INTERNATIONAL MONETARY FUND

IMF Country Report No. 25/45

THAILAND

February 2025

2024 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 2024 Article IV consultation with Thailand, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on lapse-of-time basis, following discussions that ended on November 26, 2024, 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 January 27, 2025.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Thailand.

The documents listed below will be separately released.

Selected Issues

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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International Monetary Fund
Washington, D.C.

IMF Executive Board Concludes 2024 Article IV Consultation with Thailand

FOR IMMEDIATE RELEASE

Washington, DC – **February 20, 2025:** On February 11, The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Thailand and endorsed the staff appraisal without a meeting on a lapse-of-time basis.

Thailand's economy is gradually recovering, but at a slower pace than peers. Economic activity expanded modestly by 1.9 percent in 2023 and 2.3 percent in the first three quarters of 2024, driven by private consumption growth and a rebound in tourism. Inflation remained subdued, averaging 0.4 percent (y/y) annually in 2024, well below the Bank of Thailand's target range of 1 to 3 percent. External factors such as the decline in global energy and food prices, lower import prices have played a role, but domestic factors such as energy subsidies, price controls, and the unwinding of pandemic-related fiscal support have also contributed to the lower inflation. The current account balance strengthened to 1.4 percent of GDP in 2023, from -3.5 percent of GDP in 2022, and continues to register a moderate surplus as of November 2024, supported by the continued recovery in tourism and higher exports.

A gradual cyclical recovery is expected to continue. Real GDP is projected to grow by 2.7 percent in 2024 and to increase to 2.9 percent in 2025. This is underpinned by the expansionary fiscal stance envisaged under the 2025 budget, which includes additional cash transfers of 1.0 percent of GDP and a rebound in public investment. Tourism-related sectors are expected to continue to support growth, as well as private consumption that will be further boosted by the authorities' cash transfers. As growth continues to firm up, inflation is expected to pick up but remain in the bottom half of the target range in 2025. The current account balance is expected to improve further in 2024 and 2025, driven by the ongoing recovery in tourist arrivals.

Risks to Thailand's economic outlook are tilted to the downside. On the external front, an escalation of global trade tensions or deepening geoeconomic fragmentation could disrupt Thailand's export recovery and dampen FDI inflows, while increased commodity price volatility could affect growth and lead to inflation spikes, and potentially tighter-for-longer global financial conditions. The intensification of regional conflicts could disrupt trade and travel flows while more frequent extreme climate events would adversely impact growth prospects. On the domestic front, the private sector debt overhang could impair financial institutions' balance sheets and further decrease credit supply, negatively affecting growth. Renewed political uncertainty could hinder policy implementation and undermine confidence.

[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[2]

In concluding the 2024 Article IV consultation with Thailand, Executive Directors endorsed the staff's appraisal, as follows:

Thailand's economic recovery is ongoing, but it has been relatively slow and uneven. Economic activity expanded modestly in 2024, driven by private consumption and a rebound in tourism-related activities, while delayed budget implementation slowed the pace of public investment. The slow recovery, compared to ASEAN peers, is also rooted in Thailand's longstanding structural weaknesses, while emerging external and domestic headwinds have also contributed to subdued inflation. The outlook remains highly uncertain with significant downside risks.

As economic slack narrows, the focus should shift to rebuilding fiscal space. A less expansionary fiscal stance than envisaged under the FY25 budget would still provide impulse to support the recovery while helping to preserve policy space. Alternatively, reallocating part of the planned cash transfers toward productivity-enhancing investments or social protection would enable stronger inclusive growth and help reduce the public debt-to-GDP ratio. Starting in FY26, a revenue-based medium-term fiscal consolidation is needed to bring down public debt and rebuild buffers.

Thailand's fiscal framework can be further strengthened. This would require strengthening fiscal rules to better support the debt anchor by introducing a risk-based rules approach. Costs associated with quasi-fiscal operations such as energy price caps should be adequately accounted for, and fiscal risks closely monitored. Improving data provision for government finance statistics and SOEs is important.

Staff welcomes the BOT's decision to cut the policy rate in October and recommends a further reduction in the policy rate to support inflation and also translate into improvements in borrowers' debt-servicing capacity with limited risk of additional leverage amid tight lending. Given remaining high uncertainty in the outlook, the authorities should stand ready to adjust their monetary policy stance in a data and outlook-dependent manner. Central bank independence with clear communication of policy moves is key to maintaining the credibility and effectiveness of monetary policy in anchoring inflation expectations.

Effective coordination across policy tools, underpinned by adequate buffers, is essential for managing adverse scenarios. While the flexible exchange rate should continue to act as a shock absorber, the complementary use of FXI might alleviate policy trade-offs by smoothing destabilizing premia when large non-fundamental shocks render the FX market dysfunctional. Further liberalization of the FX ecosystem and phasing out of remaining capital flow management measures would help deepen the FX market and limit the need for FXI over time.

A comprehensive package of prudential and legal measures needs to be deployed to facilitate an orderly private deleveraging. Staff welcomes the measures already implemented to address both the existing household debt stock and the buildup of new leverage. However, simultaneous and forceful implementation of personal debt workouts via more effective bankruptcy proceedings is essential to lower the existing household debt stock.

The external position in 2024 was moderately stronger than warranted by fundamentals and desirable policy settings. Policies aimed at promoting investment, enhancing social safety

[2] The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

nets, liberalizing the services sector, and minimizing tax incentives and subsidies that distort competition would facilitate external rebalancing.

Resolute structural reforms are needed to boost productivity and competitiveness. Reform priorities include facilitating competition and openness, upgrading physical and ICT infrastructure, upskilling/reskilling the labor force, increasing export sophistication by leveraging digitalization, and strengthening governance. Providing an adequate social protection floor to vulnerable households could help enhance their resilience to shocks and address structural drivers of household debt accumulation.

Table 1. Thailand: Selected Economic Indicators, 2019–30

Per capita GDP (2023): US$7,338
Exchange Rate (2023): 34.8 Baht/USD
Unemployment rate (2023): 1 percent
Poverty headcount ratio at national poverty line (2021): 6.3 percent
Net FDI (2023): US$ -7.16 billion
Population (2023): 70.18 million

	Actual					Projections						
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Real GDP growth (y/y percent change) 1/	2.1	-6.1	1.6	2.5	1.9	2.7	2.9	2.6	2.7	2.7	2.7	2.7
Consumption	3.4	-0.3	1.3	4.8	4.6	4.3	4.0	2.9	2.1	2.3	2.6	2.6
Gross fixed investment	2.0	-4.8	3.1	2.3	1.2	0.1	4.1	2.1	1.8	2.3	2.4	2.5
Inflation (y/y percent change)												
Headline CPI (end of period)	0.9	-0.3	2.2	5.9	-0.8	1.2	1.3	1.5	1.5	1.7	1.7	1.8
Headline CPI (period average)	0.7	-0.8	1.2	6.1	1.2	0.4	1.0	1.3	1.5	1.6	1.7	1.8
Core CPI (end of period)	0.5	0.2	0.3	3.2	0.6	0.8	1.3	1.0	1.2	1.4	1.4	1.6
Core CPI (period average)	0.5	0.3	0.2	2.5	1.3	0.6	1.1	1.2	1.1	1.3	1.4	1.5
Saving and investment (percent of GDP)												
Gross domestic investment	23.8	23.8	28.6	27.8	22.5	20.8	21.9	22.2	22.0	21.8	21.8	21.6
Private	16.9	16.8	16.9	17.3	17.3	16.7	16.6	16.4	16.3	16.1	16.1	16.0
Public	5.7	6.4	6.5	6.1	5.6	5.6	5.9	5.8	5.7	5.7	5.7	5.7
Change in stocks	1.2	0.5	5.1	4.5	-0.4	-1.5	-0.6	0.0	0.0	0.0	0.0	0.0
Gross national saving	30.8	27.9	26.5	24.4	24.0	22.6	24.0	24.5	24.4	24.4	24.5	24.4
Private, including statistical discrepancy	25.8	26.2	26.8	22.6	21.0	19.8	21.8	21.9	21.7	21.7	21.8	21.6
Public	5.0	1.8	-0.3	1.7	3.0	2.8	2.2	2.5	2.7	2.7	2.7	2.8
Foreign saving	-7.0	-4.2	2.1	3.5	-1.4	-1.8	-2.2	-2.3	-2.4	-2.6	-2.7	-2.8
Fiscal accounts (percent of GDP) 2/												
General government balance 3/	0.4	-4.5	-6.7	-4.5	-2.0	-2.2	-3.6	-3.2	-2.9	-2.8	-2.8	-2.8
SOEs balance	0.4	0.6	-0.3	-0.6	-0.7	-0.1	-0.2	-0.1	-0.1	-0.1	-0.1	0.0
Public sector balance 4/	0.8	-3.9	-7.1	-5.1	-2.7	-2.3	-3.8	-3.3	-3.0	-2.9	-2.9	-2.8
Public sector debt (end of period) 4/	41.1	49.4	58.3	60.5	62.4	63.3	64.7	65.4	66.0	66.1	66.4	66.4
Monetary accounts (end of period, y/y percent change)												
Broad money growth	3.6	10.2	4.8	3.9	1.9	2.3	3.7	3.5	3.2	3.8	3.2	3.7
Narrow money growth	5.7	14.2	14.0	3.1	4.2	5.9	3.2	4.7	4.2	5.1	4.3	4.9
Credit to the private sector (by other depository corporations)	2.4	4.5	4.5	2.5	1.5	0.1	1.0	1.6	1.8	2.1	2.3	2.5
Balance of payments (billions of U.S. dollars)												
Current account balance	38.3	20.9	-10.7	-17.2	7.4	9.5	11.9	13.2	14.6	16.5	18.2	19.4
(In percent of GDP)	7.0	4.2	-2.1	-3.5	1.4	1.8	2.2	2.3	2.4	2.6	2.7	2.8
Exports of goods, f.o.b.	242.7	227.0	270.6	285.2	280.7	293.6	301.8	312.5	327.2	343.1	359.0	375.5
Growth rate (dollar terms)	-3.3	-6.5	19.2	5.4	-1.5	4.6	2.8	3.6	4.7	4.9	4.6	4.6
Growth rate (volume terms)	-3.7	-5.8	15.4	1.2	-2.7	2.1	1.9	2.7	3.5	3.6	3.2	3.2
Imports of goods, f.o.b.	216.0	186.6	238.6	271.6	261.4	274.9	284.6	295.1	309.1	324.1	339.1	354.9
Growth rate (dollar terms)	-5.6	-13.6	27.9	13.8	-3.8	5.2	3.5	3.7	4.7	4.9	4.6	4.7
Growth rate (volume terms)	-5.8	-10.4	18.0	1.0	-4.1	3.7	3.5	3.3	3.4	3.3	3.3	3.3
Capital and financial account balance 5/	-24.7	-2.6	3.6	6.9	-4.9	-9.5	-11.9	-13.2	-14.6	-16.5	-18.2	-19.4
Overall balance	13.6	18.4	-7.1	-10.2	2.6	0.0	0.0	0.0	0.0	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	254.6	262.5	262.5	262.5	262.5	262.5	262.5	262.5
(Months of following year's imports)	16.7	14.4	12.3	11.3	11.1	11.1	10.7	10.2	9.7	9.3	8.9	8.5
(Percent of short-term debt) 6/	338.0	315.3	291.2	236.3	242.7	239.6	231.7	222.5	213.7	206.2	199.6	252.3
(Percent of ARA metric)	252.5	278.3	263.3	222.3	233.2	231.8	226.4	219.2	212.3	205.4	199.3	200.0
Exchange rate (baht/U.S. dollar)	31.0	31.3	32.0	35.1	34.8	35.3	…	…	…	…	…	…
NEER appreciation (annual average)	7.2	-0.3	-4.5	-1.8	3.9	…	…	…	…	…	…	…
REER appreciation (annual average)	5.8	-2.6	-5.7	-1.1	1.2	…	…	…	…	…	…	…
External debt												
(In percent of GDP)	31.7	38.0	38.9	40.6	38.2	38.4	38.5	38.6	38.7	38.7	38.8	38.8
(In billions of U.S. dollars)	172.7	190.1	196.9	201.4	196.5	202.4	213.1	223.8	233.8	245.9	257.0	270.0
Public sector 7/	38.0	37.2	41.5	41.2	35.8	38.4	40.8	43.3	45.6	48.1	50.8	53.7
Private sector	134.0	152.9	155.4	160.3	160.7	164.5	172.9	181.1	188.8	198.3	206.8	217.0
Medium- and long-term	74.6	79.4	82.3	82.3	80.3	80.7	86.5	91.1	95.3	101.5	107.1	114.0
Short-term (including portfolio flows)	59.4	73.5	73.1	78.0	80.4	83.8	86.4	90.0	93.5	96.8	99.7	103.0
Debt service ratio 8/	7.8	7.5	6.3	7.3	7.9	7.8	7.8	7.3	8.3	9.3	10.3	10.3
Memorandum items:												
Nominal GDP (billions of baht)	16889.2	15661.3	16188.6	17378.0	17922.0	18603.0	19371.2	20282.2	21143.0	22211.7	23164.5	24307.8
(In billions of U.S. dollars)	544.0	500.5	506.3	495.6	515.0	527.1	553.9	580.2	604.8	635.4	662.7	695.4
Output Gap (in percent of potential output)	0.2	-4.2	-4.1	-2.0	-1.5	-0.7	0.0	0.1	0.0	0.0	0.0	0.0

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.
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.

INTERNATIONAL MONETARY FUND

THAILAND

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION

January 27, 2025

KEY ISSUES

Context. Thailand's cyclical recovery is underway, though it has yet to become broad-based. Growth is projected to accelerate moderately, reaching 2.7 percent in 2024 and 2.9 percent in 2025, supported by the rebound of tourism-related activities and fiscal stimulus. The slow recovery, weaker than in ASEAN peers, is rooted in Thailand's longstanding structural weaknesses and emerging headwinds that also contribute to a muted inflation trajectory. Significant uncertainty in the external environment and downside risks cloud the outlook.

Policies. A well-coordinated near-term policy mix and structural reforms would help firmly entrench the recovery and boost potential growth and inclusiveness over the longer term.

- *Fiscal.* As the economic slack narrows, the policy focus should shift to rebuilding fiscal space. In the near term, a less expansionary stance or rationalizing cash transfers to redirect resources towards productivity-enhancing investments would still provide impulse to support the recovery while helping preserve the scarce policy space. A revenue-based medium-term fiscal consolidation is needed to bring down public debt and rebuild buffers to tackle rising spending needs from population aging and climate change risks.
- *Monetary.* A further reduction in the policy rate would support the ongoing recovery, while translating into improvements in borrowers' debt-servicing capacity with little risk of additional leverage amid tightened lending. Given remaining high uncertainty and two-sided risks to inflation, the authorities should stand ready to adjust their stance in a data and outlook-dependent manner, with the flexible exchange rate continuing to act as a shock absorber.
- *Financial.* A multipronged strategy is needed to facilitate an orderly private debt deleveraging. Strengthening personal debt workout programs through more effective bankruptcy proceedings is essential for reducing the current household debt burden. Continuing to implement tight responsible lending guidelines, enhance the macroprudential toolkit and extend its coverage to all financial institutions to prevent leakages, strengthen risk analysis, and improve financial literacy would help prevent further debt buildup and over-indebtedness.
- *Structural.* Resolute reforms to boost productivity and competitiveness are necessary to reverse the downward trend in potential growth. Priority areas include facilitating competition and openness, upgrading physical and ICT infrastructure, upskilling and reskilling the labor force, increasing export sophistication by leveraging digitalization, and strengthening governance. Providing an adequate social protection floor to vulnerable households could help enhance their resilience to shocks and address structural drivers of household debt accumulation.

Approved By
Rupa Duttagupta (APD) and Martin Sommer (SPR)

Discussions took place in Bangkok during November 11-26, 2024. The team comprised C. Deléchat (Head), S. Kim, E. Kitsios, N. M. A. Purwanto, and Y. Xu (all APD). The mission met with the Deputy Prime Minister and Minister of Finance Pichai Chunhavajira, Bank of Thailand Governor Sethaput Suthiwartnarueput, senior government officials, private sector representatives, civil service organizations, and development partners. Mr. Sumawong (alternate ED) joined the concluding meeting. Mr. Pongrasamiroj (OED) accompanied the mission. Mr. Tan (APD) provided analytical inputs. Ms. Reis (APD) coordinated the production of the report.

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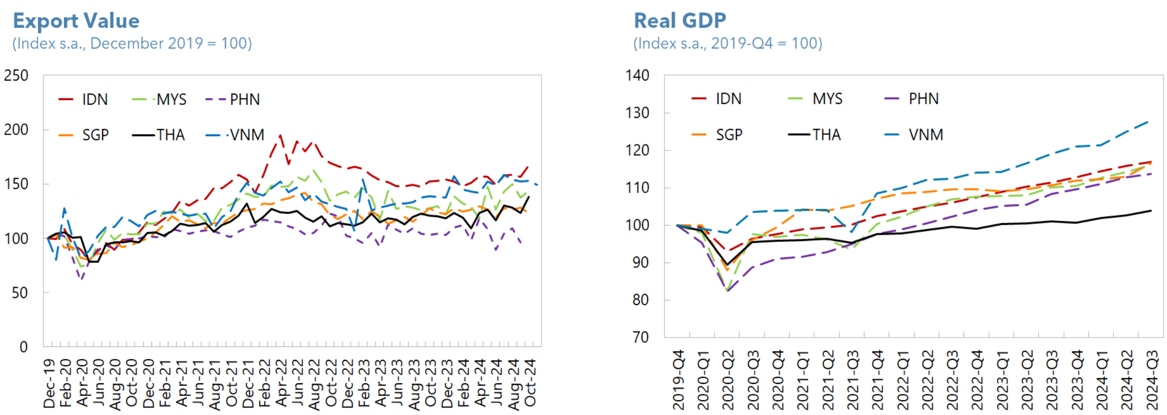
ANNEXES

CONTEXT

1. Thailand's post-pandemic recovery is nearly complete, albeit it has been uneven and slower than peers. The output gap is still negative, while average inflation has declined and remained below the Bank of Thailand's (BOT) target range (1 to 3 percent) since January 2024. The pandemic fiscal support has been fully withdrawn and the monetary policy tightening cycle ended in September 2023, with the policy rate remaining on hold until mid-October 2024 when it was cut by 25 bps.

Thailand: Export and Growth Performance Relative to Peers



Sources: Haver Analytics; IMF staff calculations.

Sources: Haver Analytics; IMF staff calculations.

2. The slow recovery and declining productivity are rooted in longstanding structural weaknesses. These include underinvestment in human and physical capital, a declining labor force due to rapid population aging, and a large informal sector coupled with insufficient social protection which contributes to inequality and high household debt.[1] Furthermore, the pandemic aggravated the trend decline in potential output growth due to its large impact on tourism and private sector balance sheet.

3. Reaching the authorities' target of becoming a high-income country by 2037 will require resolute reforms to durably raise potential growth. Staff estimates that potential output growth would have to increase to about 5 percent (from a current estimate of 2.7 percent) to approach the high-income threshold by the end of the next decade. Thailand's national development strategy appropriately focuses on promoting innovation, developing human capital, addressing inequality, transitioning to a low-carbon economy and boosting economic resilience.[2] Effective reform implementation will however require overcoming policy fragmentation across multiple government agencies.

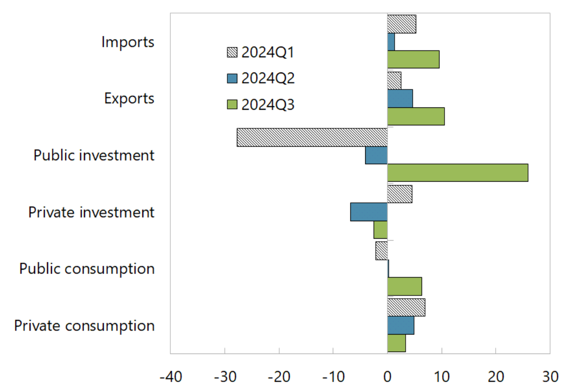
[1] See IMF Country Report No. 22/300, Annex III.

[2] Thirteenth National Economic and Social Development Plan (2023-2027).

RECENT DEVELOPMENTS: SUBDUED GROWTH AMID LOW INFLATION

4. Thailand's economic recovery continues. The economy expanded modestly by 2.3 percent in the first three quarters of 2024, driven by private consumption growth underpinned by the rebound of tourism-related activities (Figure 2). Tourist arrivals in 2024 reached 89.1 percent of the pre-pandemic figure, although travel receipts remained below the pre-pandemic level (71.2 percent in the first three quarters of 2024). Merchandise exports gradually increased, particularly in the electronics sector, driven by stronger external demand and the global tech upcycle. Public investment declined by 2.3 percent in the first nine months of 2024, mainly due to delayed FY24 budget approval, also accompanied by a 1.4 percent decline in private investment (Tables 1, 2).

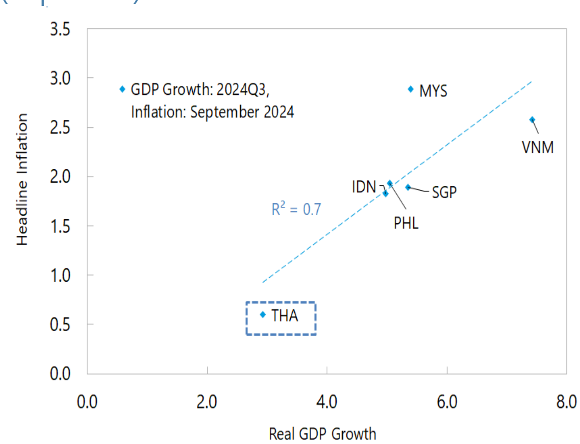
Thailand: Growth Decomposition, Demand Side
(In percent, y/y)



Sources: Haver Analytics and IMF staff calculations.

5. Inflation remained subdued and below the BOT's target range. Headline inflation reached its trough in January 2024 with a contraction of 1.1 percent (y/y) but has since recovered and averaged 0.4 percent (y/y) in 2024, supported by an increase in fuel price caps and the elimination of excise tax cuts on fuel products. Core inflation remained low and stable, averaging 0.6 percent (y/y). Weaker GDP growth and a larger negative output gap partly explain Thailand's lower inflation prints relative to peers. External factors such as the decline in global energy and food prices, lower Chinese export prices have played a role, but domestic factors such as energy subsidies, price controls, and the unwinding of pandemic-related fiscal support have also contributed to lower inflation (Annex I).[3]

ASEAN-6: Real GDP Growth and Headline Inflation
(In percent)



Sources: Haver Analytics and IMF Staff calculations.

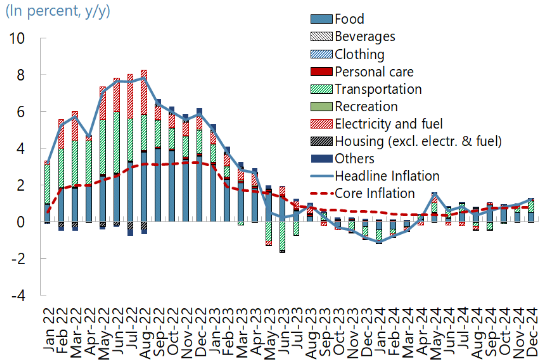
[3] Price controls apply to about 26.4 percent of the goods' prices in the consumer price index basket.

Thailand: Inflation Dynamics

Lower energy and food prices contributed to mute inflationary pressures…

Contributions to Headline Inflation

(In percent, y/y)

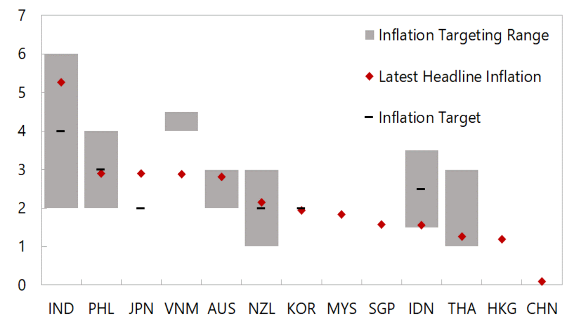


Sources: Thai authorities; and IMF staff calculations.

…with Thailand's inflation just reaching the lower bound of the BOT's target range.

Headline Inflation: Target and Latest

(In percent, y/y)

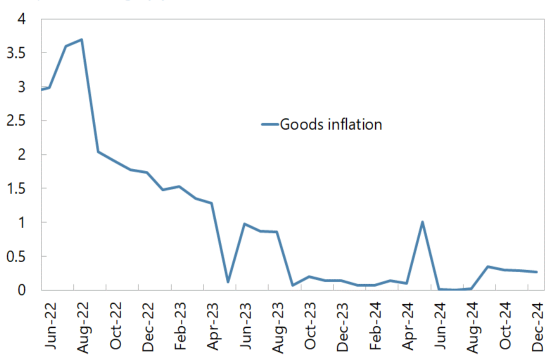


Source: IMF staff calculations.
Note: Data as of January 13, 2025.

Goods inflation remained low…

Goods Inflation

(In percent change, y/y)

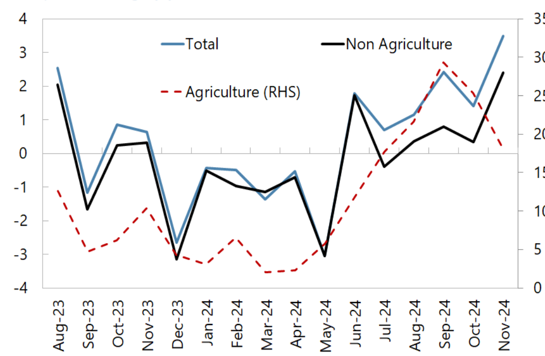


Source: Haver Analytics.

…and wage growth was negative for the first half of 2024 except in agriculture.

Average Monthly Wage Growth

(In percent change, y/y)



Sources: Haver Analytics and IMF staff calculations.

6. **Fiscal deficits have narrowed following the pandemic.** The FY23 overall general government deficit was 2.0 percent of GDP, down from 4.5 percent of GDP in FY22, reflecting full unwinding of pandemic support.[4] In FY24, the authorities had planned for a significant fiscal expansion.[5] However, following the late budget approval in April 2024, only 70.4 percent of the planned capital budget has been executed. The government's flagship stimulus measure, the Digital Wallet program (DW), was also delayed and downsized.[6] After several modifications, a first tranche

[4] Thailand's fiscal year runs from October to September.

[5] IMF Country Report No. 24/35.

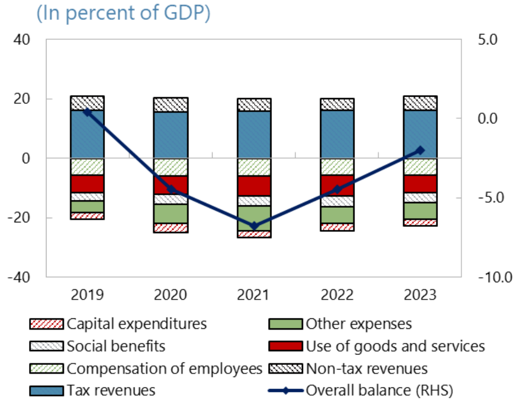
[6] The Digital Wallet is the authorities' transfer program, which was a centerpiece of the Pheu Thai party's campaign during the 2023 general elections. The initial plan was to transfer THB 10,000 to 50 million people (90 percent of the adult population), with a total cost of THB 500 billion (2.7 percent of GDP) financed by a special off-budget loan.

(continued)

of the DW was implemented in late September 2024, transferring THB 145 billion (0.8 percent of GDP) in cash to the most vulnerable groups. Overall, the FY24 general government overall deficit is estimated at around 2.2 percent of GDP (Figure 3, Table 3).[7] As oil prices stabilized, the authorities eliminated the excise tax cuts on fuel products in April 2024, and adjusted the diesel price cap (from 30 to 33 baht per liter) to help replenish the Oil Fund.

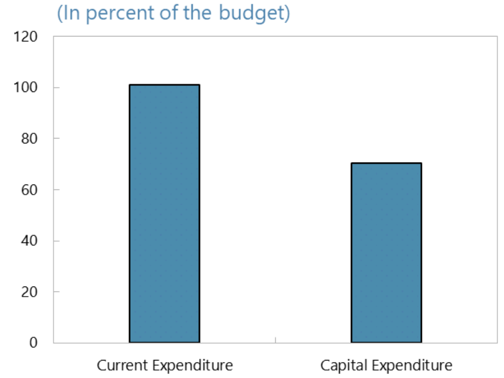
Thailand: Fiscal Sector Developments

Fiscal Balance
(In percent of GDP)



Source: Thai Authorities (Fiscal Policy Office).

FY24 Budget Implementation
(In percent of the budget)



Source: Thai Authorities (Fiscal Policy Office and Comptroller General's Department).

7. Employment indicators are robust, but wage growth remains subdued. Overall employment is strong, with the unemployment rate low and stable at around 1 percent. However, wage growth has stagnated, reflecting the negative output gap as well as low labor productivity and structural impediments such as the large informal sector concentrated in agriculture. Starting on January 1st, 2025, the government has raised the daily minimum wage around 2.9 percent while keeping it differentiated across regions based on economic conditions such as cost of living (ranging from THB 337 to 400).

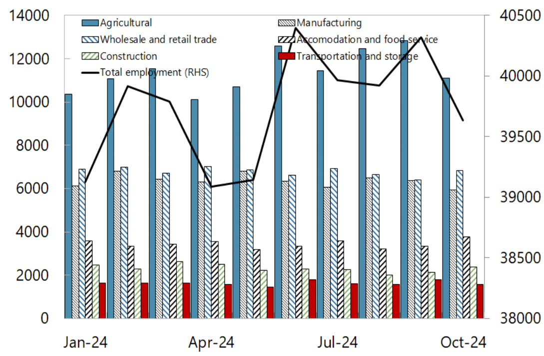
However, the plan has faced repeated delays and modifications due to financing and technical challenges. In September 2024, the new government adopted a phased approach prioritizing the most vulnerable. The first tranche of the DW program was implemented, involving a cash transfer of THB 145 billion (0.8 percent of GDP) to State Welfare Card holders and people with disabilities. The authorities have recently indicated that the second phase of the transfer will involve distributing THB 40 billion (0.2 percent of GDP) to elderly people in 2025Q1, and the remaining THB 148bn (0.8 percent of GDP) in 2025Q2, although the modality of the latter remains uncertain.

[7] FY24 general government overall deficit is staff's estimate. The authorities have released the FY24 fiscal outturn at the central government level (2.5 percent of GDP), but not at the general government level. The latter has been generally smaller than the former in the past.

Thailand: Labor Market Developments

Total employment has remained robust, …

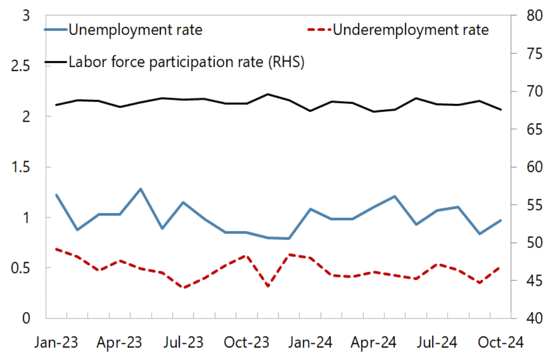
Thailand Employment
(In thousands of persons)



Sources: Bank of Thailand and IMF staff calculations.

…and labor force participation and unemployment rates remain stable.

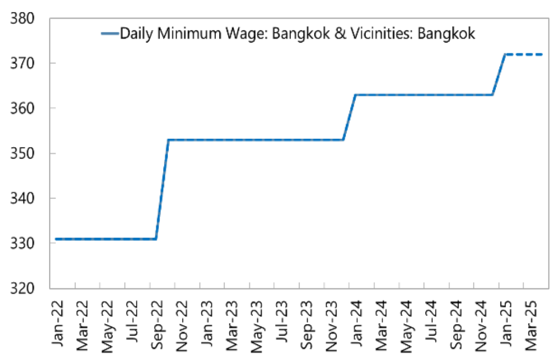
Labor force participation and unemployment
(In percent)



Sources: Bank of Thailand and IMF staff calculations

The authorities have raised the minimum wage…

Daily Minimum Wage
(In units of Baht)



Sources: CEIC and Thailand Ministry of Labor.

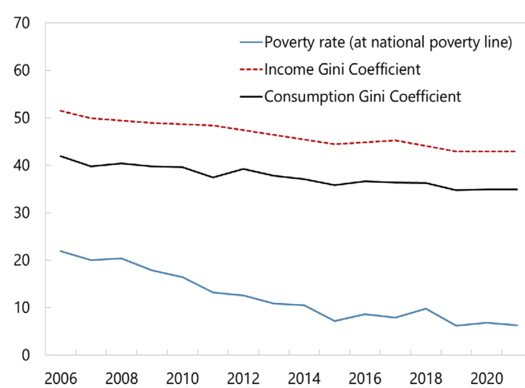
…while Thailand's minimum wages are within comparable levels among peer countries.

Monthly Minimum Wage (USD in 2021 PPP)

Source: ILOSTAT database.
Note: Data as of 2023. Thailand data is shown as daily figure multiplied by 6 days and 4.33 weeks.

8. The pace of improvement in inequality has slowed. Thailand has made remarkable progress in reducing poverty and inequality, but the pace has slowed recently. Income inequality remains relatively high, with significant disparities across regions. This inequality is closely associated with education gaps, and the types and industries of household heads' occupation. Wage gaps have widened across industries and skill levels, reflecting high concentration of informal employment in the agriculture sector (Figure 7). While the COVID-19 pandemic had limited impact on Thailand's inequality, it revealed areas for improvement in the social protection system.

Thailand: Poverty and Inequality Trends
(In percent)

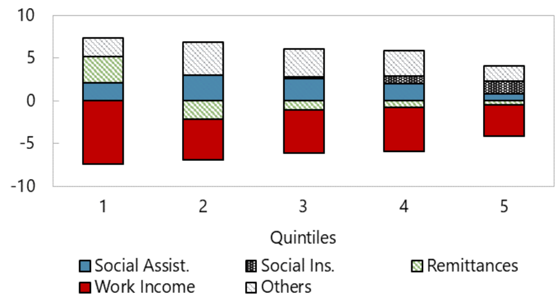


Source: World Bank, World Development Indicators Database.

Figure 1. Thailand: COVID-19 and Inequality, Social Protection and Household Debt Nexus

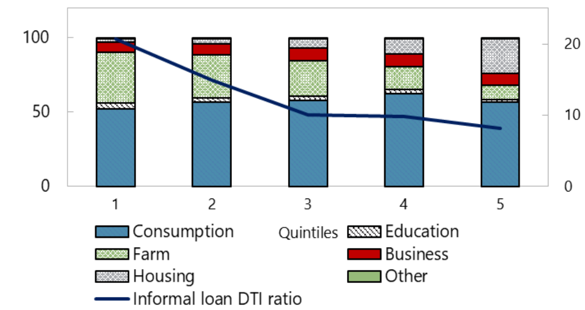
Social protection payments supplemented the declines in income from other sources during the pandemic, also benefiting wealthier households.

Change in Shares of Household Income Sources 2019-2021 (In percentage points)



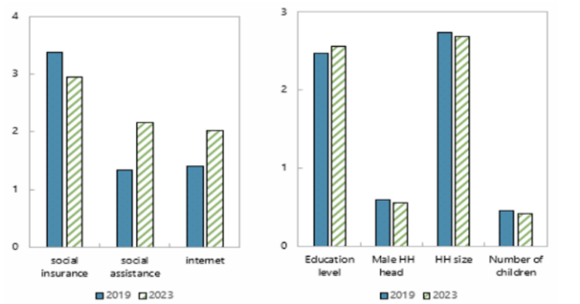
Low-income household debt was primarily concentrated in consumption and farm loans with higher informal debt-to-income ratios (DTI).

Shares of Household Loan Purposes and DTI Ratios for Informal Loans, 2023 (In percent)



The pandemic changed the distribution of inequality drivers, including social insurance and assistance and internet; education, household head gender, hhd size….

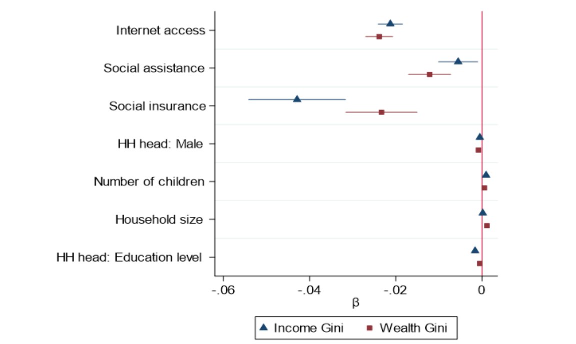
Access to Social Protection Schemes and Internet, Household Characteristics



Note: The chart on the left shows the average number of social insurance and social assistance programs each household member has, and the average number of household members have internet access; the chart on the right shows the average education level of household head, the percentage of household head who is male (=1 if male, =0 if female), the average number of household members, and the average number of children in the household.

… which led to lower inequality in the post-pandemic period compared with pre-pandemic.

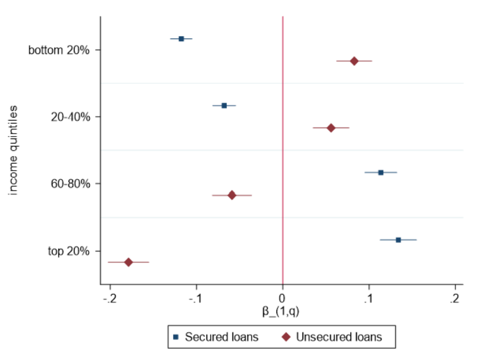
Estimated Contributions of Drivers to Inequality Change Post-Pandemic



Note: The chart plots the estimated coefficients from decomposition of inequality changes from pre- to post-pandemic. A negative coefficient suggests the change in that driver during pandemic led to a decrease in inequality indicators.

Overall household debt increased during the pandemic, but low-income households relatively increased the use of unsecured borrowing…

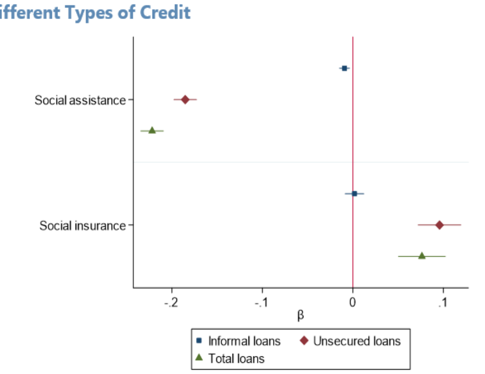
Household Holding of Different Type of Loans by Income Quintile



Note: The chart plots the estimated coefficients for the interactions between income quintile dummy and Covid dummy variables, by taking the middle-income group as the base group. A positive coefficient suggests an increase in a certain loan type in that income group post pandemic compared with the middle-income group.

…as social assistance contributed to lowering household debt and the use of informal, unsecured credit, while social insurance was associated with higher debt.

Impact of Social Assistance and Social Insurance on the Use of Different Types of Credit



Note: The chart plots the estimated coefficients for the interactions between social protection and Covid dummy variables. A positive coefficient suggests access to that type of social protection program will lead to an increase in a certain loan type post-pandemic.

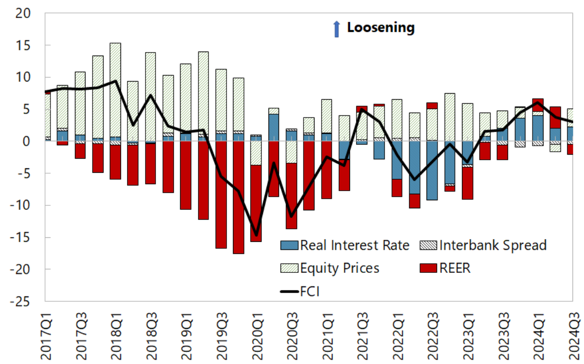
Sources: Thailand NSO (Household Socio-Economic Survey 2019, 2021, 2023) and IMF staff calculations.

9. After staying on hold for a year, the BOT recalibrated its monetary policy stance in mid-October to support further debt deleveraging. The BOT maintained the policy rate at 2.5 percent from September 2023 until mid-October 2024 amidst continued growth and the expectation of inflation gradually returning to the target range by end-2024.[8] On October 16, the BOT reduced the policy rate by 25 bps indicating that the lower policy rate is consistent with debt deleveraging given the slowdown in loan growth. Following a stronger depreciation than regional peers earlier in the year, the exchange rate rallied after June amid expectations of monetary policy easing by the Fed. Thai bond yields declined for all maturities and capital outflows reversed until September.

Thailand: Financial Conditions

Financial conditions tightened somewhat in 2024Q3,...

Financial Conditions Index

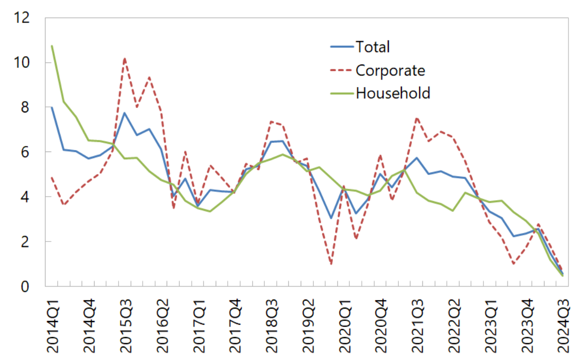


Sources: Haver Analytics; Bloomberg LP; and IMF staff calculations

...while credit growth decelerated further.

Private Sector Loans and Debt Securities

(In percent Change, y/y)

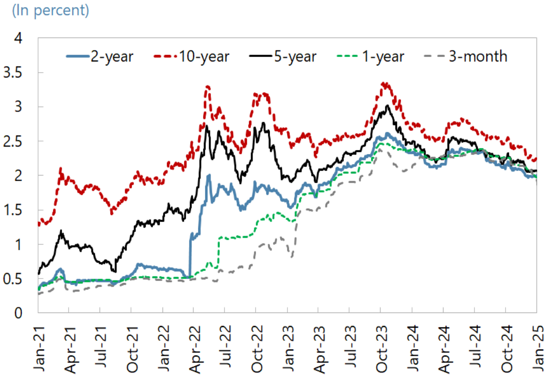


Source: Bank of Thailand.

Thai bond yields declined in 2024H2 amid portfolio inflows and following the mid-October policy rate cut.

Domestic Government Bond Yields

(In percent)

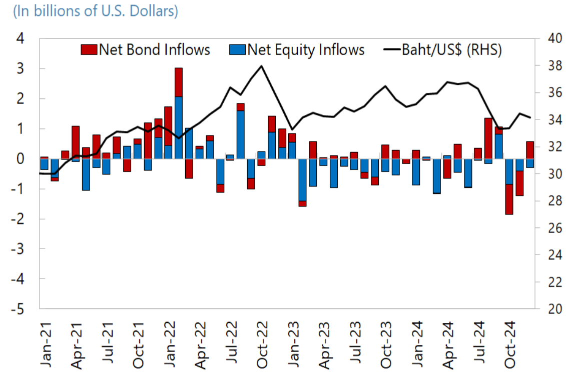


Source: Bloomberg LP.

Capital flows and the exchange rate have been largely driven by changing expectations of US interest rates.

Monthly Foreign Capital Flows

(In billions of U.S. Dollars)



Sources: Bloomberg LP and IMF staff calculations.

10. Credit growth has significantly decelerated amid elevated household debt. Household and corporate debt-to-GDP ratios marginally declined to 89.0 and 77.5 percent at end-September 2024 (from 90.8 and 79.8 percent respectively at end-March) (Figure 4). Private sector credit growth declined to 0.66 percent (y/y) as of end-October 2024. Vulnerable households and small and medium-sized enterprises (SMEs) have not fully recovered from the pandemic, leading to a

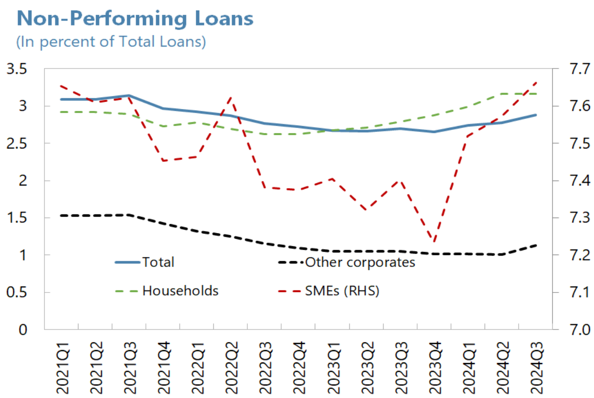
---

8 The BOT pursues flexible inflation targeting.

deterioration in their credit quality amid the full withdrawal of pandemic support measures at end-2023.[9] While NPLs for total loans in commercial banks remain relatively low at 3 percent, special mention (SM) loans are over twice as high, rising faster in some segments (e.g. SME and car loans), while collateral values are deteriorating.[10] Banks and Specialized Financial Institutions (SFIs) are well-capitalized and well-provisioned (Figure 5, Table 4).[11] However, credit quality should be closely monitored as further deteriorations could have a significant adverse impact—particularly on non-bank financial institutions (NBFIs) exposed to vulnerable borrowers (e.g. hire purchase or credit card companies)—and lead to a negative feedback loop of tighter lending and slower activity.

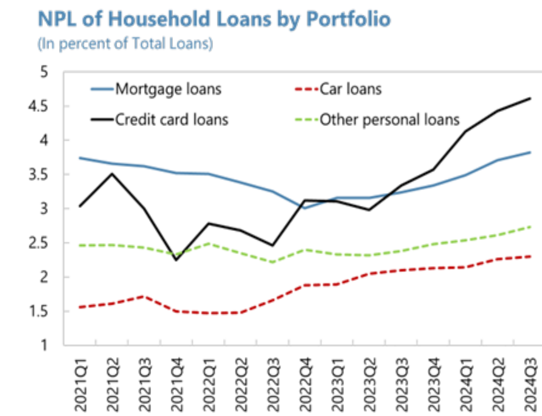
Thailand: Household Loans

Credit risk is increasing, especially from loans to households and SMEs…



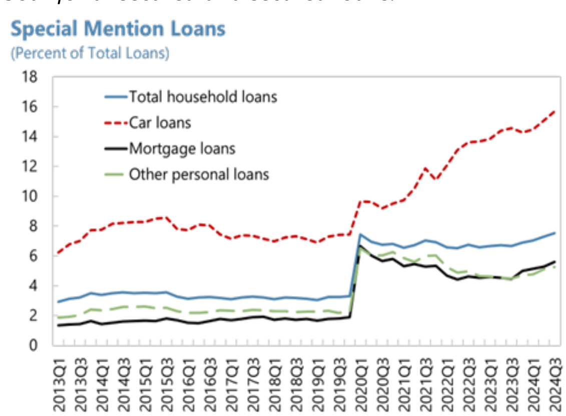
Sources: Bank of Thailand and IMF staff calculations.

…with a broad-based increase in NPLs for household loans.



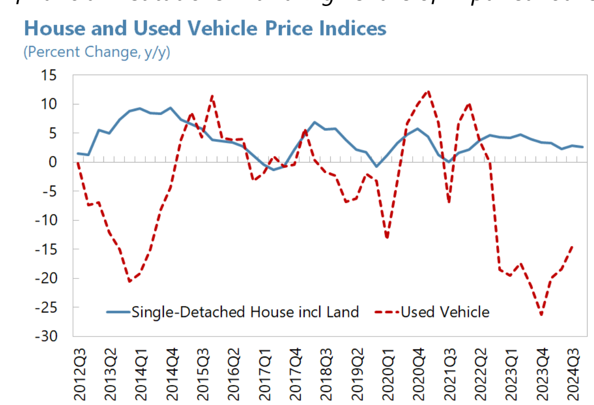
Sources: Bank of Thailand and IMF staff calculations.

Special mention household loans are also increasing, both for unsecured and secured loans.



Sources: Bank of Thailand and IMF staff calculation

As collateral values decline, this could put pressure on financial institutions with a high share of impaired loans.



Sources: Bank of Thailand and IMF staff calculations.

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[9] Commercial banks hold 38 percent of household loans, with the reminder held by SFIs (27 percent), saving cooperatives (15 percent), and credit card, leasing and personal loan companies (12 percent). 28 percent of household loans are unsecured. Corporate debt refers to nonfinancial corporations excluding SOEs.

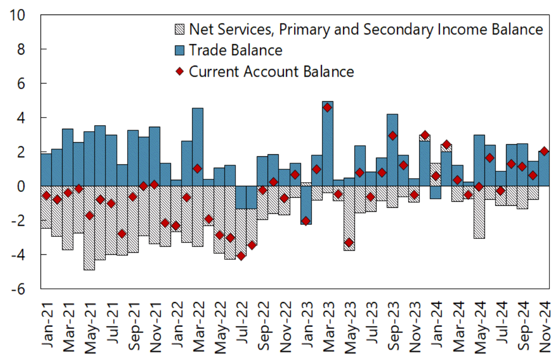
[10] SM loans are loans in default with no principal and interest repayments for 30-90 days.

[11] NPL coverage ratio for commercial banks stood at 170.3 percent in 2024Q3, (179 percent at end-2023).

11. Thailand's external position for 2024 is preliminarily estimated to be moderately stronger than warranted by fundamentals and desirable policy settings. The CA balance is projected to increase from 1.4 percent of GDP in 2023 to 1.8 percent of GDP in 2024, as the recovery in tourist arrivals and increase in transport balance offset the decline in trade balance (Figure 6). The goods balance is projected to decline in 2024 by 0.2 percent of GDP, as imports expand faster than exports. The financial account is expected to record a net outflow of 1.8 percent of GDP (2.3 percent of GDP in 2023) as the decline in portfolio investment net outflows would offset that of other investment net inflows. Foreign exchange intervention (FXI) was largely two-sided in line with capital flows, with reserves increasing from 49.4 percent of GDP in 2023 to 49.8 percent of GDP in 2024, 239.6 percent of the ARA metric (Tables 6, 7).

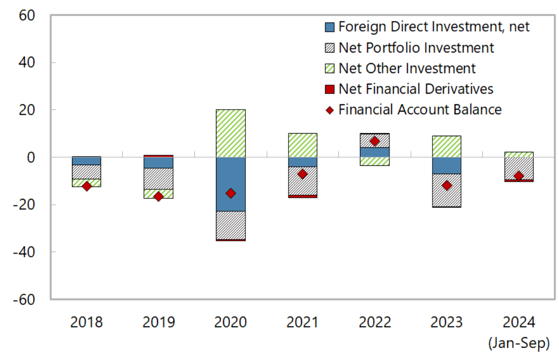
Thailand: External Sector Developments

Current Account
(In billions of U.S. Dollars)



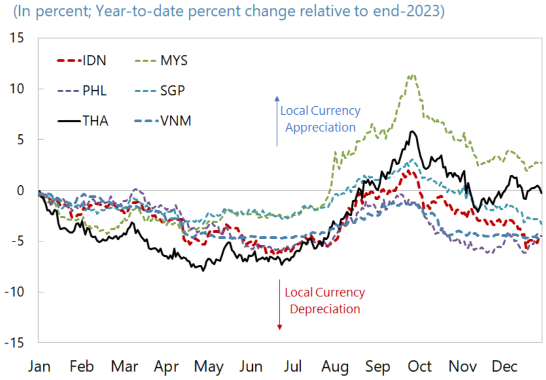
Sources: Haver Analytics; and IMF staff calculations.

Financial Account
(In billions of U.S. dollars)



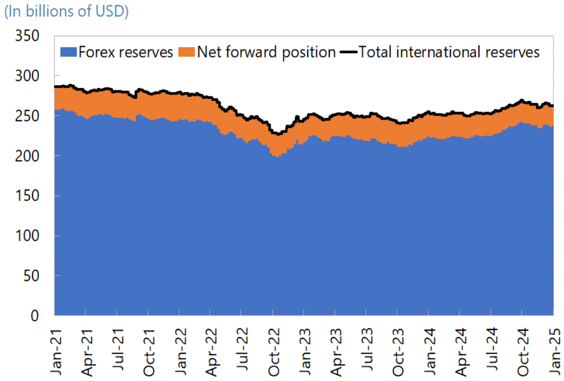
Sources: Thai authorities and IMF staff calculations.

ASEAN-6: USD Exchange Rates, 2024
(In percent; Year-to-date percent change relative to end-2023)



Sources: Bloomberg; IMF staff calculations.

International Reserves and Net Forward Position
(In billions of USD)

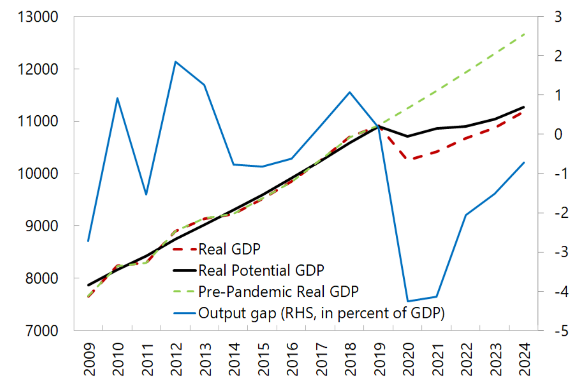


Source: Bloomberg.

OUTLOOK: NAVIGATING RISKS AND UNCERTAINTY

12. The gradual cyclical recovery is expected to continue. Growth is projected to accelerate moderately, reaching 2.7 percent in 2024 and 2.9 percent in 2025, and the output gap to close by end-2025. Staff's baseline projections reflect the fiscal stance envisaged in the budget, including additional cash transfers of 1.0 percent of GDP in FY25 and a rebound in public investment. Private consumption, supported by tourism-related activities and the cash handouts, would continue to drive growth. GDP growth would decline to 2.6 percent in 2026 as the stimulus is withdrawn and return to its potential rate estimated at around 2.7 percent in the medium term—compared with 3 percent before the pandemic (Text table 1).[12]

Thailand: Real GDP and Output Gap
(THB billions; in percent)



Source: IMF staff calculations.

Text Table 1. Thailand: Selected Economic Indicators, 2019-30

	Actual				Est.	Projections						
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Output												
Real GDP growth (%)	2.1	-6.1	1.6	2.5	1.9	2.7	2.9	2.6	2.7	2.7	2.7	2.7
Output Gap (in percent of potential output) 1/	0.2	-4.2	-4.1	-2.0	-1.5	-0.7	0.0	0.1	0.0	0.0	0.0	0.0
Employment												
Unemployment (%)	1.0	1.7	1.9	1.3	1.0	1.1	1.0	1.0	1.0	1.0	1.0	1.0
Prices												
Headline inflation (%)	0.7	-0.8	1.2	6.1	1.2	0.4	1.0	1.3	1.5	1.6	1.7	1.8
Core inflation (%)	0.5	0.3	0.2	2.5	1.3	0.6	1.1	1.2	1.1	1.3	1.4	1.5
Government finances												
GG fiscal balance (% GDP)	0.4	-4.5	-6.7	-4.5	-2.0	-2.2	-3.6	-3.2	-2.9	-2.8	-2.8	-2.8
Public debt (% GDP)	41.1	49.4	58.3	60.5	62.4	63.3	64.7	65.4	66.0	66.1	66.4	66.4
Balance of payments												
Current account (% GDP)	7.0	4.2	-2.1	-3.5	1.4	1.8	2.2	2.3	2.4	2.6	2.7	2.8
FDI (% GDP)	0.9	4.6	0.8	-0.8	1.4	1.3	1.3	1.3	1.3	1.2	1.2	1.2

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

13. The inflation outlook is muted. As growth continues to firm up in 2025, headline and core inflation would further recover and remain in the bottom half of the target range over the medium term, partly reflecting remaining price controls and subsidies.

[12] See IMF Country Report No. 22/300. Scarring from the pandemic attributed to the large hit to tourism and the increase in private debt explains the lower post-pandemic potential output.

14. Current account surpluses will moderate. The current account surplus is expected to slightly expand in 2024 as the tourism recovery continues, in spite of a declining trade surplus. Going forward, the current account balance is expected to stabilize at around 2.8 percent of GDP, below pre-pandemic levels owing to diminishing export competitiveness and subdued tourism receipts.

15. The outlook remains highly uncertain with the balance of risks tilted to the downside (Table 8).

- **Downside risks**: On the external front, an escalation of global trade tensions or deepening geoeconomic fragmentation could slow global and regional growth, disrupting Thailand's export recovery and dampening FDI inflows (Annex II). Increased commodity price volatility due to supply or demand disruptions could affect growth and lead to inflation spikes both globally and domestically, and potentially tighter-for-longer global financial conditions. The intensification of regional conflicts could disrupt trade and travel flows while more frequent extreme climate events would adversely impact growth prospects. On the domestic front, the private sector debt overhang could lead to increased defaults, impairing financial institutions' balance sheets and further decreasing credit supply.[13] Renewed political uncertainty could hinder policy implementation and undermine confidence, disrupt trade and financial flows and slow growth (Annex III).
- **Upside risks**: Stronger-than-expected growth in China, driven by stimulus measures, could bolster Thailand's economic growth. Faster-than-expected disinflation in advanced economies, leading to more frontloaded policy rate cuts by major central banks, could also reinforce the growth momentum. Thailand is benefitting from ongoing trade and FDI diversion opportunities in the near term, as a bystander partner that is currently not directly impacted by a rise in tariffs or other trade and investment barriers. Continuation of an expansionary fiscal policy beyond FY25 could result in stronger growth in the near term, at the cost of worsening medium-term prospects.

16. Risks to the inflation outlook are also tilted to the downside.

- **Downside risks**: Slower global growth could reduce demand for Thai exports and tourism flows, leading to lower income and spending domestically. Increases in cheaper imports from China could further reduce inflation. Domestically, continued or increased government interventions, such as subsidies on energy prices, could lead to deflationary pressures. Persistent under-execution of fiscal spending could lead to slower growth which, combined with the private sector debt overhang, could negatively impact demand. A sharper decline in credit growth could affect consumption and exacerbate deflationary pressures.
- **Upside risks**: Global supply chain disruptions, possibly exacerbated by geopolitical tensions or natural disasters, could lead to shortages and higher costs for goods. Heightened volatility in global energy prices could lead to higher transportation and production costs. Domestically, the current diesel price ceiling (higher than in early 2024) will add upward pressure on inflation. A

[13] The 2023 Thailand Article IV Consultation Staff Report Annex III used a Growth-at-Risk model and found that elevated household debt poses risks for near-term and medium-term growth, especially when growth is low.

larger than expected fiscal impulse on demand could further accelerate inflation amid a closing output gap. Extreme weather events could add upward pressure to food inflation.

Authorities' Views

17. The authorities broadly shared staff's assessment of the economic outlook and risks. They were however slightly more optimistic on the medium-term growth outlook. The authorities also projected inflation to gradually increase and to remain in the target range over the medium term. They shared staff's views on the main sources of risks, including from rising trade tensions, albeit considering them as more balanced.

18. The authorities broadly agreed with the external sector assessment but maintain higher current account norm estimates. They also reiterated reservations regarding the EBA approach stressing that structural and fundamental factors exert more impact on the medium-term current account compared to the exchange rate. In this regard, they agreed with staff that policies aimed at promoting investment, diminishing precautionary savings, liberalizing the services sector, and minimizing tax incentives and subsidies would facilitate external rebalancing.

POLICY DISCUSSIONS: FUTURE-PROOFING SUSTAINABLE AND INCLUSIVE GROWTH

Discussions focused on the appropriate near- and medium-term policies to support the recovery, rebuild buffers, and boost inclusive growth. Given limited remaining slack and reduced fiscal space, staff recommends a less expansionary fiscal stance in FY25, together with a further cut in the policy rate to ensure that inflation durably stays in the target range. Starting in FY26, a revenue-based fiscal consolidation should bring down public debt while spending should pivot towards investments in human and physical capital and enhanced social protection. Comprehensive and well-coordinated measures to facilitate an orderly private debt deleveraging should be deployed. Staff highlighted the criticality of structural reforms to boost productivity and foster more equitable growth. The authorities have broadly agreed with and made steady progress in implementing previous Article IV recommendations (Table 9).

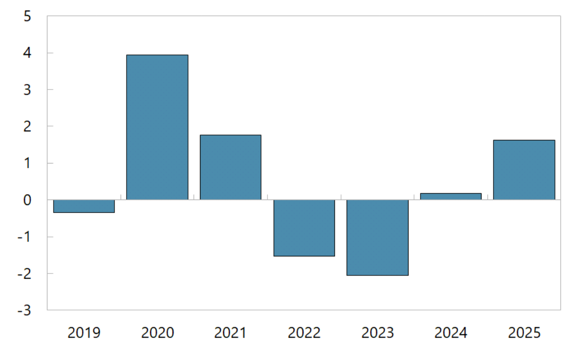
A. Fiscal Policy: Rebuilding Buffers and Boosting Productivity

19. Thailand's fiscal policy is turning expansionary while fiscal space is narrowing. The FY25 budget projects a 3.6 percent of GDP general government deficit, which would result in a fiscal impulse of 1.6 percent of GDP. The budget reflects a 12.4 percent increase in capital spending compared to the FY24 budget (0.3 percent of GDP) and includes THB 188 billion (1.0 percent of GDP) for additional cash transfers.[14]

[14] The FY25 Budget envisages a sharp increase in goods and services spending (44 percent compared to FY24 budget). The authorities have clarified that this is because planned cash transfers were accounted under this item. Nonetheless, staff projections in Table 3 do not reflect a large increase in goods and services spending as the cash transfers are separately accounted for.

The FY26 budget bill envisages a general government deficit of 3.2 percent of GDP, after which it is projected to gradually decline to 2.8 percent of GDP. As a result, public debt would rise to 66 percent of GDP and remain elevated. Costs of addressing population aging and facilitating climate transition would further increase spending needs. While Thailand is assessed to have some fiscal space, the risk of debt stress is now moderate given the debt trajectory and elevated gross financing needs (Annex IV).

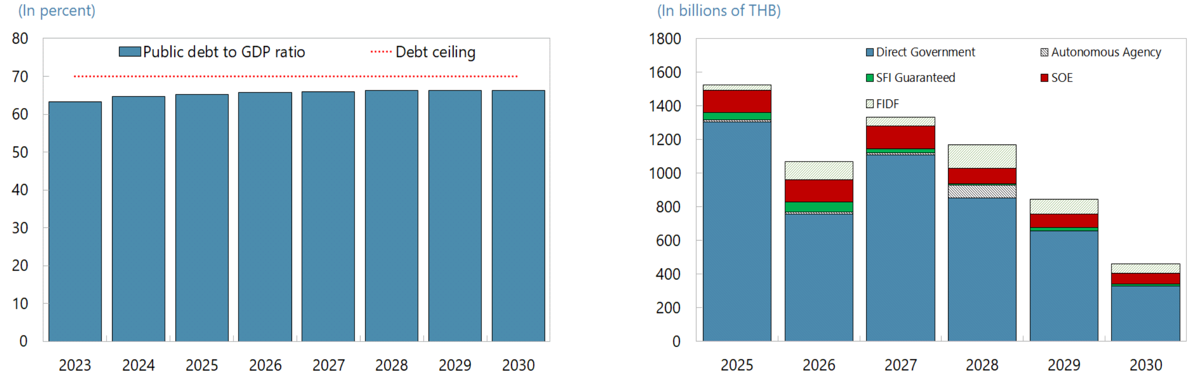
Thailand: Fiscal Impulse
(In percent of GDP)



Source: IMF staff estimates.
Note: Fiscal impulse measured by the change in cyclically adjusted primary balance divided by potential GDP.

Thailand: Public Debt

Public Debt to GDP (In percent) — **Maturing Public Debt** (In billions of THB)



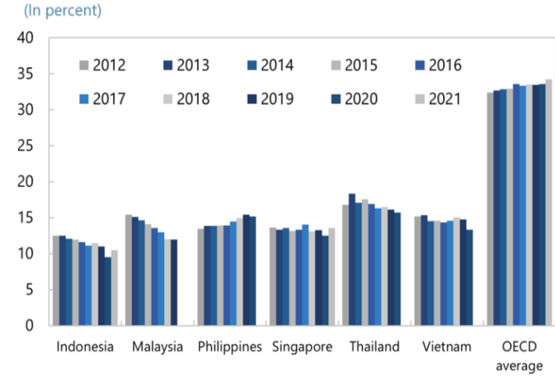
Sources: Thai Public Debt Management Office and IMF staff calculations.

Sources: Thai Public Debt Management Office and IMF staff calculations.

20. Staff recommends recalibrating the fiscal stance in FY25. Staff welcomes the scaled-down and better-targeted transfers in FY24. For FY25, staff considers that a less expansive fiscal stance—aiming at a lower overall deficit (by around ½ percentage points of GDP)—would better balance the need to provide fiscal impulse while preserving fiscal space. Alternatively, the additional cash transfers could be better targeted to the most vulnerable and resources redirected toward productivity-enhancing investments in human and physical capital. These measures would provide stronger impetus for

Thailand: Tax Revenue Comparison with Peers

ASEAN-6: Tax to GDP Ratio
(In percent)



Sources: OECD Data Archive and IMF World Revenue Longitudinal Data (WoRLD) Database.

inclusive growth within the same fiscal envelope, and help reduce the public debt-to-GDP ratio. (Text Table 3, Annex III).

21. Starting in FY26, staff recommends a tighter fiscal stance than envisaged by the authorities to reduce public debt below 60 percent of GDP (Text table 3). Staff calls for a growth-friendly, revenue-based consolidation to restore fiscal space, together with productivity-enhancing improvements in spending composition, including:

- *Strengthening revenue mobilization.* The authorities started collecting VAT on online services and low-value goods imports, but yields are relatively small. Staff advises to gradually increase the VAT rate from 7 to 10 percent (statutory rate), rationalize tax exemptions for personal and corporate income taxes, and streamline investment tax incentives.[15] In this regard, the authorities' decision to adopt the Global Minimum Tax (OECD Pillar II) is a step in the right direction. Additional revenues from this tax should be channeled to the general budget and not earmarked for specific uses. Measures to strengthen support for the most vulnerable should accompany the tax reforms to address potential distributional impacts.[16]

Text Table 2. Thailand: Cost of Energy Subsidies

(In percent of GDP)

Subsidies	FY2023	FY2024
Diesel price cap (Oil Fund)	-0.3	0.4
LPG price cap (Oil Fund)	0.2	0.2
Electricity tariff cap (EGAT)	0.6	-0.1
Excise tax cut (MOF)	0.5	0.1
Total (% GDP)	1.0	0.6

Sources: Thailand authorities and IMF staff estimates.
Note: Fuel cap subsidies are estimated by multiplying Oil Fund levies by respective product sales (as of Sep 2024). Cost of electricity tariff cap is estimated by change in EGAT's accrued revenues. Cost of excise tax cut is estimated by effective tax cut multiplied by sales.

- *Phasing out energy subsidies.*[17] Staff welcomes the elimination of the excise tax cut on fuel products and recommends gradually phasing out remaining subsidies while providing targeted support for the most vulnerable. Staff estimates indicate that the implicit costs of energy subsidies amounted to about 0.6 percent of GDP in FY24 (Text Table 2).

- *Addressing gaps in social protection.* The government's focus on addressing poverty and inequality is welcome. Thailand's social protection spending is lower relative to peers, with gaps in coverage and inadequacy of certain benefits (Annex V).[18] Staff recommends permanent reforms to strengthen the social protection floor by raising the Old Age Allowance (OAA), while

[15] See IMF Country Report No. 24//35.

[16] The authorities indicated that they are considering a Negative Income Tax (NIT), a subsidy with an incremental tax refund associated with incomes earned up to a certain threshold. However, the timeline and next steps are uncertain.

[17] The authorities continue to subsidize fuel and electricity through price caps, which can result in liabilities for the Oil Fund and the Electricity Generating Authority of Thailand (EGAT) when world oil prices are higher than domestic ones.

[18] ILO (2024) notes that Thailand spent 8.5 percent of GDP on social protection in 2022, lower than the 11.8 percent average for the Asia Pacific region. To guarantee a basic level of social protection for vulnerable groups, social protection spending would have to increase by 0.8 percent of GDP (Annex V).

improving targeting and rationalizing other schemes such as the State Welfare Card (SWC).[19] Staff advises against minimum wage hikes to preserve competitiveness, and instead encourages investing in human capital to improve living standards in a more effective and sustainable way.

- *Scaling-up public investments*. Public investments in human, digital, and physical infrastructure are essential to boost productivity and sustain growth, together with reforms to address structural gaps. Staff welcomes the authorities' plans to increase public spending on education and training, and enhance its efficiency to reskill/upskill Thailand's labor force, which would facilitate reallocating resources to more productive services sectors. Planned public investments in critical ICT infrastructure will enable the authorities to enhance export sophistication by leveraging digitalization, and crowd in private investments.

Text Table 3. Thailand: Alternative Fiscal Stance (Staff Recommendations)

	Projections				
	FY25	FY26	FY27	FY28	FY29
Baseline Scenario					
Revenue (% of GDP)	20.8	20.6	20.8	20.9	20.9
Expenditures (% of GDP)	24.4	23.8	23.7	23.7	23.7
Overall balance (% of GDP)	-3.6	-3.2	-2.9	-2.8	-2.8
Public debt (% of GDP)	64.7	65.4	66.0	66.1	66.4
Alternative Scenario (staff recommendations)					
Revenue (% of GDP)	20.8	22.2	23.0	23.2	23.6
VAT rate increase		1.2	1.8	1.8	1.8
Rationalizing tax exemptions (CIT, PIT)		0.3	0.3	0.3	0.5
Base broadening (NIT) and other administrative measures		0.1	0.1	0.2	0.4
Expenditure (% of GDP)	24.3	24.6	24.4	24.4	24.5
Additional spendings on					
Population aging/social protection		0.1	0.1	0.1	0.1
Human capital		0.3	0.3	0.3	0.3
Infrastructure		0.3	0.3	0.3	0.4
Overall balance (% of GDP)	-3.5	-2.4	-1.4	-1.2	-0.9
Public debt (% of GDP)	64.1	64.1	63.1	61.7	60.0
Real output increase compared to the baseline (%)	0.7	0.3	0.0	0.0	0.0

Source: IMF staff estimates.
Note: The illustrative alternative scenario reflects two deviations from the baseline. For FY25, it includes a change in spending composition, replacing part of the planned cash transfers (0.8 percent of GDP) with investments in infrastructure and education, the impact of which is simulated using the QIPF model (see Annex III). For FY26 onward, it incorporates the estimated impact of staff's medium-term policy recommendations, including tax measures and additional spending. The impact of the proposed spending reallocation on the debt-to-GDP ratio in FY25 is similar to that of reducing the deficit to 3.1 percent of GDP, due to a larger output.

[19] World Bank (2023) estimates that increasing the OAA benefits to THB 2,000 for the bottom 40 percent households, while keeping them unchanged for the top 60 would reduce poverty by 2.2 percentage points at a cost of 0.5 percent of GDP. Improved targeting of the SWC could reduce poverty by an additional 0.5 percentage point. This would more than offset the negative distributional impact of raising VAT and eliminating exemptions, which could raise poverty by 1.5 pps. Streamlining in-kind SWC allowances and reforming civil service pensions could yield further savings.

22. Thailand's fiscal rules can be further strengthened to support debt sustainability. Thailand's fiscal rules framework demonstrated flexibility during the pandemic as the debt ceiling was raised from 60 to 70 percent of GDP. However, with public debt continuing to rise post-pandemic close to the new ceiling, there is scope to make the fiscal rules more robust and binding. Staff recommends a risk-based rules approach, whereby a more ambitious deficit target embedded in the Medium-term Fiscal Framework (MTFF) is triggered when the debt level is close to the ceiling. A clearly-defined escape clause, requiring to define a medium-term path to return below the ceiling could also improve credibility.[20] Streamlining the other fiscal rules would enhance effectiveness and accountability (See Selected Issues Paper).

Thailand: Fiscal Rules

Rules	Ratio/Threshold	Set by
Public debt	Not to exceed 70% of GDP (raised from 60% in 2021)	FPC
Government debt service	Not to exceed 35% of the annual revenue	FPC
Foreign currency public debt	Not to exceed 10% of the total public debt	FPC
Foreign currency public debt service	Not to exceed 5% of the exports of goods and services	FPC
Deficit borrowing	Not to exceed 20% of the expenditure budget and 80% of the budget for principal repayments	Law (PDMA)
Capital expenditure	No less than 20% of the annual budget and not less than the fiscal year budget deficit	Law (FRA)

Sources: World Bank (2023), and IMF (2022).
Notes: PDMA: Public Debt Management Act; FRA: Fiscal Responsibility Act. The FPC also sets numerical limits on the share of the central contingency fund (2-3.5 percent of total budget), principal repayments (2.5-4.0 percent), and new multi-year commitment (less than 10 percent of total budget). Additionally, FRA Section 28 indicates that the stock of fiscal liability for expenses or revenue loss from compensation arising from quasi-fiscal activities should not exceed 30 percent of total budget. All ratios/thresholds and numerical limits effective until end-November, 2024.

23. Staff recommends strengthening fiscal risk monitoring and improving the transparency of fiscal data. Quasi-fiscal operations such as subsidizing fuel products and electricity through off-budget price caps weaken spending controls and can lead to debt surprises.[21] Staff advises to bring all remaining energy subsidies on budget.

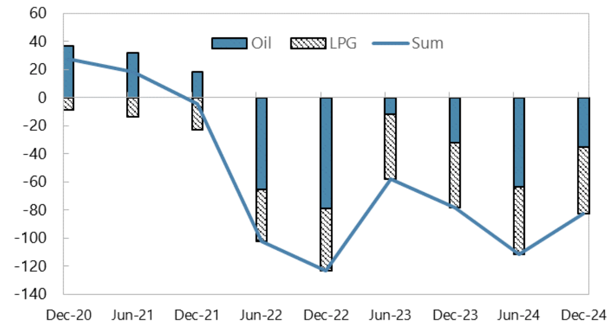
[20] APD Departmental Paper: Upgrading Fiscal Frameworks in Asia-Pacific, 2024.

[21] While the debt issued by these subsidy providers (i.e., the Oil Fund or the EGAT) is captured as public debt, the costs absorbed by these entities or other suppliers (as arrears) may not be accounted upfront. This can lead to unexpected debt increases if costs remain unfavorable and prices are not adjusted flexibly, resulting in additional debt issuance by these entities or government intervention to compensate for the expenses or lost revenues.

Fiscal risks from SOEs and quasi-fiscal operations of SFIs should also be closely monitored. While fiscal data provision is broadly adequate, there are areas for improvement. Specifically, staff calls for clarifying discrepancies and reconciliation items between the national budget-based figures and the government finance statistics (GFS), and expediting the release of SOE operations data in GFS format, which could reduce stock-flow discrepancies on public debt projections (see Annex VI).

Thailand: Oil Fund Net Financial Position

(In billions of THB)



Source: Thailand Oil Fund Office.

Authorities' Views

24. The authorities broadly agreed with staff's recommendations. They concurred with staff's views on the narrowing fiscal space and the need for fiscal consolidation to reduce public debt. They also recognized the importance of prioritizing investments in human and physical capital over cash transfers. However, they indicated that revising the FY25 budget would be challenging at this stage. They noted that the budget already envisages a significant increase in capital spending, in line with staff's recommendations. In the medium term, the authorities reaffirmed their commitment to fiscal consolidation. They indicated that the forthcoming MTFF for FY26-29 will ensure that fiscal policy aligns with both economic and social priorities, including by enhancing the social protection system through the use of big data. On revenue mobilization, they also highlighted ongoing work on a Tax Reform Plan aimed at modernizing the tax system, enhancing revenue, promoting fairness, and improving competitiveness, to strengthen the revenue base.

B. Monetary and Exchange Rate Policy: Managing Policy Trade-Offs

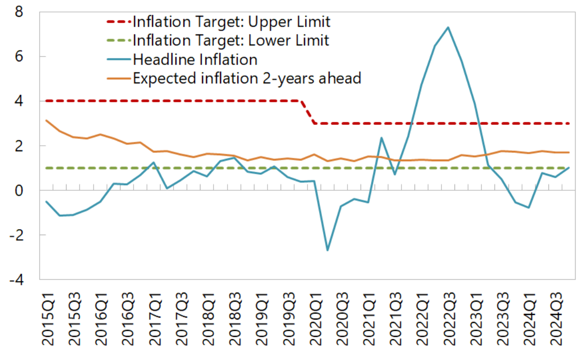
25. Staff welcomes the BOT's decision to cut the policy rate in October and sees scope to loosen the monetary policy stance further. Staff's assessment suggests that a further reduction in the policy rate would improve the balance of risks for both growth and inflation, considering that financial conditions have turned restrictive while there is remaining slack in the economy. The lower interest rates would translate into improvements in borrowers' debt-servicing capacity with little risk of additional leverage amid plummetting credit growth. Given remaining high uncertainty and two-sided inflation risks, the BOT should remain ready to adjust its stance in a data and outlook-dependent manner, with the flexible exchange rate continuing to act as a shock absorber.

Thailand: Inflation and Output Gap

Inflation expectations remain well-anchored....

Headline Inflation

(In percent)

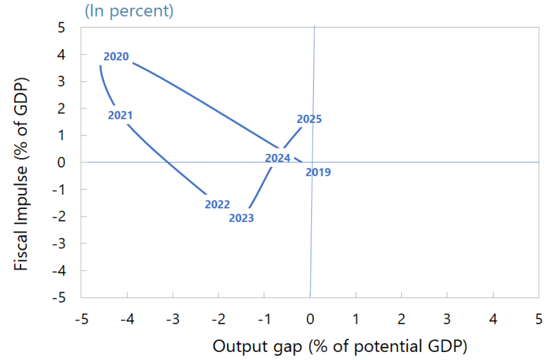


Sources: Haver Analytics; Consensus Forecast; IMF Staff calculations.

....and the output gap is projected to close at end-2025 under current policies.

Output Gap and Fiscal Stance

(In percent)

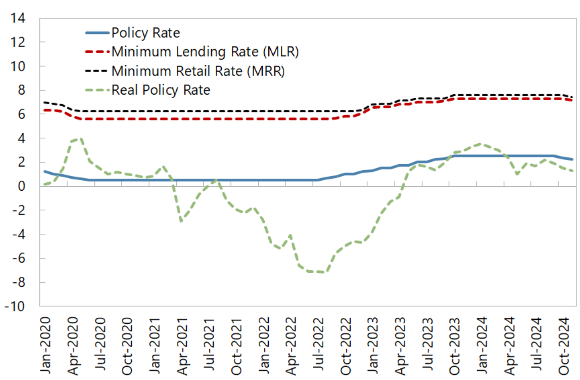


Sources: Haver Analytics; IMF Staff estimates.

Interest rates of commercial banks remain stable, aligning with the policy rate.

Interest Rates

(In percent)

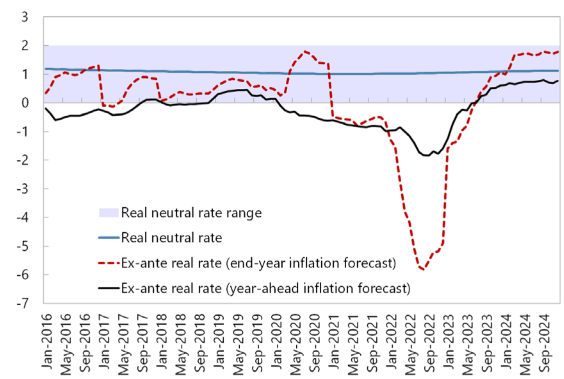


Sources: Haver Analytics; IMF Staff calculations.
Notes: Real policy rate is calculated as the difference between the nominal policy rate and annual headline inflation.

Elevated ex-ante real interest rates suggest there is scope for a further reduction in the policy rate.

Real Neutral Rate and Ex-ante Real Policy Rates

(In percent)



Sources: Haver Analytics; IMF Staff calculations.
Notes: Real neutral rate estimates rely on a state-space model where the natural rate is a state variable that follows a random walk. The trend of the real neutral rate is obtained via a Hamilton filter. The estimation relies on money market rates, and average annual core and headline CPI inflation rates.

Text Table 4. Thailand: Downside Risk Scenario and Policy Responses

	Projections				
	2025	2026	2027	2028	2029
Real GDP growth (%)					
Adverse Scenario	0.7	3.4	3.2	3.1	2.9
Adverse Scenario with FXI	0.9	3.2	3.1	3.0	2.9
Adverse Scenario with Fiscal Stimulus	1.7	2.3	3.3	3.1	2.9
General Government Overall Balance (% of GDP)					
Adverse Scenario	-3.5	-2.8	-2.7	-2.7	-2.7
Adverse Scenario with FXI	-3.5	-2.8	-2.7	-2.7	-2.7
Adverse Scenario with Fiscal Stimulus	-5.3	-3.0	-2.7	-2.6	-2.6
Public Debt (% of GDP)					
Adverse Scenario	65.9	66.8	67.1	67.1	67.3
Adverse Scenario with FXI	65.8	66.6	66.8	66.7	66.8
Adverse Scenario with Fiscal Stimulus	67.1	68.7	69.0	68.9	69.2
CPI Inflation (%)					
Adverse Scenario	1.1	1.7	1.9	2.0	2.0
Adverse Scenario with FXI	1.0	1.5	1.7	1.8	1.8
Adverse Scenario with Fiscal Stimulus	1.2	1.8	2.0	2.0	2.0

Sources: IMF Staff estimates.
Notes: Fiscal balance and public debt projections refer to Fiscal Years.

26. **Central bank independence with clear communication of policy moves is essential to maintaining the credibility and effectiveness of monetary policy**. Central bank independence helps ensure that monetary policy focuses on achieving mandated long-term goals, rather than short-term political gains, and therefore is key to ensuring policy credibility, anchoring inflation expectations, and supporting financial stability (Annex I). In this context, staff advises to consider reviewing the inflation target at longer intervals than one year, for example as a part of a regular medium-term review of the entire monetary

policy framework. Current annual revisions could undermine central bank credibility as an anchor for inflation expectations.

27. Staff highlighted the importance of effective policy coordination and adequate buffers in a shock-prone and uncertain environment. Staff presented an adverse scenario assuming a spike in policy uncertainty that impairs consumer confidence, reduces tourist arrivals, induces capital outflows, and lowers productivity. The combined effect of these shocks leads to a stagflationary environment while the currency depreciates sharply (Text Table 4, Annex III).[22] In this scenario, as FX markets turn shallow, FXI can ease the inflation-output tradeoff by reducing the uncovered interest parity (UIP) premium and limiting the extent of the depreciation. This would allow monetary policy to become countercyclical and support economic activity, thus better containing the debt-to-GDP ratio relative to the other scenarios. A fiscal expansion would be more effective in stabilizing demand in the short term and supporting growth, but would also lead to inflationary pressures, a tighter monetary policy response, and raise fiscal risks by pushing public debt-to-GDP ratio close to the ceiling.[23] The simulations highlight the importance of maintaining appropriate fiscal and FX buffers to effectively address future shocks.

28. In line with the Integrated Policy Framework (IPF), the complementary use of FXI might alleviate policy trade-offs by smoothing destabilizing premia when the FX market becomes dysfunctional due to large non-fundamental shocks.[24] However, in the case of Thailand, the time-varying nature of IPF frictions and the nonlinear effects of shocks make such situations difficult to identify. Relatedly, another challenge is that decisions on FXI are made at very high frequency, making it difficult to assess their effectiveness ex-post with low-frequency data.[25] Staff reiterated that the provision of FXI data, with appropriate safeguards to maintain confidentiality as well time lags, would help better assess the rationale and effects of FXI.

29. Further liberalization of the FX ecosystem and other measures to enhance FX market depth would limit the need for FXI over time. Staff welcomes the authorities' efforts to further liberalize the financial account, including the expansion of the scope of the Non-Resident Qualified Company (NRQC) scheme.[26] Staff also recommends phasing out the remaining capital flow management (CFMs) measures on nonresident baht accounts, including the 2021 tightening in the access limits for non-NQRC investors.

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[22] Inflation is contained across the alternative scenarios because of the endogenous monetary policy response that is embedded in the model.

[23] The distance to the debt ceiling and its impact on market expectations and the economy are not explicitly accounted for in the simulations.

[24] IMF (2023). Integrated Policy Framework—Principles for the Use of Foreign Exchange Intervention. Policy Papers, Volume 2023 (Issue 061).

[25] Delechat, C., Rawat, U., & Stepanyan, A. (2024). Navigating External Shocks in Southeast Asia's Emerging Markets: Key Lessons and Challenges in Applying the IMF's Integrated Policy Framework. Departmental Papers, Volume 2024 (Issue 007).

[26] The NRQC scheme allows qualified investors better access to Thai baht liquidity without restrictions on Thai baht accounts.

Authorities' Views

30. The BOT agreed with staff that monetary policy going forward will continue to be outlook-dependent, which may evolve depending upon incoming data, while emphasizing that the current policy stance remains broadly neutral. BOT indicated that the October policy rate cut was a recalibration in response to the evolving balance of risks and outlook. They view the current policy rate as appropriate to support economic growth close to its potential, facilitate an orderly deleveraging process, and avoid the accumulation of long-term financial imbalances. The authorities stressed that the low inflation in 2024 has been primarily driven by supply and structural factors that are largely unaffected by the policy rate, while inflation expectations have remained well anchored. They noted that policy recommendations stemming from model-based estimates of the neutral rate should be approached with caution given the imprecision of the latter. They concurred with staff that central bank independence is key to an effective and credible monetary policy.

31. The authorities reiterated their commitment to exchange rate flexibility while highlighting that FXI and CFMs helped Thailand as a small open economy to cope with the shock-prone global environment. They agreed that exchange rate flexibility helps promote FX-hedging market development and plan to further relax restrictions. The authorities noted that in addition to heightened global uncertainty, market perception of the baht being highly correlated with gold prices amplified the baht's volatility and, at times, disrupted orderly market functioning. In this context, they welcome the IMF's IPF work and the recognition of FXI as part of the complementary policy toolkit. They reiterated that FXI data are highly market-sensitive, and that the misinterpretation of FXI data might potentially undermine the central bank's credibility in maintaining exchange rate stability.

C. Financial Sector Policies: Securing Orderly Private Deleveraging

32. Enhanced coordination among relevant financial supervisors is necessary to improve financial stability risks monitoring and prevent regulatory leakage. Financial institutions' supervision is split between the BOT and other government ministries. While systemic financial stability risks appear to be still contained, relevant authorities should closely monitor SFIs and NBFIs with the largest exposures to vulnerable borrowers/sectors, and where SM loans and NPLs are increasing fast. Staff welcomes ongoing efforts to improve cooperation among the various supervisors, draft legislations to regulate hire-purchase companies, and enhance the regulatory framework for savings cooperatives and credit unions, which should be accelerated to prevent leakages. A centralized and uniform supervision of financial institutions supported by adequate legislation would be important to ensure effective risk monitoring—through enhanced analysis and stress-testing of commercial banks, SFIs, and other NBFIs. The BOT's crisis resolution framework should also be further enhanced in line with FSAP and recent TA recommendations (Table 10).[27]

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[27]The June 2024 TA mission focused on the effectiveness of the deposit insurer to protect depositors in a bank failure, the safety net response to deal with failures of non-systemic banks and inter-agency crisis cooperation and

(continued)

33. Addressing the persistent household debt overhang requires a resolute, well-coordinated and comprehensive approach. The international experience presented in the Selected Issues Paper suggests that a multipronged approach combining both ex post measures to address the existing debt stock and ex ante measures to prevent new unsustainable debt buildup are likely to work best. In this regard, staff welcomes the authorities' steps to implement responsible lending guidelines, improve financial literacy and provide debt restructuring options to viable borrowers. Simultaneous and resolute implementation of personal debt workouts for non-viable borrowers and facilitated bankruptcy proceedings are also essential to address the existing household debt stock, while allowing impaired borrowers a "fresh start" in the future. Specific policy recommendations include:

- *Strengthen personal debt workout programs for households with prolonged debt issues.* The authorities should further develop the personal debtor rehabilitation program, insolvency arrangements, and a socially acceptable and relatively simple personal bankruptcy mechanism. Debt restructurings should avoid rolling over unviable loans thus creating moral hazard and the authorities should target the most vulnerable households and engage with the private sector to minimize the potential fiscal cost of deleveraging measures. Staff welcomes the new debt restructuring program launched in December 2024, which focuses on household and SME viable debt, and is designed to limit moral hazard.[28] Staff however pointed to international experience where similar programs' fiscal cost was reduced through greater private sector participation.
- *Implement responsible lending guidelines and further develop the prudential policy toolkit.* Staff welcomes the responsible lending guidelines implemented by the BOT since January 2024 which have strengthened consumer protection and allowed to restructure over 6 million accounts. The BOT is working on introducing a broad-based debt service-to-income ratio, and has developed a macroprudential policy toolkit that could be deployed once credit recovers. Other measures to prevent excessive leverage buildup include reinforcing loan-to-value ratios, implementing risk-informed pricing, strengthening documentation requirements and verification for new credit, and enhancing credit information systems. These policies should cover all financial institutions to ensure a level-playing field, orderly deleveraging and prevent unsustainable debt buildup.
- *Education and financial literacy enhancement,* are necessary tools to prevent over-indebtedness. Staff welcomes ongoing efforts to collaborate with education ministries to improve financial education.

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preparedness. Key recommendations include addressing remaining gaps in the resolution framework and enhancing the role of the deposit protection agency, and expanding the safety net for cooperatives and SFIs.

[28] The "Khun Soo, Rao Chuay" (You Fight, We Help) retail debt restructuring project initiated in December 2024 aims at alleviating the debt burden of households and SMEs. Eligible loans are capped at a relatively small amount and can be overdue for more than 30 days but no longer than a year. Under the program debt payments are reduced with interest payments suspended for up to three years. All [the installments will be paid wholly to the principal and all] retained interest is waived at the end of the 3 years if reduced payments have been made on time. The program is funded by a reduction of 50 percent of the Financial Institution Development Fund fee for banks (from 0.46 percent of deposits to 0.23 percent).

34. The authorities have made progress in promoting innovation and competition in digital finance and in enhancing financial institutions' ability to support the climate transition. The authorities are in the process of reviewing license applications for virtual banks, which should start operations in 2026 and would help reduce the costs of providing financial services to SMEs. They have also successfully introduced regulatory sandboxes related to digital asset applications for programmable payments in payment systems and financial markets.[29] Staff welcomes the coordination among various stakeholders to initiate an open data roadmap as a necessary step toward expanding data coverage and enhancing the benefits of consumer data for financial inclusion. Finally, the authorities have made significant progress in enhancing financial institutions' ability to provide financial products and services to support the climate transition through the gradual voluntary application of Thailand's Green Taxonomy Phase 1 and the development of Phase 2.[30]

35. The authorities should continue strengthening the AML/CFT framework. Thailand's 2017 mutual evaluation report notes significant risks from crimes, including drug trafficking, corruption, and tax evasion, and identifies deficiencies in the effectiveness of its AML/CFT framework. Based on the latest report of the Asia-Pacific Group on Money Laundering (2023), Thailand has advanced in addressing technical compliance deficiencies: the legal framework is now compliant or largely compliant with 33 out of 40 recommendations. Still, it remains partially compliant with six recommendations (including the one on transparency of beneficial ownership of legal persons and arrangements) and non-compliant with one recommendation (customer due diligence for designated non-financial businesses and professions). The authorities should also accelerate efforts to amend key legislation, including the ownership requirements in the Anti-Money Laundering Act, and improve the application of AML/CFT preventive controls through risk-based supervision.

Authorities' Views

36. The authorities agreed that financial stability risks remain contained. They view the slowdown in credit growth as the result of a combination of demand, supply, debt prepayment, and market conditions rather than an across-the-board tightening in credit standards. They consider that the rise in NPLs and SM loans was to be expected given the end of forbearance measures and that it has been relatively slow. They pointed at the various standing working groups and committees in charge of financial stability monitoring and policies, including joint stress-testing exercises, and noted staff's recommendation on legislation that will enhance supervision on unregulated sectors, such as hire-purchase and leasing companies, to minimize the potential leakages when implementing relevant policies.

37. The authorities shared staff's views on the importance of addressing the household debt overhang. They, however, expect deleveraging to continue given the cyclical output recovery and credit slowdown, and cautioned that aiming at a larger and faster deleveraging could be disorderly, agreeing with staff on the importance of avoiding moral hazard. They pointed at the

[29] BOT's Programmable Payment Sandbox and SEC's Digital Asset Regulatory Sandbox.

[30] Phase 1 focused on energy and transportation sectors. Phase 2 will focus on manufacturing, agriculture, real estate and construction, and waste management sectors.

significant deleveraging efforts already made, while agreeing on the importance of facilitating personal bankruptcy and debt rehabilitation processes. On macro-prudential policies, the BOT clarified that it already has the authority to implement various tools, including DSIBs and CCyB capital surcharge (set at 0 percent at the moment), as well as LCR and LTV ratio, and had been working on the DSR. It would be ready to deploy these tools once credit growth recovers.

D. Structural Policies

38. A multipronged structural reforms package would raise productivity and boost growth. Benchmarking Thailand against regional peers and OECD countries reveals that structural gaps are particularly large in trade and FDI openness, governance, business regulation, vulnerable employment, and human development. Addressing these gaps could yield sizable growth dividends, particularly when complementary reforms are combined (Annex VII).[31] Open and transparent mechanisms to assess the reforms' costs and benefits and monitor progress, while identifying a single lead agency in the various reform areas for accountability, could help enhance implementation effectiveness. Specific recommendations include:

- **Facilitate competition and openness**. Thailand's primary and services sectors remain restrictive to foreign investments, with more stringent foreign equity restrictions and FDI screening and approval process than in other ASEAN countries (OECD, 2021). Streamlining business regulations and further liberalizing FDI restrictions would facilitate competition and promote investments.[32] The authorities are also pursuing extensive new bilateral and multilateral Free Trade Agreements (FTAs) to diversify export markets.
- **Increase export sophistication by leveraging digitalization**. Expanding public R&D and investments in IT and digital infrastructure would help the manufacturing base rise up the value chain and promote export sophistication. The authorities are promoting investments to transition the automotive industry towards electric and hybrid vehicles and developing ICT industries to strengthen linkages with existing production, to boost SMEs' participation in the supply chain. These strategies are complemented by infrastructure development including in the Eastern Economic Corridor (EEC) and the Special Economic Corridors (SECs).
- **Upskill the labor force**. Public spending on education needs to increase, with a strong focus on STEM-related areas. The authorities should scale-up ongoing efforts to enhance labor productivity by transforming higher education and vocational training programs.
- **Strengthen governance**. The authorities need to continue to advance on the governance reform agenda and address weaknesses in contract enforcement and corruption (Box 1).

[31] The exercise follows the methodology introduced in IMF Country Report No. 24/271.

[32] Staff's analysis finds that two channels, services imports and FDI, are particularly relevant for knowledge spillovers and technology diffusion in the context of ongoing green and digital transformations (see IMF 2024).

Box 1. Thailand: Enhancing Governance

Corruption in Thailand is perceived to be pervasive and is considered a macro-critical constraint to enhanced economic growth. It includes administrative corruption (e.g. procurement, licensing), abuse of power and grand corruption. Delays in courts affect the efficiency and effectiveness of contract enforcement and property rights' protection.

Corruption perceptions in Thailand have remained high in spite of continuous enhancements in the anti-corruption legal framework and institutions. The government enacted the Organic Act on Anti-Corruption (2018) and the Public Procurement Act (2017). A number of anti-corruption institutions have been created, including the Office of the National Anti-Corruption Commission (NACC).[1] A separate central Anti-Corruption Court had been established in 2016 to expedite the handling of corruption cases. Nonetheless, Transparency International's Corruption Perception Index (CPI) of Thailand has hovered around 35-38 since 2012 (0 to 100 scale, 0 being lowest corruption perceptions).

Efforts are being made to address corruption risks in public procurement. In FY23, 51 percent of total corruption cases were in the public procurement area. To address this, the authorities have taken steps to improve transparency in procurement contracts using the government's e-platform and publishing the winning bids information online since 2022. In addition, the Public Procurement Act has introduced the Integrity Pact, which aims at ensuring transparency by allowing independent observers to monitor the procurement process. However, this pact is not mandatory, and the scope of the procurement process that the observers can monitor is sometimes limited (e.g. for PPPs).

Active participation of civil society organizations (CSO) is an important element in anti-corruption efforts. Some CSOs are dedicated to raising public awareness, and aim at actively involving citizens in anti-corruption efforts. They note that the government should focus on addressing the sources of corruption, including by reducing opportunities for bribery (corruption prevention), improving whistleblowing mechanisms, and increasing transparency in government operations.

Thailand was the first country in Asia-Pacific to complete a full OECD review of the key pillars of its public integrity systems, demonstrating its commitment to investing in good governance. The OECD's main recommendations included: streamlining coordination mechanisms among anti-corruption bodies and related authorities, improving the asset declaration system for civil servants, strengthening protections for whistleblowers, and collecting and maintaining comprehensive data on corruption cases to assess enforcement trends and outcomes. The authorities have made some progress in addressing these recommendations.[2]

Ongoing government efforts to strengthen the AML/CFT framework will also contribute to broader anti-corruption efforts (See paragraph 35).

1/ Anti-corruption bodies and related authorities also includes Public Sector Anti-Corruption Commission, Office of the Civil Service Commission and Comptroller General's Department.

2/ OECD Integrity Review of Thailand (2018, 2021) and OECD Review of Thailand's Legal and Policy Framework for Fighting Foreign Bribery (2024).

- **Foster more equitable growth.** Given the increasing elderly population and a large informal sector vulnerable to shocks, further reducing inequality will likely become increasingly challenging and costly. Ensuring an adequate social protection floor for the most vulnerable could enhance resilience and mitigate distributional impacts during shocks. Additionally, expanding the coverage of social insurance to lower-income households could reduce its regressive nature and strengthen the overall social protection system. Policies to improve digital access, strengthen education, and create and enhance employment opportunities will help address the structural drivers of inequality.

- **Accelerate progress towards climate goals**. Staff welcomes the more centralized coordination on climate change policies led by the Department of Climate Change and the Environment (DCCE). Given the increasing frequency of natural disasters, investments in climate-resilient infrastructure should accelerate.[33] Achieving Thailand's ambitious mitigation goals—to reduce greenhouse emissions by 30-40 percent by 2030; reach carbon neutrality in 2050 and net zero in or before 2065—will require stepped-up efforts. Thailand has already launched a voluntary emission trading system (ETS) and introduced a carbon tax, but a more effective emission reduction mechanism is needed, comprising the mandatory ETS, carbon tax, and carbon credits.[34] To that end, the legislation of the Climate Change Act should be expedited. Phasing out costly energy subsidies will also help mobilize the needed resources and incentivize a gradual shift to cleaner energy sources.

Authorities' Views

39. The authorities agreed on the need for structural reforms. They highlighted that structural reforms focused on restructuring the production and services sectors towards an innovation-based economy are key priorities under the 13th National Development Plan. They aim to advance these reforms, particularly those related to competition and openness, as part of their OECD membership accession process initiated in June 2024. They were also heeding OECD advice to enhance governance, and noted that they continued to make progress on the AML/CFT framework, although acknowledging that progress in adopting legislation had been slow. They emphasized ongoing additional policy efforts in the following areas:

- *Enhancing labor productivity.* The authorities noted that partnerships with private industries aim at ensuring that educational curricula align with market demands and provide students with practical experience through structured internship programs. In addition, Thailand's policy to attract highly skilled professionals in the "S-curve industries" through the SMART Visa was improved in 2024 and the EEC Visa was introduced for operators in the EEC region.

- *Addressing inequality and social disparities.* The authorities acknowledged that the social spending budget is mostly focused on subsidization and short-term policies, indicating the need for better-targeted assistance to alleviate fiscal pressures. They highlighted the importance of

[33] Thailand needs about 0.4 and 0.7 percent of GDP annually in public and private investments respectively for infrastructure resilience (IMF Country Report No. 24/35).

[34] The impact of the recently-adopted tax is expected to be limited given that it would largely convert existing excise taxes related to carbon dioxide emissions, such as the gasoline tax and automobile tax.

improving data linkages among different agencies and integrating Thailand's fragmented social protection system.

- *Advancing climate change mitigation and adaptation.* The authorities indicated that their mitigation and adaptation strategies have been integrated into national policies to transform Thailand into a low-carbon society. In addition, the authorities are accelerating institutional reforms by enabling the DCCE to operate with greater efficiency, and accelerating the legislation and enactment of the Climate Change Act to introduce effective mechanisms and tools to reduce emissions including the mandatory ETS.

STAFF APPRAISAL

40. Thailand's economic recovery is ongoing, but it has been relatively slow and uneven. Economic activity expanded modestly in 2024, driven by private consumption and a rebound in tourism-related activities, while delayed budget implementation slowed the pace of public investment. The slow recovery, compared to ASEAN peers, is also rooted in Thailand's longstanding structural weaknesses, while emerging external and domestic headwinds have also contributed to subdued inflation. The outlook remains highly uncertain with significant downside risks.

41. As economic slack narrows, the focus should shift to rebuilding fiscal space. A less expansionary fiscal stance than envisaged under the FY25 budget would still provide impulse to support the recovery while helping to preserve policy space. Alternatively, reallocating part of the planned cash transfers toward productivity-enhancing investments or social protection would enable stronger inclusive growth and help reduce the public debt-to-GDP ratio. Starting in FY26, a revenue-based medium-term fiscal consolidation is needed to bring down public debt and rebuild buffers.

42. Thailand's fiscal framework can be further strengthened. This would require strengthening fiscal rules to better support the debt anchor by introducing a risk-based rules approach. Costs associated with quasi-fiscal operations such as energy price caps should be adequately accounted for, and fiscal risks closely monitored. Improving data provision for government finance statistics and SOEs is important.

43. Staff welcomes the BOT's decision to cut the policy rate in October, and recommends a further reduction in the policy rate to support inflation and also translate into improvements in borrowers' debt-servicing capacity with limited risk of additional leverage amid tight lending. Given remaining high uncertainty in the outlook, the authorities should stand ready to adjust their monetary policy stance in a data and outlook-dependent manner. Central bank independence with clear communication of policy moves is key to maintaining the credibility and effectiveness of monetary policy in anchoring inflation expectations.

44. Effective coordination across policy tools, underpinned by adequate buffers, is essential for managing adverse scenarios. While the flexible exchange rate should continue to act as a shock absorber, the complementary use of FXI might alleviate policy trade-offs by smoothing destabilizing premia when large non-fundamental shocks render the FX market dysfunctional.

Further liberalization of the FX ecosystem and phasing out of remaining capital flow management measures would help deepen the FX market and limit the need for FXI over time.

45. A comprehensive package of prudential and legal measures needs to be deployed to facilitate an orderly private deleveraging. Staff welcomes the measures already implemented to address both the existing household debt stock and the buildup of new leverage. However, simultaneous and forceful implementation of personal debt workouts via more effective bankruptcy proceedings is essential to lower the existing household debt stock.

46. The external position in 2024 was moderately stronger than warranted by fundamentals and desirable policy settings. Policies aimed at promoting investment, enhancing social safety nets, liberalizing the services sector, and minimizing tax incentives and subsidies that distort competition would facilitate external rebalancing.[35]

47. Resolute structural reforms are needed to boost productivity and competitiveness. Reform priorities include facilitating competition and openness, upgrading physical and ICT infrastructure, upskilling/reskilling the labor force, increasing export sophistication by leveraging digitalization, and strengthening governance. Providing an adequate social protection floor to vulnerable households could help enhance their resilience to shocks and address structural drivers of household debt accumulation.

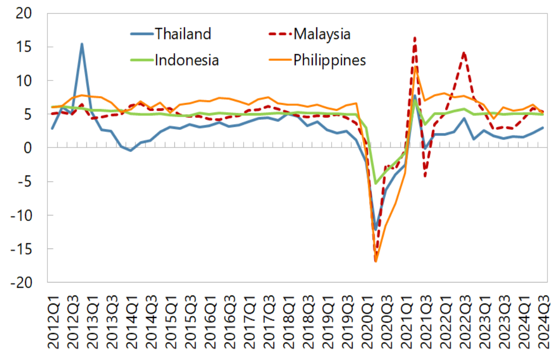
48. It is recommended that the next Article IV consultation with Thailand take place on a standard 12-month cycle.

[35] The assessment for 2024 is based on the preliminary staff estimates.

Figure 2. Thailand: Real Sector Developments

Thailand's post-pandemic recovery is slower than its peers.

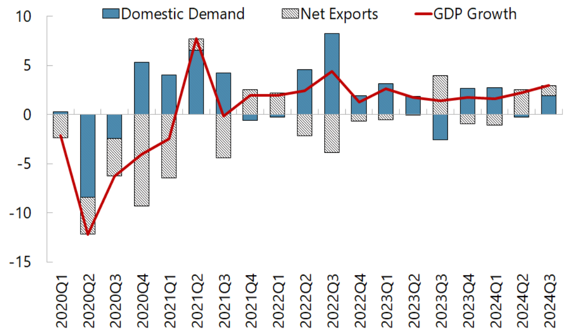
Real GDP Growth
(Y/y percentage growth)



Sources: Haver Analytics and IMF staff calculations

Domestic demand recovered in 2024Q3 after the decline in Q2.

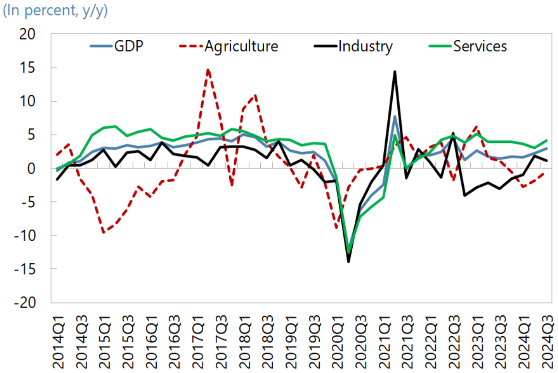
Contribution to GDP Growth, Expenditure
(In percent, y/y)



Sources: Thai authorities; and IMF staff calculations.

Resilient growth in services and the recovery in manufacturing drove growth in 2024Q3 while agriculture remained weak.

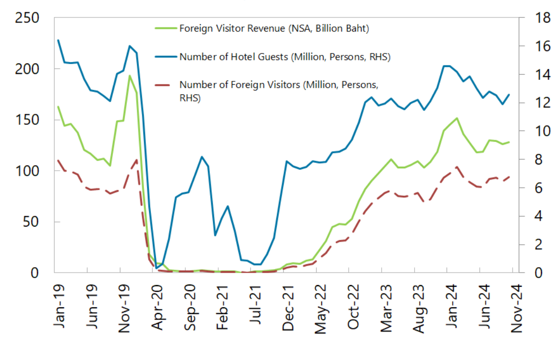
Real GDP Growth, Supply
(In percent, y/y)



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

Tourist numbers are recovering, but tourism revenue remains below the pre-pandemic level.

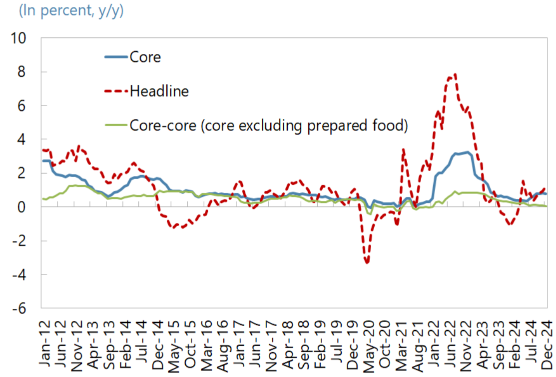
Tourist Revenue and Visitor Numbers
(In billions of Baht; In millions of persons)



Sources: Haver Analytics, National Statistics Office Thailand.

Downward pressure on consumer prices with core-core inflation continued to decline…

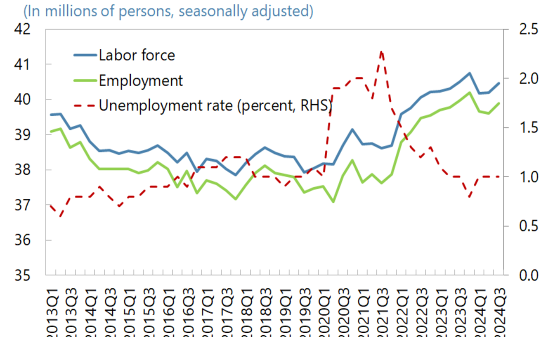
Inflation
(In percent, y/y)



Sources: Haver Analytics and IMF Staff calculations.

…while unemployment rate remained low.

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



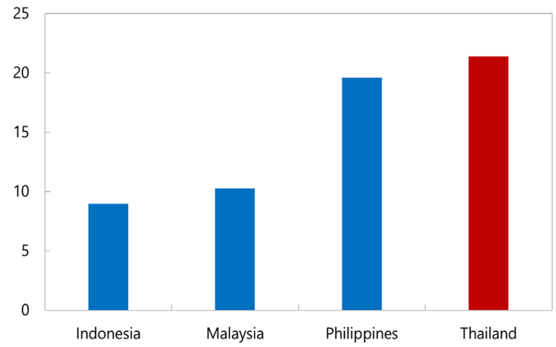
Source: Haver Analytics

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

Figure 3. Thailand: Fiscal Sector Developments

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

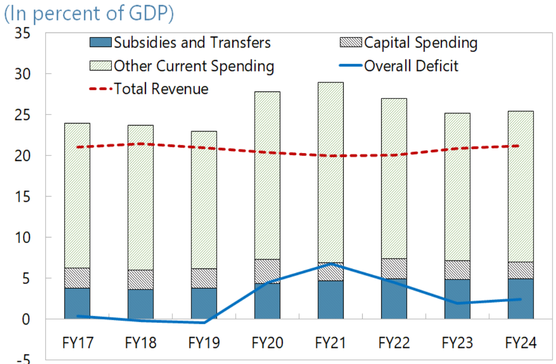
Change in Public Debt between 2019 and 2023
(In percent of GDP)



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

The fiscal balance has improved following the end of pandemic support measures…

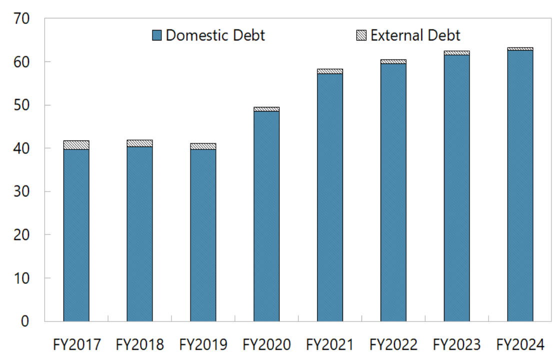
Evolution of Revenues, Expenditure and Overall Deficit
(In percent of GDP)



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

…but public debt remains at elevated levels, close to the authorities' debt ceiling.

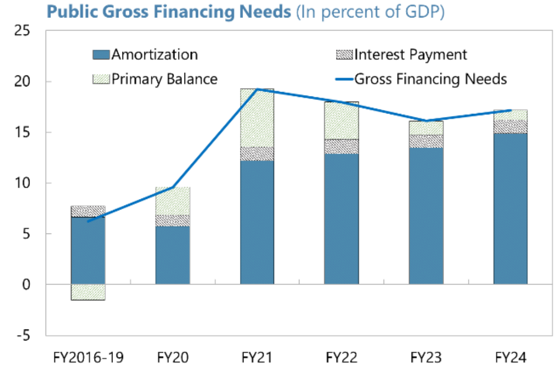
Public Debt Evolution (In percent of GDP)



Sources: Thai authorities; and IMF staff calculations.

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

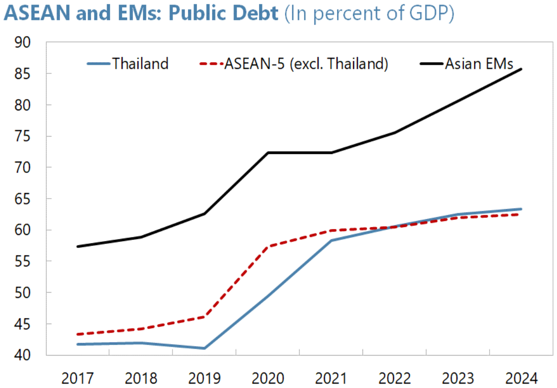
Public Gross Financing Needs (In percent of GDP)



Sources: Thai authorities and IMF staff estimations and projections.

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

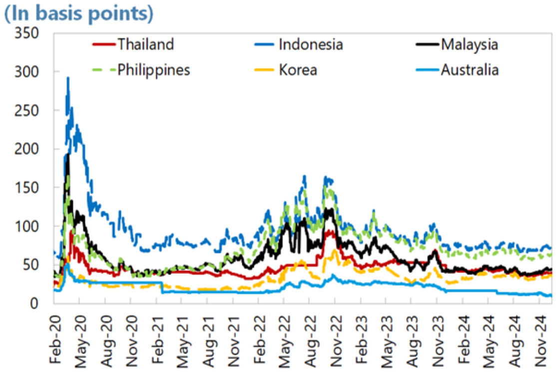
ASEAN and EMs: Public Debt (In percent of GDP)



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.

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

5-year Sovereign CDS Spreads
(In basis points)

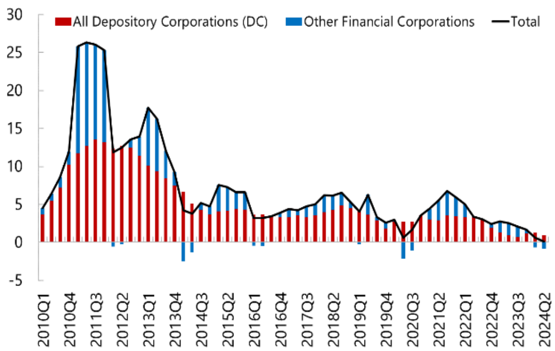


Sources: Bloomberg LP and IMF staff calculations.

Figure 4. Thailand: Financial Sector Developments

Credit growth decelerated further in 2024…

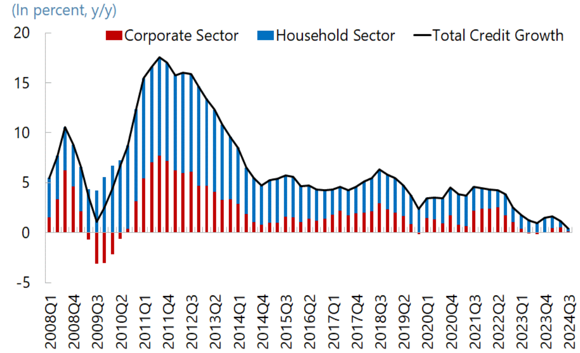
Contribution to Credit Growth - All Corporations
(In percent, y/y)



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

…both in corporate and household sectors

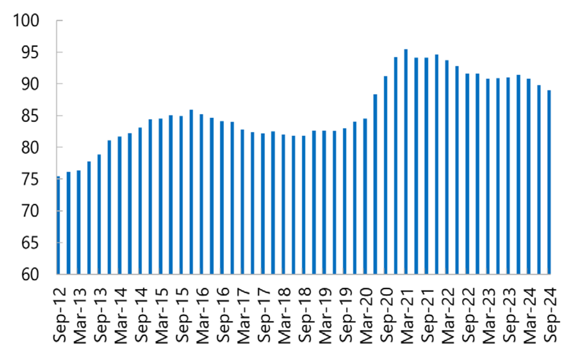
Contribution to Credit Growth - Other Depository Corporations
(In percent, y/y)



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

Household debt to GDP has continued to decline from its pandemic peak, but remains elevated…

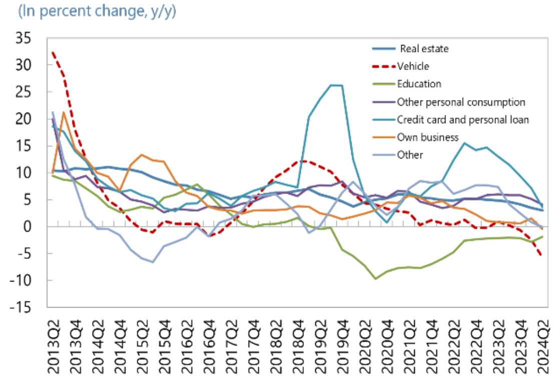
Household Debt
(In percent of GDP)



Sources: CEIC and IMF staff calculations.

…with its growth rate mainly driven by credit card and personal loans.

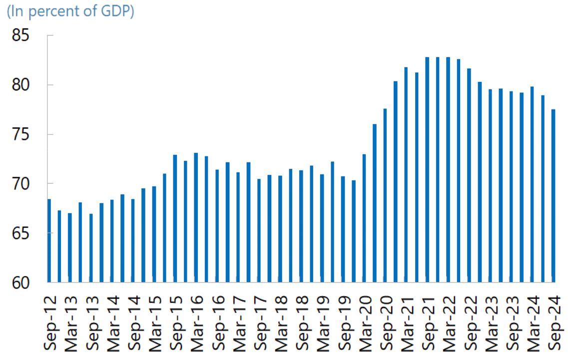
Loans to Households
(In percent change, y/y)



Source: Bank of Thailand.

Corporate leverage also shows a declining trend …

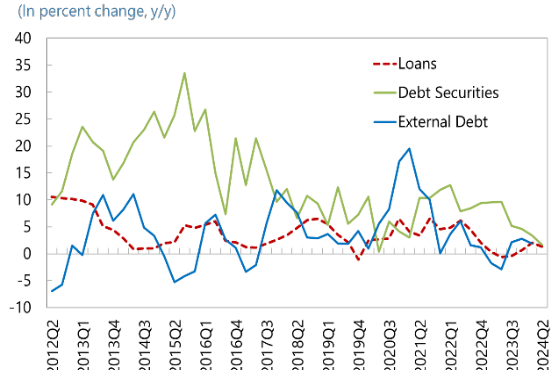
Corporate Debt
(In percent of GDP)



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

… due to slower growth in loans, debt securities' issuance and external debt.

Corporate Debt
(In percent change, y/y)

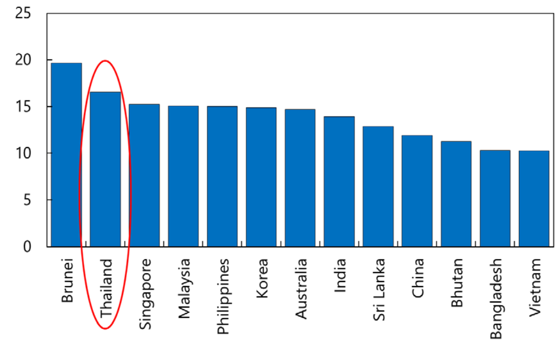


Source: Bank of Thailand.

Figure 5. Thailand: Banking Sector Developments

Commercial Banks are well capitalized…

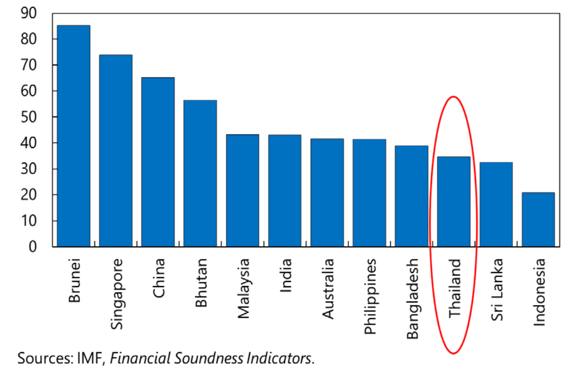
Regulatory Tier 1 Capital to Risk-Weighted Assets
(In percent, latest quarterly data)



Sources: IMF, *Financial Soundness Indicators*.

…although relatively more reliant to short-term liabilities than peers

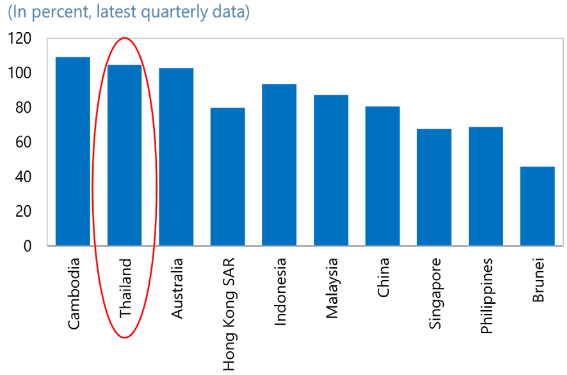
Liquid Assets to Short-Term Liabilities
(In percent, latest quarterly data)



Sources: IMF, *Financial Soundness Indicators*.

Loans-to-Deposits Ratio (LDR) remained high…

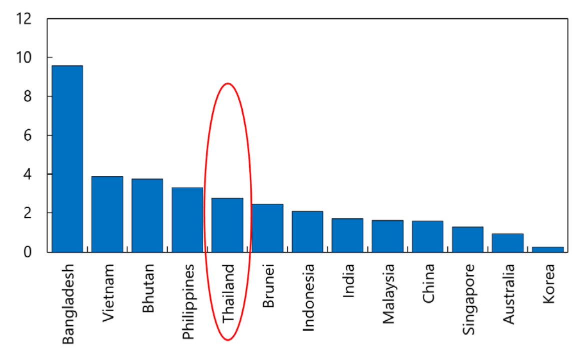
Loans to Deposits
(In percent, latest quarterly data)



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

…and NPLs remain relatively low, although rising.

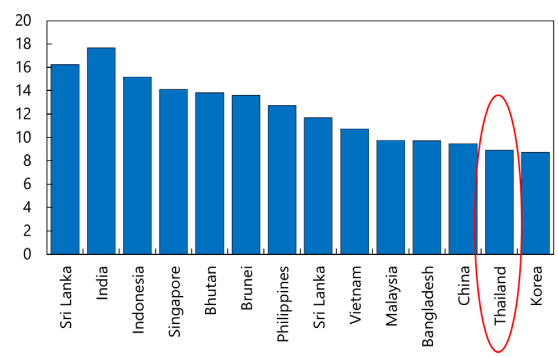
Nonperforming Loans to Total Gross Loans
(In percent, latest quarterly data)



Sources: IMF, *Financial Soundness Indicators*.

Profitability has remained sound…

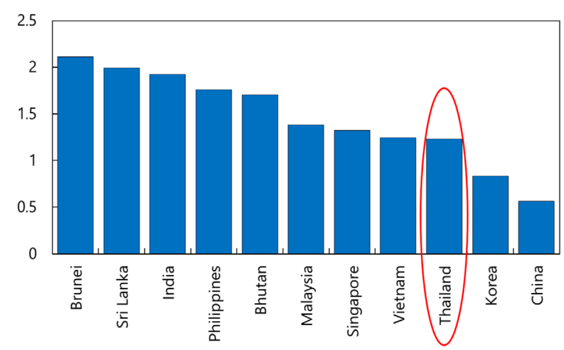
Return on Equity
(In percent, latest quarterly data)



Sources: IMF, *Financial Soundness Indicators*.

…but consistently low in regional comparisons.

Return on Assets
(In percent, latest quarterly data)

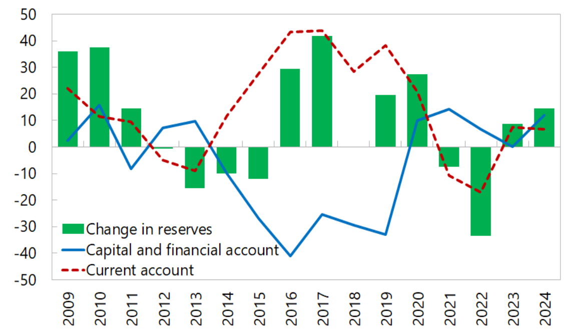


Sources: IMF, *Financial Soundness Indicators*.

Figure 6. Thailand: External Sector Developments

The current account balance has remained in surplus in 2024, contributing to a strengthening of reserves.

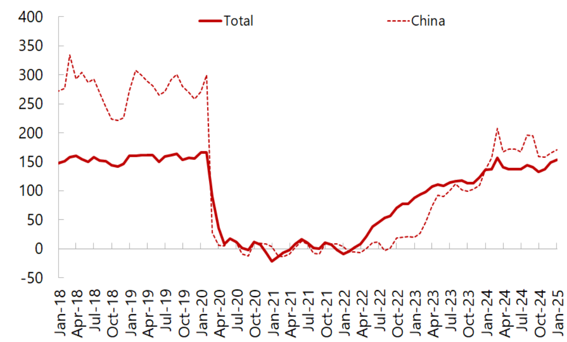
Current, Capital and Financial Account, and Reserves
(In billions of U.S. Dollars)



Sources: CEIC; and IMF staff calculations.
Notes: Capital and financial account balance includes errors and omissions. 2024 refers to data until September.

Tourist arrivals are gradually recovering to pre-pandemic levels, albeit at a slower pace for tourists from China.

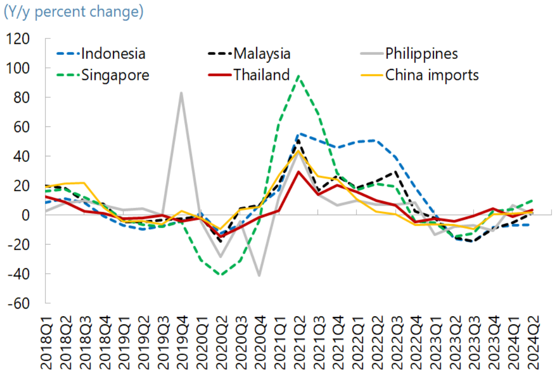
Tourist Arrivals in Thailand
(Index sa, Jan-2013=100)



Sources: Haver Analytics; and IMF staff calculations.

Export growth has been stronger than peers more recently, while following regional trends.

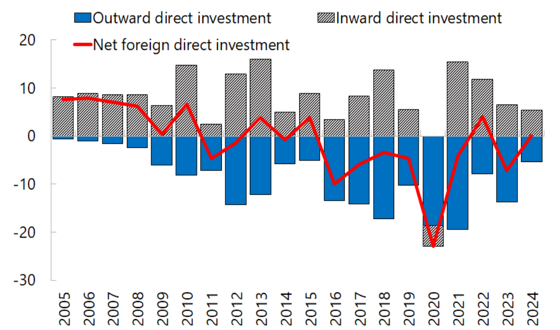
ASEAN-5 Export Growth and China's Imports
(Y/y percent change)



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

Net foreign direct investment turned positive in 2024, largely owing to a contraction in outward direct investment.

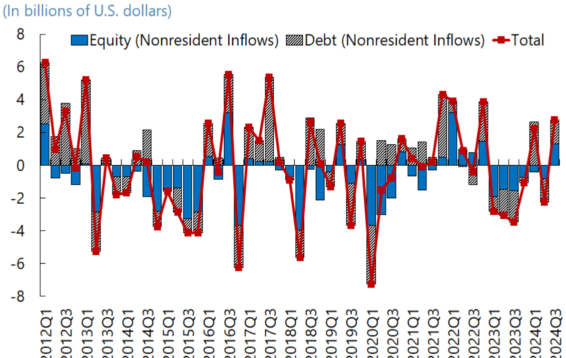
Inward and Outward Direct Investment
(In billions of U.S. Dollars)



Sources: Haver Analytics; and IMF staff calculations.
Notes: 2024 refers to data until September.

Nonresident portfolio inflows turned positive in 2024Q3…

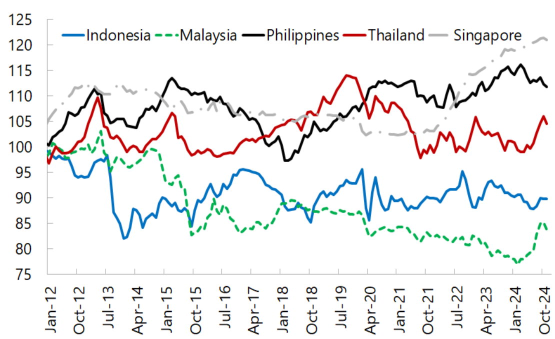
Nonresident Equity and Bonds Inflows
(In billions of U.S. dollars)



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

…that supported by current account increases contributed to an appreciation of the REER rate in recent months.

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

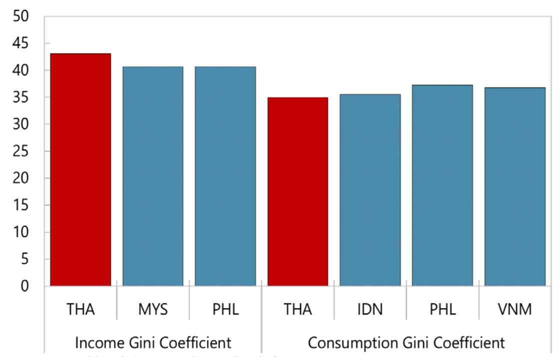


Sources: Thai authorities; Haver Analytics; and IMF staff calculations.

Figure 7. Thailand: Socio-Economic Developments

Thailand's income inequality remains relatively high…

Income and Consumption Inequality

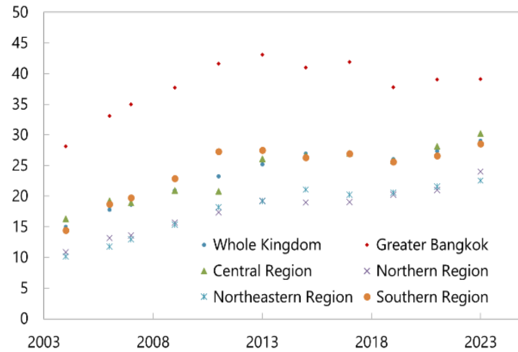


Source: World Bank, Poverty and Inequality Platform.
Note: Data is as of 2021, or the latest available data prior to 2021.

…with large income disparities across regions.

Average Monthly Income Per Household

(In thousands of THB)

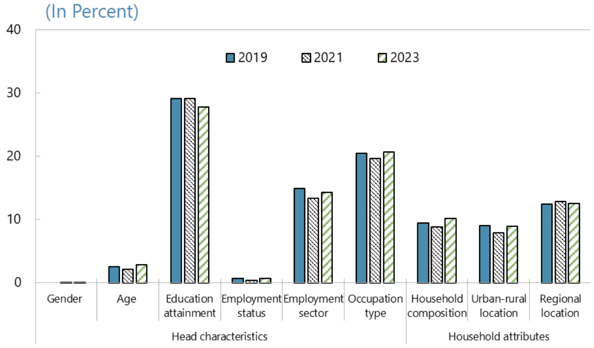


Source: Thailand National Statistics Office.

Thailand's income inequality is closely associated with education gaps, and the types and industries of household heads' occupation.

Decomposition of Inequality in Thailand

(In Percent)

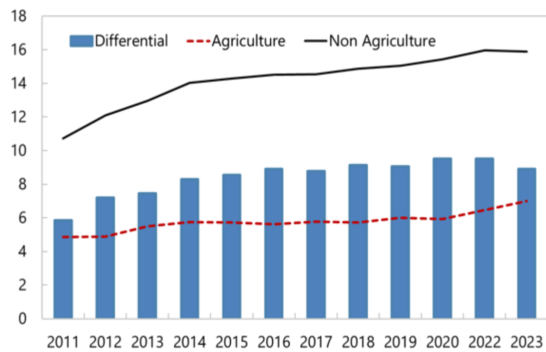


Sources: Thailand National Statistics Office and IMF staff calculations.
Note: The decomposition methodology follows World Bank (2023).

Wage differentials between agricultural and non-agricultural sector jobs have widened…

Monthly Average Wage

(In thousands of THB)

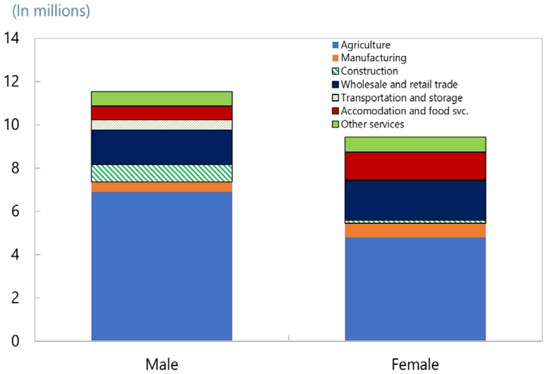


Sources: CEIC, Bank of Thailand and IMF staff calculations.

…with persistently large informal sector employment, concentrated in the agricultural sector.

Informal Workers by Industry Sectors

(In millions)

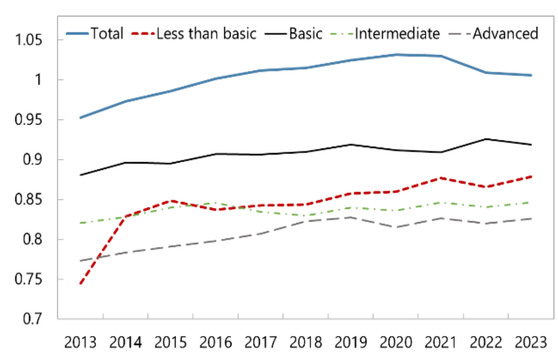


Sources: Thailand National Statistics Office.

While the overall gender wage gap has largely dissipated, disparities remain for jobs requiring higher education.

Gender Wage Gap Across Education Levels

(Ratio of female to male monthly earnings)

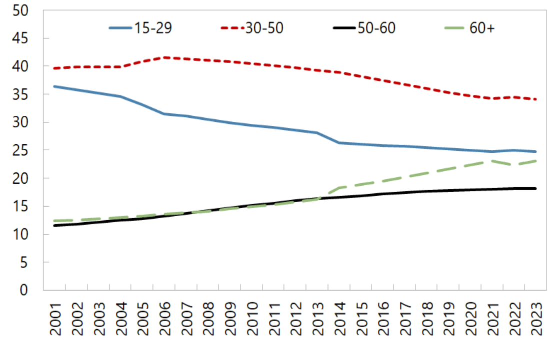


Sources: International Labour Organization ILOSTAT database and IMF staff calculations.

Figure 8. Thailand: Structural Challenges

Thailand's population continues to age rapidly…

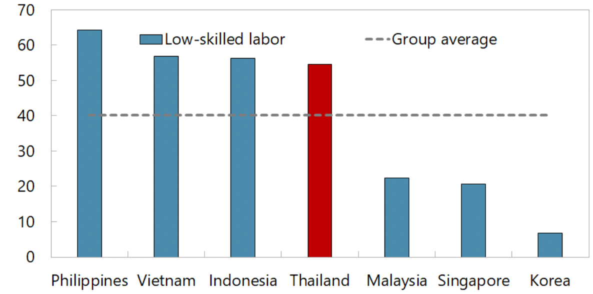
Composition of Labor Force, by Age
(In percent of labor force)



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

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

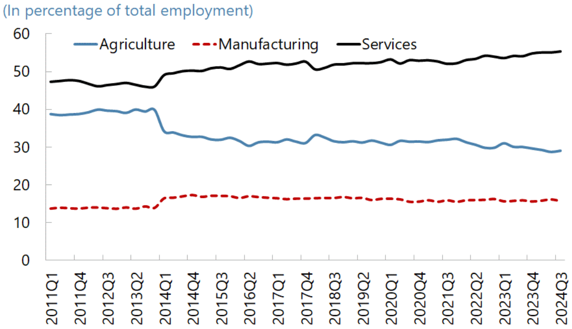
Share of Low-Skilled Labor in Labor Force
(In percent)



Sources: ILO and IMF staff calculations
Note: Data pertains to 2023 for Thailand, Indonesia, Korea, Vietnam, 2022 for Malaysia and 2014 for Singapore. Low skilled refers to adults whose highest education level is (i) no education, (ii) primary education and (iii) lower secondary education.

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

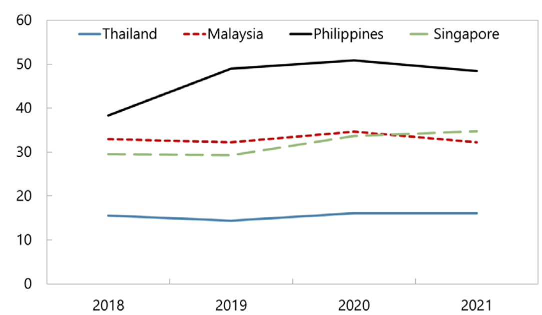
Employment by Sector
(In percentage of total employment)



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

Thailand lags behind its peers in export sophistication…

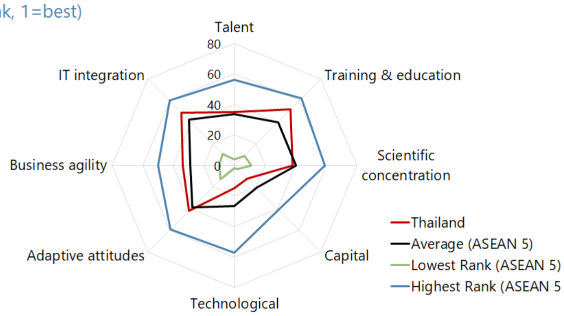
Selected ASEAN: ICT Goods Exports
(As a percentage of total goods exports)



Source: World Bank World Development Indicators.

…highlighting the need to improve competitiveness…

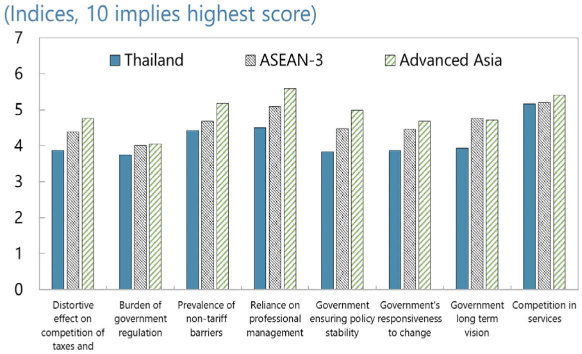
IMD World Digital Competitiveness, 2023
(Rank, 1=best)



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

…by bridging the structural gaps on multiple fronts.

World Bank Global Competitiveness Index, 2019
(Indices, 10 implies highest score)



Sources: World Bank Global Competitiveness Index 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, 2019–30

Per capita GDP (2023): US$7,338
Exchange Rate (2023): 34.8 Baht/USD
Unemployment rate (2023): 1 percent
Poverty headcount ratio at national poverty line (2021): 6.3 percent
Net FDI (2023): US$ -7.16 billion
Population (2023): 70.18 million

	Actual					Projections						
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Real GDP growth (y/y percent change) 1/	2.1	-6.1	1.6	2.5	1.9	2.7	2.9	2.6	2.7	2.7	2.7	2.7
Consumption	3.4	-0.3	1.3	4.8	4.6	4.3	4.0	2.9	2.1	2.3	2.6	2.6
Gross fixed investment	2.0	-4.8	3.1	2.3	1.2	0.1	4.1	2.1	1.8	2.3	2.4	2.5
Inflation (y/y percent change)												
Headline CPI (end of period)	0.9	-0.3	2.2	5.9	-0.8	1.2	1.3	1.5	1.5	1.7	1.7	1.8
Headline CPI (period average)	0.7	-0.8	1.2	6.1	1.2	0.4	1.0	1.3	1.5	1.6	1.7	1.8
Core CPI (end of period)	0.5	0.2	0.3	3.2	0.6	0.8	1.3	1.0	1.2	1.4	1.4	1.6
Core CPI (period average)	0.5	0.3	0.2	2.5	1.3	0.6	1.1	1.2	1.1	1.3	1.4	1.5
Saving and investment (percent of GDP)												
Gross domestic investment	23.8	23.8	28.6	27.8	22.5	20.8	21.9	22.2	22.0	21.8	21.8	21.6
Private	16.9	16.8	16.9	17.3	17.3	16.7	16.6	16.4	16.3	16.1	16.1	16.0
Public	5.7	6.4	6.5	6.1	5.6	5.6	5.9	5.8	5.7	5.7	5.7	5.7
Change in stocks	1.2	0.5	5.1	4.5	-0.4	-1.5	-0.6	0.0	0.0	0.0	0.0	0.0
Gross national saving	30.8	27.9	26.5	24.4	24.0	22.6	24.0	24.5	24.4	24.4	24.5	24.4
Private, including statistical discrepancy	25.8	26.2	26.8	22.6	21.0	19.8	21.8	21.9	21.7	21.7	21.8	21.6
Public	5.0	1.8	-0.3	1.7	3.0	2.8	2.2	2.5	2.7	2.7	2.7	2.8
Foreign saving	-7.0	-4.2	2.1	3.5	-1.4	-1.8	-2.2	-2.3	-2.4	-2.6	-2.7	-2.8
Fiscal accounts (percent of GDP) 2/												
General government balance 3/	0.4	-4.5	-6.7	-4.5	-2.0	-2.2	-3.6	-3.2	-2.9	-2.8	-2.8	-2.8
SOEs balance	0.4	0.6	-0.3	-0.6	-0.7	-0.1	-0.2	-0.1	-0.1	-0.1	-0.1	0.0
Public sector balance 4/	0.8	-3.9	-7.1	-5.1	-2.7	-2.3	-3.8	-3.3	-3.0	-2.9	-2.9	-2.8
Public sector debt (end of period) 4/	41.1	49.4	58.3	60.5	62.4	63.3	64.7	65.4	66.0	66.1	66.4	66.4
Monetary accounts (end of period, y/y percent change)												
Broad money growth	3.6	10.2	4.8	3.9	1.9	2.3	3.7	3.5	3.2	3.8	3.2	3.7
Narrow money growth	5.7	14.2	14.0	3.1	4.2	5.9	3.2	4.7	4.2	5.1	4.3	4.9
Credit to the private sector (by other depository corporations)	2.4	4.5	4.5	2.5	1.5	0.1	1.0	1.6	1.8	2.1	2.3	2.5
Balance of payments (billions of U.S. dollars)												
Current account balance	38.3	20.9	-10.7	-17.2	7.4	9.5	11.9	13.2	14.6	16.5	18.2	19.4
(In percent of GDP)	7.0	4.2	-2.1	-3.5	1.4	1.8	2.2	2.3	2.4	2.6	2.7	2.8
Exports of goods, f.o.b.	242.7	227.0	270.6	285.2	280.7	293.6	301.8	312.5	327.2	343.1	359.0	375.5
Growth rate (dollar terms)	-3.3	-6.5	19.2	5.4	-1.5	4.6	2.8	3.6	4.7	4.9	4.6	4.6
Growth rate (volume terms)	-3.7	-5.8	15.4	1.2	-2.7	2.1	1.9	2.7	3.5	3.6	3.2	3.2
Imports of goods, f.o.b.	216.0	186.6	238.6	271.6	261.4	274.9	284.6	295.1	309.1	324.1	339.1	354.9
Growth rate (dollar terms)	-5.6	-13.6	27.9	13.8	-3.8	5.2	3.5	3.7	4.7	4.9	4.6	4.7
Growth rate (volume terms)	-5.8	-10.4	18.0	1.0	-4.1	3.7	3.5	3.3	3.4	3.3	3.3	3.3
Capital and financial account balance 5/	-24.7	-2.6	3.6	6.9	-4.9	-9.5	-11.9	-13.2	-14.6	-16.5	-18.2	-19.4
Overall balance	13.6	18.4	-7.1	-10.2	2.6	0.0	0.0	0.0	0.0	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	254.6	262.5	262.5	262.5	262.5	262.5	262.5	262.5
(Months of following year's imports)	16.7	14.4	12.3	11.3	11.1	11.1	10.7	10.2	9.7	9.3	8.9	8.5
(Percent of short-term debt) 6/	338.0	315.3	291.2	236.3	242.7	239.6	231.7	222.5	213.7	206.2	199.6	252.3
(Percent of ARA metric)	252.5	278.3	263.3	222.3	233.2	231.8	226.4	219.2	212.3	205.4	199.3	200.0
Exchange rate (baht/U.S. dollar)	31.0	31.3	32.0	35.1	34.8	35.3	…	…	…	…	…	…
NEER appreciation (annual average)	7.2	-0.3	-4.5	-1.8	3.9	…	…	…	…	…	…	…
REER appreciation (annual average)	5.8	-2.6	-5.7	-1.1	1.2	…	…	…	…	…	…	…
External debt												
(In percent of GDP)	31.7	38.0	38.9	40.6	38.2	38.4	38.5	38.6	38.7	38.7	38.8	38.8
(In billions of U.S. dollars)	172.7	190.1	196.9	201.4	196.5	202.4	213.1	223.8	233.8	245.9	257.0	270.0
Public sector 7/	38.0	37.2	41.5	41.2	35.8	38.4	40.8	43.3	45.6	48.1	50.8	53.7
Private sector	134.0	152.9	155.4	160.3	160.7	164.5	172.9	181.1	188.8	198.3	206.8	217.0
Medium- and long-term	74.6	79.4	82.3	82.3	80.3	80.7	86.5	91.1	95.3	101.5	107.1	114.0
Short-term (including portfolio flows)	59.4	73.5	73.1	78.0	80.4	83.8	86.4	90.0	93.5	96.8	99.7	103.0
Debt service ratio 8/	7.8	7.5	6.3	7.3	7.9	7.8	7.8	7.3	8.3	9.3	10.3	10.3
Memorandum items:												
Nominal GDP (billions of baht)	16889.2	15661.3	16188.6	17378.0	17922.0	18603.0	19371.2	20282.2	21143.0	22211.7	23164.5	24307.8
(In billions of U.S. dollars)	544.0	500.5	506.3	495.6	515.0	527.1	553.9	580.2	604.8	635.4	662.7	695.4
Output Gap (in percent of potential output)	0.2	-4.2	-4.1	-2.0	-1.5	-0.7	0.0	0.1	0.0	0.0	0.0	0.0

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.

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, 2019–30

	Actual					Projections						
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Real GDP growth (y/y percent change)	2.1	-6.1	1.6	2.5	1.9	2.7	2.9	2.6	2.7	2.7	2.7	2.7
Consumption	3.4	-0.3	1.3	4.8	4.6	4.3	4.0	2.9	2.1	2.3	2.6	2.6
Gross fixed investment	2.0	-4.8	3.1	2.3	1.2	0.1	4.1	2.1	1.8	2.3	2.4	2.5
Headline CPI inflation (period average, y/y percent change)	0.7	-0.8	1.2	6.1	1.2	0.4	1.0	1.3	1.5	1.6	1.7	1.8
Core CPI inflation (period average, y/y percent change)	0.5	0.3	0.2	2.5	1.3	0.6	1.1	1.2	1.1	1.3	1.4	1.5
	-0.1	*-0.1*	*0.2*	*0.4*	*0.0*	*-0.6*	*-0.1*	*-0.2*	*-0.1*			
Saving and investment (percent of GDP)												
Gross domestic investment	23.8	23.8	28.6	27.8	22.5	20.8	21.9	22.2	22.0	21.8	21.8	21.6
Private	16.9	16.8	16.9	17.3	17.3	16.7	16.6	16.4	16.3	16.1	16.1	16.0
Public	5.7	6.4	6.5	6.1	5.6	5.6	5.9	5.8	5.7	5.7	5.7	5.7
Change in stocks	1.2	0.5	5.1	4.5	-0.4	-1.5	-0.6	0.0	0.0	0.0	0.0	0.0
Gross national saving	30.8	27.9	26.5	24.4	24.0	22.6	24.0	24.5	24.4	24.4	24.5	24.4
Private, including statistical discrepancy	25.8	26.2	26.8	22.6	21.0	19.8	21.8	21.9	21.7	21.7	21.8	21.6
Public	5.0	1.8	-0.3	1.7	3.0	2.8	2.2	2.5	2.7	2.7	2.7	2.8
Foreign saving (- = current account surplus)	-7.0	-4.2	2.1	3.5	-1.4	-1.8	-2.2	-2.3	-2.4	-2.6	-2.7	-2.8
Credit to the private sector	2.4	4.5	4.5	2.5	1.5	0.1	1.0	1.6	1.8	2.1	2.3	2.5
(by other depository corporations, y/y percent change)												
Fiscal accounts (percent of GDP, fiscal year basis)												
General government balance	0.4	-4.5	-6.7	-4.5	-2.0	-2.2	-3.6	-3.2	-2.9	-2.8	-2.8	-2.8
Revenue and grants	21.0	20.4	20.0	20.1	20.9	21.3	20.8	20.6	20.8	20.9	20.9	20.9
Expense and net acquisition of nonfinancial assets	20.6	24.9	26.8	24.5	22.9	23.4	24.4	23.8	23.7	23.7	23.7	23.7
Public sector balance	0.8	-3.9	-7.1	-5.1	-2.7	-2.3	-3.8	-3.3	-3.0	-2.9	-2.9	-2.8
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	0.2
Public sector debt (end of period)	41.1	49.4	58.3	60.5	62.4	63.3	64.7	65.4	66.0	66.1	66.4	66.4
Balance of payments (billions of U.S. dollars)												
Exports, f.o.b.	242.7	227.0	270.6	285.2	280.7	293.6	301.8	312.5	327.2	343.1	359.0	375.5
(Volume growth)	-3.7	-5.8	15.5	1.2	-2.7	2.1	1.9	2.7	3.5	3.6	3.2	3.2
Imports, f.o.b.	216.0	186.6	238.6	271.6	261.4	274.9	284.6	295.1	309.1	324.1	339.1	354.9
(Volume growth)	-5.8	-10.5	17.9	1.2	-4.1	3.7	3.5	3.3	3.4	3.3	3.3	3.3
Trade balance	26.7	40.4	31.9	13.5	19.4	18.7	17.2	17.4	18.1	19.0	19.9	20.6
Services, income, and transfers	11.5	-19.5	-42.7	-30.7	-12.0	-9.1	-5.2	-4.1	-3.6	11.3	11.5	12.1
Current account balance	38.3	20.9	-10.7	-17.2	7.4	9.5	11.9	13.2	14.6	16.5	18.2	19.4
(Percent of GDP)	7.0	4.2	-2.1	-3.5	1.4	1.8	2.2	2.3	2.4	2.6	2.7	2.8
Capital and financial account balance 1/	-24.7	-2.6	3.6	6.9	-4.9	-9.5	-11.9	-13.2	-14.6	-16.5	-18.2	-19.4
Overall balance	13.6	18.4	-7.1	-10.2	2.6	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	254.6	262.5	262.5	262.5	262.5	262.5	262.5	262.5
(Percent of ARA metric)	252.5	278.3	263.3	222.3	233.2	231.8	226.4	219.2	212.3	205.4	199.3	200.0
External debt												
External debt (billions of U.S. dollars)	172.7	190.1	196.9	201.4	196.5	202.4	213.1	223.8	233.8	245.9	257.0	270.0
External debt (percent of GDP)	31.7	38.0	38.9	40.6	38.2	38.4	38.5	38.6	38.7	38.7	38.8	38.8

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

1/ Includes errors and omissions.

Table 3. Thailand: Medium-Term Fiscal Scenario, FY2019–FY2030 1/

(In billions of baht, unless otherwise stated)

	Actual					Projections						
	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
General Government												
Revenue	3526.5	3243.0	3204.7	3437.8	3723.7	3903.3	3995.9	4141.2	4358.8	4583.9	4789.9	5017.1
Tax revenue	2725.6	2462.8	2517.1	2743.4	2890.9	2948.8	3100.8	3237.5	3380.0	3557.5	3717.6	3893.5
Taxes on income	1031.9	912.6	923.8	1064.1	1120.5	1143.0	1198.7	1257.2	1315.7	1384.0	1450.1	1524.2
Personal income tax	298.4	297.3	295.3	329.9	354.5	361.6	379.3	396.6	413.8	433.9	453.4	475.0
Corporate income tax	733.5	615.4	628.5	734.2	766.0	781.3	819.5	860.6	901.8	950.0	996.8	1049.2
Taxes on goods and services	1539.1	1441.8	1477.1	1523.6	1596.9	1628.8	1727.1	1798.1	1874.0	1974.2	2058.7	2150.3
o/w Value added tax	596.7	552.5	625.3	719.3	700.0	714.0	749.5	782.7	812.4	852.1	888.3	927.2
o/w Excises	683.7	635.3	621.7	591.6	642.8	655.7	707.0	732.4	766.4	812.5	847.0	884.1
Taxes on international trade	98.0	84.2	93.0	100.2	115.8	118.1	113.4	117.9	123.2	128.9	135.2	142.0
Other	56.6	24.2	23.2	55.5	57.8	58.9	61.5	64.3	67.2	70.4	73.6	77.1
Social contributions	172.1	151.3	107.2	119.9	163.4	168.6	176.1	184.1	192.1	201.5	210.5	220.5
Other revenue	627.1	627.4	578.3	572.3	667.1	783.6	716.5	716.9	784.0	822.1	858.9	899.9
Total expenditure	3455.7	3951.7	4284.4	4202.4	4075.7	4299.4	4687.1	4774.8	4966.5	5198.7	5433.9	5695.1
Expense	3054.4	3479.9	3925.2	3776.2	3663.3	3928.2	4205.7	4251.4	4441.2	4658.9	4869.9	5104.2
Compensation of employees	966.7	956.7	955.4	975.4	1012.0	1029.0	1093.9	1163.8	1214.5	1273.5	1330.5	1394.1
Purchase/use of goods and services	987.4	988.5	1071.8	1186.3	1030.3	1056.4	1122.5	1193.7	1245.7	1306.2	1364.7	1429.9
Interest	170.8	153.8	201.9	226.1	207.8	221.1	244.2	261.2	277.3	292.6	308.3	324.6
Social benefits	454.6	505.4	541.5	618.9	624.3	647.5	676.3	707.1	737.9	773.8	808.4	847.0
Expense not elsewhere classified	474.9	875.5	1154.4	769.4	788.9	974.1	1068.9	925.5	965.8	1012.7	1058.0	1108.6
Subsidies	152.4	178.8	168.6	165.1	298.7	213.5	235.0	245.7	256.4	268.9	280.9	294.3
Consumption of fixed capital	176.2	182.4	209.9	229.9	240.0	266.0	277.4	290.0	302.6	317.3	331.5	347.4
Other	146.4	514.4	775.9	374.4	250.2	494.6	556.6	389.7	406.7	426.5	445.5	466.8
o.w. Cash Transfers						145.0	187.7					
Net acquisition of nonfinancial assets	401.2	471.8	359.2	426.2	412.4	371.2	481.4	523.4	525.3	539.9	564.0	591.0
o.w. fixed assets	462.9	508.7	474.6	426.2	411.6	371.0	481.4	523.4	525.3	539.9	564.0	591.0
o.w. nonproduced assets	-63.0	-37.1	-115.9	-0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall fiscal balance	70.8	-708.7	-1079.7	-764.5	-352.0	-396.1	-691.3	-633.7	-607.7	-614.8	-644.0	-678.1
Primary balance	241.6	-554.9	-877.8	-538.5	-144.2	-175.0	-447.1	-372.4	-330.4	-322.2	-335.7	-353.5
Cyclically adjusted primary balance	217.9	-432.1	-728.1	-460.6	-90.8	-124.6	-439.7	-376.8	-331.9	-322.2	-335.7	-353.5
SOEs												
Overall fiscal balance 2/	61.5	96.6	-49.7	-110.0	-121.3	-27.1	-36.2	-26.5	-21.5	-16.4	-14.9	4.6
Public Sector												
Overall fiscal balance 3/	132.4	-612.1	-1129.4	-874.5	-473.3	-423.2	-727.4	-660.1	-629.2	-631.2	-658.8	-673.5
Debt 4/	6901.8	7848.2	9337.5	10373.9	11131.6	11627.9	12400.5	13121.2	13806.0	14499.8	15220.6	15953.7
Memorandum items:												
Public sector investment 3/	863.4	1030.2	988.5	1101.3	998.1	992.1	1128.4	1154.7	1184.1	1230.6	1289.5	1347.1
General government	577.4	654.2	569.2	656.1	652.4	637.2	758.8	813.5	828.0	857.2	895.6	938.4
Public enterprises	286.0	376.0	419.4	445.1	345.7	354.9	369.6	341.2	356.1	373.4	394.0	408.8
Nominal FY GDP	16807.8	15880.6	16006.2	17140.9	17827.8	18364.6	19179.2	20054.5	20927.8	21944.6	22926.3	24022.0

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/ 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.

4/ Includes debt of the central government, non-financial SOEs, and guaranteed debt of financial SOEs.

Table 4. Thailand: Financial Soundness Indicators, 2017–24Q3

	2017	2018	2019	2020	2021	2022	2023	2024 Q3
Commercial Banks				(In percent)				
Capital adequacy								
Regulatory capital to risk-weighted assets	18.0	17.9	19.4	19.8	19.6	18.9	19.6	20.2
Regulatory Tier 1 capital to risk-weighted assets	15.1	15.0	16.1	16.7	16.4	15.9	16.6	17.6
Asset quality								
Nonperforming loans net of provisions to capital	9.1	9.1	9.1	8.9	8.5	7.7	7.4	7.6
Nonperforming loans to total gross loans	3.1	3.1	3.1	3.2	3.1	2.8	2.8	3.0
Special mention loans to total gross loans	2.5	2.4	2.8	6.6	6.4	6.2	5.9	6.6
Earnings and profitability								
Return on assets	1.3	1.3	1.7	0.8	1.0	1.2	1.2	1.4
Return on equity	8.9	9.3	11.4	5.5	6.8	8.5	8.9	9.6
Interest margin to gross income	61.9	61.6	55.0	64.8	58.0	67.7	79.6	69.6
Non-interest Expenses to Gross Income	47.7	49.2	45.1	48.2	42.3	46.4	52.4	45.0
Liquidity								
Liquid assets to total assets (liquid asset ratio)	19.9	18.9	19.7	22.2	22.9	21.5	21.7	21.5
Liquid assets to short term liabilities	32.6	30.7	33.6	34.5	34.4	32.4	34.7	35.1
Liquidity coverage ratio	176.9	183.5	184.8	178.1	187.8	191.6	202.2	196.4
Loan-deposit ratio 1/	96.3	98.3	96.3	92.2	94.2	92.0	91.0	89.2
Other Financial Corporations (OFC) 2/								
OFCs' Assets to total financial system assets	43.5	43.3	44.3	42.5	42.5	41.1	41.7	42.9
OFC's Assets to Gross Domestic Product (GDP)	85.5	83.0	88.7	96.7	97.6	89.1	91.0	92.3
Households								
Household Debt to Gross Domestic Product (GDP)	82.5	82.7	84.1	94.2	94.6	91.6	91.5	89
Household debt to household disposal income	149.7	150.8	151.1	158.2	160.2	162.3	167.1	166.6
Real Estate Markets								
Residential Real Estate Loans to Total Loans	15.1	15.8	16.1	15.7	15.6	15.6	15.6	16.1
Commercial Real Estate Loans to Total Loans	4.7	5.1	5.1	4.8	4.3	4.1	4.2	4.4
Single-detached house price index (y/y) 3/	5.2	3.3	1.5	3.9	2.4	4.8	2.9	2.9

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).

2/ OFCs' consist of insurance companies, pension funds, investment funds (including money market mutual funds), asset management companies, secondary mortgage corporations (dissolved since Sep. 2020), Thai Credit guarantee corporations and Financial Institutions Development Fund (FIDF), securities companies, credit card and personal loan companies, and pawnshops.

3/ The price is for single-detached house, including land. Percentage change is calculated based on end-of-period index.

Table 5. Thailand: Monetary Survey, 2018–24

(In billions of baht, unless otherwise stated)

	2018	2019	2020	2021	2022	2023	2024 November
Central bank survey							
Net foreign assets	6,523	6,617	7,679	7,915	7,210	7,489	7,993
Net domestic assets	-4,523	-4,546	-5,348	-5,334	-4,662	-4,851	-5,280
Reserve money	2,001	2,071	2,332	2,580	2,548	2,638	2,713
Depository corporations survey							
Net foreign assets	6,715	6,823	7,775	7,763	7,571	7,898	8,605
Net domestic assets	13,395	14,018	15,183	16,299	17,431	17,584	17,674
Domestic credit	20,196	20,750	22,300	24,396	25,445	26,490	26,987
Net credit to central government	408	464	1,115	2,277	2,531	3,071	3,506
Credit to local government	14	12	10	9	9	9	11
Credit to nonfinancial public enterprises	339	373	400	455	653	801	880
Credit to other financial corporations	1,072	1,102	1,127	1,132	1,214	1,257	1,273
Total credit to private sector	18,364	18,799	19,647	20,524	21,038	21,352	21,318
Credit to other nonfinancial corporations	7,138	7,114	7,444	7,904	8,125	8,133	8,126
Credit to other resident sector	11,226	11,685	12,203	12,620	12,913	13,220	13,192
Other items (net)	-6,801	-6,732	-7,117	-8,098	-8,014	-8,906	-9,313
Broad money	20,110	20,841	22,958	24,062	25,002	25,482	26,279
Narrow money	2,095	2,214	2,530	2,884	2,974	3,100	3,191
Currency in circulation	1,504	1,591	1,813	2,070	2,111	2,241	2,359
Deposits at depository corporations	591	624	717	814	863	859	832
Quasi-money	18,014	18,627	20,429	21,178	22,028	22,382	23,087
Memorandum items: (y/y percent change) 1/							
Broad money growth	4.7	3.6	10.2	4.8	3.9	1.9	3.1
Narrow money growth	2.8	5.7	14.2	14.0	3.1	4.2	2.9
Credit to private sector (by other depository corporations)	5.8	2.4	4.5	4.5	2.5	1.5	-0.2
Households	5.6	4.1	4.4	3.4	2.3	2.4	-0.2
Nonfinancial corporations	6.0	-0.3	4.6	6.2	2.8	0.1	-0.1
Contribution to broad money growth							
Net foreign assets (in percent)	1.6	0.5	4.6	-0.1	-0.8	1.3	2.8
Net domestic assets (in percent)	3.1	3.1	5.6	4.9	4.7	0.6	0.4
Domestic credit (in percent)	4.8	2.8	7.4	9.1	4.4	4.2	1.9

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

1/ November 2024 data refer to percent change relative to December 2023.

Table 6. Thailand: Balance of Payments, 2019–30 1/

	Actual					Projections						
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
	(In billions of U.S. dollars)											
Current account balance	**38.3**	**20.9**	**-10.7**	**-17.2**	**7.4**	**9.5**	**11.9**	**13.2**	**14.6**	**16.5**	**18.2**	**19.4**
Trade balance	26.7	40.4	31.9	13.5	19.4	18.7	17.2	17.4	18.1	19.0	19.9	20.6
Exports, f.o.b.	242.7	227.0	270.6	285.2	280.7	293.6	301.8	312.5	327.2	343.1	359.0	375.5
Imports, f.o.b.	216.0	186.6	238.6	271.6	261.4	274.9	284.6	295.1	309.1	324.1	339.1	354.9
Services balance	24.3	-14.5	-32.5	-23.9	-8.9	-6.1	-2.5	-1.3	-0.5	0.4	1.4	1.6
Of which: tourism receipts	59.8	13.4	5.1	14.9	29.7	41.3	49.5	52.4	54.8	57.4	59.9	62.6
Primary Income balance	-20.0	-11.1	-17.6	-15.9	-13.0	-12.3	-12.3	-12.7	-13.3	-14.2	-14.6	-15.0
Secondary Income balance	7.2	6.1	7.4	9.0	9.9	9.3	9.6	9.9	10.3	11.3	11.5	12.1
Capital and financial account balance	**-16.5**	**-15.0**	**-7.1**	**7.2**	**-9.9**	**-9.5**	**-11.9**	**-13.2**	**-14.6**	**-16.5**	**-18.2**	**-19.4**
Foreign direct investment	-4.6	-22.9	-4.0	4.0	-7.2	-6.9	-7.1	-7.4	-7.6	-7.9	-8.1	-8.4
Abroad	-10.2	-18.6	-19.4	-7.8	-13.7	-14.1	-14.5	-14.9	-15.3	-15.8	-16.2	-16.7
In reporting economy	5.5	-4.3	15.4	11.9	6.5	7.2	7.3	7.5	7.7	7.9	8.1	8.3
Portfolio investment	-8.8	-11.9	-12.0	5.8	-13.7	-6.7	-7.8	-8.2	-8.7	-9.0	-9.4	-9.8
Financial derivatives	0.8	-0.4	-1.2	0.3	-0.1	0.6	0.6	0.4	0.0	0.4	0.4	0.3
Other investment	-3.9	20.2	10.1	-3.4	9.1	3.6	2.5	1.9	1.6	0.0	-1.1	-1.5
Errors and omissions	-8.2	12.5	10.7	-0.3	5.0	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**	**-2.6**	**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**	**-2.1**	**-3.5**	**1.4**	**1.8**	**2.2**	**2.3**	**2.4**	**2.6**	**2.7**	**2.8**
Trade balance	4.9	8.1	6.3	2.7	3.8	3.5	3.1	3.0	3.0	3.0	3.0	3.0
Exports, f.o.b.	44.6	45.4	53.4	57.5	54.5	55.7	54.5	53.9	54.1	54.0	54.2	54.0
Imports, f.o.b.	39.7	37.3	47.1	54.8	50.8	52.2	51.4	50.9	51.1	51.0	51.2	51.0
Services balance	4.5	-2.9	-6.4	-4.8	-1.7	-1.2	-0.4	-0.2	-0.1	0.1	0.2	0.2
Of which: tourism receipts	11.0	2.7	1.0	3.0	5.8	7.8	8.9	9.0	9.1	9.0	9.0	9.0
Primary Income balance	-3.7	-2.2	-3.5	-3.2	-2.5	-2.3	-2.2	-2.2	-2.2	-2.2	-2.2	-2.2
Secondary Income balance	1.3	1.2	1.5	1.8	1.9	1.8	1.7	1.7	1.7	1.8	1.7	1.7
Capital and financial account balance	**-3.0**	**-3.0**	**-1.4**	**1.5**	**-1.9**	**-1.8**	**-2.2**	**-2.3**	**-2.4**	**-2.6**	**-2.7**	**-2.8**
Foreign direct investment	-0.9	-4.6	-0.8	0.8	-1.4	-1.3	-1.3	-1.3	-1.3	-1.2	-1.2	-1.2
Abroad	-1.9	-3.7	-3.8	-1.6	-2.7	-2.7	-2.6	-2.6	-2.5	-2.5	-2.4	-2.4
In reporting economy	1.0	-0.9	3.0	2.4	1.3	1.4	1.3	1.3	1.3	1.2	1.2	1.2
Portfolio investment	-1.6	-2.4	-2.4	1.2	-2.7	-1.3	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4
Financial derivatives	0.2	-0.1	-0.2	0.1	0.0	0.1	0.1	0.1	0.0	0.1	0.1	0.0
Other investment	-0.7	4.0	2.0	-0.7	1.8	0.7	0.4	0.3	0.3	0.0	-0.2	-0.2
Errors and omissions	-1.5	2.5	2.1	-0.1	1.0	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**	**-0.5**	**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	224	237	237	237	237	237	237	237
Gross official reserves (incl. net forward position) (In billions of U.S. dollars)	259	286	279	246	255	262	262	262	262	262	262	262
(Percent of GDP)	47.6	57.2	55.1	49.6	49.4	49.8	47.4	45.2	43.4	41.3	39.6	37.7
(Months of following year's imports)	16.7	14.4	12.3	11.3	11.1	11.1	10.7	10.2	9.7	9.3	8.9	8.5
(In percent of short-term debt)	338.0	315.3	291.2	236.3	242.7	239.6	231.7	222.5	213.7	206.2	199.6	252.3
Forward/swap position of BOT	-34.7	-28.3	-33.2	-29.2	-30.1	-25.4	-25.4	-25.4	-25.4	-25.4	-25.4	-25.4
Export growth (y/y percent change)	-3.3	-6.5	19.2	5.4	-1.5	4.6	2.8	3.6	4.7	4.9	4.6	4.6
Export volume growth	-3.7	-5.8	15.5	1.2	-2.7	2.1	1.9	2.7	3.5	3.6	3.2	3.2
Export unit value growth	0.3	-0.8	3.3	4.2	1.2	2.5	0.9	0.9	1.1	1.2	1.4	1.4
Import growth (y/y percent change)	-5.6	-13.6	27.9	13.8	-3.8	5.2	3.5	3.7	4.7	4.9	4.6	4.7
Import volume growth	-5.8	-10.5	17.9	1.2	-4.1	3.7	3.5	3.3	3.4	3.3	3.3	3.3
Import unit value growth	0.3	-3.6	8.3	12.7	0.4	1.4	0.0	0.4	1.3	1.5	1.3	1.3
External debt (percent of GDP)	31.7	38.0	38.9	40.6	38.2	38.4	38.5	38.6	38.7	38.7	38.8	38.8
(Billions of U.S. dollars)	173	190	197	201	197	202	213	224	234	246	257	270
Debt service ratio (percent) 2/	7.8	7.5	6.3	7.3	7.9	7.8	7.8	7.8	7.7	7.6	7.6	7.6
GDP (billions of U.S. dollars)	544	500	506	496	515	527	554	580	605	635	663	695

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: External Sector Assessment

<table>
<tr><td colspan="7">Overall Assessment: Preliminary staff estimates for 2024 suggest that the external position is moderately stronger than the level implied by medium-term fundamentals and desirable policies, although CA and REER gaps are narrowing. The CA balance is expected to improve to 1.8 percent of GDP in 2024 from 1.4 percent of GDP in 2023, as tourism receipts recover further, and is projected to return to a surplus of around 2.8 percent of GDP in the medium term.
Potential Policy Responses: Policies aimed at promoting investment, diminishing precautionary savings, liberalizing the services sector, and minimizing tax incentives and subsidies that distort competition would facilitate external rebalancing. 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. Fiscal adjustment may increase external surpluses in the context of an already moderately stronger position. This places emphasis on structural reforms and other policies to attain the desirable external adjustment.</td></tr>
<tr><td>Foreign Asset and Liability Position and Trajectory</td><td colspan="6">Background. Thailand's NIIP is projected to increase to 4.7 percent of GDP in 2024 (from 2.5 percent in 2023). Gross assets are estimated to increase to 120.9 percent of GDP (from 118.6 percent of GDP) and gross liabilities to marginally increase to 116.2 percent of GDP (from 116.1 percent of GDP), respectively. Gross assets primarily consist of gross reserve assets (45.0 percent of GDP) and direct investment (39 percent of GDP). Gross liabilities mainly comprise of direct (about half) and portfolio (about one-fourth) investment. Net direct and other investment assets are expected to pick up by 0.4 and 0.2 percent of GDP, respectively, while net portfolio investment is projected to decline by 0.4 percent 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 38.4 percent of GDP in 2024 from 38.2 percent of GDP in 2023, of which short-term debt amounts to about 16.1 percent of GDP. External debt stability and liquidity risks are limited.</td></tr>
<tr><td>2024 (% GDP)</td><td>NIIP: 4.7</td><td>Gross Assets: 120.9</td><td colspan="2">Debt Assets: 40.2</td><td>Gross Liab.: 116.2</td><td>Debt Liab.: 38.4</td></tr>
<tr><td>Current Account</td><td colspan="6">Background. Thailand's CA balance registered a surplus of 1.4 percent of GDP in 2023 and is expected to increase to 1.8 percent of GDP in 2024 as the continued recovery in tourist arrivals and the improvement in transportation balance offset the weaker trade balance. The decline in shipping costs and post-pandemic tourism recovery, albeit still partial, are projected to improve the services account by 0.6 percent of GDP. The trade balance is expected to decline by 0.2 percent of GDP as imports are projected to grow faster than exports. From a saving-investment viewpoint, the normalization of inventories combined with lackluster private investment, are expected to offset the reduced private and public savings. Going forward, the CA balance is expected to stabilize at around 2.8 percent of GDP as foreign tourist arrivals reach pre-pandemic levels.
Assessment. The EBA CA model estimates a cyclically adjusted CA of 1.9 percent of GDP and a CA norm of 0.8 percent of GDP for 2024. The CA gap of 1.1 percent of GDP consists of an unexplained residual of the same amount, as identified policy gaps—significant positive fiscal (1.2 percent of GDP) and negative credit (-1.2 percent of GDP) policy gaps—offset each other. The domestic policy gap of 0.2 percent in health expenditure suggests there is room to increase spending on social safety nets. As the large and persistent COVID-19-related shocks to the travel sector are not accounted for by the standard EBA cyclical adjustment, an adjustor of 0.7 percent of GDP is applied.[1] Overall, IMF staff assesses the CA gap to be in the 1.1 to 2.5 percent of GDP range, with a midpoint of 1.8 percent of GDP for 2024. However, the results are subject to uncertainties regarding the adjustor.</td></tr>
<tr><td>2024 (% GDP)</td><td>CA: 1.8</td><td>Cycl. Adj. CA: 1.9</td><td>EBA Norm: 0.8</td><td>EBA Gap: 1.1</td><td>Staff Adj.: 0.7</td><td>Staff Gap: 1.8</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. In 2023, the real exchange rate appreciated by 1.2 percent relative to 2022, partly reflecting the partial recovery of tourism receipts. As of November 2024, the REER was 2.0 percent above its 2023 average partly reflecting the increase in the current account balance driven by the increase in the travel balance.
Assessment. Using an elasticity of 0.49 and based on the IMF staff CA gap, IMF staff assesses the 2024 REER to be undervalued in the 2.3 to 5.0 percent range, with a midpoint of 3.7 percent. The EBA index REER gap in 2024 is estimated at 3.9 percent, and the EBA level REER gap is estimated at -5.4 percent.</td></tr>
<tr><td>Capital and Financial Accounts: Flows and Policy Measures</td><td colspan="6">Background. In 2024, the capital and financial account balance (excluding change in reserves) are expected to increase to -1.8 percent of GDP from –1.9 percent of GDP in 2023, driven by the increases in portfolio investment (from -2.7 percent of GDP in 2023 to -1.3 percent in 2024) and inward FDI (from -1.4 percent of GDP in 2023 to -1.3 percent of GDP in 2024). Other net investments are expected to decline from 1.8 percent of GDP in 2023 to 0.7 percent of GDP in 2024.
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 further liberalize the financial account, including the expansion of the scope of the Non-resident Qualified Company scheme, which allows qualified investors better access to Thai baht liquidity without restrictions on Thai baht accounts. IMF staff also recommends reversing the 2021 reduction in the limit on the Thai baht lending from domestic financial institution to non-residents without underlying document submission, as the surge in portfolio inflows observed in 2021 has abated. In line with past advice, the IMF team recommends phasing out CFM measures on nonresident 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>
</table>

FX Intervention and Reserves Level	**Background.** The exchange rate regime is classified as (de jure and de facto) floating. International reserves (including the net forward position) are expected to increase to 49.8 percent of GDP in 2024 from 49.4 percent of GDP in 2023, which is around 2.4 times the short-term debt, 11 months of imports, and 231.8 percent of the IMF's standard 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, while FX intervention could be used to address disorderly market conditions and mitigate policy trade-offs when the FX market becomes dysfunctional and deviations in hedging and financing premia become excessive due to large non-fundamental shocks.
1/ For Thailand, the travel adjustor accounts for the temporary impact of the COVID-19 shock on the tourism balance, as the Thai economy is highly dependent on tourism and Chinese tourist flows represent a large share of pre-pandemic tourist arrivals. Under the assumption that tourism flows will have recovered by 2025 for Thailand, a tourism adjustor of 0.7 percent of GDP is calculated in four steps: (i) first, subtracting the IMF staff pre-pandemic projection of the travel balance for 2024 from the currently projected 2024 travel balance yields the overall impact of the both transitory and structural factors impacting the tourism balance after the COVID-19 shock; (ii) second, subtracting the IMF staff pre-pandemic projection of the travel balance for 2025 from the currently projected 2025 travel balance provides an estimate of the structural change on the tourism balance following the pandemic; (iii) third, netting out the structural change estimated in the second step from the overall effect calculated in the first step yields a measure of the transient effect on the travel services balance; (iv) applying the coefficient of 0.75 (i.e., the estimated impact of changes in the travel services balance on the CA) on the estimate of the transient effect on the travel services balance calculated in the third step yields the tourism adjustor applied by IMF staff.	

Table 8. Thailand: Risk Assessment Matrix[1]

Source of Risk	Likelihood	Impact of Risk	Policy Response
External Risks			
Trade disruptions and geoeconomic fragmentation. Escalation of global trade tensions and heightened uncertainty could hamper trade and slow global and regional growth. Additionally, deepening geoeconomic fragmentation could motivate inward-oriented policies and protectionism, or weaken international cooperation. This could lead to a less efficient configuration of trade and FDI, supply disruptions, technological and payments systems fragmentation, financial instability, a fracturing of international monetary system, and lower growth.	High	Escalation of global trade tensions and the associated slowdown in global and regional growth would disrupt Thailand's export recovery and dampen FDI inflows. Additionally, if geoeconomic fragmentation intensifies, Thailand is likely to experience lower exports and output losses in the longer term that would negate any potential short-term gains from exploiting trade and FDI diversion opportunities.	Reduce vulnerabilities to geoeconomic fragmentation by diversifying trading partners and maintaining a resilient trade network. Accelerate structural reforms and infrastructure development to enhance productivity growth. Particularly, streamline regulatory barriers and liberalize markets to ensure a conducive environment for FDI. Facilitate innovation through strengthened research and development to help firms move up the value chain.
Intensification of regional conflicts. Escalation or spread of the conflict in Gaza and Israel, Russia's war in Ukraine, and/or other regional conflicts or terrorism disrupt trade (e.g., energy, food, tourism, supply chains), remittances, FDI and financial flows, payment systems, and increase refugee flows.	High	The intensification of ongoing conflicts, and potential escalation of regional tensions could negatively affect Thailand's economy by disrupting trade and travel flows. Increased security risks could slow down or significantly decrease the number of foreign tourist arrivals. Supply chain disruptions could lead to shortages of intermediate and final consumer goods, resulting in production challenges and price surges.	Deploy an integrated use of available policy instruments—involving monetary policy tightening, FXI, and fiscal support—to minimize the trade-off between stabilizing output and maintaining price stability. Continue diversifying trade networks to reduce vulnerabilities to idiosyncratic shocks. Accelerate structural reforms and infrastructure development to raise returns to private investment and strengthen domestic-demand-led growth.
Commodity price volatility. Supply and demand fluctuations (e.g., due to conflicts, export restrictions, OPEC+ decisions, and green transition) cause recurrent commodity price volatility, external and fiscal pressures and food insecurity in EMDEs, cross-border spillovers, and social and economic instability.	High	Commodity price volatility, particularly higher fuel prices, could slow down Thailand's economic growth and lead to higher inflation than currently projected. Higher fuel prices could also result in prolonged fuel subsidies, worsening the fiscal stance, increasing energy imports, and delaying the green transition.	Accommodate the first-round effects of the cost-push shock, given the low inflation and remaining slack in the economy. Monetary policy should be prepared to address the second-round effects if they threaten to de-anchor inflation expectations. Fiscal policy could continue to provide demand support unless price pressures intensify. Avoid costly and regressive fuel subsidies, replacing them with more targeted support for the most vulnerable.

Table 8. Thailand: Risk assessment Matrix (Continued)			
Source of Risk	**Likelihood**	**Impact of Risk**	**Policy Response**
Global growth surprises: • Slowdown. Growth slowdown in major economies, including due to supply disruptions, tight monetary policy, rising corporate bankruptcies, or a deeper-than-envisaged real estate sector contraction, with adverse spillovers through trade and financial channels, triggering sudden stops in some EMDEs. • **Acceleration**. Positive supply-side surprises, monetary easing, productivity gains from AI, and/or stronger EMDE performance raise global demand and trade, and ease global financing conditions.	Medium Low	A slowdown in global growth could result in reduced economic activity in Thailand due to decreased external demand and slower-than-expected inflows of foreign investments. Conversely, a positive surprise in global growth could strengthen external demand and ease global financial conditions, leading to stronger growth and more pronounced inflation in Thailand.	Allow the exchange rate to adjust flexibly to shocks, with judicious intervention to address disorderly market conditions if needed, and mitigate policy trade-offs when the FX market becomes dysfunctional and deviations in hedging and financing premia become excessive. Monetary policy should be prepared to address second-round effects of the shock that threaten to de-anchor inflation expectations. Counter-cyclical fiscal policies could be considered to mitigate the impact, but maintaining fiscal prudence would be important given the elevated debt levels.
Climate change. Extreme climate events driven by rising temperatures cause loss of life, damage to infrastructure, food insecurity, supply disruptions, lower growth, and financial instability. A disorderly transition to net-zero emissions and regulatory uncertainty lead to stranded assets and low investment.	Medium	More frequent or intense extreme weather events could negatively affect the Thai economy through various channels. Impacts on large economies including damage to key infrastructure, could reduce global GDP, cause supply chain disruptions, and increase inflationary pressures, prompting a recalculation of risk and growth prospects. Extreme events such as typhoons, flooding, droughts, heat waves in Thailand could disrupt economic activity, including a halt in tourism, and jeopardize lives and livelihoods.	Ensure adequate pricing of carbon by adopting an effective emission trading system. Scale up investments in climate-resilient infrastructure and research and development. Incorporate climate risks in prudential policies 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.

Table 8. Thailand: Risk assessment Matrix (Concluded)

Source of Risk	Likelihood	Impact of Risk	Policy Response
Domestic Risks			
Increased social discontent and political uncertainty. Reduced growth, real income loss, persistent inequality could fuel social discontent, and stir social unrest and political uncertainty.	High	Social discontent and political uncertainty could undermine consumer and business confidence, trigger financial market volatility, and disrupt trade and investment, potentially causing significant setbacks to the Thai economy. Additionally, political fragmentation could make it increasingly difficult for the government to push ahead with necessary reforms to address structural weaknesses and boost productivity growth.	Maintain macroeconomic stability while strengthening social support to reduce inequality. Phase out costly and regressive energy subsidies and replace them with more targeted social support. Scale up education and health expenditures to support the buildup of human capital, while strengthening social protection to shield households from life-cycle risks. Enhance governance and anti-corruption efforts to reduce corruption and strengthen the rule of law.
Weakening fiscal discipline. Increased social discontent and potentially withering political support could motivate the government to implement increasingly populist procyclical fiscal policies.	High	Additional fiscal expansion would provide a limited short-term demand boost, but at the larger cost of higher public debt and erosion of fiscal space, which would be critical for responding to future potential shocks. Weakening fiscal discipline could also weigh on investor confidence, leading to reduced capital inflows. Furthermore, increased public debt may result in higher borrowing costs, crowding out necessary spending that could be put to more productive use.	Advance efforts to implement a growth-friendly, revenue-based fiscal consolidation to reduce debt and rebuild fiscal buffers. Strengthen fiscal rules to ensure the credibility of the fiscal anchor, and streamline the fiscal framework to enhance its effectiveness. Improve fiscal transparency and public financial management procedures.
Further buildup of private sector debt. Slower-than-expected recovery could lead to increased buildup of private sector debt, with deteriorating credit quality.	High	A prolonged period of household over-indebtedness and deterioration in SME loans could lead to lower private consumption and private investment which could create sizable medium-term output losses. A potential outbreak of private debt defaults with increasing non-performing loan ratios will impair bank balance sheets and increase vulnerabilities to the financial sector, which could lead to a further decrease in credit growth and thus deteriorate the growth outlook.	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.

[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. G-RAM operational guidance is available on the SPR Risk Unit website.

Table 9. Thailand: Implementation of the Main Recommendations of the 2023 Article IV Consultation

Fund Recommendations	Policy Actions
Fiscal Policy:	
• Implement DW program within the MTFF deficit limit in FY24, without resorting to new borrowing and targeting only vulnerable groups. • Implement medium term fiscal consolidation supported by increasing the VAT rate, rationalizing tax exemptions, better targeting energy subsidies and reprioritizing public spending towards health and education to boost potential output. • Closely monitor fiscal risks from state-owned enterprises (SOEs) and extra-budgetary funds should be and implement robust fiscal governance and transparency.	• The first tranche of the DW was implemented in late September 2024as a cash transfer of THB 145 billion (0.8 percent of GDP) to SWC holders and persons with disabilities. The expenditure was within the planned budget in the MTFF, and no new borrowing has been necessary. FY25 budget envisages additional transfers, with an overall envelope of THB 188 billion (1 percent of GDP), which includes a second tranche transfer of THB 40 billion (0.2 percent of GDP) designated for elderly people. • In FY24, the Ministry of Finance gradually phased out the use of excise tax cuts on fuel products and terminated it in April 2024. The authorities have introduced a revenue-neutral carbon tax and indicated they will adopt the global corporate minimum tax in 2025. • SOEs are currently closely monitored by the State Enterprise Policy Office (SEPO) as well as the BOT in the case of financial institutions, while the extra-budgetary funds are also closely monitored by the Extra-Budgetary Funds Management Committee, chaired by the Finance Minister. Under the Fiscal Risk Statement, the performance as well as financial position of the key SOEs and extra-budgetary funds are closely monitored and published together with the risk assessment.
Monetary and Exchange Rate Policies:	
• Closely monitor inflation developments and react timely to generalized price pressures. • Thai exchange rate should continue to be the first line of defense against external shocks. • Publish data on FXI. • Phasing out of remaining capital flow management (CFM) measures on non-resident baht account.	• Monetary policy stayed on hold until mid-October 2024 to support further debt deleveraging in a data-dependent manner, while limiting financial stability risks. The BOT cut the policy rate by 25 bps in October 2024, to alleviate the debt-servicing burden for borrowers as risks to financial imbalance buildup declined further in light of the realized progress in debt deleveraging. • FXI has been largely two-sided in line with capital flow movements to deal with excessive exchange rate movements and provide the private sector with sufficient time to adjust.
Financial Policies:	
• Enhance risk analysis and stress testing of commercial banks, SFIs, and other non-bank institutions. • Strengthen the bank resolution toolkit and the financial safety net in line with the 2019 FSAP recommendations. • Accelerating implementation of DSR limits, ensuring their broad implementation, and setting these limits in line with international benchmark thresholds. • Strengthen insolvency regime to facilitate debt resolution • Enhance the coverage of macroprudential framework by including cooperatives and NBFIs to avoid regulatory arbitrage. • Enhance financial institutions' ability to assess environment-related risks and provide financial products and services needed to support climate transition and mitigation.	• BOT has developed a financial stability dashboard to closely monitor key risks of NBFIs and SFIs, covering their solvency, credit, profitability, and liquidity positions. • BOT has prepared a DSR consultation paper, coordinated with financial institutions to ensure standardized data preparation and data definitions, and is in the process of expanding the supervision power on unregulated hire-purchase and leasing companies to minimize potential leakages. In addition, BOT also coordinated with the government on policies to deleverage households, which led to the government implementing the DSR ceiling of 70 percenton government employees (including the loans granted by cooperatives). • Amendment of the Bankruptcy Act, aimed at establishing efficient legal measures to assist all debtor groups, particularly SMEs and individual debtors who are facing temporary liquidity challenges, has been approved by the cabinet and will proceed to the House of Representatives for further consideration and deliberation. • BOT has collaborated with the Cooperative Promotion Department to mitigate the potential credit risk and strengthen cooperatives' financial positions and long-term sustainability. • The authorities are currently developing Thailand Taxonomy Phase II (expected to be published by 2025), covering manufacturing, agriculture, real estate and construction, and waste management sectors. • The BOT, together with 8 Thai commercial banks, launched the Financing the Transition project, which aims to support the business sector to adapt to environmental sustainability.

Table 9. Thailand: Implementation of the Main Recommendations of the 2023 Article IV Consultation
(Concluded)

Fund Recommendations	Policy Actions
Structural Policies:	
• Enhancing competition by further liberalizing the service sector and minimizing tax incentives and subsidies, narrowly targeting trade and investment measures consistent with WTO obligations and relaxing the limits on foreign ownership of firms. • Upskilling labor force through active labor market policies and well-designed education policies. • Reducing vulnerabilities to geo-economic fragmentation (GEF) by improving business environment, structural reform and investment in infrastructure, and diversifying trading partners. • Reforming the social protection system to make it more inclusive and sustainable. • Implementing a broader and more biding emission trading system (ETS) and adopting carbon pricing, while protecting the vulnerable.	• The authorities took steps to strengthen their global integration. In June 2024 Thailand became the second OECD Accession Country from the region, and in August 29, 2024, the authorities approved the "Thailand-EU Comprehensive Partnership and Cooperation Agreement" to expedite negotiations for a Thailand-EU Free Trade Agreement. The authorities are pursuing new Free Trade Agreements (FTAs) to diversify markets and strengthen Thailand's regional presence with countries including Peru, Chile, and India. • The authorities have implemented the Promotion of Learning Act of 2023, aimed at creating a learning environment conducive to economic restructuring towards a knowledge-based economy, innovation, and creativity. In addition, the authorities are implementing the national science, research and innovation plan to use higher education and innovation to become high-income country and to upskill the labor force. They focus on boosting competitiveness by supporting S-curve industries and innovation-driven enterprises, and on supporting the development of a high-skilled workforce by giving tax incentives to private companies who send workers to approved training centers. • The authorities have introduced a revenue-neutral carbon tax and are proceeding with the legislation of the Climate Change Act to introduce an effective mechanism to reduce emissions, comprising the mandatory ETS, carbon tax, and carbon credits.

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 regulatory and supervisory framework, the coordination, cooperation and information sharing in developing and implementing policies take place 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-regulators steering committee meeting. For financial stability-(FS) related issues, BOT, SEC, OIC and MOF closely coordinate, cooperate, and share information through formal joint MPC-FIPC Meeting which takes place bi-annually. This acts as the policy recommendation/ consulting body for FS-related issues. However, BOT is currently reviewing additional alternatives that would be most appropriate for the Thai context, including inviting other regulator(s) to the meeting on 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.	BOT has engaged with the Cooperatives Promotion Department (CPD) of the Ministry of Agriculture and Cooperatives and pertinent regulatory bodies to ensure that Thrift and Credit Cooperatives (TCC) and Credit Unions (CU) maintain robust liquidity risk management practices. This collaboration encompasses the provision of support in the formulation and issuance of regulations pertaining to liquidity adequacy requirements for TCC and CU.
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 is enhancing financial stability dashboards by integrating insurance and non-bank retail lending metrics into the existing dashboards along with a comprehensive review to ensure inclusive and timely risk monitoring. In addition, the BOT has established the MFiSS (macro-financial stability secretariat) high-level and working-level bodies to oversee the alignment between macroeconomic and financial conditions that could potentially lead to systemic risks. These enhancements are further supported by the introduction of a Composite Indicator of Systemic Stress (CISS) which aims at providing a more thorough assessment of the overall financial system instability and interconnectedness among financial nodes. Furthermore, 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 tests which are currently under review by the BOT. BOT will continue to give advice to SFIs on how to improve the models and stress test processes.

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

Macroprudential and Financial Stability	
Clarify the financial stability mandate of the FIPC and the MPC	While the MPC doesn't have an explicit mandate on financial stability, the monetary policy discussions and decisions have taken into account financial stability as it is one of the three objectives for monetary policy. On the other hand, FIPC has the commitment to ensure financial institution stability, contributing to strategic decision-making and effectiveness of supervisory and regulatory framework. Therefore, 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 analysis on macro-financial linkages and feedback loops. This will help put in perspective and establish coordination between MPC and FIPIC which is needed to determine the need to deploy policies in an integrated way to help safeguard the overall stability of the financial system.
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	The BOT has initiated discussions with commercial banks, SFIs, and non-banks that offer retail loans under BOT's supervision concerning the implementation of the debt service ratio (DSR) measure. The Consultation Paper (CP) for DSR implementation is to be released when the timing for DSR implementation is fast approaching. The BOT plans for this measure to take effect in 2025 at the earliest, pending favorable economic conditions.
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 Federation of Accounting Profession in Thailand 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 enhances regulation to supervise SFIs using a phased 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 requirements, liquidity reserve requirements, credit processes, single lending limits, accounting, branch services, outsourcing, KYC, IT risk management, mortgage loans, 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 Guidelines on Operational Risk Management, and the Guidelines 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 actively supported the CPD in the promulgation of more stringent regulations, including pertaining to corporate governance, disclosure, and capital requirements. Regulations addressing loan underwriting standards, asset classification and loan provisioning, as well as liquidity requirements are in progress. Furthermore, the BOT has collaborated with the CPD to advocate for the adoption of affordability indicators akin to those proposed in the DSR policy for cooperative lending processes. Additionally, BOT has recommended the consideration of a residual income criterion of 30 percent for cooperative debtors who are government employees to ensure they have adequate funds to support living expenses.
Address a potential over-indebtedness problem including by defining maximum DTI ratios and requiring TCCs and CUs to report to the NCB.	

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

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 Weapons of Mass Destruction Financing Act is being amended to provide the mechanism for delisting request and procedures relating to false positives. The Anti-Money Laundering Act is being amended to incorporate beneficial ownership requirements 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.
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 basis 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 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, developing the loan review system and drafting of loan documentations for Section 42 ELA.
Source: Thai authorities and IMF 2019 FSAP.	

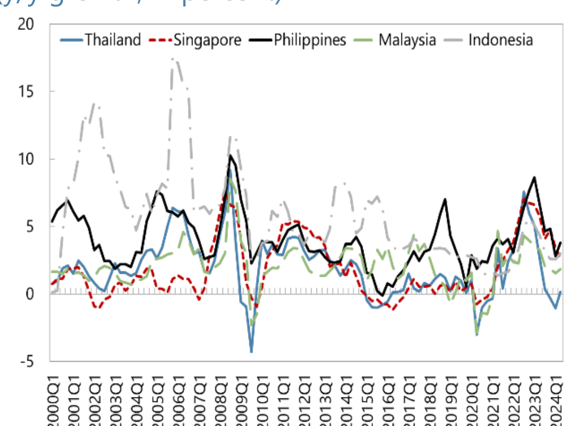
Annex I. Inflation Dynamics in ASEAN[1]

What have been the primary drivers of inflation in Thailand and ASEAN-5 in recent years? This annex examines the evolution of their inflation trends through the lens of an open economy Phillips curve that distinguishes between global and domestic determinants. The analysis shows that global factors, such as energy and food prices as well as import prices from China have played a key role on inflation dynamics observed in the recent pandemic and post-pandemic periods for ASEAN-5 countries. Inflation expectations are also an important contributor to inflation in the region, suggesting an important role for monetary policy in anchoring them, while persisting negative output gaps post-pandemic have exerted downward price pressures. In turn, stronger monetary policy frameworks are associated with lower inflation expectations and actual inflation outcomes. A further decomposition of Thailand's inflation into supply and demand factors using sectoral Personal Consumption Expenditures (PCE) data suggests that supply factors have been more prevalent in driving the recent inflation deceleration.

1. **Inflation dynamics in the ASEAN-5 countries have exhibited strong co-movement, albeit with varying intensities (Figure 1, panel 1)**. In the early 2000s, Indonesia experienced several periods of high inflation periods but has aligned more closely with its peers over time. The Philippines has recorded the highest inflation rates among the ASEAN-5 in recent years. Conversely, Malaysia and Thailand faced negative inflation during both the Global Financial Crisis and the pandemic. Unlike its peers, Thailand's inflation fell below the central bank's target range since 2023Q3. The 2024 estimates (Figure 1, panel 2) suggest a positive output gap for Malaysia and negative output gaps for most ASEAN countries, most of which are small with the exception of Thailand.

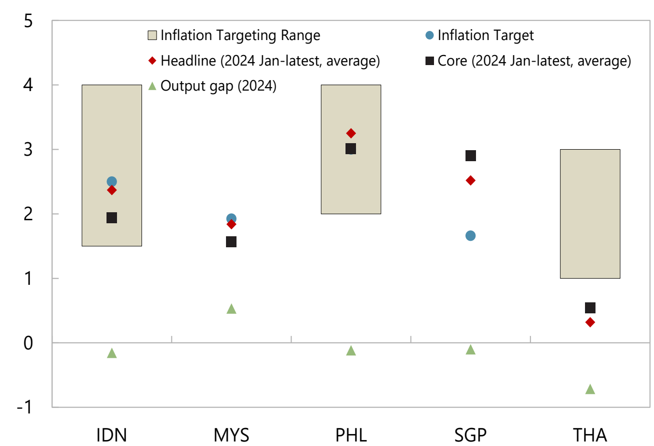
Figure 1. ASEAN-5: Inflation Dynamics and Output Gap

Headline Inflation Dynamics (y/y growth, in percent)



Sources: Haver Analytics and IMF Staff calculations.

Inflation and Output Gaps (In percent, y/y growth, avg of monthly inflation; percent of GDP)



Sources: Haver Analytics and IMF Staff calculations.

Notes: MYS headline inflation targets are based on average inflation from 2015-2019. SGP headline inflation target is based on average headline inflation from 2010-2019.

[1] Prepared by Ying Xu and Emmanouil Kitsios (both APD) with valuable contributions from Melih Firat (SPR).

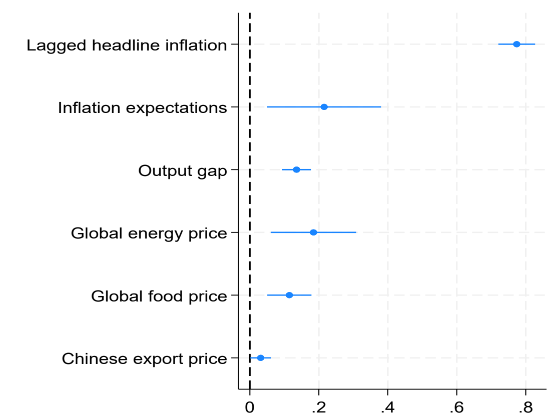
2. To better understand the drivers of inflation in ASEAN-5 countries, we use an open economy Phillips curve approach. Based on IMF (2023) and Baba et al. (2023), the following Phillips Curve equation for headline inflation is estimated:

$$\pi_{i,t} = \beta_1 \pi_{i,t-1} + \beta_2 \pi^e_{i,t} + \beta_3 y_{i,t} + \sum_{j=0}^{4} \beta^E_j Energy_{i,t-j} + \sum_{j=0}^{4} \beta^F_j Food_{i,t-j} + \beta_4 ExP_t + FE_i + \varepsilon_{i,t}$$

Where $\pi_{i,t}$ is the annualized year-on-year growth rate of the headline inflation in country i and quarter t; $\pi^e_{i,t}$ is three-year-ahead inflation expectations; $y_{i,t}$ is the output gap (computed as the cyclical deviation from trend estimated by HP-filtered quarterly real output); $Energy_{i,t}$ and $Food_{i,t}$ are growth in global energy and food prices expressed in domestic currency and weighted by the shares of these items in domestic CPI baskets; ExP_t is the growth of Chinese export price index; FE_i are country fixed effects; and $\varepsilon_{i,t}$ is the error term.

3. Phillips curve structural estimates suggest a positive slope in ASEAN-5 countries. The slope of the Phillips curve, that is, the coefficient of the output gap, is positive for the region. Meanwhile, estimates indicate that the persistence of inflation is high in ASEAN-5 with a point estimate close to 0.8. Global energy and food price shocks both contribute positively to headline inflation as expected, with the former having a stronger effect. Estimates suggest that for every percentage point of increase in global energy prices inflation (expressed in local currency), headline inflation in ASEAN-5 countries will increase by about 0.2 percentage points, while the same change in global food prices inflation leads to a 0.1 percentage point increase in headline inflation. Inflation expectations are also an important contributor to inflation in the region, suggesting an important role for monetary policy in anchoring them.

Figure 2. ASEAN-5: Phillips Curve Estimate Results



Sources: Consensus Forecasts, Haver Analytics, IMF WEO Database, IMF PCPS, IMF Staff calculations.

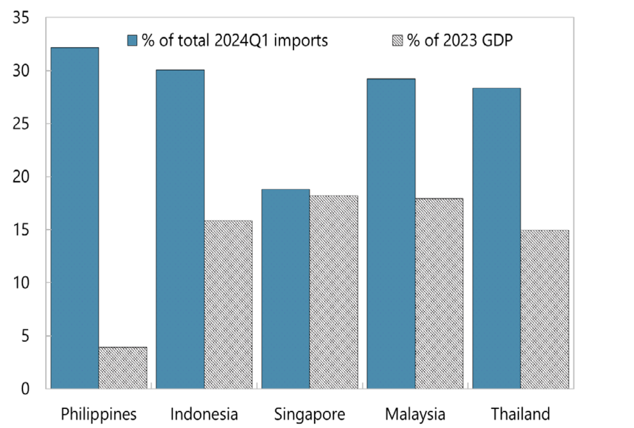
4. Disinflation from China has nontrivial spillover implications for inflation in ASEAN-5. As the largest trade partner, China accounts for about 30 percent of the region's imports (Figure 3, panel 1). Since mid-2023, a notable reduction in China's inflation, coupled with depreciation of the Chinese yuan, has led to lower export prices for China (Figure 3, panel 1). These could have inflation implications for ASEAN countries. BIS (2024) shows that China's deflation translated to an average reduction of 5 percentage points in import prices for its trading partners over 2023.[2] Previous studies have shown that a 5.8 percent decrease in import prices would eventually translate into a 1.5 percent

[2] The sample, however, is based on 12 major countries that does not include ASEAN-5 countries.

reduction in CPI inflation (Goldberg and Campa, 2010)[3]. Our results suggest that the estimated effect of Chinese export prices on headline inflation is positive though its size is less pronounced: for each percentage point reduction (increase) in Chinese export price inflation, headline inflation declines (increases) by about 0.03 percentage points for an average ASEAN-5 country.

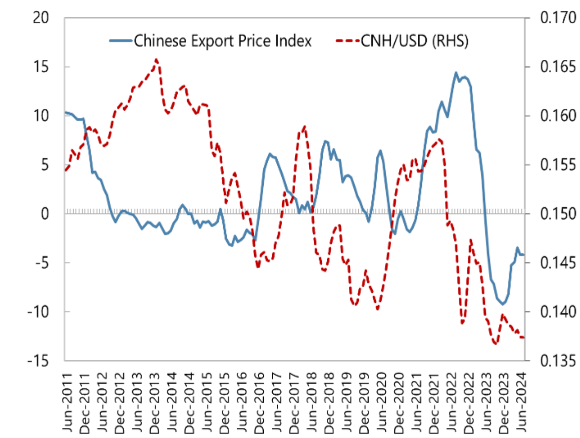
Figure 3. Thailand: China's Spillover Effects

ASEAN Imports from China
(In percent of total 2024Q1 imports and 2023 GDP)



Sources: IMF DOTS Database, April 2024 IMF WEO Database, and IMF Staff calculations.

China's Export Prices and Exchange Rates
(y/y, in percent, 3-month moving average; monthly average)



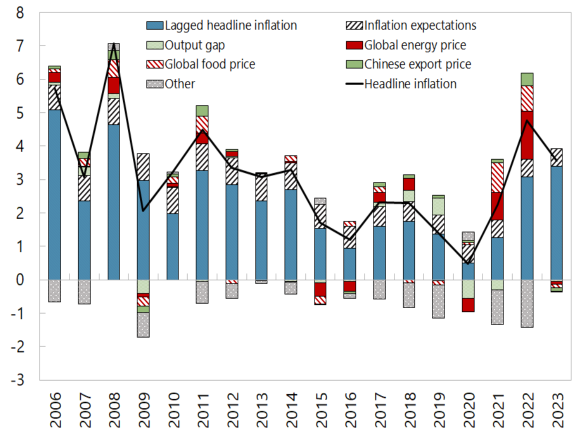
Sources: Haver Analytics and IMF Staff calculations.

5. **External price pressures, the output gap, and inflation expectations contributed to inflation dynamics in ASEAN-5**. We use the statistically significant coefficients estimated in the model above and historical data to calculate the contribution of each component to headline inflation in ASEAN-5 (Figure 4, panel 1). The fitted model attributes significant effects from external price pressures to inflation in recent years, including export prices from China. During the pandemic years, higher external price pressures led to higher inflation prints in ASEAN, while other residual factors not captured in the model contributed negatively to the acceleration of inflation. Some of these unexplained factors likely reflect the impact of direct measures, such as subsidies, excise tax cuts, and administered prices, implemented by the authorities to mitigate the effect of higher energy prices on local costs. These measures peaked in 2022 and have since been scaled down (Figure 4, panel 2). Inflation expectations had a positive contribution over the past 20 years (grey striped bars in Figure 4, panel 1), while the output gap had a mixed impact on inflation (light green bars). Negative output gaps led to downward pressures on headline inflation, particularly during the pandemic in 2020-21, while positive output gaps prior to 2020 exerted upward pressures.

[3] Goldberg and Campa (2010) quantify the responsiveness of CPI to import prices across 21 industrialized economies based on input-output tables for around the year 2000.

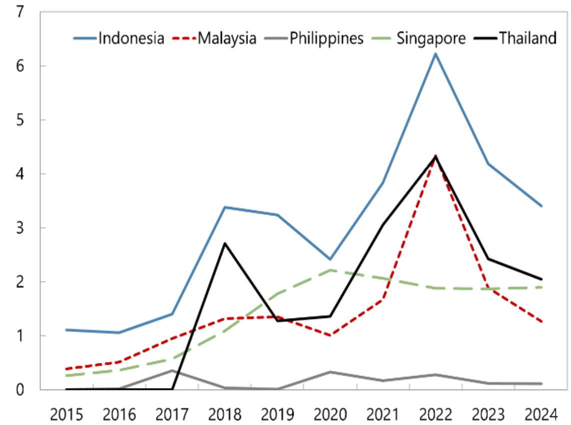
Figure 4. Thailand: Drivers of Headline Inflation and Fossil Fuel Subsidies

ASEAN-5: Drivers of Headline Inflation
(y/y growth, percent)



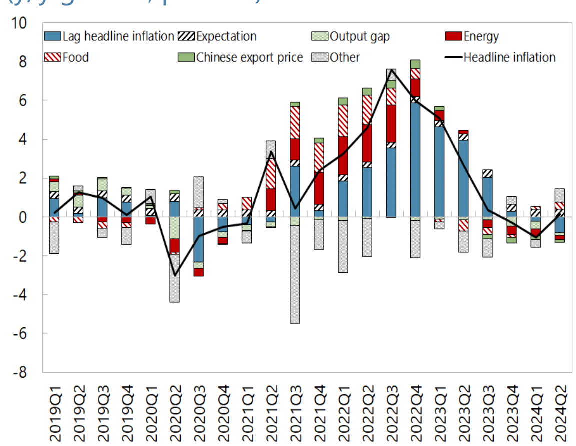
Sources: Consensus Forecasts, Haver Analytics, IMF WEO Database, IMF PCPS, IMF Staff calculations.

ASEAN-5: Explicit Fossil Fuel Subsidies
(as percent of GDP)



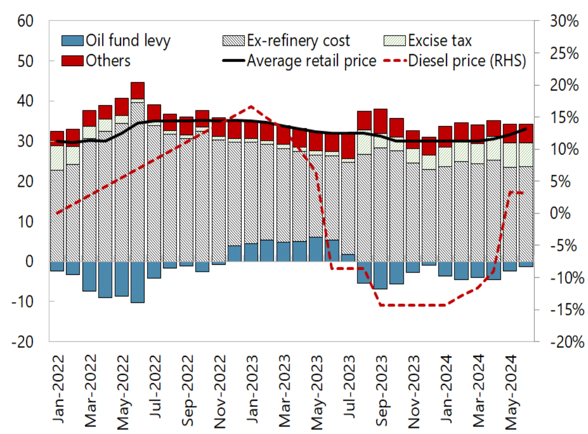
Sources: IMF Staff calculations.

Thailand: Drivers of Headline Inflation:
(y/y growth, percent)



Sources: Consensus Forecasts, Haver Analytics, IMF WEO Database, IMF PCPS, IMF Staff calculations

Thailand: High Speed Diesel Retail Price Structure
(THB per liter; in percent, y/y growth)



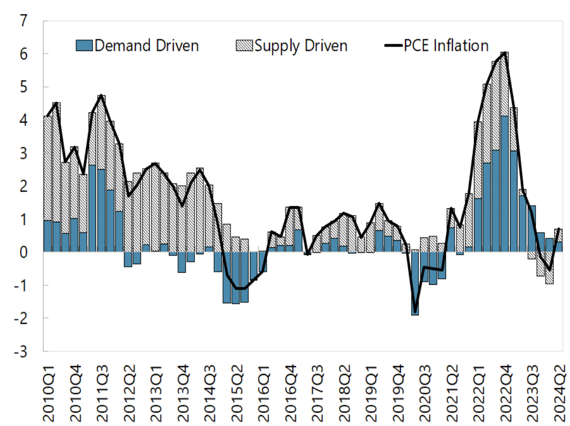
Sources: EPPO, IMF Staff calculations.

6. Decelerating external prices together with extensive price controls, and larger negative output gap than in peer countries are the main drivers of recent lower inflation in Thailand. Using the same method as above, we decompose headline inflation in Thailand for the most recent quarters (Figure 4, panel 3). Decelerating external price pressures, including the spillover from lower Chinese export prices, have contributed significantly to the relatively low inflation in Thailand since mid-2023. In addition, price caps imposed by the authorities together with subsidies and tax reductions on energy and other products in the consumer basket further contributed to lower headline and core inflation in recent years.[4] Thailand is highly dependent on energy imports and is more energy-intensive than peers. The "shale oil revolution" in 2015 led to a significant reduction in energy costs that in turn reduced the prices of raw food, as energy is a crucial input in food production and transportation. With raw food and energy accounting for 33 percent of the CPI basket, these declines led to an overall decline in headline inflation since 2015. In addition, the impact of exchange rate changes varies across sectors, with the energy component being the most affected. However, price adjustment mechanisms of the Oil Fund have buffered the sensitivity of retail oil prices to exchange rate changes contributing to a low exchange rate pass-through for Thailand. For example, the price cap on diesel fuel exerted additional downward pressure on energy inflation that affected headline inflation (Figure 4, panel 4). Bank of Thailand's (BoT) estimates suggest that headline inflation would be about 1.1 percent higher in 2024Q1 without the energy subsidies (BoT, 2024). In addition, the more negative output gaps compared with peers also contributed to the low inflation in Thailand (light green bars in Figure 4, panel 3).

7. **The demand and supply responses to global and domestic developments discussed in the previous section ultimately have a bearing on inflation**. We follow the methodology of Shapiro (2022) and Firat and Hao (2023) to distinguish between supply and demand driven inflation in each of 32 personal consumption expenditure categories available for Thailand. This classification relies on the assumption that demand shocks move prices and quantities in the same direction, while supply shocks move them in opposite directions. To carry out this classification, we estimate a vector autoregressive (VAR) model in first differences with four lags for each expenditure item. This VAR model allows us to examine whether inflation in each individual consumption category can be attributed to supply or demand driven factors. Sectoral inflation rates are calculated using as quarterly sectoral price deflators the ratio of nominal and real seasonally adjusted expenditures over the period of 1995Q1 to 2024Q2. Contributions of demand and supply factors to aggregate inflation are then obtained as weighted sums of sectoral inflation rates classified as either demand- or supply-driven (Figure 5).[5]

Figure 5. Thailand: Decomposition of PCE inflation

(In percent, y/y)



Sources: Haver Analytics, Firat and Hao (2023), IMF Staff calculations.

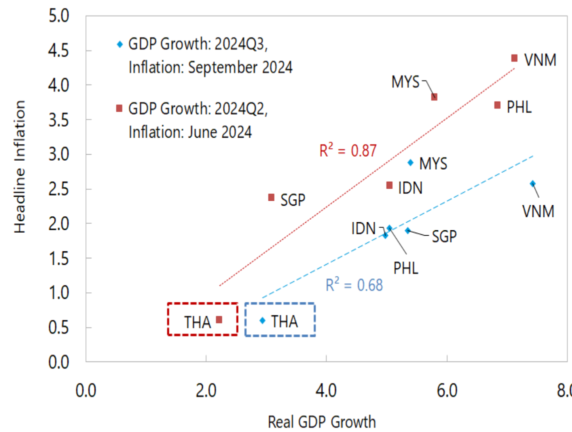
[4] Price controls apply to about 26.4 percent of the goods' prices in the consumer price index (CPI) basket.

[5] The demand and supply components from the decomposition may reflect sectoral relative price movements rather than generalized demand or supply price pressures.

8. Supply factors contributing to lower growth combined more recently with demand factors, appear to have driven Thailand's inflation deceleration in 2024. The decomposition suggests that at the outset of the pandemic, 2020Q1, lockdown measures exerted downward pressure on prices primarily through the demand channel. Demand-driven factors had a negative contribution to aggregate inflation throughout 2020 until 2021Q1. However, as the economy gradually reopened in November 2021, demand-driven inflation reversed its trend reflecting the lifting of pandemic restrictions and implementation of supportive fiscal and monetary policies. The relative contribution of supply-driven inflation to PCE inflation was relatively muted during the initial pick-up of inflation in 2021 and began rising after 2022Q1 when commodity prices started surging following Russia's invasion in Ukraine. A decline in inflation began towards the end of 2022, accompanied by a decreasing contribution from supply factors. Supply factors that partly manifested themselves in lower manufacturing production and exports leading to lower growth than peers, exerted a negative contribution on inflation throughout 2023Q3-2024Q1. Declines in energy prices due to government subsidies over this period, also contributed to deflationary pressures. On the other hand, demand factors were stronger as tourism continued to recover before normalizing their contribution to pre-pandemic levels. Lower growth rates across ASEAN peers strongly correlate with lower inflation, which is in line with our empirical finding that negative output gaps have an explanatory role (Figure 6). As of 2024Q2, supply factors reversed their negative contribution, while demand factors declined likely reflecting the decline observed in private consumption and private investment.

Figure 6. ASEAN-6: Real GDP Growth and Headline Inflation

(In percent)

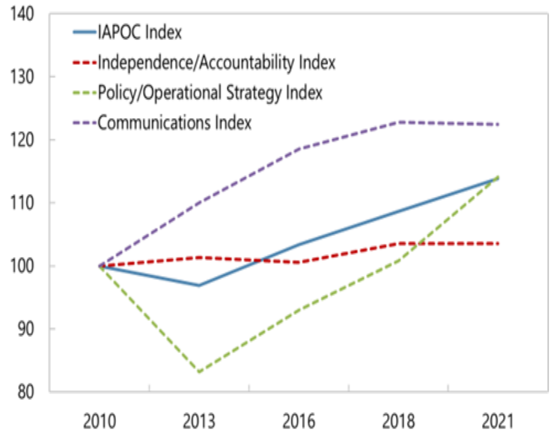


Sources: Haver Analytics, IMF Staff calculations.

9. The relative importance of demand and supply factors in driving inflation could provide useful insights for tailoring the appropriate policy response. Misidentifying the source of inflation can lead to inappropriate policy measures, potentially destabilizing the economy. For example, tightening monetary policy in response to transitory supply shocks could exacerbate economic downturns without effectively addressing the root cause of inflation. On the other hand, as supply shocks linked to intensification of conflicts, geoeconomic fragmentation or climate change become more frequent/persistent, policymakers will face difficult trade-offs, putting a premium on an integrated policy mix supported by adequate buffers and ensuring that inflation expectations remain anchored regardless of the source of inflation shock. Clear communication about the nature of inflation can also help clarify the monetary policy stance to the public, thus enhancing the central bank's credibility and managing of market expectations.

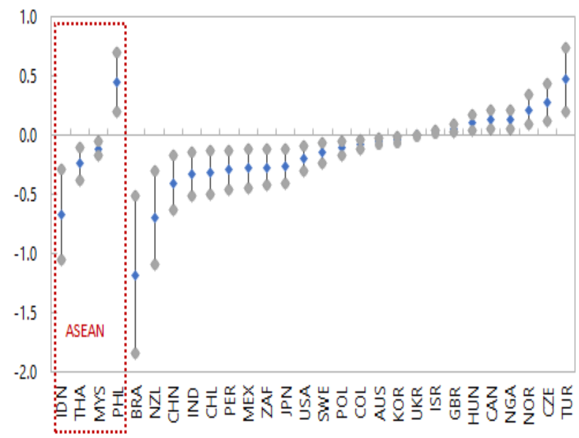
Figure 7. Thailand: Monetary Policy Framework (MPF)

Thailand: MPF Index and Subindices
(Index, base year=2010)



Sources: Unsal, Papageorgiou, and Garbers (2022), IMF staff calculations.
Notes: The IAPOC index is a metric that provides a multidimensional characterization of monetary policy frameworks covering Independence and Accountability, Policy and Operational Strategy, and Communications. The scores are normalized to 100 for each country in their initial assessment years.

MPF and Inflation Expectations
(In percentage points)



Sources: Consensus Forecasts, Haver, IMF WEO, IMF PCPS, IMF Staff calculations.
Notes: Estimated change in 3-years-ahead inflation expectations in 2021 from growth in the IAPOC index over 2018-2021 and its 90 percent confidence interval.

10. **Well-designed monetary policy frameworks that include clear policy and operational strategies, as well as robust independence and accountability measures, strengthen the overall credibility of central banks.** Given the role played by inflation expectations in inflation dynamics, we examine the relationship between central bank independence, manifested in credible monetary policy frameworks and inflation expectations' anchoring. Thailand has enhanced its monetary policy framework over time across all three pillars captured by the Independence and Accountability, Policy and Operational Strategy, and Communications sub-indices that comprise the IAPOC index compiled by Unsal, Papageorgiou, and Garbers (2022) (Figure7, panel 1). An empirical exercise of regressing 3-years-ahead inflation expectations on the growth of the IAPOC index over four subperiods of 2010-2021 for a sample of 50 countries, suggests that stronger overall monetary policy frameworks are associated with lower inflation expectations (Figure 7, panel 2).[6] Improvements in monetary policy credibility are also found to be negatively and significantly correlated with actual inflation when the latter is used as the dependent variable.[7] The results are suggestive of the importance of sound monetary policy frameworks in helping central banks anchor inflation expectations and control inflation, including by reducing the likelihood of politically-motivated economic cycles and enhancing the overall predictability of monetary policy. Safeguarding the independence of central banks, therefore, is crucial for achieving and maintaining monetary policy credibility and price stability.

[6] Other determinants include the level of GDP (in log PPP terms) as a proxy for each country's level of development, and a 5-year moving average of inflation to account for the direct effects of actual inflation and indirect effects of past improvements in monetary policy frameworks. The regressions also control for year and country fixed-effects.

[7] The results complement similar findings by Unsal and Papageorgiou (2023) and Kalemli-Özcan and Unsal (2023).

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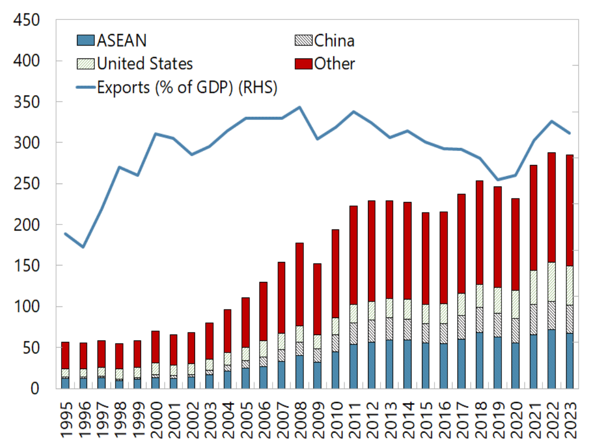
Annex II. Thailand's Exports in a Fragmented World[1]

How has Thailand navigated the China-U.S. trade tensions that intensified from 2018? This annex takes a closer look at both the impact of the China-U.S. trade tensions on Thailand and other ASEAN peers, as well as at the broader trends ASEAN integration in the global economy in the context of rising geoeconomic fragmentation. While Thailand is one of the ASEAN economies that have captured new export opportunities presented by the imposition of Chinese and U.S. tariffs, short-term sectoral gains have not translated into overall export growth. Further, intensification of geoeconomic fragmentation causing a reduction in global demand could generate long-term export and output losses.

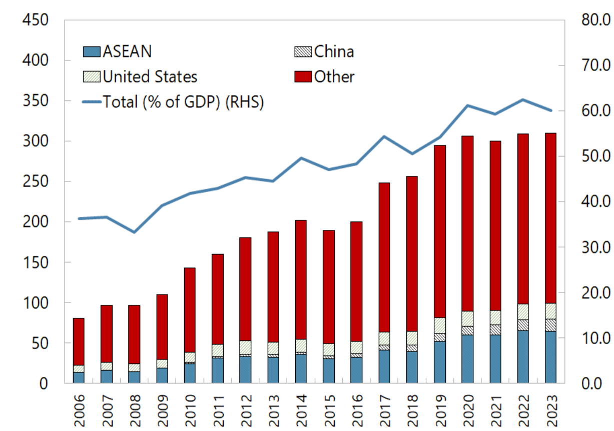
1. **Thailand has benefited from decades of global integration raising over time its value of exports and remaining highly open to the world**. Given Thailand's high openness and strong trade and FDI links with both China and the United States, we took a closer look at the impact of the China-U.S. trade tensions on its trade performance in those products that were affected by the tariffs. (Figures 1 and 2). We also examined the impact on other ASEAN countries considering the increasing intra-regional trade and FDI linkages.

Figure 1. Thailand: Exports of Goods
(In billions of USD; In percent of GDP)



Sources: Bank of Thailand; and IMF Staff calculations

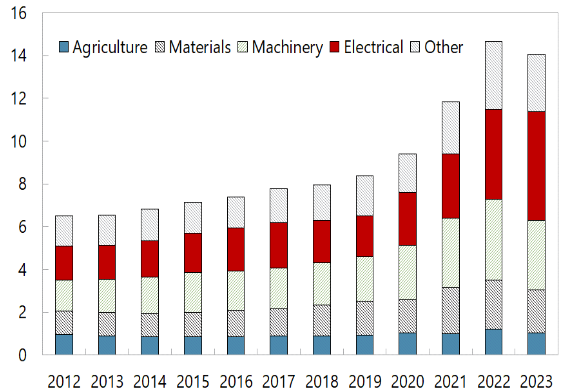
Figure 2. Thailand: Foreign Direct Investment Position
(In billions of USD; In percent of GDP)



Sources: Bank of Thailand; and IMF Staff calculations

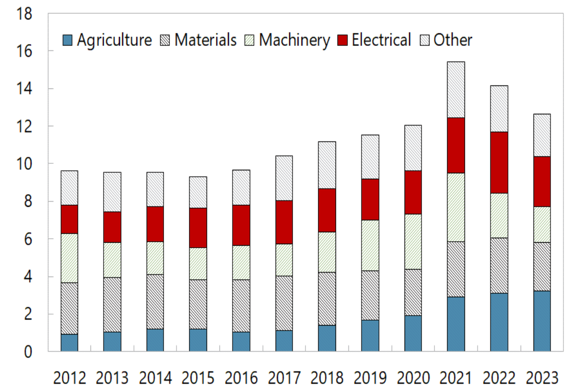
[1] Prepared by Emmanouil Kitsios (APD) with significant contributions from Giovanni Donato (Geneva Graduate Institute).

Figure 3. United States: Imports of Goods by Sector from Thailand
(In billions of USD)



Sources: Trade Data Monitor; IMF Staff Calculations

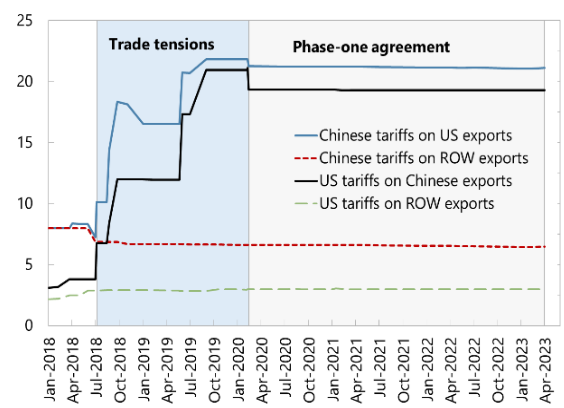
Figure 4. China: Imports of Goods by Sector from Thailand
(In billions of USD)



Sources: Trade Data Monitor; IMF Staff Calculations

2. **China-U.S. trade tensions escalated in 2018-2019, resulting in higher tariffs toward each other that persist until today**. By January 2021, U.S. raised its average tariff on China to over 19 percent, up from 3 percent before the trade tensions. China's retaliation to U.S. actions led it to increase its average tariff on U.S. exporters (from 8 percent to more than 20 percent), China also reduced the average duty applied to imports from the rest of the world (from 8 percent to about 6 percent) by the end of 2020 (Figure 5).

Figure 5. China-U.S.: Tariff Rates
(In percent)



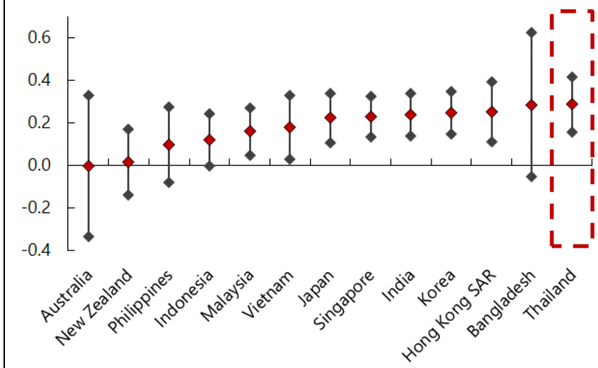
Sources: Bown (2023); and IMF staff calculations.

Impact of China-U.S. Tariffs on Thailand's Trade in Products Targeted by the Tariffs

3. **Thailand is among those ASEAN economies that have captured export opportunities presented by Chinese and U.S. tariffs**. We find that Thailand's exports to the world of products targeted by Chinese or U.S. tariffs grew faster than exports of untargeted products by about 29 percent on average in 2022/23 relative to 2016/17 (Figure 6). The point estimates indicate stronger relative trade gains for Thailand than other Asian countries. Importantly, greater demand from the United States and China has also led to an increase in Thailand's exports to the rest of the world, as revealed by the positive tariff elasticities of exports to both countries and the rest of the world.

The estimated positive elasticities of exports to U.S.-Chinese tariffs, suggest that Thailand's exports substituted those from China and the United States. Combined with positive elasticities of exports to the rest of the world, we conclude that Thailand operated along a downward supply curve. More intuitively, Thailand increased exports in targeted goods to third countries, suggesting that it exploited not only trade diversion opportunities but also realized economies of scale (Figure 7).

Figure 6. Thailand: Estimated Relative Export Gains in Tariff-Targeted Products, 2022-23
(Log-change)

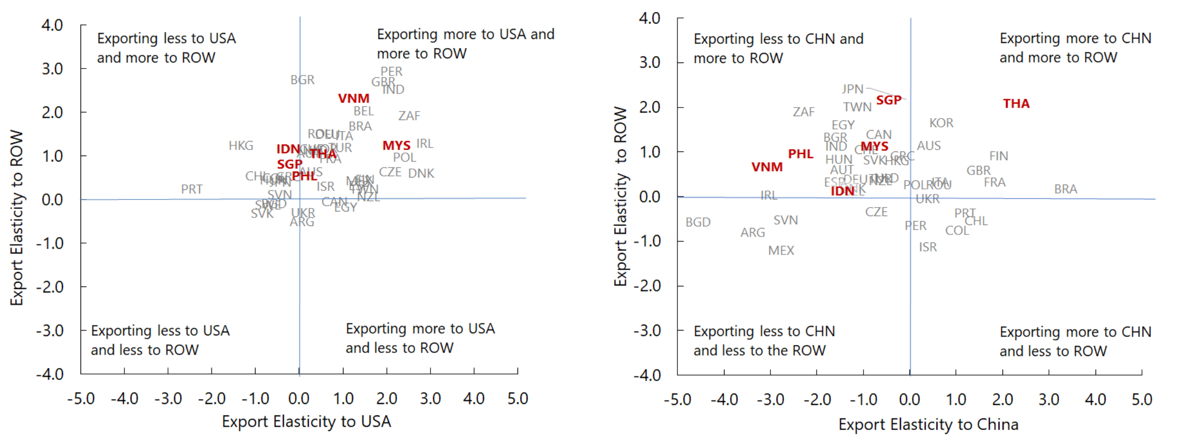


Source: BACI, Trade Monitor; and IMF staff calculations.

Figure 7. ASEAN-6: Export Elasticities in Response To China-U.S. Tariffs:

Panel A. Export Elasticities to the U.S. and Rest of World in Response to U.S. Tariffs
(In Percent)

Panel B. Export Elasticities to China and Rest of World in Response to China's Tariffs
(In Percent)



Sources: CEPII-BACI; Fajgelbaum and others (2024); and IMF staff calculations.

Sources: CEPII-BACI; Fajgelbaum and others (2024); and IMF staff calculations

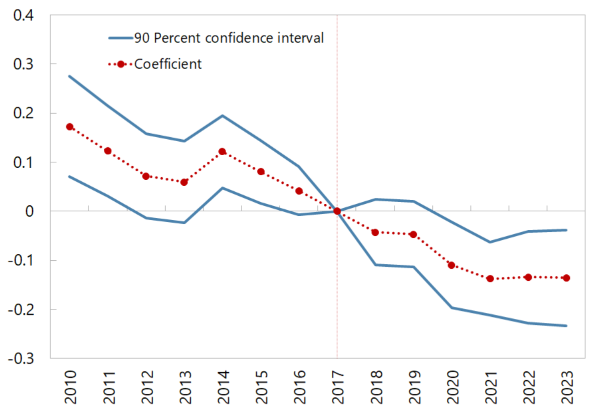
Impact of China-U.S. Tariffs on Thailand's Overall Trade Performance

4. **The trade reallocation gains from the China-U.S. tariffs have however not translated into stronger overall exports or trade balances for Thailand**. There is large heterogeneity of export growth across ASEAN members post-2018, suggesting that sectoral growth export gains do not equate total export growth gains. We estimate the following trade gravity equation:

$$I_{ixt} = \sum_{t=2010}^{2023} \beta_t t_t \times THA_x + t_t + \tau_{ix} + a_{ix} + \varepsilon_{ixt}$$

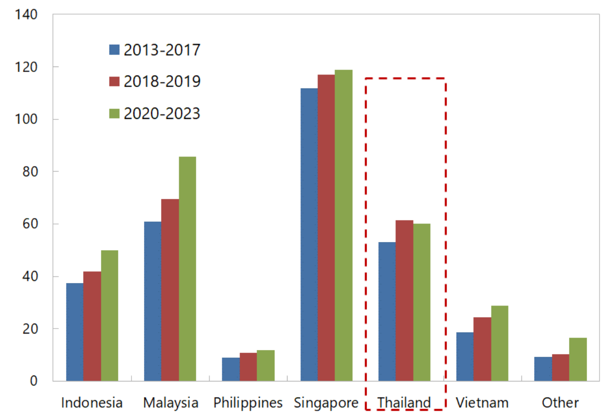
Where the logarithm of bilateral imports, I_{ixt}, of importer i from exporter x in year t, is regressed on a dummy for Thailand being the exporting country, (THA_x), year fixed-effects, t_t, importer-exporter bilateral fixed effects, τ_{ix}, a constant, a_{ix}, and an error term, ε_{ixt}.

Figure 8. Thailand: Exports of Goods
(Estimated Coefficient)



Sources: IMF Direction of Trade Statistics Database; and IMF Staff calculations.

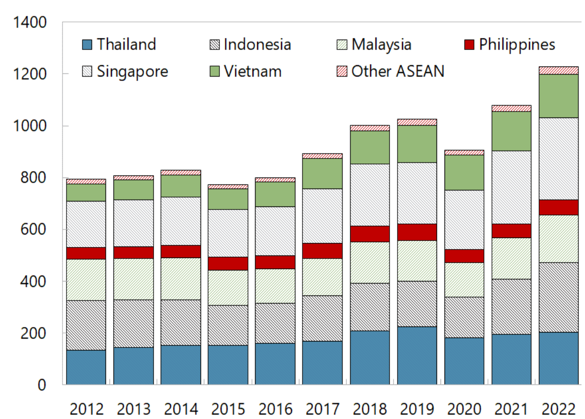
Figure 9. Intra-ASEAN: Exports of Goods
(In billions of USD; period average)



Sources: IMF Direction of Trade Statistics Database; IMF Staff calculations.

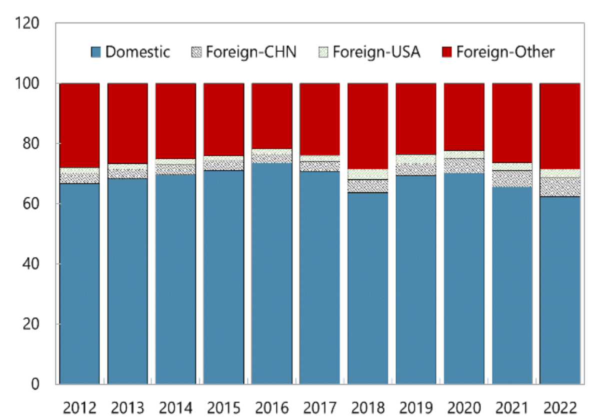
We plot the yearly coefficients of the Thailand exporter dummy, β_t, omitting the year 2017 as the year of interest given that the China-U.S. trade tensions escalated after 2018 (Figure 8). The estimates suggest that Thailand's export growth has slowed further after 2018, following a declining path that started before the rise in the trade tensions. Estimating similar regressions for other ASEAN countries suggests that relative export growth has risen for some (Vietnam/Indonesia), whereas it has remained stagnant for others (Philippines/Singapore).

Figure 10. ASEAN: Domestic Value-Added Embedded in Exports
(In billions of USD)



Sources: ADB MRIO and IMF staff calculations.

Figure 11. Thailand: Domestic and Foreign Shares of Value-Added
(In percent)



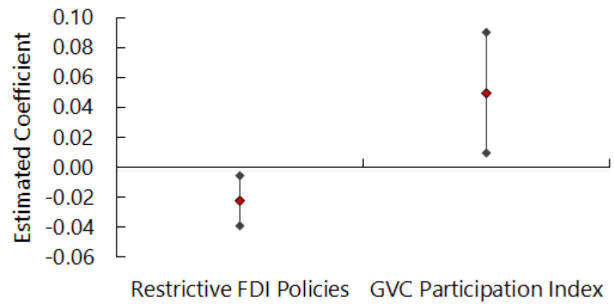
Sources: ADB MRIO and IMF staff calculations.

5. Despite its eroding export growth performance, Thailand has raised the value added embedded in its exports and enhanced its regional participation. Like other ASEAN peers, Thailand has strengthened its intra-regional trade, as well as global value chain (GVC) participation over time by raising the value added embedded in its exports (Figures 9 and 10). This is despite an increased share of foreign value-added contributions to its exports (Figure 11). Therefore, over time Thailand has realized synergies between backward and forward GVC participation, rather than simply substituting foreign with domestic value added in its exports.[2]

6. Overall, a nuanced picture of the impact of fragmentation on Thailand emerges. Thailand's integration with the global economy remains strong, despite global fragmentation, and exporters have even been able to take advantage of trade diversion opportunities caused by U.S.-China trade tensions. Countries that were more integrated into global value chains and with less restrictive FDI regimes appear to have been especially successful in gaining from such trade opportunities (Figure 12). However, a further intensification of geopolitical pressures could still harm Thailand's export-driven growth, as fragmentation policies are likely to reduce activity in major trading partners—and thus lower external demand for its exports (see *October 2023 Asia and Pacific Regional Economic Outlook*). Easing FDI restrictions and further integrating in GVCs, including pursuing opportunities for enhanced intra-ASEAN trade, would help Thailand prepare better against such shocks and improve its export growth performance that has been weakening over recent years.[3]

Figure 12. Cross-Country: Correlates of Export Gains in Tariff-Targeted Products

(Estimated Coefficient)



Sources: CEPII-BACI, Trade Monitor, EORA, Global Trade Alerts, IMF WEO; and IMF Staff calculations.

Technical Appendix

7. Empirical methodology. Our sample includes the top 50 exporters (excluding oil producers) and compares the exports of the most recent period (2022/23) to the exports prior to 2018. The following difference-in-difference identification strategy based on Fajgelbaum and others (2024) is used to estimate the causal effect of the China-U.S. 2018-19 tariffs on bystanders' HS6 level of exports to three *n = US, CHN, ROW* destination, as tariffs have not significantly changed since then:

$$\Delta lnX^n_{i\omega} = \beta^n_{1i\omega}\Delta lnT^{US}_{CH,\omega} + \beta^n_{2i\omega}\Delta lnT^{CH}_{US,\omega} + \beta^n_{3i\omega}\Delta lnT^{US}_{i,\omega} + \beta^n_{4i\omega}\Delta lnT^{CH}_{i,\omega} + \alpha^n_{ij(\omega)} + \Omega^n SIZE_{i\omega} + \pi^n \Delta lnX^n_{i\omega,t-1} + \varepsilon^n_{i\omega},$$

[2] The rise in foreign value added in exports implies a rise in backward GVC participation.

[3] To enhance Thailand's attractiveness to foreign investors, the OECD (2021) has recommended reducing equity restrictions and simplifying the screening and approval procedures for foreign invesments.

where the growth rate of country i's export of product ω to destination *n* is regressed on four sets of different tariff changes (ΔlnT) imposed respectively by the U.S. on China, by China on the U.S., and by the U.S. or China on country i belonging to the rest of the world (ROW). Other control variables include origin-destination-sector fixed effects ($\alpha^n_{ij(\omega)}$), a *SIZE* variable that captures the (pre-tension) relative size of the product variety's trade flow, and lagged export growth to mitigate concerns of preexisting trends, while $\beta^n_{zi\omega} = \beta^n_{zi} + \beta^n_{zj(\omega)} + \Gamma^n_z\, SIZE^n_{zi\omega}$. Aggregating the estimated export elasticities (beta coefficients) allows us to predict country i's export growth of variety ω to the world relative to non-targeted varieties and calculate the aggregate export growth of targeted varieties:

$$\Delta\widehat{\ln \mathrm{X}}_i^{WD} = \quad \sum \omega \sum US, CHN, ROW\ \lambda^n_{i\omega}\ (\hat{\beta}^n_{1i\omega}\Delta lnT^{US}_{CH,\omega} + \hat{\beta}^n_{2i\omega}\Delta lnT^{CH}_{US,\omega} + \hat{\beta}^n_{3i\omega}\Delta lnT^{US}_{i,\omega} + \hat{\beta}^n_{4i\omega}\Delta lnT^{CH}_{i,\omega})$$

Where, $\lambda^n_{i\omega}$ is the share of (pre-tension) export values for continuing products divided by total country exports to destination *n*.

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Annex III. Macroeconomic Framework under the Alternative Scenarios[1]

While staff's baseline projections envisage a continued gradual recovery, the outlook remains highly uncertain and can vary significantly based on the policy choices and the materialization of risks. This annex explores these possibilities by presenting simulations under alternative scenarios using the IMF's Quantitative Model for the Integrated Policy Framework (QIPF). Specifically, we examine a policy scenario where the spending for the Digital Wallet program is redirected towards other uses, such as investments in digital and physical capital and/or education. Additionally, we consider a downside risk scenario, where increased political uncertainty could adversely impact the domestic economy and explore the interactions of policy responses in mitigating the tradeoffs that arise.

Scenario 1: Productivity-Boosting Fiscal Stimulus

1. Scenario and key assumptions. This scenario considers a change in the government's spending composition for FY25. Staff would have preferred a narrower deficit in the baseline given narrowing fiscal space, but if the budget is implemented as approved the objective is to highlight the benefits of more productive uses of the resources. In particular, we assume that part of the planned cash transfers (0.8 percent of GDP among the budgeted 1.0 percent of GDP) is redirected towards spending in digital and physical capital (infrastructure investment) and/or human capital (education spending).[2] While these spendings are expected to take longer to implement—spanning the full year of FY25 rather than frontloaded disbursements—they are expected to have a larger multiplier effect compared to the less-targeted cash transfers.[3] Additionally, given Thailand's persistent infrastructure gaps and skills mismatches, these spendings are likely to have positive spillovers by raising the productivity of labor and private capital. Specifically, the alternative spending yields a multiplier of around 1.7 in the near term, with an increase in productivity of around 0.5 percent during the medium term, whereas the cash transfers spending shows a multiplier of 0.5 without any sustained impact afterwards.[4]

2. Projections and policy implications. The simulation results using the QIPF show that, despite the same spending envelope (0.8 percent of GDP), the outcomes could be substantially

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[1] Prepared by Seunghwan Kim and Emmanouil Kitsios (both APD), and Marcin Kolasa (MCM).

[2] Building human capital and improving connectivity through better digital and physical infrastructure are key determinants of service imports and FDI flows, which in turn facilitate technology diffusion (see April 2024 Fiscal Monitor). If additional infrastructure investment is not feasible for example due to investment bottlenecks, reprioritized resources can be channeled to education or to finance permanent social protection reforms, which would have a similar effect, albeit with a somewhat smaller productivity spillover.

[3] As the first tranche of the cash transfers in FY24 (THB 145 billion, 0.8 percent of GDP) has been disbursed to the most vulnerable groups (state welfare cardholders and disabled), the following disbursements will likely be directed towards relatively better-off segments of the population.

[4] The October 2024 Fiscal Monitor suggests that productivity and growth dividends of public investments in these areas can be significant. For example, it estimates that a 1 percent of GDP increase in education spending can boost GDP by 1.9 percent over the medium term through increased services imports and real FDI which facilitate technology diffusion.

different (Figure 1). Under the alternative spending scenario, the larger multiplier and positive impact on productivity results in an output that is persistently larger than in the baseline, whereas the cash transfer has only a limited and short-lived impact. Private consumption and real wages are also persistently higher under the alternative scenario. Additionally, the positive productivity shock leads to lower inflation which triggers an endogenous response from the central bank to lower interest rates. This would depreciate the real exchange rate and strengthen the external balance. The public debt-to-GDP ratio is also lower given the larger output and lower interest rates.

Scenario 2: Increased Policy Uncertainty

3. **Scenario and key assumptions**. Under an adverse scenario, a spike in policy uncertainty could negatively affect the economy through various channels. Political fragmentation could make it difficult for the government to implement necessary reforms to address structural weaknesses and boost productivity growth. Rising social discontent could in turn undermine consumer and business confidence, trigger capital outflows, and disrupt trade, investment, and tourism flows, potentially causing significant setbacks to the Thai economy. Amid declining output, a sharp depreciation of the Thai baht would exert upward pressure on import prices and inflation which would complicate monetary policy settings.[5] We consider two policy options that can complement monetary policy responses to mitigate the impact of the shocks under this scenario: i) foreign exchange intervention (FXI), and ii) fiscal stimulus to support the economy.

4. **As FX markets turn shallow, FXI can ease the inflation-output tradeoff for policymakers in the near term but at the cost of lower trade competitiveness afterwards**. The adverse scenario triggers large capital outflows which make Thailand's FX market shallower as liquidity dries up. An FX intervention of about 2 percent of annual GDP that cumulatively reaches 3.4 percent of GDP by the fifth quarter would reduce the UIP premium and limit the currency depreciation, thus helping to moderate inflationary pressures.[6] This would allow monetary policy to become countercyclical and support economic activity which would also help contain public debt. Output improves in the near-term despite lower trade gains as domestic demand drops by less relative to the case where only interest rate policy is used. However, relatively limited depreciation in the real exchange rate because of FXI reduces trade gains and eventually weighs on output over the medium term.

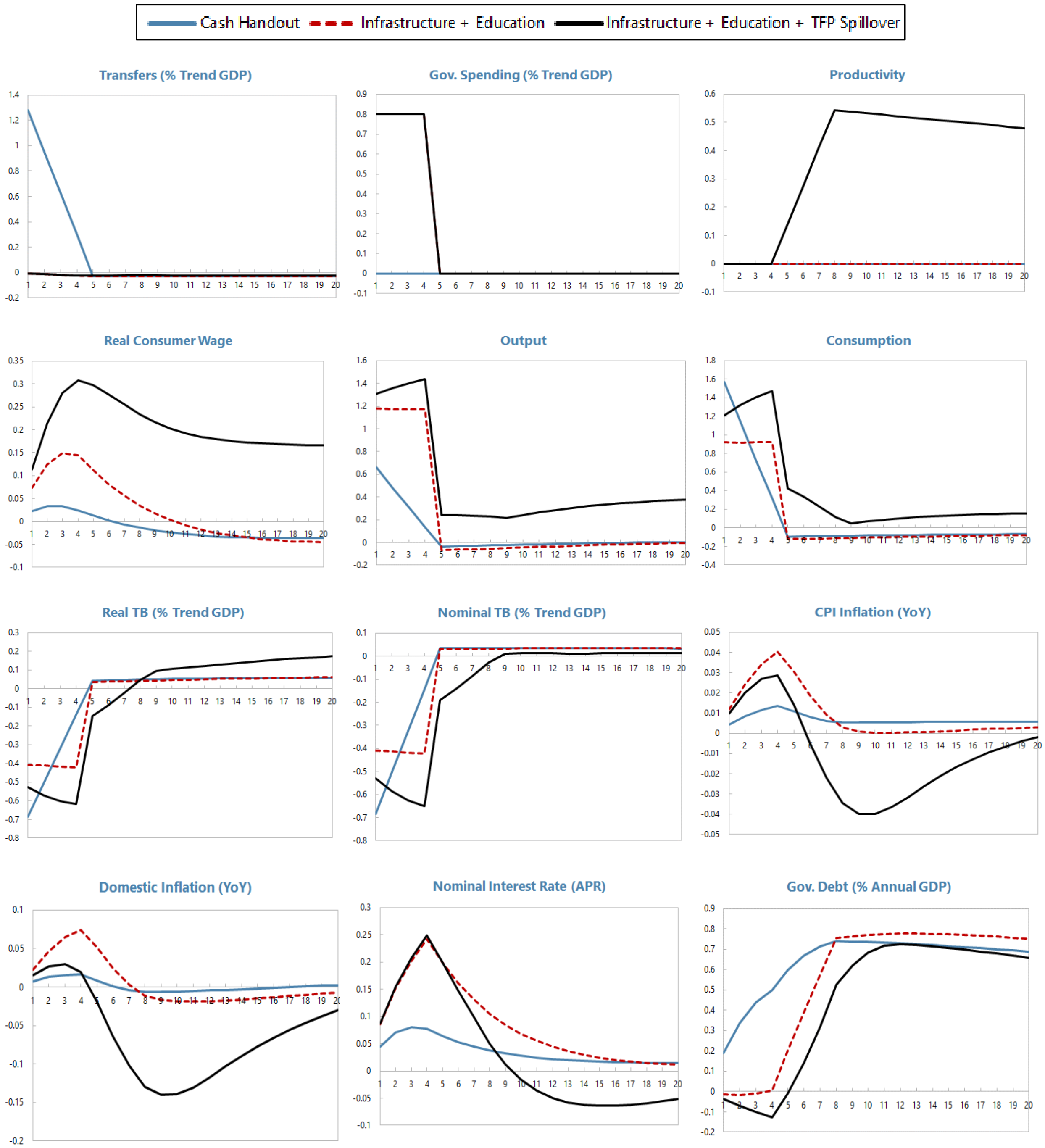
5. **An expansionary fiscal policy stabilizes demand in the short term but fiscal risks could intensify as debt rises from an already high post-pandemic level**. The simulation assumes a 2 percent of GDP fiscal stimulus in the form of transfers. This would help mitigate the sharp decline in output by stimulating aggregate demand, but at the cost of higher inflation and reduced trade

[5] While exchange rate pass-through is low for Thailand during normal times, the adverse scenario assumes exchange rate pass-through to be subject to nonlinearities, and to be larger during periods of high inflation and elevated uncertainty (in line with empirical evidence for emerging economies).

[6] Due to methodological constraints, the simulation results do not consider other tools that could be effective in addressing the UIP deviations such as swaps and other forwards. Further, onshore financial institutions are not allowed to undertake NDF transactions against the Thai Baht with nonresidents.

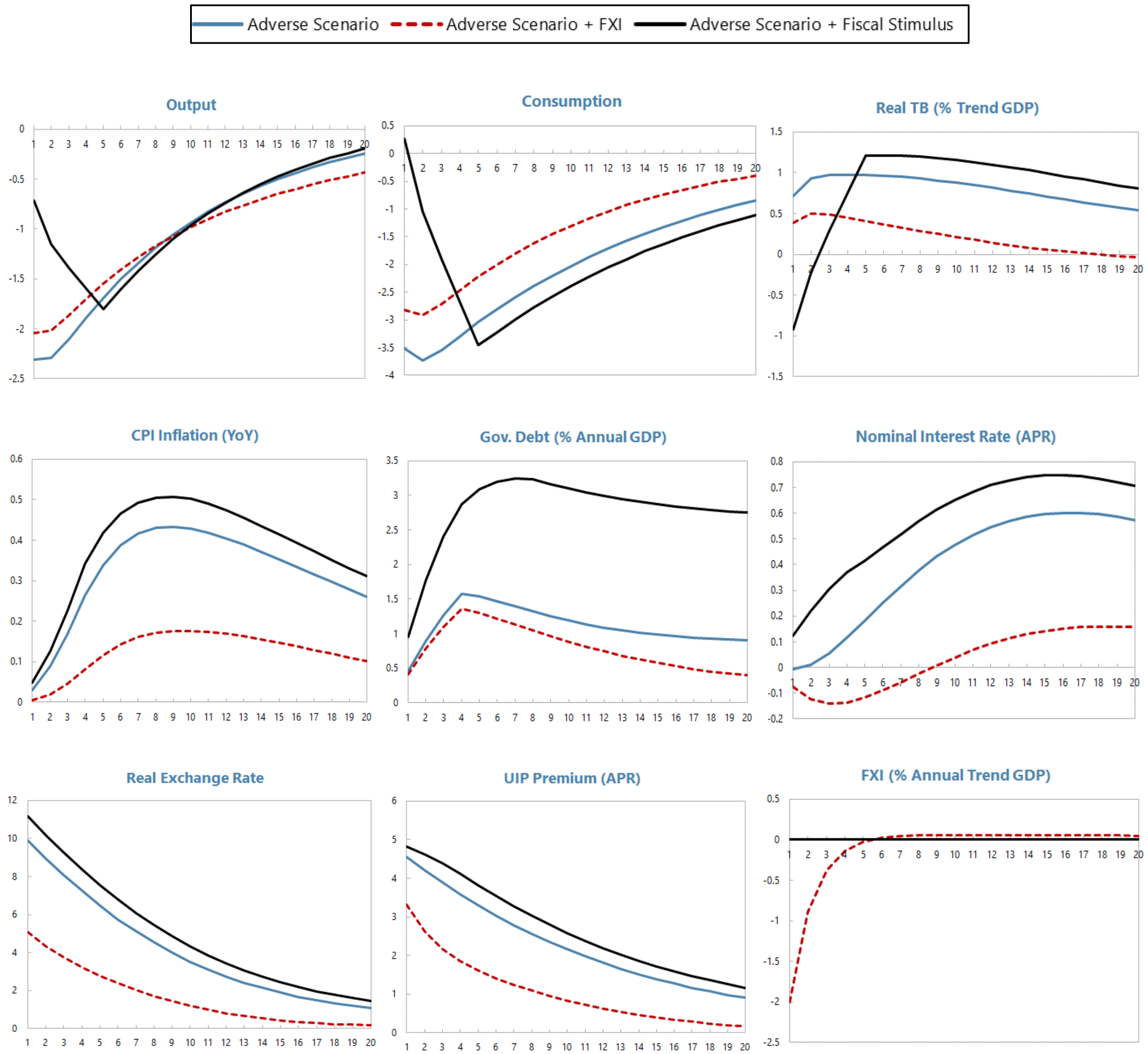
balances as some of the transfers are used to consume imported goods. The worsening of the trade balance reduces net foreign assets contributing to a higher UIP premium, and stronger depreciation pressures. In turn, the policy rate rises by more than the previous two cases to counter stronger inflationary pressures. Over the medium-term, higher inflation gradually erodes real wages and consumption by more. In addition, the trade balance eventually improves owing to the stronger competitiveness from more depreciated real exchange rate and from lower consumption of imported goods. Importantly, public debt gets closer to the authorities' ceiling of 70 percent of GDP as it increases by 2.4 percent of GDP the year that the fiscal stimulus is implemented and by 3.2 percent of GDP the next year relative to the adverse scenario without the stimulus. This highlights the importance of rebuilding sufficient fiscal buffers.

Figure 1. Thailand: Simulation Results for Scenario 1: Productivity-Boosting Fiscal Stimulus[1]



[1] The y-axes reflect units in percent, and x-axes reflect the number of quarterly periods.

Figure 2. Thailand: Simulation Results for Scenario 2: Increased Political Uncertainty[1]



[1] The y-axes reflect units in percent, and x-axes reflect the number of quarterly periods.

Annex IV. Sovereign Risk and Debt Sustainability Analysis

Figure 1. Thailand: Risk of Sovereign Stress

Thailand: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	...	Moderate	Overall, Thailand's risk of sovereign stress is assessed as moderate. While the near-term risks are low, medium- and long- term modules indicate moderate risks.
Near term 1/			
Medium term	Moderate	Moderate	Medium-term risks are assessed as moderate, in line with the mechanical signals from the Fanchart and GFN modules. The assessment reflects an increase in the GFN and debt levels, driven by large borrowing during the pandemic and fiscal expansion in its aftermath.
Fanchart	Moderate	...	
GFN	Moderate	...	
Stress test		...	
Long term	...	Moderate	Long-term risks are assessed as moderate, as the trajectory of the GFN- and debt-to-GDP ratios are expected to gradually decline under the baseline scenario. However, expenditures associated with population aging, climate adaptation and mitigation could increase the GFN and debt without proper policy actions.
Sustainability assessment 2/	Not required for surveillance countries	Not required for surveillance countries	N/A
Debt stabilization in the baseline			No

DSA Summary Assessment

Commentary: Thailand is at a moderate overall risk of sovereign stress. Medium-term risk is considered moderate given the increased GFN and debt levels, due to large borrowing during the pandemic and more recent fiscal expansion. Debt coverage is adequate, but large stock-flow adjustments in the past indicate there's scope to improve data transparency. The realism tools suggest projections of key debt drivers are within norms. A credible medium-term fiscal consolidation is warranted to bring down public debt levels and restore the low sovereign risk assessment. Over the longer run, structural reforms are warranted to boost growth potential and address the impact of population aging and climate risks.

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

	CG	GG	NFPS	CPS	Other	Comments
1. Debt coverage in the DSA: 1/	CG	GG	NFPS	CPS	Other	
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	Not applicable
				3	Social security funds (SSFs)	Yes	
				4	State governments	No	
				5	Local governments	No	
				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/
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/
5. Debt consolidation across sectors:		Consolidated	Non-consolidated		

Color code: chosen coverage; Missing from recommended coverage; Not applicable

Reporting on Intra-Government Debt Holdings

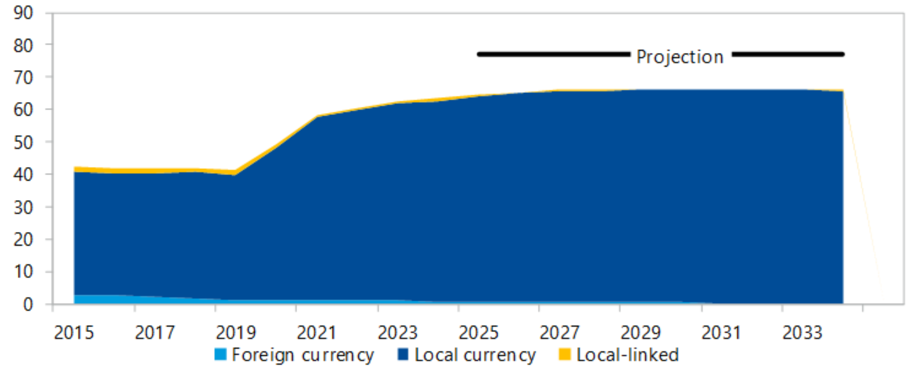
				#	Issuer \ Holder	Budget. central govt	Extra-budget. funds (EBFs)	Social security funds (SSFs)	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
CPS	NFPS	GG: expected	CG	1	Budget. central govt									0
				2	Extra-budget. funds									0
				3	Social security funds									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 the debt of the central government, non-financial state-owned enterprises, the Financial Institutions Development Fund (FIDF), and government agencies (e.g., Oil Fund and Social Security). It also includes guaranteed debt of the Special Financial Institutions. Public debt does not include local governments' debt, which remains small at less than 0.2 percent of GDP as of the end of FY2023.

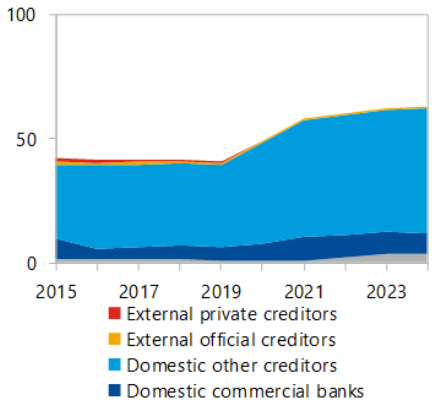
Figure 3. Thailand: Public Debt Structure Indicators

Debt by Currency (Percent of GDP)



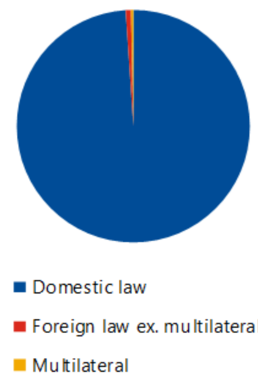
Note: The perimeter shown is nonfinancial public sector.

Public Debt by Holder (Percent of GDP)



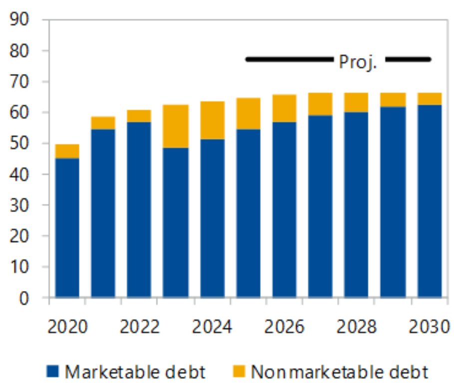
Note: The perimeter shown is nonfinancial public sector.

Public Debt by Governing Law, 2024 (percent)



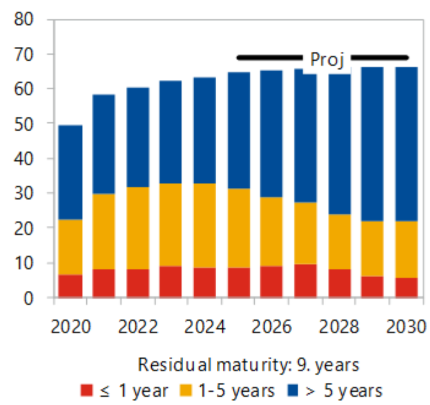
Note: The perimeter shown is nonfinancial public sector.

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.

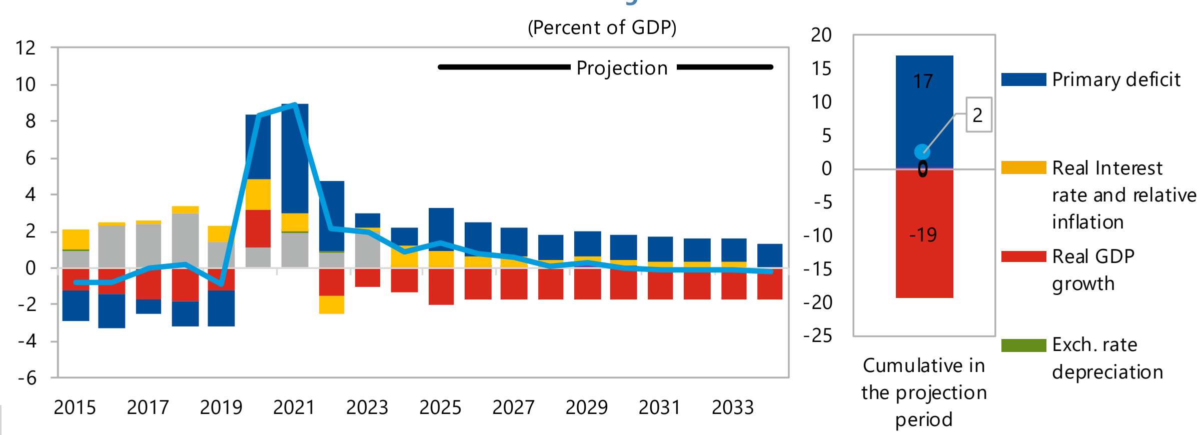
Commentary: Thailand's public debt is predominantly composed of domestic currency debt held by domestic creditors, which mitigates the risk of sovereign stress. Holders of government bonds are mainly institutional investors comprising banks (27.9%), long-term contractual funds (21.75%) and insurance companies (20.38%) as of end-FY24. The share of shorter maturities has risen due to increased borrowing since the pandemic, but the maturity structure is expected to gradually lengthen as borrowing practices normalize.

Figure 4. Thailand: Baseline Scenario

(Percent of GDP, unless indicated otherwise)

	Actual	Medium-term projection						Extended projection			
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Public debt	63.3	64.7	65.4	66.0	66.1	66.4	66.4	66.3	66.2	66.1	66.0
Change in public debt	0.9	1.3	0.8	0.5	0.1	0.3	0.0	-0.1	-0.1	-0.1	-0.2
Contribution of identified flows	0.9	1.3	0.8	0.5	0.1	0.3	0.0	-0.1	-0.1	-0.1	n.a.
Primary deficit	1.0	2.4	1.9	1.6	1.4	1.4	1.3	1.3	1.3	1.3	1.3
Noninterest revenues	23.2	22.7	22.3	22.5	22.6	22.7	22.7	22.7	22.7	22.7	22.8
Noninterest expenditures	24.1	25.1	24.2	24.1	24.1	24.1	24.1	24.1	24.1	24.1	24.1
Automatic debt dynamics	-0.1	-1.1	-1.1	-1.1	-1.4	-1.2	-1.4	-1.4	-1.4	-1.4	n.a.
Real interest rate and relative inflat	1.2	0.9	0.6	0.6	0.3	0.5	0.3	0.3	0.3	0.3	n.a.
Real interest rate	1.2	0.9	0.6	0.6	0.3	0.5	0.3	0.3	0.3	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	n.a.
Real growth rate	-1.3	-2.0	-1.7	-1.7	-1.7	-1.7	-1.8	-1.8	-1.7	-1.7	-1.7
Real exchange rate	0.0	...	...	...	...	...	...	...	...	...	...
Other identified flows	0.0	0.0	0.0	0.1	0.1	0.1	0.1	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	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Contribution of residual	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	n.a.
Gross financing needs	17.5	12.2	11.6	14.0	14.7	14.3	13.2	13.1	14.7	13.9	14.2
of which: debt service	16.6	9.8	9.7	12.5	13.3	12.8	11.8	11.8	13.4	12.6	12.9
Local currency	16.4	9.6	9.6	12.3	13.2	12.8	11.7	11.7	13.3	12.6	12.9
Foreign currency	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Memo:											
Real GDP growth (percent)	2.1	3.2	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7
Inflation (GDP deflator; percent)	0.9	1.2	1.8	1.7	2.1	1.7	2.0	2.0	1.9	1.9	1.9
Nominal GDP growth (percent)	3.0	4.4	4.6	4.4	4.9	4.5	4.8	4.8	4.7	4.7	4.7
Effective interest rate (percent)	2.8	2.7	2.7	2.6	2.6	2.6	2.5	2.5	2.5	2.4	2.4

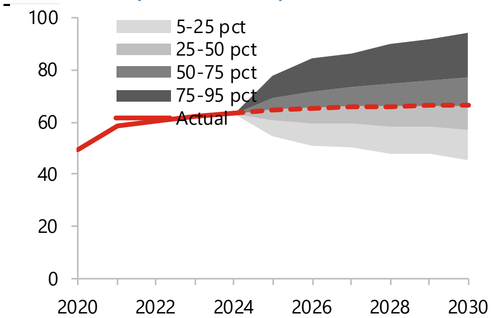
Contribution to Change in Public Debt



Commentary: Public debt has increased sharply during the pandemic and its immediate aftermath. Due to the fiscal expansion in FY25 and a gradual path of consolidation afterwards, public debt is expected to remain elevated in the medium term.

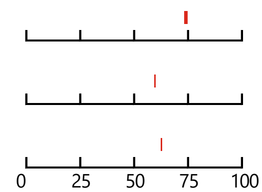
Figure 5. Thailand: Medium-Term Risk Assessment

Final Fanchart (Percent of GDP)

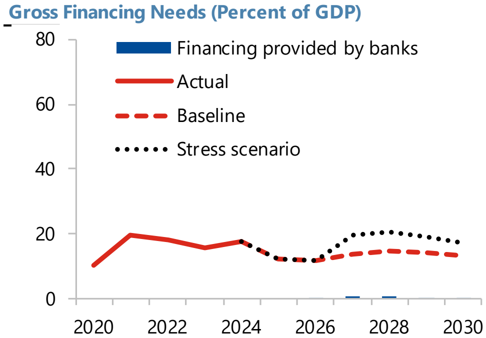


Debt fanchart module

	Value	Contrib 1/	Percentile in peer group 2/
Fanchart width *(percent of GDP)*	48.8	0.7	
Probability of debt non-stabilizaiton *(percent)*	43.0	0.4	
Terminal debt-to-GDP x institutions index	36.9	0.8	
Debt fanchart index (DFI)		1.9	
Risk signal: 3/		**Moderate**	

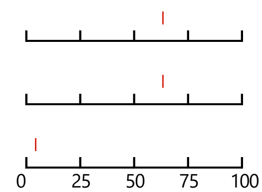


Gross Financing Needs (Percent of GDP)



Gross financing needs (GFN) module

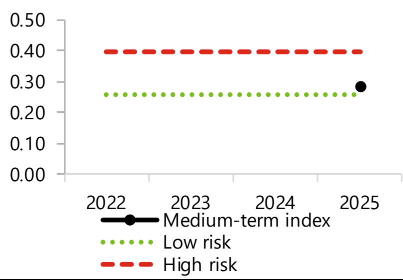
	Value	Contrib 1/	Percentile in peer group 2/
Average baseline GFN *(percent of GDP)*	13.3	4.5	
Initial Banks' claims on the gen. govt *(pct bank assets)*	11.8	3.8	
Chg. In banks' claims in stress *(pct banks' assets)*	0.2	0.1	
GFN financeability index (GFI)		8.4	
Risk signal: 4/		**Moderate**	



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	1.9	0.4	0.5	0.2
GFN finaceability index	8.4	0.2	0.5	0.1
Medium-term index		0.3		
Risk signal: 5/		**Moderate**		
Final assessment:		**Moderate**		

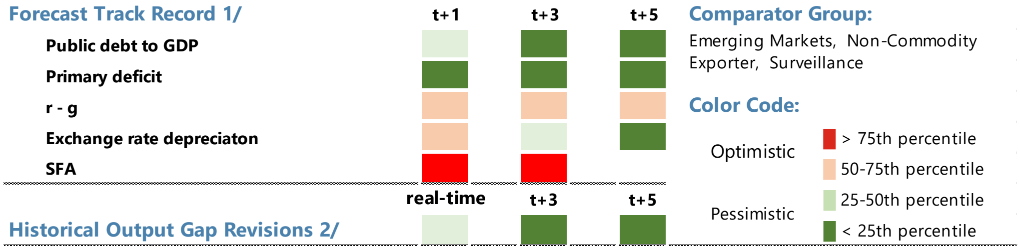
Prob. of missed crisis, 2025-2030, if stress not predicted: 18.2 pct.
Prob. of false alarms, 2025-2030, if stress predicted: 31.8 pct.

Commentary: The Debt Fanchart module points to moderate risks around the projected debt baseline, reflecting a relatively large Fanchart width. The GFN Module also indicates moderate risks due to elevated GFN in the near term, which is driven by a combination of increased primary deficit and large amortization of COVID-19 related borrowing.

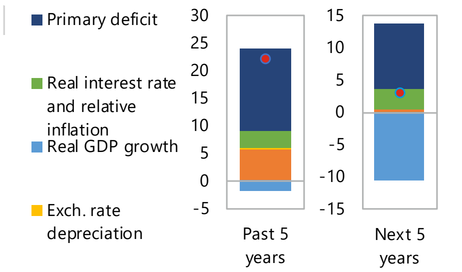
Source: IMF staff estimates and projections.

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.

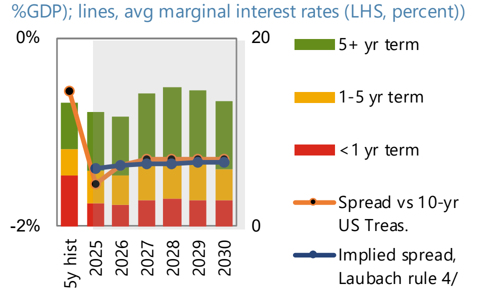
Figure 6. Thailand: Realism of Baseline Assumptions



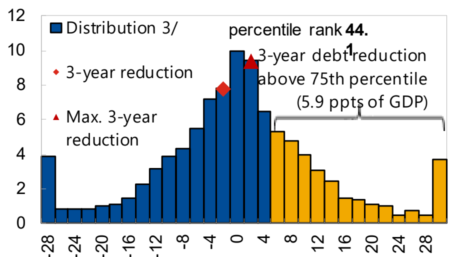
Public Debt Creating Flows
(Percent of GDP)



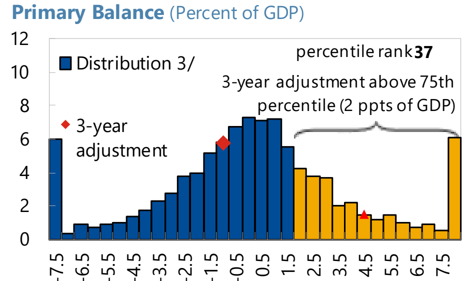
Bond Issuances (Bars, debt issuances (RHS, %GDP); lines, avg marginal interest rates (LHS, percent))



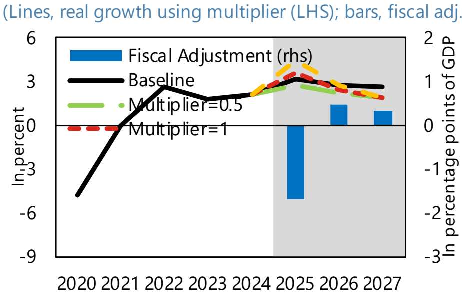
3-Year Debt Reduction
(Percent of GDP)



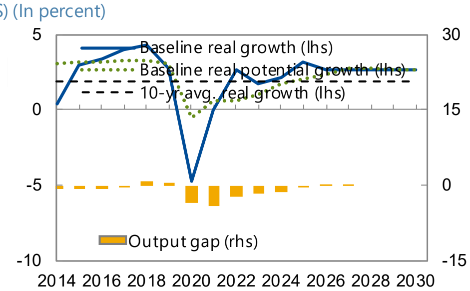
3-Year Adjustment in Cyclically-Adjusted Primary Balance (Percent of GDP)



Fiscal Adjustment and Possible Growth Paths
(Lines, real growth using multiplier (LHS); bars, fiscal adj. (RHS) (In percent)



Real GDP Growth



Commentary: Realism assessments do not raise major concerns. However, the relatively large stock-flow adjustment in the past warrants caution, which may be due to the lack of state-owned enterprises' operations data, or other unidentified quasi-fiscal operations. The projections for debt creating flows show some signs of optimism, but the past data reflects exceptional outcomes during the pandemic years. The change in interest rates appears reasonable, considering the size of bond issuance and the maturity profile. The projected 3-year fiscal adjustment and 3-year debt reduction are well within norms, and the real GDP growth path aligns with the assumed fiscal adjustment and potential growth.

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 .

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 7. Thailand: Long-Term Risk Analysis

Thailand: Triggered Modules

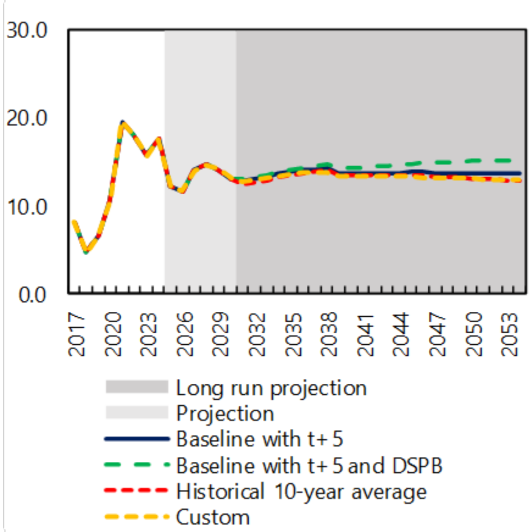
Large amortizations	**Pensions**	**Climate change: Adaptation**	Natural Resources
	Health	**Climate change: Mitigation**	

Thailand: Long-Term Risk Assessment: Large Amortization Incl. Custom Scenario

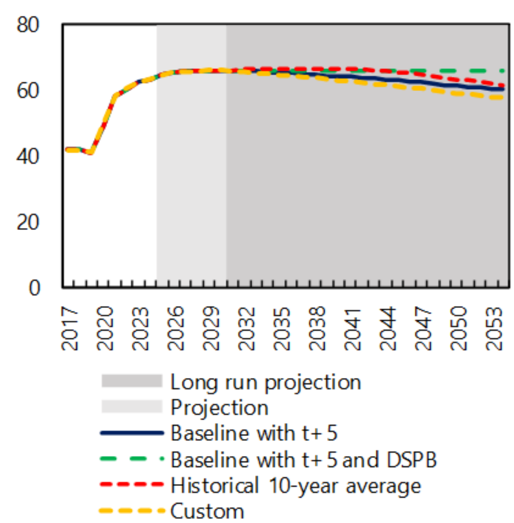
Projection	**Variable**	**Risk Indication**
Medium-term extrapolation	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Medium-term extrapolation with debt stabilizing primary balance	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Historical average assumptions	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Overall Risk Indication		

Variable	**2030**	**2034 to 2038 average**	**Custom Scenario**
Real GDP growth	2.7%	2.7%	2.7%
Primary Balance-to-GDP ratio	-1.3%	-1.3%	-1.2%
Real depreciation	-2.0%	-1.9%	-1.9%
Inflation (GDP deflator)	2.0%	2.0%	2.0%

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio



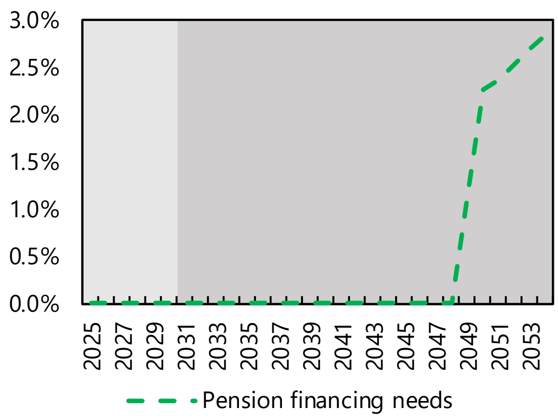
Commentary: Overall, the Large Debt Amortization Module does not signal heightened risks, but elevated level of amortization shows risk indication.

Figure 7. Thailand: Long-Term Risk Analysis (Continued)

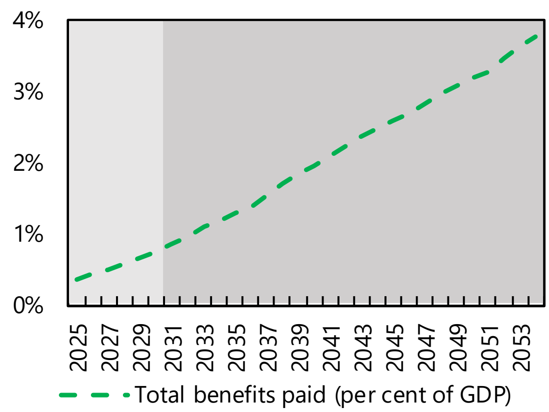
Thailand: Demographics: Pensions

Permanent adjustment needed in the pension system to keep pension assets positive for:	30 years	50 years	Until 2100
(pp of GDP per year)	0.5%	1.7%	2.4%

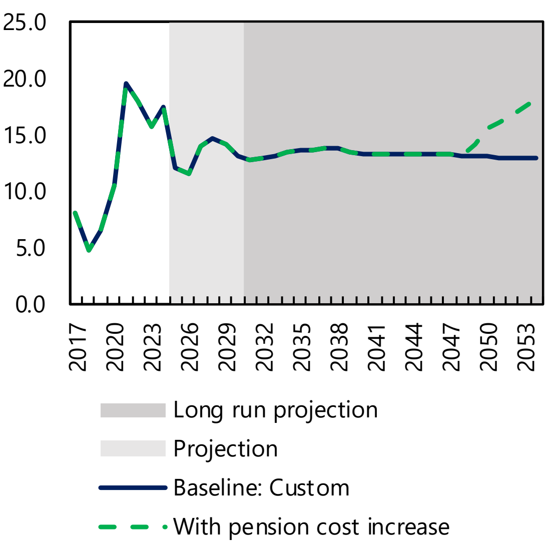
Pension Financing Needs



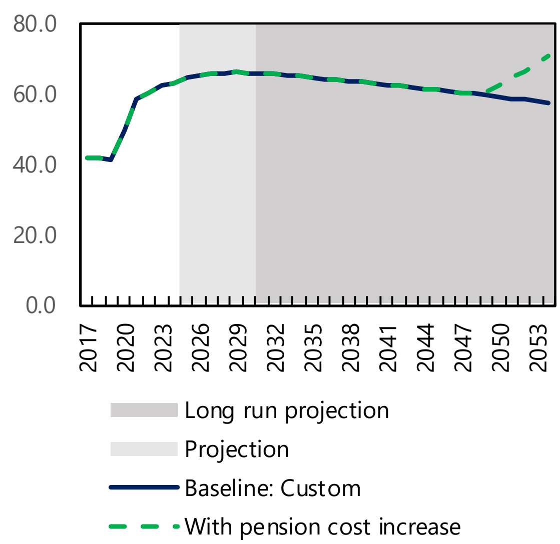
Total Benefits Paid



GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio

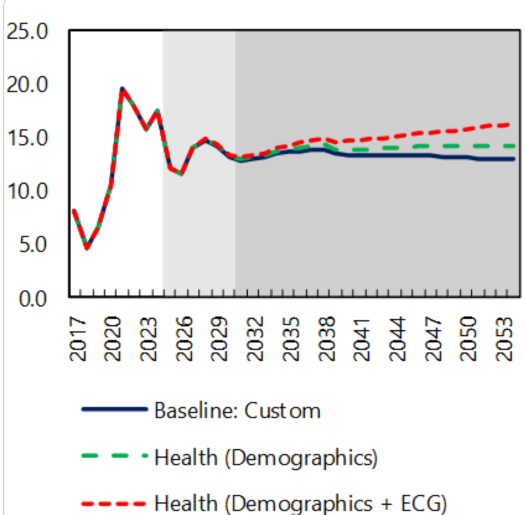


Commentary: Thailand's aging population is expected to widen the gap between pension benefits and contributions, leading to increased financing needs once pension assets are depleted. The projections cover the Old-Age Allowance, Civil Service Pension, and pensions administered by the Social Security Office (SSO). The associated financing needs are estimated using parameters from the ILO's latest actuarial valuation report, Review of the Pension System in Thailand (UN), and IMF CR 19/309.

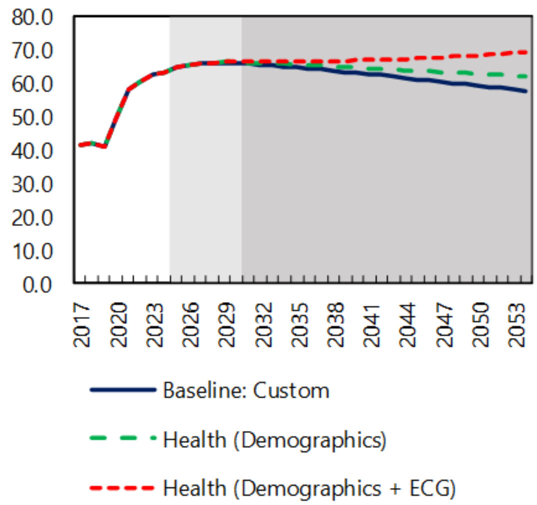
Figure 7. Thailand: Long-Term Risk Analysis (Continued)

Thailand: Demographics: Health

GFN-to-GDP Ratio



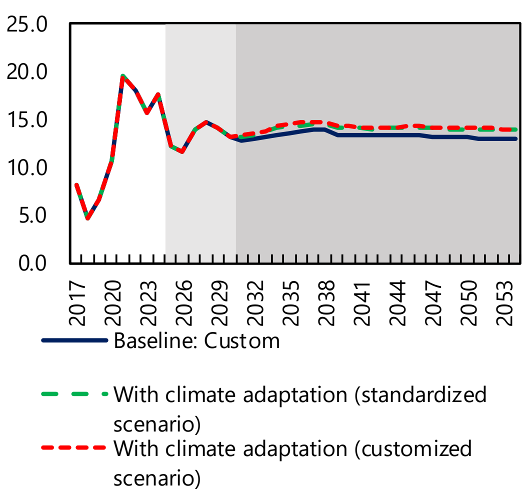
Total Public Debt-to-GDP Ratio



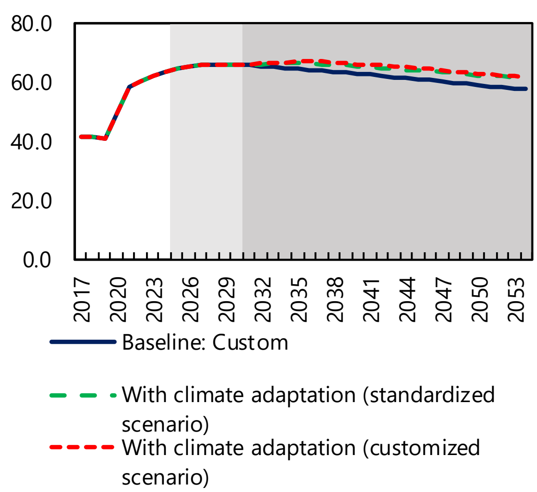
Commentary: Thailand's aging population is also expected to increase health costs. While the country needs to scale up health expenditures, these must be carefully managed to ensure spending efficiency and effectively support the buildup of human capital.

Thailand: Climate Change: Adaptation

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio

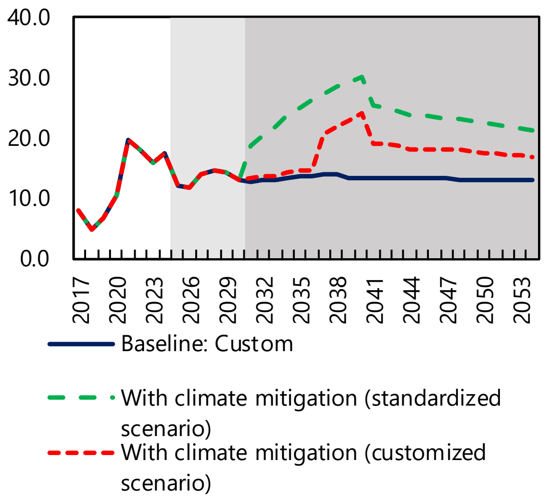


Commentary: Thailand's climate adaptation costs can be sizeable, encompassing investments in building climate-resilient infrastructure, addressing water scarcity and soil degradation, and strengthening R&D. However, these investments could also unlock opportunities for innovation and new growth drivers, mitigating the negative impact on debt dynamics—an aspect not incorporated in the analysis.

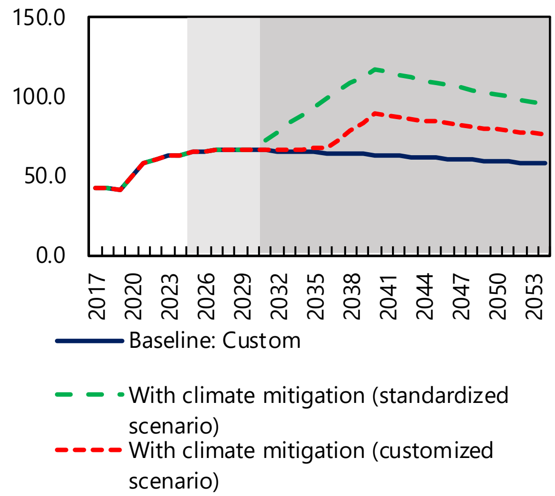
Figure 7. Thailand: Long-Term Risk Analysis (Concluded)

Thailand: Climate Change:Mitigation

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio



Commentary: Meeting Thailand's climate mitigation goals would require significant upfront investments to address carbon footprints, which could increase the debt levels. Phasing out broad-based energy subsidies and implementing effective carbon pricing mechanism are essential to finance the transition and mitigation costs. The analysis does not account for the growth effect of investment in climate change mitigation.

Annex V. A Stock-Take on Social Protection in Thailand[1]

A. Overview of Current Provision

1. The Social Protection (SP) system in Thailand consists of a wide range of programs. There are nearly 50 different SP schemes providing benefits and services on various eligibility criteria. According to ILO estimates, around 70 percent of the population is covered by at least one social protection benefit.[2] These schemes can be broadly categorized along two dimensions: contributory vs. non-contributory (i.e., fully tax financed) and universal vs. targeted (including proxy targeting).

2. Non-contributory schemes are financed through tax revenues and provide social assistance to broad population groups (although are not necessarily universal). The main schemes are as follows (remaining programs not referred to below have relatively small benefits and coverage[3]):

- **Universal Health Coverage**: provides health coverage to around 70 percent of the population (the remaining 30 percent are covered by the Civil Service health scheme, local Government, and coverage provided to members of the Thailand Social Security Office (SSO)).[4]

- **Child Support Grant**: provides a means-tested flat rate benefit of THB 600 per month to children in households earning less than THB 100,000 per month.[5]

- **State Welfare Card (SWC)**: provides a means-tested benefit to 13.5 million people, including a consumer goods allowance (THB 200 to THB 300 a month) and allowances for transport and utilities.

- **Disability Grant**: provides a benefit of THB 800 per month (THB 1000 for children and those eligible for the SWC) to those with severe disability (some 2 million recipients[6]).

[1] Prepared by the International Labour Organization, Bangkok (ILO).

[2] Source: ILO, 2024. World Social Protection Report 2024–26. Universal social protection for climate action and a just transition. SDG indicator 1.3.1 (excludes medical benefits and services where coverage is close to universal in Thailand).

[3] These include support to those with HIV/AIDS, teachers and various education grants. The '15-year free education program is a large program but excluded from this analysis.

[4] Source: UN SDG Social Protection Diagnostic Review Report (2022).

[5] In 2023, it was estimated that although some 2.3 million children were covered, one third are estimated to be excluded (Source: Department of Children and Youth of the Ministry of Social Development and Human Security (2023), UNICEF (2024).

[6] Source: ILO 2024, World Social Protection data dashboards.

- **Old-Age Allowance (OAA)**: provides universal benefits to over 80 percent of those aged over 60. The amount is age-related and ranges from THB 600 to THB 1000 per month.

3. Thailand SSO provides contributory social insurance through a comprehensive provision framework. The SSO covers all nine branches of social security,[7] with about 35-40 percent of the working age population actively contributing to the schemes.[8] There are three schemes within the SSO: Sections 33, 39, and 40. Section 33 is mandatory while the remaining two sections are voluntary schemes for former-Section 33 members (Section 39), or for persons not previously covered under Sections 33 or 39, such as self-employed individuals (Section 40).[9] For Sections 33 and 39 , employer, workers, and the government jointly contribute to finance benefits.[10] Benefits under Section 33 broadly meet the minimum requirements of ILO Social Security (Minimum Standards) Convention, 1952 (No. 102).[11]

4. Finally, current and former civil servants receive benefits managed by the civil service scheme (covering all benefits including health care). These benefits consist of both (i) a tax-financed non-contributory scheme, which provides lifetime pensions for civil servants with a career of at least 25 years and lump-sum benefits from 10 years of service; and (ii) a contributory defined-contribution scheme (the Government Pension Fund, GPF) established in 1996. Members contribute 3 to 30 percent of their salary to the GPF, with the Government paying an additional 5 percent.

5. SP provision has had a positive impact on poverty and inequality. Overall, Thailand's SP is slightly progressive, contributing to lowering inequality. According to ILO estimates, it reduces poverty by 7.3 percent with most significant impact on the old aged, people with severe disabilities, widows, and those in rural areas.[12] This is particularly the case for some non-contributory schemes, including the OAA and Disability Grant.[13] On the other hand, given its limited coverage and a cap on contributions at relatively low income levels, the contributory schemes administered by SSO are currently not progressive but require minor reforms (as proposed in the ILO Actuarial Valuation

[7] Old Age, Unemployment Insurance, Disability, Survivors, health benefits and services, maternity benefits, family benefits, sickness benefits. Employment Injury benefits are provided through the Workers' Compensation Fund managed also by the SSO.

[8] This is a higher rate than several neighboring countries such as Indonesia, Philippines, Cambodia and Lao PDR and comparable to Malaysia.

[9] Section 39 provides the same benefits (except Unemployment Benefits) as Section 33 while the member pays both employee and employer contributions on a notional contributory and benefit salary of THB 4,800 per month. Section 40 provides nominal benefits and the member pays a flat rate contribution (of THB 70, THB 150 or THB 300) augmented by a government subsidy.

[10] Employer contribution is 5 percent of earnings (capped at THB 15,000 per month), worker contribution is 5 percent of earnings (capped at THB 15,000 per month), government contribution is 2.75 percent of earnings (capped at THB 15,000 per month).

[11] ILO C102 sets out contingencies that should be covered, maximum eligibility periods, minimum benefit levels and duration and minimum coverage requirements. For example, a retirement benefit scheme should provide a benefit of at least 40% of earnings after 30 years of contributions and the waiting period for unemployment benefits should not be more than 7 days. Thailand has not yet ratified the convention.

[12] Source: UN SDG Social Protection Diagnostic Review Report (2022).

[13] Source: UN SDG Social Protection Diagnostic Review Report (2022).

report) to ensure they become progressive.[14] Another positive element of Thailand's SP system is the existing multi-tiered provision framework, with a full range of social security benefits provided by the SSO complementing social assistance programs. This provides a solid foundation for robust SP with appropriate reforms.

6. **The role of the SP was significant during the COVID-19 pandemic**. SP interventions were instrumental in lessening the effects of the pandemic and lock down restrictions. Spending on social assistance measures tripled in 2020, reaching 2.3 percent of GDP and over 80 percent of the Thai population received benefits[15] while the SSO's unemployment insurance scheme extended benefits and increased payout amounts which were fully financed from the social security fund.

B. Key Challenges

7. **Despite the positive aspects, Thailand's SP lacks system cohesion and consistency**. While Thailand has a well-developed SP system, it would greatly benefit from improved coordination and consistency to avoid or lessen the gaps in coverage – often for vulnerable groups – but also an inefficient use of resources which lessen the poverty and inequality reduction impacts of the overall system. A large number of diverse and fragmented schemes makes it difficult to put in place an overall coherent SP vision. This sometimes results in misaligned incentives, duplication of provision, and adverse employment impacts (e.g., a low retirement age which incentivizes often qualified workers to leave employment at age 55 – workers that the ageing Thai economy needs).

8. **Some schemes have insufficient coverage of benefits**. Overall, Thailand's SP has high levels of coverage for persons with *severe* disabilities (98 percent) and those in old age (83 percent).[16] However, coverage is significantly lower for children aged 0 to 15, mothers of newborns and the unemployed. Some groups are *legally* excluded (e.g., domestic workers from social security) and others *effectively* excluded (e.g., through poor compliance and lack of awareness for contributory schemes). Another effective form of exclusion is the eligibility criteria for certain benefits –around half of those with a registered disability are excluded from the Disability Grant due to the narrow definition of severe disability. This means that not only that they don't receive benefits but that many with relevant skills are lost to the workforce.[17]

[14] Source: UN SDG Social Protection Diagnostic Review Report (2022).

[15] Source: World Bank THAILAND PUBLIC REVENUE AND SPENDING ASSESSMENT (2023). For example, the 'We Win' program (one of many such schemes) reached some 33.2 million people and over 6 million people received social assistance benefits for the first time.

[16] Source: ILO, 2024. World Social Protection Report 2024–26. Universal social protection for climate action and a just transition.

[17] Severe disability is defined as responses of 3 or 4 to the Washington consensus questions and therefore excludes those with disabilities that are less severe but limit the ability to work.

Box 1. Who Are Those Not Covered?

ILO analysis found that less than 1/3rd of those aged 0-14 received SP support compared to more than 80 percent of the elderly. In respect of contributory benefits, almost all informal sector workers are not covered for SSO benefits. However, nearly half of those in the formal sector – and 60 percent of wage earners - are also not members of the SSO highlighting compliance challenges. As expected, coverage in the agriculture sector is very low (1.6 percent) but also less than 1/3rd of workers in retail/wholesale, construction and the food industry were covered. The smaller the economic unit, the lower the coverage – only 12 percent of workers employed in enterprises of 5 or fewer workers are covered under SSO schemes despite having an employer/employee relation. Around 50 percent of regular migrant workers are covered – the rate for Myanmar nationals is however double that of Laotian nationals.1/

1/ UN, Thailand Social Protection Diagnostic Review: Expanding access to social security for all workers in Thailand (2022).

9. Adequacy of benefits needs to be improved. The OAA only provides benefits between THB 600 to THB 1000, the equivalent of US$18 and US$32 a month, which on average represents only 21.7 percent of the national poverty line.[18] For almost all other Social Assistance benefits, transfers range from THB 600 to THB 800 per month, which represents between 11 percent and 20 percent of average per capita consumption expenditure in the relevant target populations.[19] These amounts are low compared to peer countries. SSO benefit levels are impacted by the low earnings cap (unchanged since inception) and short contributory histories because the pension scheme is not mature but also by the fact that many retire at age 55, often to take advantage of the lump sum payment (paid if service is less than 15 years). Benefit payments from the SSO vary by gender (women's retirement pensions are 16 percent lower than men's), nationality (migrant workers have worse outcomes), rural workers and those with fragmented careers.

10. Financing challenges. Thailand spent 8.5 percent of GDP on social protection in 2022 – 3.6 percent of GDP on health expenditure and 4.9 percent of GDP on other SP benefits (mainly old age and persons of working age) – compared to the average of 11.8 percent for the Asia-Pacific region.[20] Disproportionately large resources are focused on the Civil Service scheme.[21] Over the longer term, financing challenges are likely to intensify as Thailand's rapidly-aging population will widen the gap between pension benefits and contributions, leading to increased financing needs (Annex IV). Fiscal space should be preserved and additional financing options need to be explored to ensure adequate social protection. While the contributory schemes managed by the SSO (the Social Security Fund and the Workers' Compensation Fund) providing short- and medium-term

[18] ILO, 2024. World Social Protection Report 2024–26. Universal social protection for climate action and a just transition.

[19] UN Social Protection Diagnostic Report 2022.

[20] ILO, 2024. World Social Protection Report 2024–26. Universal social protection for climate action and a just transition.

[21] The costs of the Civil Service scheme are estimated around 1.7 percent of GDP in 2020 (around 50 percent of all social insurance spending in Thailand) and are likely to have risen further (Source: World Bank, 2023).

benefits are sustainable,[22] the contribution rate for the pension scheme needs increasing and the benefit structure reforming.

11. It is also important to improve equity and secure greater public support for SP through reforms that progressively establish consistent and more equitable design and financing structures for civil servant and SSO retirement schemes. The civil service scheme currently has a much more generous benefit—a civil servant working 35 years and earning THB 30,000 a month gets over 2 ½ times the retirement benefit than a SSO retiree with the same earnings and service record. SP should also be aligned with labor market objectives including to formalise the labor market, and strengthen human capital and address skill gaps. Finally, establishing a long-term vision would be important to ensure timely and financially sustainable SP responses to short and long term external pressures. While the Covid-19 response paying THB 5,000 (US$160) per month for three months to informal workers reached 16 million workers, there were few effective follow-on efforts to improve the employment and SP status of these workers.

C. Policy Implications and Recommendations

Muli-pronged reform efforts are required to ensure a comprehensive SP system providing adequate benefits to all its resident population on a financially sustainable and equitable basis.

12. Establishing a National Social Protection Strategy (NSPS). Establishing an overarching strategy would anchor the SP system, and improve consistency and coordination between the different programs and schemes, leading to better incentives, consistency with employment aims and more efficient spending. The NSPS should incorporate concrete mechanisms by which universal guarantees can be provided for children, persons in old age, persons with severe disabilities and for essential health care. At the same time, stepped-up efforts are warranted to formalize and integrate the large informal sector, which significantly impacts both the low coverage of SSO schemes and government revenues.

13. Moving towards an effective multi-tier system to ensure that the coverage and adequacy are fit for purpose. Reform priorities include:

- **Strengthening the most basic social assistance ("Tier 0")**. This would involve an increase of existing benefit amounts and expansion of coverage. ILO suggests increasing the OAA to THB 2000 per month for all those aged over 60. This can be pensions tested to ensure incentive effects are strong: the ILO recommends that for each THB 3 of pension from SSO retirement benefits, the recipient would lose THB 1 of the OAA. Such an approach is easy to manage but would have significant positive outcomes on poverty and inequality. The child benefit should cover all children, become universal and the maximum age at which benefits are paid gradually increased to age 14. Coverage of the Disability Grant should be expanded to people with registered disabilities impacting employment and health status, with differing benefit levels

[22] Source: ILO Actuarial Valuation of the Workers' Compensation Fund (31.12.2019) and the Social Security Fund (31.12.2020).

based on the severity of the disabilities. New universal benefits such as maternity benefits and unemployment coverage should be introduced.

- **Moving to a universal and mandatory social insurance ("Tier 1")**. Coverage of the Section 33 of the SSO can be broadened, with Sections 39 and 40 being phased out. This would require legal changes (to avoid exclusion of groups that should be covered), strengthening compliance (where an employer/employee relationship exists), targeted financing support, flexibility, streamlined affiliation processes, and better communication. Targeted coverage extension efforts for particular groups such as women from aged 40, workers in smaller sized enterprises and domestic workers can be effective in reducing inequalities in these groups and fostering positive economic and employment linkages. Adequacy of the SSO benefits can also be improved.[23]
- **Encouraging additional supplementary provision ("Tier 2 and 3")**. These additional SP layers would provide protection against all life cycle risks through employer and individual provision (for example, Defined Contribution pension savings vehicles). Certain tax incentives may be justified.

14. The SWC can complement the system by providing more targeted support for the poorest. The assessment criteria for means testing can be strengthened and regularly monitored to ensure fewer exclusion errors. Targeting can be further improved by integrating and harmonizing the standards with the Childcare Support Grant scheme. The benefit structure can be reformed by converting the current set of SWC allowances—which comprise monthly credits for various of types of expenditures (e.g., food, transportation, utility) and are not always aligned with recipient needs—to a basic cash payment, potentially reducing the overall nominal costs of the benefit package while enhancing the utility for the recipients.[24]

15. Ensuring the financial sustainability of the SP system. While the reforms referred to above can lead to significantly better and more efficient outcomes, they will necessitate increases in tax financing of non-contributory provision and increases of contributions for contributory social security provision. For the former, the ILO has estimated that to guarantee at least a basic level of social protection for all children, persons with severe disabilities, mothers of newborns, older persons and the unemployed through a social protection floor, Thailand would need to increase social protection expenditure by 0.8 percent of GDP in 2024.[25] Part of this financing gap could also be closed by reprioritising tax revenues that are currently spent on Civil Service Pension commitments through appropriate reforms. The strengthening of investment in social protection

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[23] Possible reforms include (i) increasing the SSO earnings cap to THB 17,500 in 2026 and then index in line with earnings; (ii) reducing the number of years required for right to a pension benefit from 15 years to 5 years; (iii) considering the introduction of a minimum pension amount. The ILO estimates that a minimum monthly pension of THB 4000 (after 35 years of contribution) would cost an additional 1.2% of pensionable earnings (Increase in General Average Premium (GAP) from 20.2% to 21.4%).

[24] World Bank (2022) "Towards Social Protection 4.0 : An Assessment of Thailand's Social Protection and Labor Market Systems."

[25] Cattaneo, U., Schwarzer, H., Razavi, S., Visentin, A. 2024. Financing gap for universal social protection: Global, regional and national estimates and strategies for creating fiscal space, ILO Working Paper 113 (Geneva, ILO).

can be achieved through fiscal reforms (e.g. reducing energy subsidies, increasing property taxes, improving compliance etc), more efficient social protection spending - a reform of the State Welfare Card and Disability Grant so that they are provided on a more efficient basis - and a reform of the contributory basis and benefit design of the civil service pension scheme over an appropriate transition period.

16. Several reforms can strengthen the financial sustainability of the SSO. The ILO made the following recommendations in the SSF Actuarial Valuation report:

- **Gradually increase retirement age**. This will improve adequacy through longer contributory histories, support labor market aims and improve sustainability. Even a gradual increase over 50 years of the normal retirement age (from 60 to age 65 for men and women) will reduce the recommended contribution rate by nearly 3%. It is important to rapidly increase retirement age to a minimum of age 60 (i.e., no longer allow unreduced early retirement benefits from age 55 on loss of employment). This will reduce labor shortages, remove selection against the system but requires complementary active ageing employment policies.
- **Increase the maximum earnings cap**. The earnings cap can be raised to THB 17,500 immediately (from the existing THB 15,000) and then link future increases to national average wages. This will improve sustainability of benefits and improve adequacy for many beneficiaries.
- **Gradually increase the contribution rate**. Increasing the contribution rate paid to the SSO (e.g., an increase of total contribution rate by 3% in 2026, 2031 and in 2036 will ensure the SSF remains in surplus for the next 50 years).

17. Reforms to the SP system should be accompanied by supporting policies and undergo continuous reviews. Labor market policies, including active ageing and return-to-work measures will be essential for increasing labor force participation rates. Strengthening support for informal caregivers and investment in formal care mechanisms are crucial, particularly given the gendered nature of care responsibilities and the anticipated increase in single-person households.[26] While Thailand enjoys practically universal health coverage, there is a need for greater emphasis on managing scheme fragmentation and preventive measures and approach to non-communicable diseases (NCDs). Reforms should be reviewed continually to ensure that they are financially sustainable, they have positive economic and social impacts, they lead to increases in coverage and that benefits are adequate.

[26] Source: Exploring the Influencing Factors on Living Alone and Social Isolation among Older Adults in Rural Areas of Thailand, International Journal of Environmental Research and Public Health 2022.

Annex VI. Data Issues

Table 1. Thailand: Data Adequacy Assessment for Surveillance

Data Adequacy Assessment Rating 1/							
B							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	A	A	B	A	A	B	A
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	B	A	B	A	A		
Granularity 3/	A		A	A	A		
			A		B		
Consistency			B	B		B	
Frequency and Timeliness	A	A	B	A	A		

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.
1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.
2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance*, January 2024, Appendix I).
3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

A	The data provided to the Fund are adequate for surveillance.
B	The data provided to the Fund have some shortcomings but are broadly adequate for surveillance.
C	The data provided to the Fund have some shortcomings that somewhat hamper surveillance.
D	The data provided to the Fund have serious shortcomings that significantly hamper surveillance.

Rationale for staff assessment. Data provision has some shortcomings but is broadly adequate for surveillance. National Accounts statistics are mostly adequate but could benefit from additional granularity in terms of activities on the production side. In the fiscal sector, the authorities publish general government operations data consistent with the GFSM 2014. However, large discrepancies with national budget figures and the lack of a transparent reconciliation between the two series make it difficult to assess the fiscal position in a timely manner. Debt data has a broad coverage, but arrears, PPPs, and other contingent liabilities are not distinctly identified. The lack of data on SOEs' operations limits consistency between public debt and identified debt-creating flows. While monetary statistics are adequate in terms of coverage, granularity, and frequency and timeliness, financial sector statistics can be enhanced. Financial soundness indicators for the main systemically important institutions are mostly available, but the lack of data for Specialized Financial Institutions (financial institutions established by law to provide policy support), saving cooperatives, and other non-bank financial institutions may affect staff's assessment of financial sector risks. Additionally, more granular data on credit provision disaggregated by type of financial institution would ensure closer monitoring of macro-financial risks. The external sector statistics are broadly adequate, but their consistency could be improved by reducing net errors and omissions.

Changes since the last Article IV consultation. The authorities have indicated that work is progressing on publishing GFSM 2014-based data for selected nonfinancial state-owned enterprises (SOEs), although the timeline has not been confirmed.

Corrective actions and capacity development priorities.

Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff. For nominal and effective exchange rates (NEER and REER) as well as end-period and average exchange rates, staff use Fund-internally calculated data to ensure multilateral consistency. This creates differences in USD value terms of GDP and other series.

Other data gaps. Economic data provision can be more centralized to ensure easy access and improved findability. Additionally, coverage of the informal economy can be strengthened.

Table 2. Thailand: Data Standards Initiatives

Thailand subscribes to the Special Data Dissemination Standard (SDDS) since August 1996 and publishes the data on its National Summary Data Page. The latest SDDS Annual Observance Report is available on the Dissemination Standards Bulletin Board (https://dsbb.imf.org/).

Table 3. Thailand: Table of Common Indicators Required for Surveillance

As of December 16, 2024

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Expected Frequency[6,7]	Thailand[8]	Expected Timeliness[6,7]	Thailand[8]
Exchange Rates	15-Dec-24	16-Dec-24	D	D	D	D	...	1D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	6-Dec-24	13-Dec-24	W	W	M	M	1W	NLT 1M
Reserve/Base Money	Oct-24	Nov-24	M	M	M	M	2W	NLT 14D
Broad Money	Oct-24	Nov-24	M	M	M	M	1M	NLT 1M
Central Bank Balance Sheet	Oct-24	Nov-24	M	M	M	M	2W	NLT 14D
Consolidated Balance Sheet of the Banking System	Oct-24	Nov-24	M	M	M	M	1M	NLT 1M
Interest Rates[2]	15-Dec-24	16-Dec-24	D	D	D	D	...	1D
Consumer Price Index	Nov-24	Dec-24	M	M	M	M	1M	NLT 1W
Revenue, Expenditure, Balance and Composition of Financing[3]–General Government[4]	Jun-24	Aug-24	M	M	A	A	2Q	NLT 2Q
Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government	Oct-24	Nov-24	M	M	M	M	1M	1M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Oct-24	Nov-24	M	M	Q	M	1Q	NLT 2M
External Current Account Balance	Oct-24	Nov-24	M	M	Q	Q	1Q	1Q
Exports and Imports of Goods and Services	Jun-24	Sep-24	Q	Q	M	M	8W	NLT 1M
GDP/GNP	Sep-24	Nov-24	Q	Q	Q	Q	1Q	8W
Gross External Debt	Jun-24	Oct-24	Q	Q	Q	Q	1Q	1Q
International Investment Position	Jun-24	Sep-24	Q	Q	Q	Q	1Q	1Q

[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] Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual.; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.

[7] Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

[8] Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (https://dsbb.imf.org/). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "..."

Annex VII. Assessing Thailand's Structural Gaps[1]

This Annex summarizes the benchmarking exercise comparing Thailand vis-à-vis its regional peers and OECD countries to identify its structural gaps.

1. **Thailand is assessed against two comparator groups in eight dimensions**. For the regional peers, the benchmark was set as the frontier of the ASEAN-6 (excluding Singapore). For the OECD countries, the benchmark was set as the median of the countries to identify possible gaps that need to be bridged to resemble a typical OECD country. Structural gaps were assessed in eight areas that are associated with stronger growth. These are trade-FDI regulation and barriers; governance; economic complexity and openness; business regulation and infrastructure; credit market regulation and financial inclusion; labor market; human capital; and human development, health, and demographics. Each of the eight categories consists of more granular indicators of structural characteristics. Positive values indicate that Thailand lags behind the comparator benchmarks, hence the structural gap. On the other hand, negative gaps indicate that Thailand performs better than the comparator group's benchmark.[2] All variables are normalized from 0 to 1, with higher values denoting better outcomes.

2. **The exercise reveals that Thailand has significant structural gaps to bridge** (Figure 1). Compared to a typical OECD country, structural gaps are particularly large in terms of trade and FDI openness, governance, business regulation, vulnerable employment, and human development. While Thailand is close to or at the ASEAN-6 frontier (excluding Singapore) in many aspects, there is scope for improvement, particularly in economic openness, business regulation, and education. Below spider charts illustrate Thailand's performance relative to these countries.

3. **The identified structural gaps reflect the main binding obstacles to strong, inclusive and sustainable growth in Thailand**. The World Bank's Systematic Country Diagnostic (World Bank, 2024) identifies four main binding growth constraints: inadequate and unequal human capital accumulation amid aging and high inequality; lack of private sector dynamism and lagging structural change, untapped economic potential and gaps in connectivity amid persistent spatial inequality; and degraded natural environment and more frequent and severe climate-induced natural disasters.

4. **Addressing these structural gaps could yield a significant growth dividend**. Particularly "first-generation" structural reforms, defined as those that address critical

[1] Prepared by Seunghwan Kim and Emmanouil Kitsios (both APD).

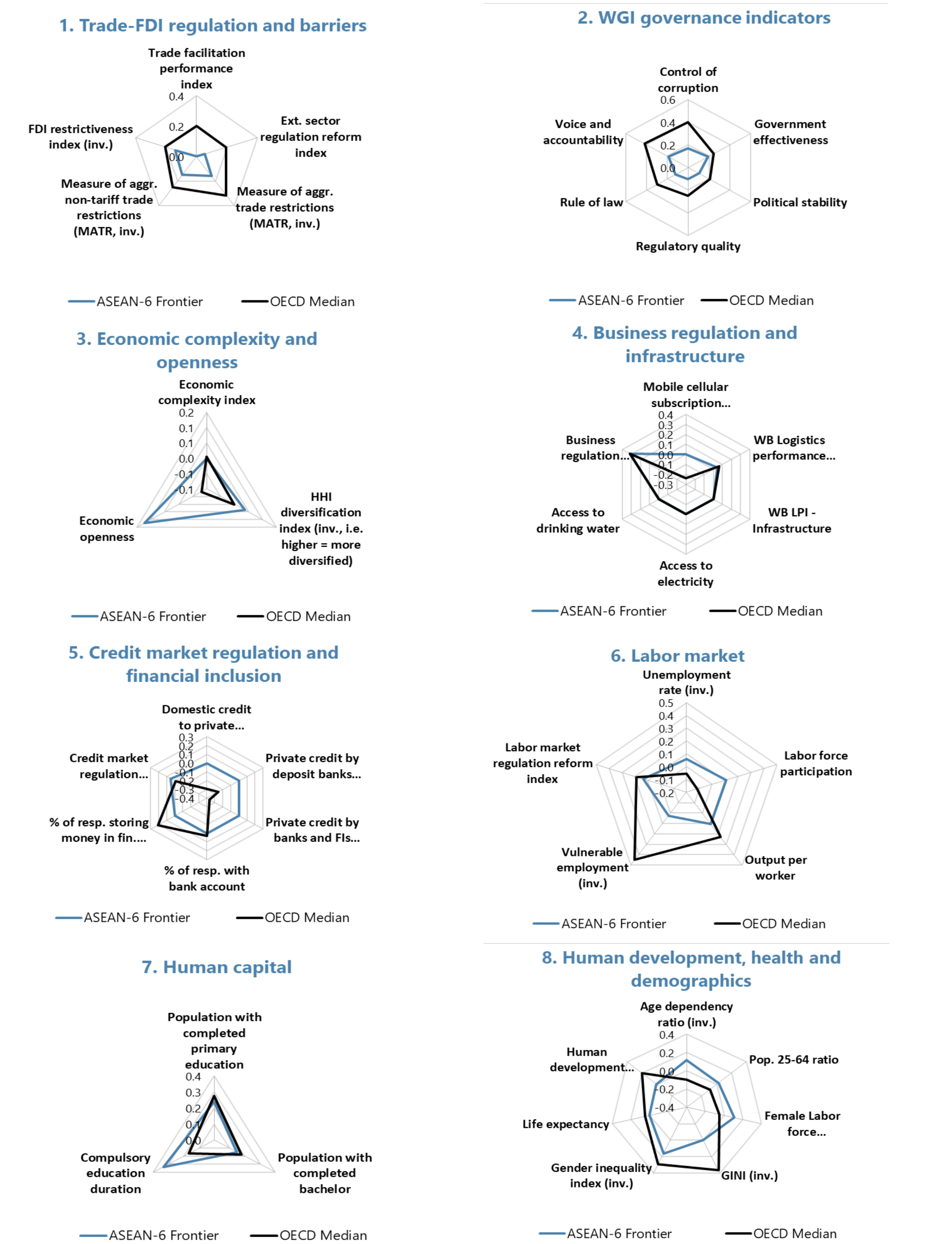
[2] Many of the indicators are based on public perception and surveys, but still considered as they do allow to get a broader picture of the considered structural area. Additionally, these indicators provide qualitative information about each of the structural areas and do not represent the IMF's assessment of the level of each structural gap.

constraints to economic activity[3] would have a significant positive impact on output. Estimates suggest that, for an average emerging market country, governance and human development reforms would have immediate and large impacts—increasing output by around 1 percent and 5 percent, respectively, following a two standard deviation shock to the reform index. Reforms to the external sector and business regulation would also have a significant impact, although more gradually, increasing the output by 1.5-2.0 percent after 4-6 years. A combined package that implements all first-generation reforms could raise output by around 1.5 to 2 percent after 2 years. If all reforms were implemented simultaneously, the effect would be even stronger, with output increasing up to around 3 percent after four years. Besides the first-generation reforms, reforms to credit market regulation could increase output by 1.5-2.0 percent around 4-6 years after the reform. Labor markets reforms are found to have a positive albeit not significant impact on employment, which could be explained by the high degree of informality in emerging markets.

5. These exercises highlight the need for comprehensive and coordinated reforms to unlock Thailand's growth potential and halt the productivity decline. In line with the National Development Strategy, the government should continue to prioritize enhancing education, social protection, competition, innovation and technology adoption, and increasing supporting investments in digital and physical infrastructure to improve connectivity and to address climate challenges. Overcoming policy and institutional fragmentation and establishing clear accountability frameworks will be key for effective reform implementation.

[3] These include reforms on the external sector regulation, governance, and business regulation. In line with IMF Country Report No. 24/271, human development reforms are included given the pressing need to address gaps in human capital in Thailand.

Figure.1 Thailand: Structural Gaps



Source: See Table 1.

Notes: ASEAN-6 Frontier excludes Singapore.

Table 1. Thailand: Data Sources for the Structural Gap Analysis

Structural area	Variables	Source
Trade regulations and barriers	Measure of Aggregate Trade Restrictions (MATR) IMF External Sector Reform Index OECD Trade Facilitation Performance Index OECD FDI Restrictiveness Index	IMF AREAER Database Fraser Institute (using Budina et al. methodology) OECD OECD
External sector openness and trade structure	Economic openness Hausman Complexity Outlook Index (COI) Herfindahl-Hirschman Prod. Concentration Index	IMF, World Economic Outlook; and IMF staff calculations Atlas of Economic Complexity World Bank (based on mirrored exports)
Governance	Control of Corruption, Government Effectiveness, Political Stability, Regulatory Quality, Rule of Law, Voice and Accountability IMF Governance reform index	World Bank, Worldwide Governance Indicator IMF staff calculations, using Budina et al. methodology
Credit market regulation and financial inclusion	IMF Credit Market Regulation Index Domestic credit to private sector (% of GDP) Private credit by deposit money banks (% of GDP) Private credit by deposit money banks and other FIs (% of GDP) Financial inclusion: % of respondents having a bank account, % of respondents keeping money in a financial account	Fraser Institute (using Budina et al. methodology) World Bank, World Development Indicators World Bank, Global Financial Development Database World Bank. Global Financial Development Database Global Financial Inclusion Database
Business regulation and infrastructure	Infrastructure: Mobile cellular subscriptions, Access to electricity, Access to drinking water, Logistics performance index IMF Business Regulation Index	World Bank, World Development Indicators Fraser Institute (using Budina et al. methodology)
Labor market	Unemployment rate Labor force participation rate, output per worker, share of vulnerable employment IMF Labor Market Regulation Index	IMF, World Economic Outlook International Labor Organization (ILO) Fraser Institute (using Budina et al. methodology)
Human capital	Compulsory education duration, Share of population that completed at least primary education, Share of population that completed bachelor.	World Bank, World development Index
Human development, Health, and Demographics	Human Development Index, Gender Inequality Index, Female labor force participation ratio, Life expectancy at birth, Age dependency ratio, Population 25-64 ratio GINI coefficient	United Nations Development Programme (UNDP) World Bank, World Development Indicators World Inequality Database

Note: The variables referred to as IMF reform indices are the ones developed in Budina et al. (2023). The Governance reform index is a simple average of the six WGI indices. The External sector index is an average of four indicators incorporating information on tariffs, non-tariff trade barriers, black-market exchange rate, and control of the movement of capital and people. The Credit Market regulation index comprises three components on ownership of banks, the size of private sector borrowing, interest rate controls. The Labor Market regulation index incorporates information on hiring and firing regulation, and the degree of centralized collective wage bargaining. The Business regulation index is an average of subcomponents on bureaucracy costs, administrative requirements, and impartial public administration. Except for the first index, subcomponents are all sourced from the Fraser institute. They are scaled from 0 to 1, with higher values indicating a higher degree of freedom.

References

International Monetary Fund Country Reports No. 24/271, 24/352, International Monetary Fund, Washington, DC.

World Bank, 2024. Thailand Systematic Country Diagnostic Update 2024-Shifting Gears: Toward Sustainable Growth and Inclusive Prosperity, World Bank Group, Washington, DC.

INTERNATIONAL MONETARY FUND

THAILAND

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

January 27, 2025

Prepared By Asia and Pacific Department

CONTENTS

FUND RELATIONS

(As of December 31, 2024)

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	2399.44	74.70
Reserve position in Fund	813.89	25.34
Lending to the Fund		
New Arrangements to Borrow	0	

SDR Department:

	SDR Million	Percent Allocation
Net cumulative allocation	4,048.73	100.00
Holdings	4149.32	102.48

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):

	2025	2026	2027	2028	2029
Principal					
Charges/interest	0.03	0.03	0.03	0.03	0.03
Total	0.03	0.03	0.03	0.03	0.03

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 (BOT) may intervene in the foreign exchange market when the resulting movements in Thai baht (THB) are deemed excessive and unjustified by fundamentals.

During 2023, the REER appreciated by 1.21 percent, while the NEER appreciated by 3.88 percent, reflecting the partial recovery of tourism receipts.

Last Article IV Consultation:

Thailand is on the standard 12-month Article IV consultation cycle. The previous Article IV consultation was concluded on January 17, 2024. 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 response to the request from the Fiscal Policy Office (FPO) of the Ministry of Finance of Thailand, ICD commenced a technical assistance (TA) project on developing a customized dynamic stochastic general equilibrium (DSGE) model for simulation and analysis of macroeconomic policies. A scoping mission took place in November 2024 to assess the current toolkit and discuss the action plan for the project.

MCM: The ongoing 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. Follow up missions in July and December 2022 advised the BOT on developing the estimated DSGE models for monetary policy analysis as well as enhancing modeling and analytical capacity. In July 2022, a hybrid TA 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 BOT's resolvability assessment, resolution planning, and deposit insurance arrangements, and conducted simulation exercises to enhance capacity in addressing acute bank distress or failures. In November 2024, a TA mission reviewed the Thai version of the estimated Quantitative Integrated Policy Framework (QIPF) model, and provided training sessions, focusing on (i) the banking and macroprudential extension of the QIPF model; and (ii) its practical application, especially to study scenarios that involve possible use of multiple policy tools.

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

Statement by Mr. Kaweevudh Sumawong, Alternate Executive Director for Thailand and Mr. Boonrith Pongrasamiroj, Advisor to the Executive Director February 18, 2024.

The Thai authorities would like to express their appreciation to the IMF mission team, led by Ms. Deléchat, for the constructive and candid policy discussions. The authorities broadly agree with staff's assessment of the Thai economy and welcome their support for Thailand's policy responses amid the prevailing global economic uncertainties.

Recent Developments, Outlook, and Risks

The Thai economy is projected to expand by 2.7 percent in 2024, driven primarily by domestic consumption and a recovery in tourism-related activities. Growth momentum is expected to continue into 2025, with a projected growth of 2.9 percent, but is subject to downside risks. This is supported by a more balanced growth engine, including the recent acceleration of government budget disbursements and the rebound of goods exports. Inflation remains well-anchored and has gradually increased over the past months, returning to the Bank of Thailand's (BOT) target range in December 2024. Importantly, medium-term inflation expectations remain consistent with the target.

The economic outlook is subject to risks and uncertainties. On the external front, increasing geoeconomic fragmentation, particularly through industrial and trade policies, could hamper global and regional growth, reducing investment inflows and impeding the recent rebound in exports. On the domestic front, the uneven economic recovery following the Covid-19 crisis is still ongoing and the tightening credit conditions in some pockets could impact vulnerable households and small and medium enterprises (SMEs) more than expected.

Fiscal Policy

The authorities reiterate their commitment to medium- and long-term fiscal sustainability, while emphasizing the need to continue to support post-pandemic economic recovery for vulnerable groups. Under the medium-term fiscal framework (MTFF) approved by the cabinet in December 2024, the government budget deficit is expected to decrease from 4.5 percent to GDP in FY2025 to 3.1 percent in FY2029, with public debt remaining below the 70 percent ceiling. To ensure effective public spending, the government is focusing on stimulating the economy through increased capital expenditures, constituting 24.8 percent of the FY2025 budget, primarily in labor force reskilling and upskilling as well as digital and physical infrastructure investments. At the same time, several policy reforms, such as a review of the criteria for a new round of state welfare card registration, have been implemented to strengthen social protection as well as tackle poverty and inequality issues.

Taking into account spending policy priorities, the authorities are committed to implementing a robust and comprehensive set of tax reforms to ensure disciplined public finance management by increasing revenue collection, broadening the tax base, reducing taxation inequality, and enhancing competitiveness. The adoption of the global minimum tax (GMT) under the OECD's Pillar II framework, effective from 2025, aligns with international efforts to combat tax base erosion and profit shifting as well as to reduce tax competition. The authorities also acknowledge staff's recommendation to raise the value-added tax (VAT) rate and its positive impact on revenue mobilization, while recognizing challenges in achieving social buy-in and timing for its implementation.

Monetary Policy and Exchange Rate Policy

The authorities consider the current monetary policy stance appropriate for supporting long-term growth of the Thai economy close to its potential, and for ensuring that inflation remains sustainably within the target range. The recent 25 basis point rate cut in October 2024 was a policy recalibration in response to the evolving balance of risks and outlook, aimed at sustaining growth momentum, while facilitating orderly deleveraging and preventing long-term financial imbalances. Going forward, monetary policy decisions will remain outlook-dependent, recognizing noise inherent in an uncertain environment and focusing on how incoming data might affect underlying economic trends. The authorities agree that central bank independence with clear communication is crucial for maintaining the credibility and effectiveness of monetary policy in anchoring inflation expectations.

The authorities remain committed to exchange rate flexibility and emphasize the importance of a combination of policy tools for small open economies to navigate the current volatile global environment. They welcome the Fund's Integrated Policy Framework (IPF), which acknowledges foreign exchange intervention (FXI) and capital flow management measures (CFMs) as part of a complementary policy toolkit to ensure market functioning and curb excessive volatility when necessary. Additionally, the authorities welcome the results of the External Balance Assessment (EBA), while emphasizing the need for careful communication to prevent misuse or misinterpretation by third parties.

Financial Sector Policy

The authorities concur with staff's assessment that the Thai financial system remains resilient and that financial stability risks are contained, despite the recent slowdown in credit growth. The authorities remain committed to ensuring an orderly debt deleveraging process and addressing the household debt overhang in a sustainable manner amid the backdrop of a gradual and uneven economic recovery. This is achieved through a combination of targeted financial measures to alleviate short-term debt burden as well as ongoing initiatives to improve financial infrastructure, thereby enhancing financial access in the long run.

- **Targeted financial measures have long been part of the authorities' policy toolkit, complementing interest rate tools to facilitate an orderly debt deleveraging process.** Notably, the recent launch of *"Khun Soo, Rao Chuay" (You Fight, We Help)* program in December 2024 aims to help vulnerable groups refinance their debts and alleviate their debt burden. The ongoing implementation of the Responsible Lending (RL) Guidelines aims to provide a sustainable solution to the household debt overhang by (1) gradually unwinding existing high debt levels, (2) deterring the accumulation of new potentially bad debts, and (3) preventing moral hazard. These measures are complemented by financial literacy enhancement initiatives to prevent over-indebtedness.
- **Concurrently, the authorities are committed to building financial infrastructure to improve access for the unserved and underserved in the longer term.** Notably, ***"Your Data"*** Initiative aims to empower consumers by allowing them to seamlessly and securely transfer their data from one service provider to another and enabling better access to financial services. Additionally, **the National Credit Guarantee Agency (NaCGA)** is being established to mitigate financing challenges posed by inherent risks for SMEs.

Structural Policy

The authorities underscore their commitment to structural reforms to enhance Thailand's productivity, competitiveness and resilience by scaling up investments in human, physical and digital capital. Restructuring the production and service sectors toward an innovation-based economy is a key priority under the 13th National Development Plan (2023-2027). In addition, regulatory and competition reforms are underway as part of the OECD accession process initiated in June 2024, expected to strengthen competitiveness, openness, and governance. Significant areas of structural reforms include:

1. **Enhancing labor productivity and preparing the workforce for an innovation-based economy:** A major focus is put on transforming higher education and vocational training to equip students with future-ready skills. The authorities are committed to fostering strong partnerships with universities and private industries to ensure educational curricula align closely with market demands.
2. **Addressing social protection gaps to support the most vulnerable in society:** The authorities are committed to reducing poverty and inequality, as well as strengthening the country's social safety nets to increase the resilience of vulnerable households, particularly those in the informal sector. They also acknowledge the need for better-targeted assistance to ensure long-term fiscal sustainability and highlight the

importance of improving data linkages among different government agencies to integrate currently fragmented social protection systems.

3. **Stepping up climate efforts and building resilience to climate risks:** To transform Thailand into a low-carbon society, the government promotes the transition to renewable energy, supports electric vehicles (EVs) production and use, and invests in large-scale public transportation projects, especially railways and metro systems. Institutional and legislative reforms have been accelerated to enhance centralized climate coordination, particularly through the Climate Change Act and the Department of Climate Change and Environment (DCCE). A carbon tax plan was approved in January 2025 to curb greenhouse gas emissions, with other mechanisms like a mandatory emission trading scheme underway.

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