WORLD BANK GROUP

Thailand Public Revenue and Spending Assessment

How can Thailand's government meet rising spending needs, while maintaining fiscal sustainability over time?

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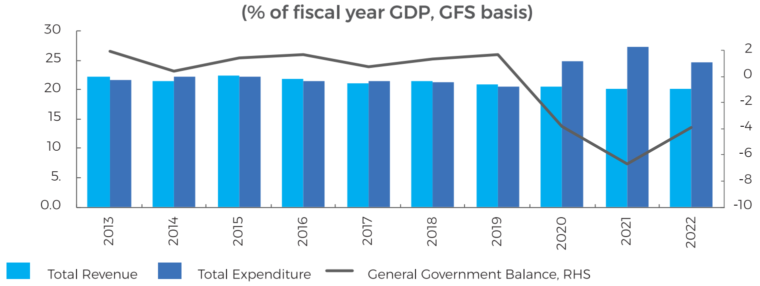
THE FISCAL RESPONSE TO THE PANDEMIC WAS SUBSTANTIAL

Budget deficits and public debt remained contained prior to the pandemic

Previous **spending discipline** allowed the government the fiscal space to respond to the COVID-19 pandemic with one of the largest packages in the region **(~15% of GDP)**

General government fiscal balance

(% of fiscal year GDP, GFS basis)



Source: Fiscal Policy Office, Ministry of Finance

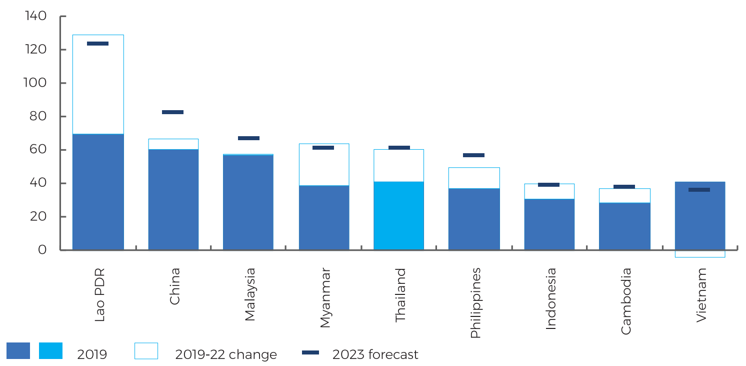
While this fiscal response drove a **sharp increase in public debt**, at around

60% of GDP in 2022, the level of **public debt remains contained** relative to regional peers, and several factors mitigate the associated fiscal risks:

- Almost all denominated in local currency
- Largely held by Thai residents

Public debt in emerging EAP economies

(Percent of GDP)



SPENDING NEEDS ARE PRESSING

There are substantial unmet spending needs in the areas of **social assistance, education,and climate adaptation.**

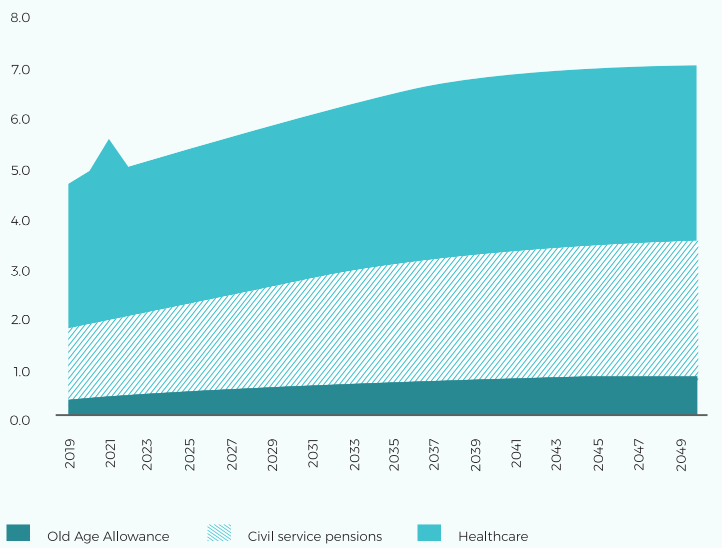
- **Spending on social assistance (pre-pandemic) was low** compared with international benchmarks, and benefit amounts are insufficient to meet recipients' needs.
- **Spending per student at pre-primary and secondary levels is comparatively low, and learning outcomes** are weak.
- **Significant investments in climate adaptation will be required to reduce vulnerability** to climate change.

Population aging will create longer-run fiscal pressures:

- Directly through rising public pension and healthcare costs
- And via its influence on labour supply, human capital and potential growth

Public pension and healthcare costs

Percent of GDP



Source: WB analysis, data from UN, IMF, WHO, DOP

MAINTAINING FISCAL SUSTAINABILITY WILL BE CHALLENGING

In the near term, government needs to reduce the fiscal deficit, but it has the fiscal space to pursue a relatively gradual 'growth-friendly' fiscal consolidation

- Public infrastructure investment and spending in priority areas can increase, even as other spending unwinds

Over the longer term, efficiency gains can help to contain the increase in spending necessary to achieve desired objectives

But ultimately an increase in revenue will be necessary to meet these spending needs without jeopardizing fiscal sustainability

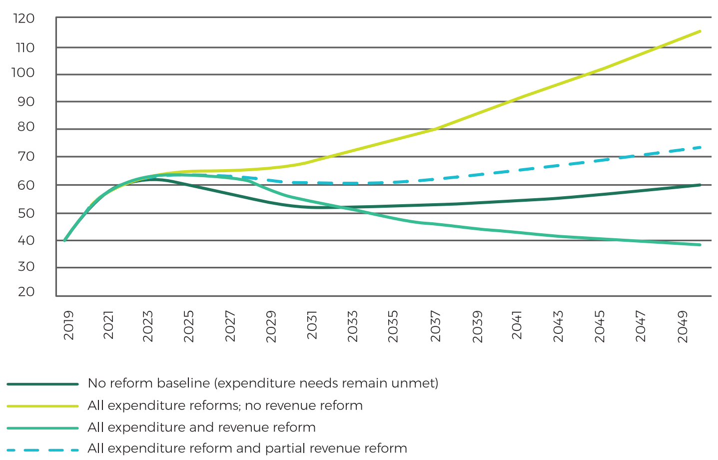
- Additional spending without revenue reforms would see public debt exceed

80% of GDP by the 2030s

- But with effort on tax reform, spending needs could be met while keeping public debt contained

Impact of reforms on public debt

Percent of GDP



Source: WB analysis

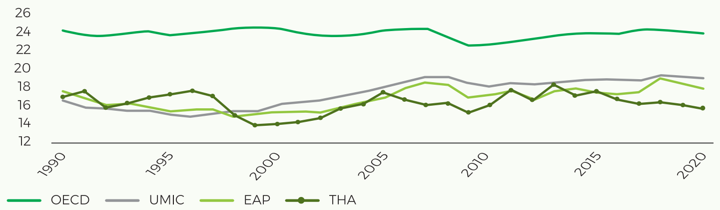
REVENUE COLLECTION WILL NEED TO INCREASE

Revenues remained stable at around

21% of GDP over the five years to 2020, and tax collection is lower than peers

Tax Revenue

Percent of GDP



Source: WB analysis, data from ICTD 2021.

The **'tax gap'** – the difference between Thailand's actual and potential tax take – is estimated at **5.6%** of GDP

Reforms could increase revenues by 3.5 percentage points of GDP by 2030, narrowing this estimated tax gap, promoting equity, and providing the revenue needed to fund elevated spending needs:

- **Returning the VAT rate to 10%** and rationalizing exemptions (+2.4 ppts of GDP).

  The current **7%** VAT rate is very low among middle-income countries

- **Broadening the personal income tax base** by incentivizing tax filing and removing tax deductions and allowances (+0.8 ppts of GDP)
- **Expanding property tax collection** by ensuring regular, simplified valuation updates based on market values (+0.3 ppts of GDP)

VAT rate

Percent