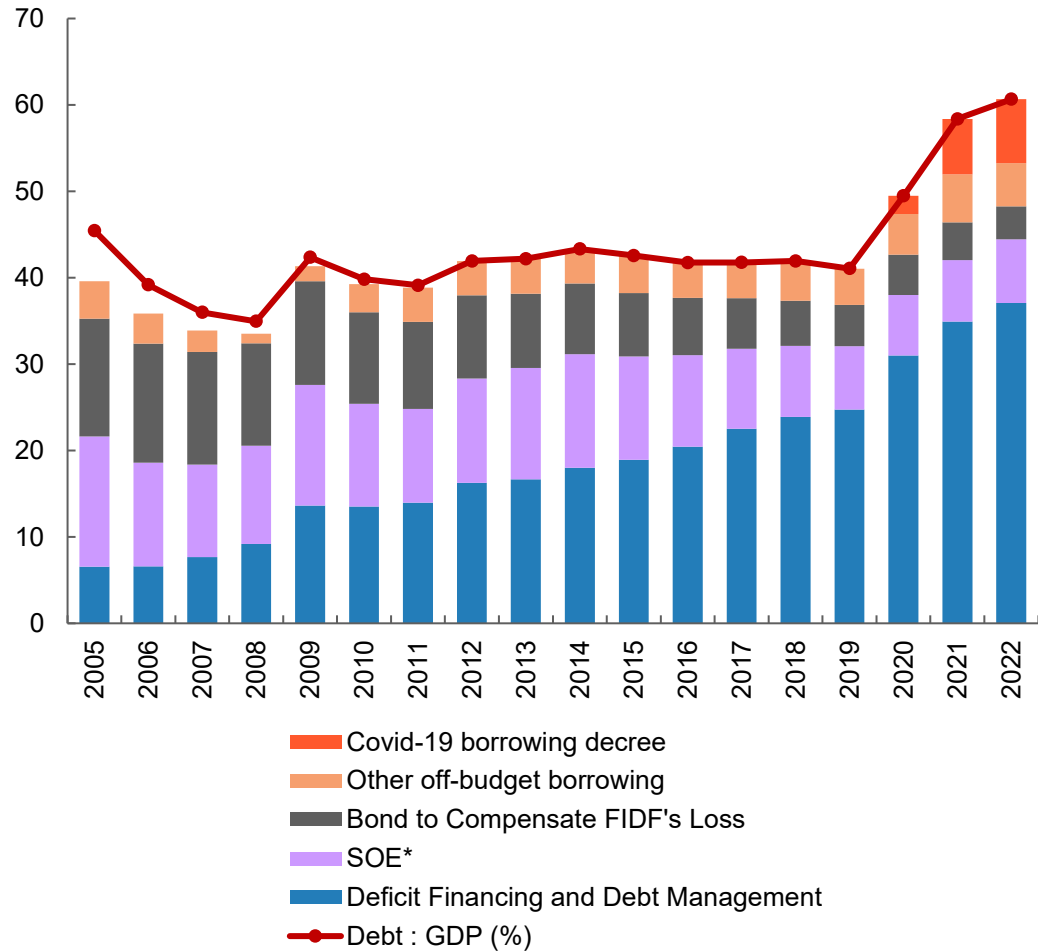
General government expenditure (% of GDP, GFS basis)



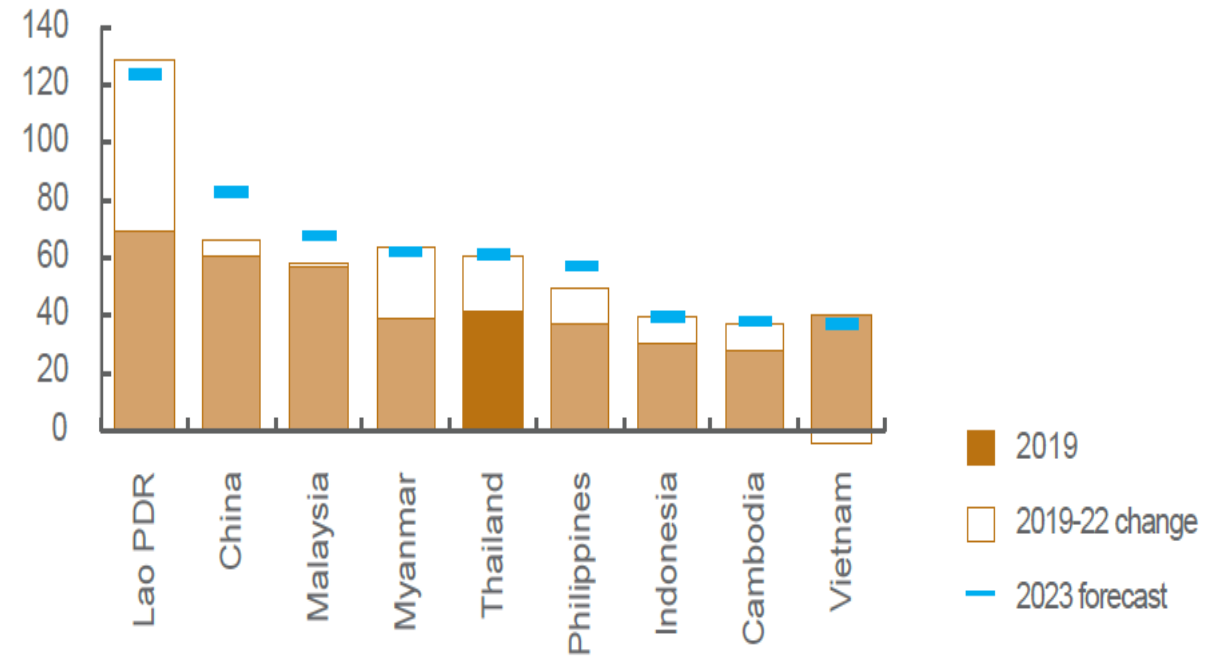
Source: Fiscal Policy Office, Ministry of Finance.

# Significant increase in public debt since 2019, though risks remain contained so far

Public debt (% of GDP)



Public debt in emerging EAP countries (% of GDP)



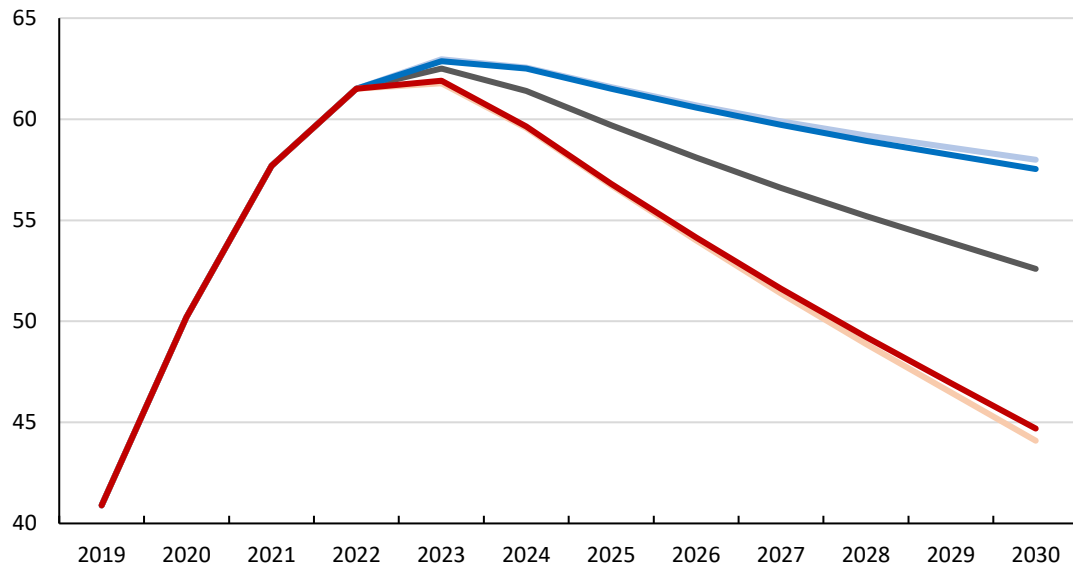
Source: IMF Fiscal Monitor April 2023.

# 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

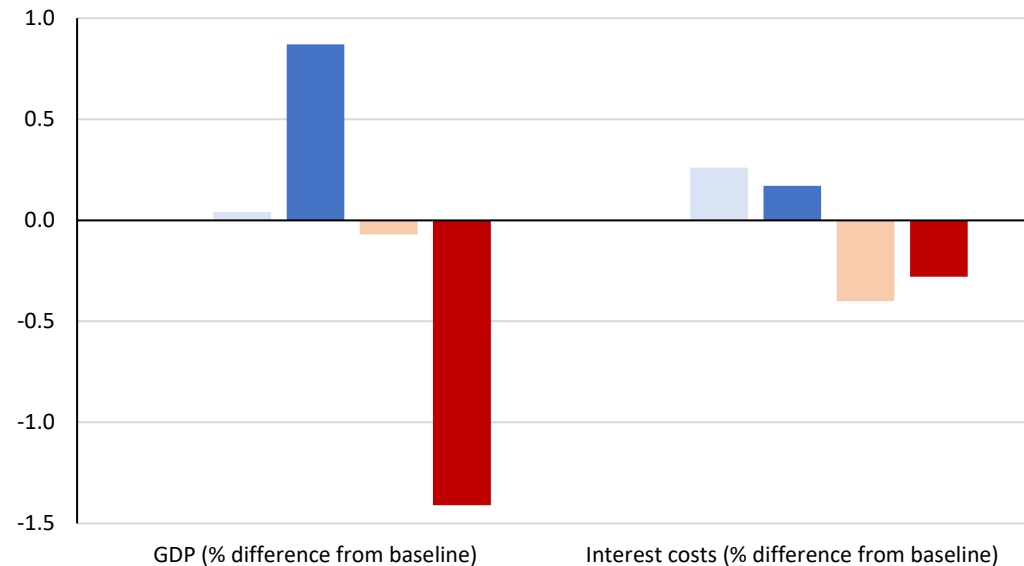
Baseline and medium-term fiscal consolidation scenarios



- Baseline
- Slower consolidation, increase current spending
- Slower consolidation, increase capital spending
- Faster consolidation, reduce current spending
- Faster consolidation, reduce capital spending

### Impacts on GDP and interest costs, 2030

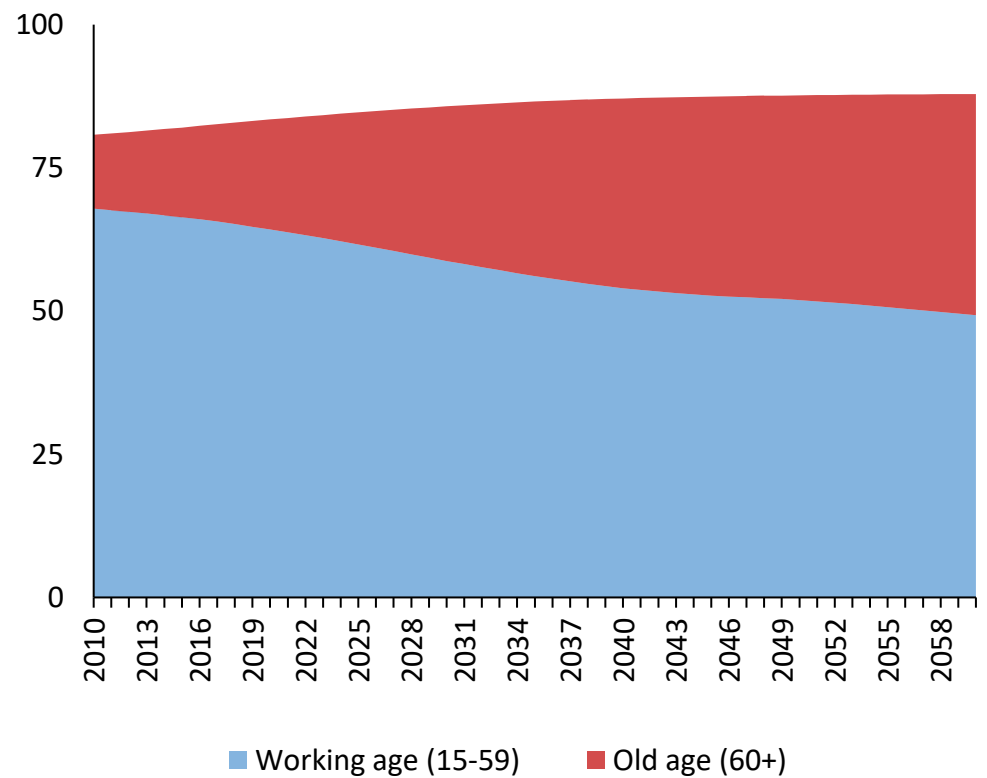
Medium-term fiscal consolidation scenarios



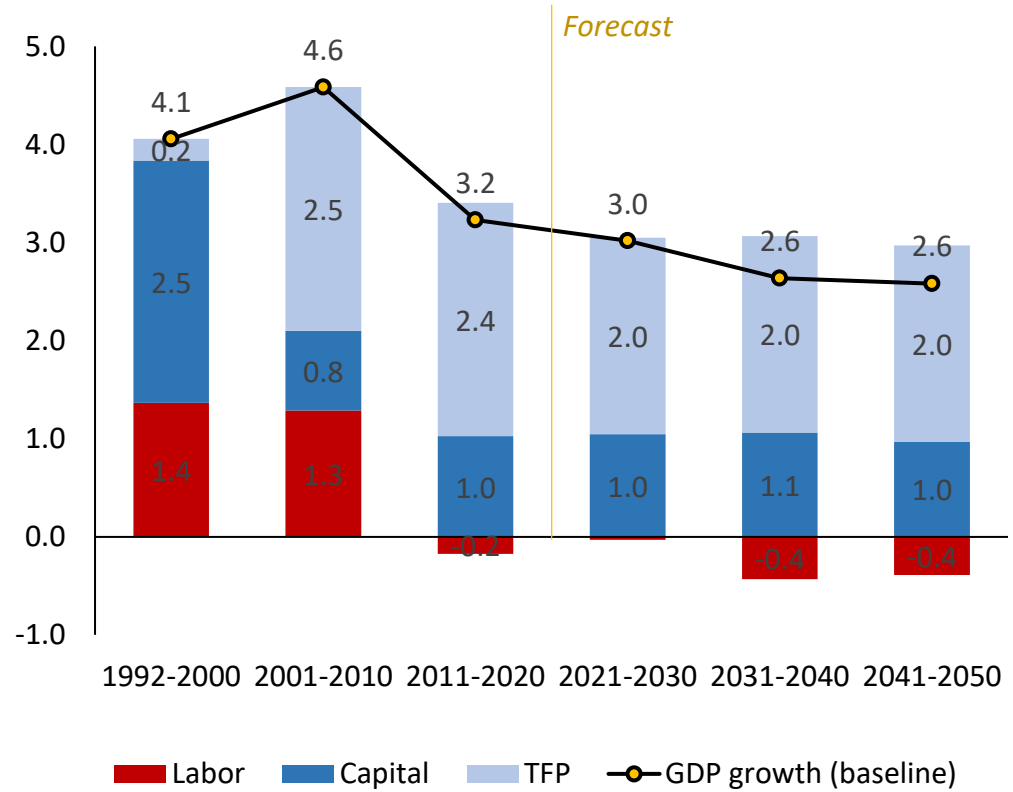
- Baseline
- Slower consolidation, increase current spending
- Slower consolidation, increase capital spending
- Faster consolidation, reduce current spending
- Faster consolidation, reduce capital spending

# Over the longer-term, aging will be a drag on growth

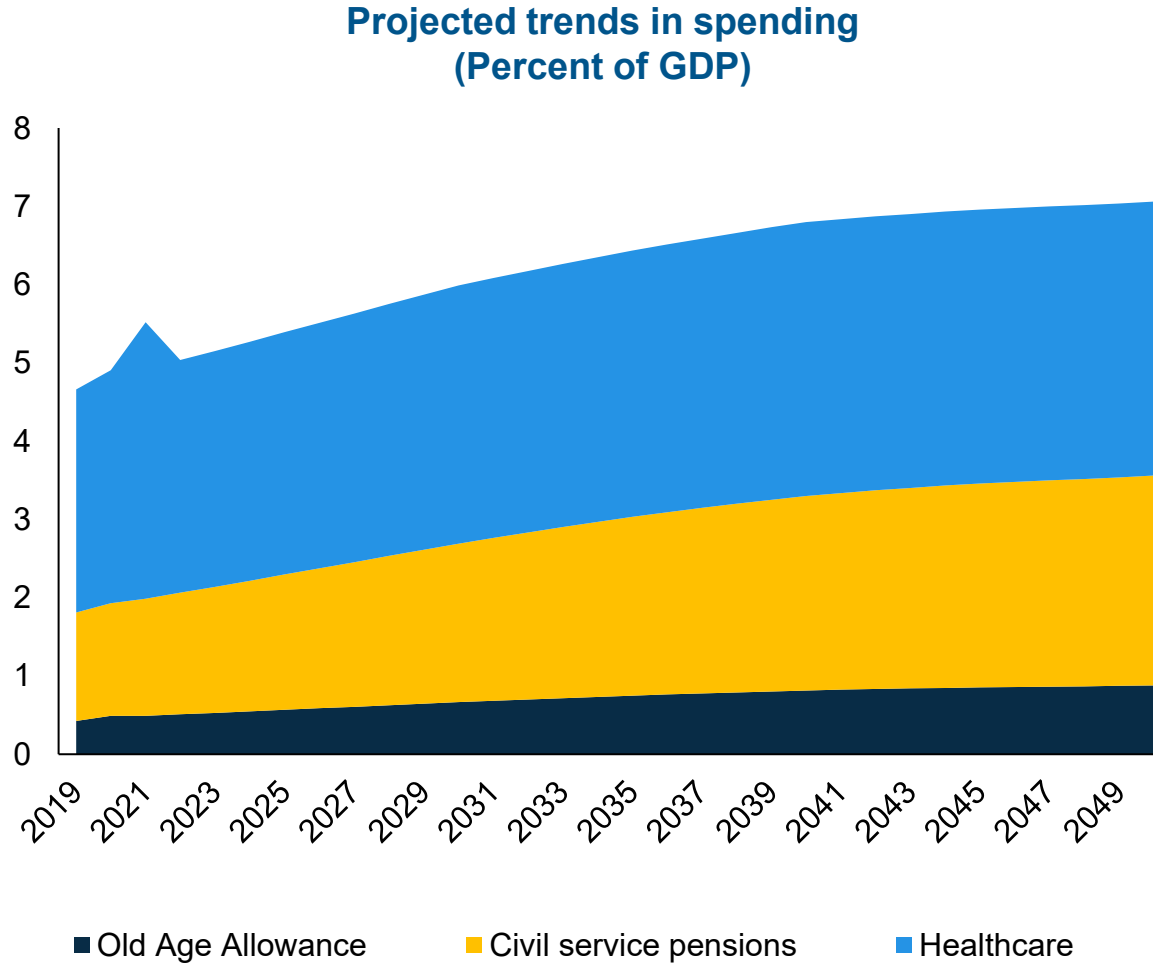
Demographic shifts (% of total population)



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



# And aging will directly impact spending on health care and pensions



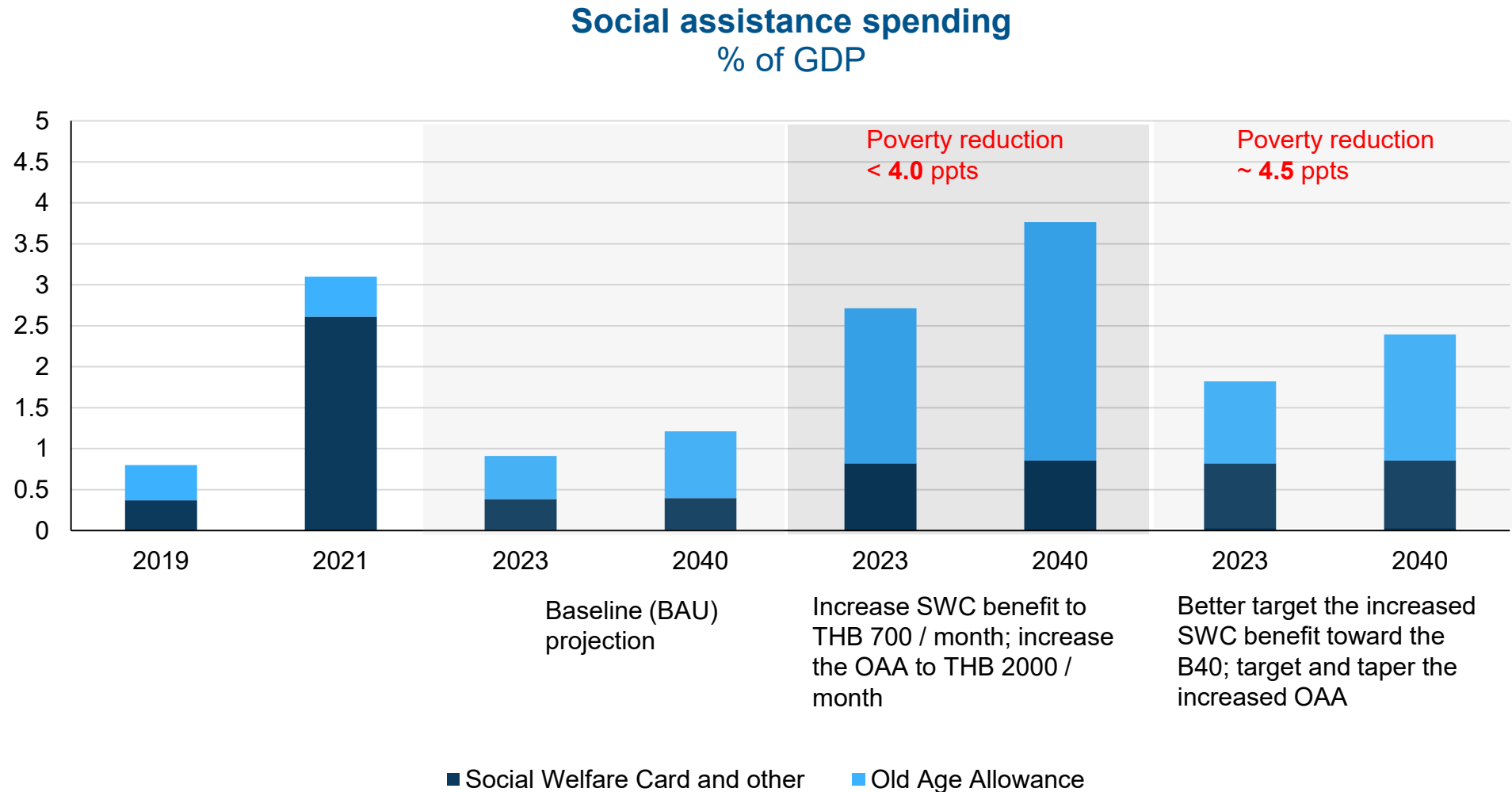
## Thailand also faces unmet spending needs in social protection, education, and climate adaptation

- **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



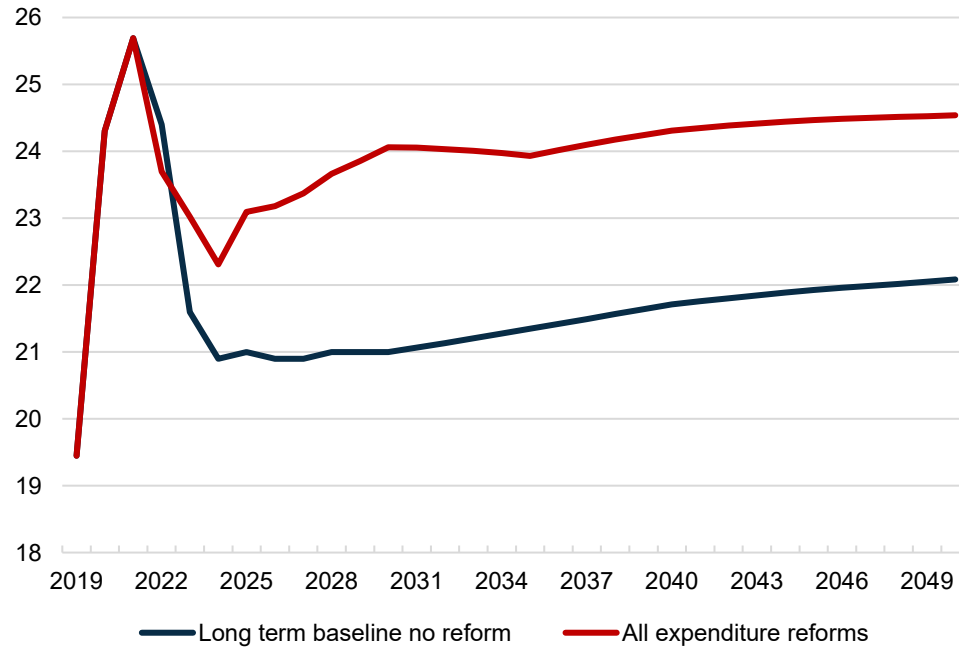
# Thailand's vulnerability to climate change requires a concerted fiscal response

Indicative impacts of climate-related policies on Thailand's fiscal balance (% of GDP)

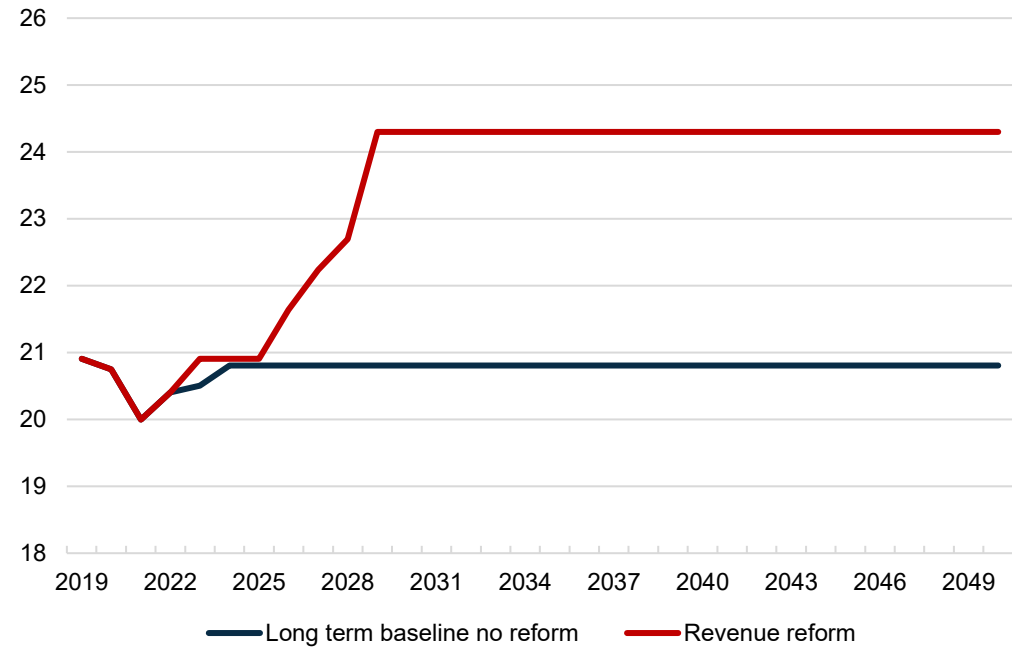
	2025	2030	2035	2040
<b>Adaptation costs</b>	-0.6	-1.6	-1.6	-1.6
<b>Manufacturing carbon pricing</b>	0.3	0.8	1.0	1.0
<b>Fuel excise duties</b>	0.3	0.2	-0.1	-0.7
<b>Vehicle excise duties</b>	-0.2	0.0	0.0	0.0
<b>Other transport measures</b>	-0.4	-0.2	-0.2	0.0
<b>Forestry sector costs</b>	-0.1	-0.1	-0.1	-0.1
<b>Other mitigation costs</b>	0.0	-0.1	-0.1	-0.1
<b>Total</b>	-0.7	-1.0	-1.1	-1.5

# Adding it all up: Baseline versus reform scenarios for spending and revenue

## Primary expenditure (% of GDP)

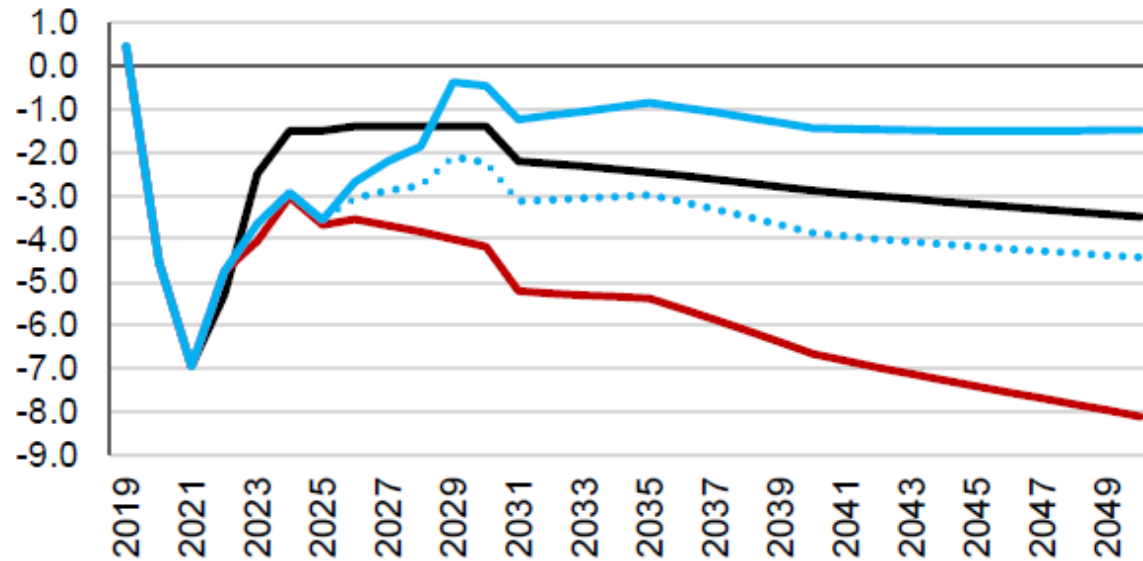


## Revenue (% of GDP)



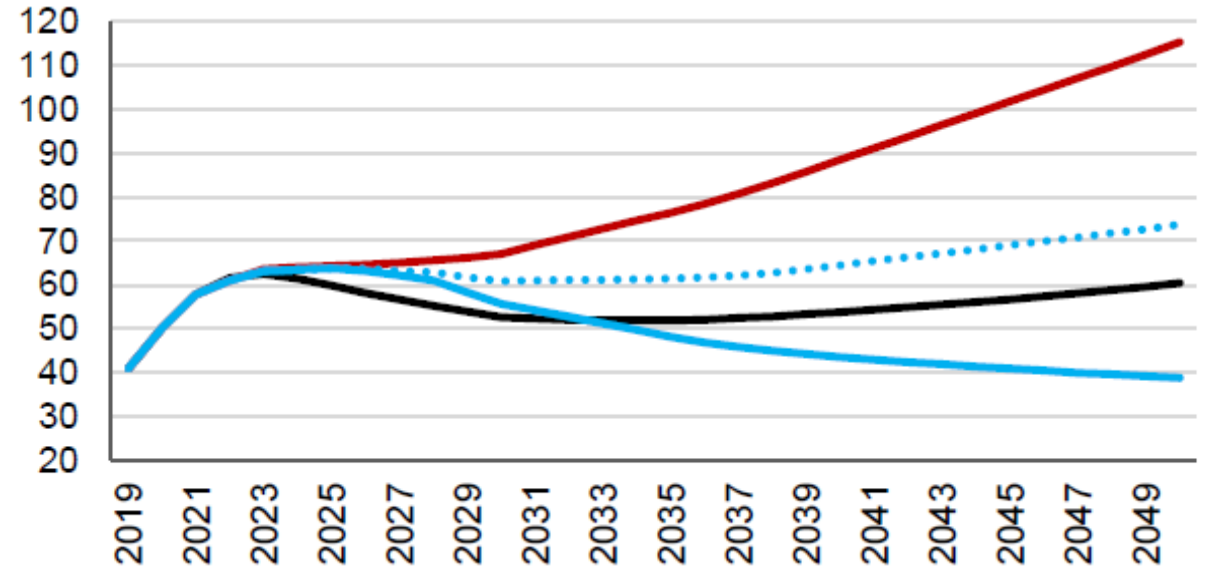
# To meet the identified spending needs while maintaining fiscal sustainability, a significant revenue effort will be required

Fiscal deficit (% of GDP)



- No reform baseline (expenditure needs remain unmet)
- All expenditure reforms; no revenue reform
- All expenditure and revenue reforms
- ⋯ All expenditure reforms and partial revenue reform

Public debt (% of GDP)



- No reform baseline (expenditure needs remain unmet)
- All expenditure reforms; no revenue reform
- All expenditure and revenue reforms
- ⋯ All expenditure reforms and partial revenue reform

**Thank you**

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