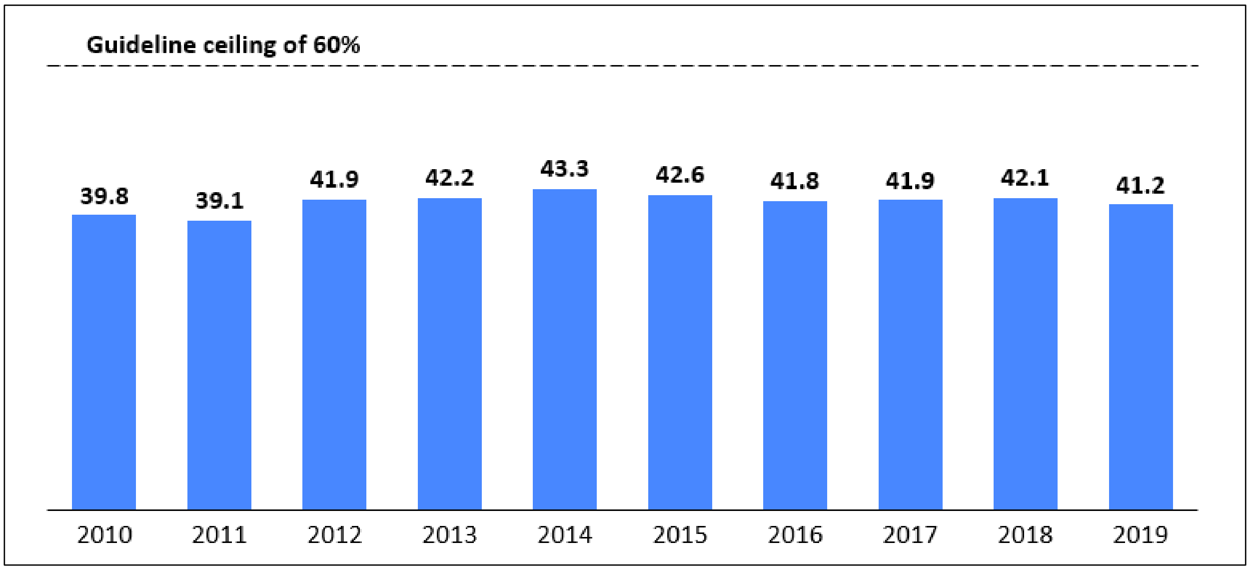
DEBT SUSTAINABILITY ASSESSMENT

1. **Overview of Thailand's fiscal sustainability outlook.** Thailand has a strong fiscal position for the past decade. At the end of 2019, the country's total public debt is $209.1 billion (41.2% of the gross domestic product [GDP]). Approximately 97% of total public debt is denominated in local currency, while 92% is long-term debt (having maturity date one year or longer). Debt associated with non-financial state enterprises accounts for approximately 15% of total public debt. Since 2010, the public debt-GDP ratio has averaged at 41.6%, well below the Cabinet debt ceiling of 60% of GDP (figure 1). External positions were strong in 2019, with a current account surplus of $37.3 billion and international reserves of $224.3 billion—equivalent to 3.7 times the short-term external debt and import cover of 13 months. This suggests a good track record of the country's fiscal discipline and the strong underlying macroeconomic institutions.[1]

Figure 1: Thailand's public debt (% of GDP; 2010–2019)



Source: Public Debt Management Office, Ministry of Finance.

2. **The coronavirus disease (COVID-19) outbreak has dealt a profound impact on the Thai economy.** Thailand's economy had been experiencing a slowdown even before the pandemic due to the trade conflict, political uncertainty, and the worst drought in decades. With the pandemic, the economy is projected to experience a large contraction which will put Thailand into negative growth territory for the first time since the global financial crisis. The pandemic has forced the government to impose strict containment measures since the end of the first quarter of 2020. These include limiting foreigners who can enter the country and shutting down high-risk venues such as shopping malls, schools, and restaurants. Such containment measures have immediately hit the tourism industry, caused supply disruptions, and greatly weakened domestic demand. With the expected containment policies, the International Monetary Fund has downgraded GDP growth projections from 3% to -6.7% for 2020—one of the most drastic economic downturn due to COVID-19 in Southeast Asia.[2] ADB estimated the economic loss due to COVID-19 could reach $45.9 billion under longer containment scenario. The containment measures and the resulting economic contraction is likely to put disproportionately large pressure

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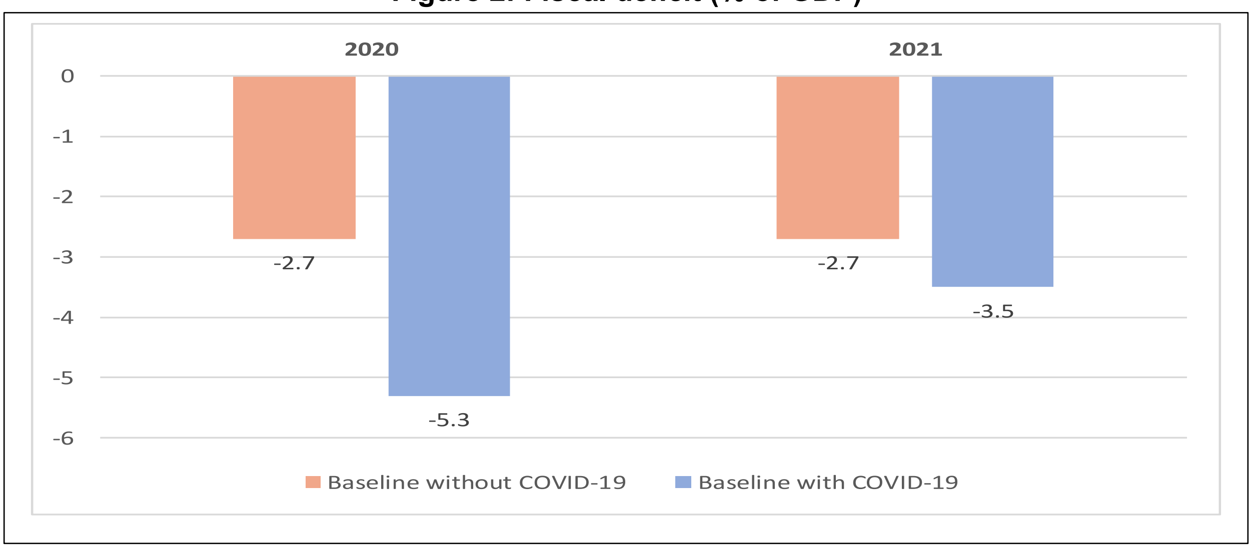
[1] International Monetary Fund. 2019. *Thailand: 2019 Article IV Consultation*. Washington D.C.

[2] IMF. 2020. World Economic Outlook: Chapter 1: The Great Lockdown. Washington D.C; ADB projected -4.8% and Bank of Thailand projected -5.3% growth rate in 2020.

on small and medium-sized enterprises (SMEs) and low-income workers. While the Bank of Thailand has set up the fund to mitigate potential disruptions associated with private debt, the government has introduced a range of fiscal stimulus measures to limit the impacts of the COVID-19 pandemic. This will put an upward pressure on the gross financing needs as well as the public debt. The Ministry of Finance projected that gross financing needs for the Fiscal Year 2020 will increase by 76.4% from $21.6 billion to $38.1 billion due to the COVID-19 pandemic which caused revenue shortfalls and increased fiscal spending in response to economic, health, and social assistance needs. This report assesses Thailand's public debt sustainability from 2020 to 2024. It considers implications of the COVID-19 pandemic and the COVID-19 Pandemic Response Option (CPRO) loan ($1.5 billion) on the trajectory of public debt under the baseline and alternative scenarios.

3. **Fiscal deficits have risen sharply to support the economy.** The fiscal measures to mitigate the COVID-19 impacts include providing soft loans to SMEs, tax breaks, and cash payouts to self-employed workers, among others. The Cabinet has approved the executive decrees which will allow the government to borrow up to B1 trillion baht through bond issuances and foreign loans over the 2020–2021 period.[3] Around 60% of this amount will be spent on healthcare and financial aid to vulnerable households and businesses, while the rest will go to projects aimed at strengthening communities and infrastructure.[4] We assume that the fiscal expenditure responses to COVID-19 will be financed by budget reallocation (no change in the 2020 budget spending) and additional public debt, while revenue is projected to decline due to economic slowdown. In this analysis, we assume that the government borrow only $1.5 billion for its response to the COVID-19 outbreak. Considering the economic impacts and government responses, the fiscal deficit is forecasted to rise to 5.3% in 2020 (9.1% including the off-budget COVD-19 spending) and 3.5% in 2021 in the baseline projection (figure 2).

Figure 2: Fiscal deficit (% of GDP)



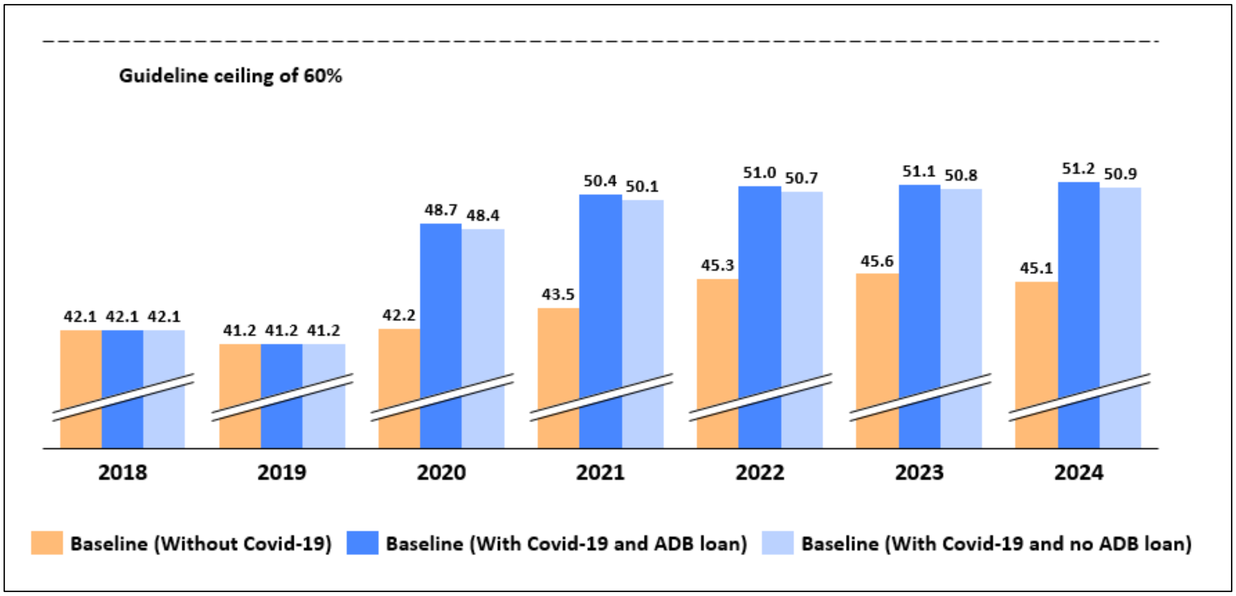
Source: ADB estimates.

4. **Public debt is expected to rise to 51% of GDP in 2024.** The debt sustainability assessment (DSA) employs the debt sustainability framework of the International Monetary Fund,

[3] The exchange rate is assumed at 33 baht per the United States dollar throughout this study, unless noted otherwise.
[4] In addition, the cabinet has approved two executive decrees enabling the Bank of Thailand to extend soft loans (500 billion baht) to SMEs and establish the fund (400 billion baht) to stabilize the corporate bond market, respectively.

whereby identified debt-creating flows in a given year are attributable to: (i) primary deficits; (ii) automatic debt dynamics relating to real GDP growth, the real interest rate, and the real exchange rate; and (iii) other identified debt-creating flows. The COVID-19 outbreak has put a significant upward pressure on Thailand's public debt projection. Under the baseline macroeconomic and fiscal assumptions where GDP contracts by 4.8% in 2020 and bounces back to an expansion of 3.5% in 2021 (table 1), the public debt-GDP ratio is expected to increase from 41.2% in 2019 to 48.7% in 2020 (Figure 3). After 2020, the public debt ratio is rising more slowly to 51.2% at the end of the projection period (2024). The COVID-19 Active Response and Expenditure Support (CARES) Program ($1.5 billion) under the CPRO is estimated to have a small impact, adding around 0.3 percentage point to the public debt-GDP ratio. Without the CARES Program ($1.5 billion), the public debt ratio rises to 48.4% in 2020 and 50.9% in 2024.

Figure 3: COVID-19 Impact on public debt dynamics (% of GDP)

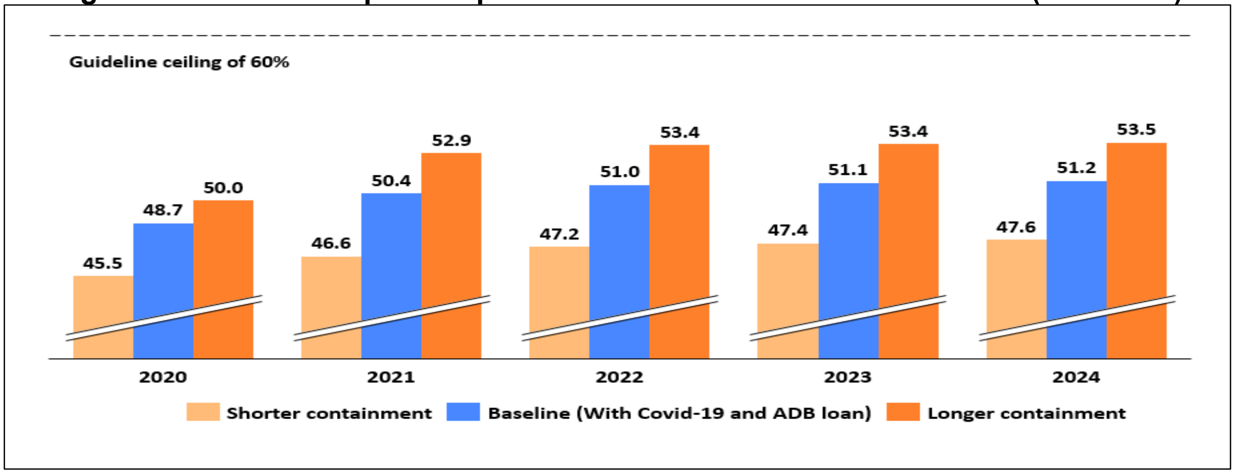


Source: ADB Estimates.

5. **The trajectory of public debt is sensitive to change in the economic growth outlook.** Given the rapidly changing situations, we perform the public debt projection under two alternative scenarios. In case where the containment takes longer than expected in the baseline, we assume that the real GDP growth would decline further from the baseline by one standard deviation in 2020 and 2021 (table 2).[5] The public debt-GDP ratio would rise to 50.0% in 2020 and 52.9% in 2024 (Figure 4). On the other hand, if the outbreak is contained faster than expected in the baseline, we assume that the real GDP growth would be -0.5% in 2020 and 3.4% in 2021 (table 2). The public debt to GDP ratio is expected to increase to 45.5% in 2020 and 47.6% in 2024.

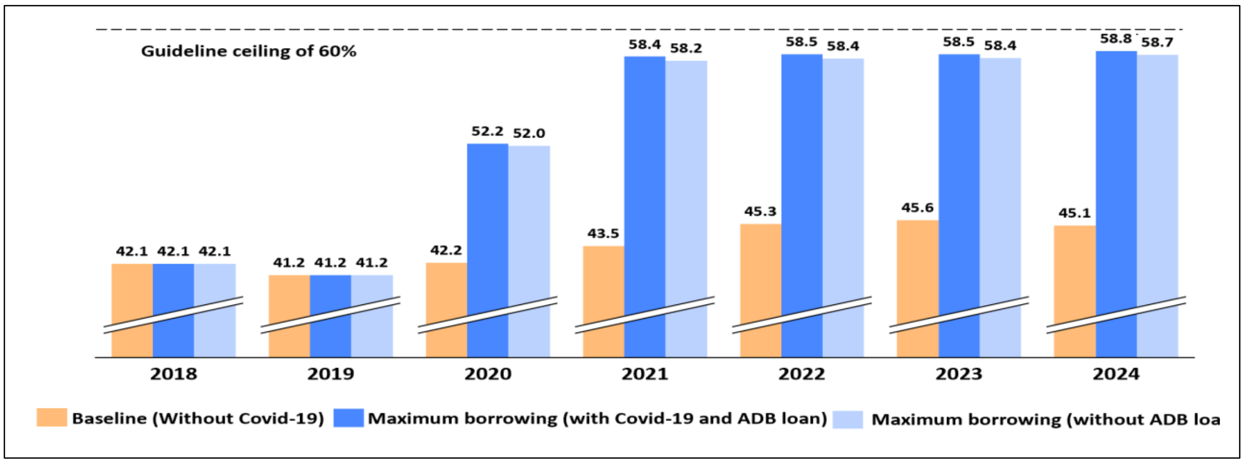
[5] The standard deviation is calculated over the period 2000–2019.

Figure 4: COVID-19 Impact on public debt under alternative scenarios (% of GDP)



Source: ADB Estimates.

Figure 5: Public debt under the Royal Decree on Emergency Borrowing (% of GDP)



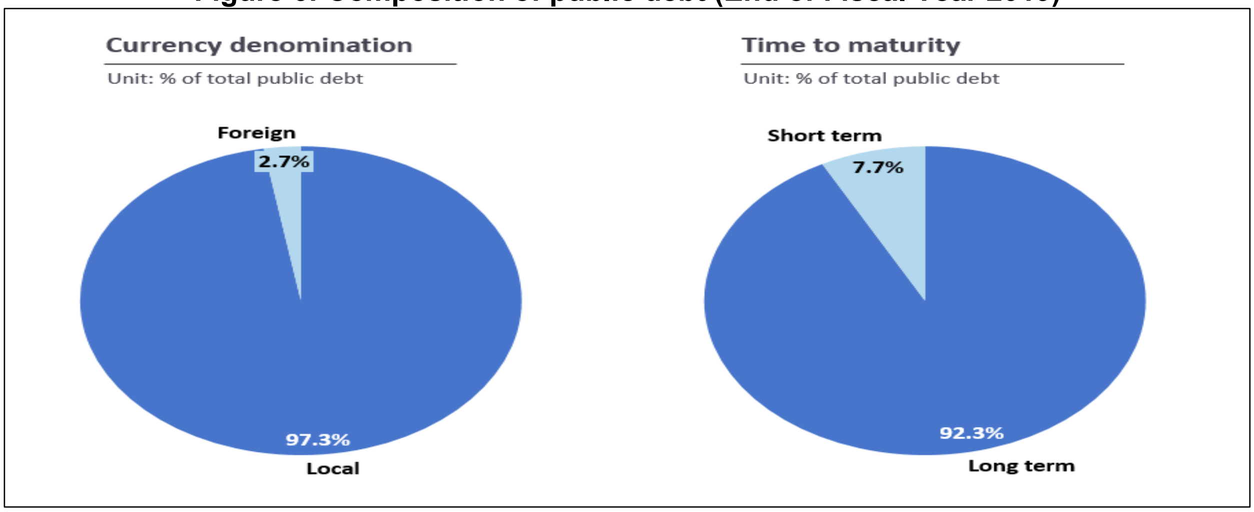
Source: ADB Estimates.

6. **Public debt remains below the legal debt ceiling even under the worst-case scenario.** On 19 April 2020, the government announced the borrowing plans up to B1 trillion ($31.7 billion) in fiscal years 2020–2021 under the Royal Decree on Emergency Borrowing, to finance the fiscal stimulus packages. Under the Royal Decree, the Ministry of Finance plans to raise funds from domestic bond issuance, term loans, and borrowing from the international financial institutions (IFIs), of maximum B600 billion ($19.1 billion) in Fiscal Year 2020 and maximum B400 billion ($12.7 billion) in Fiscal Year 2021. It should be noted that the emergency borrowings should be interpreted as the entire borrowing envelope within which the government may borrow in response to the evolving COVID-19 situations. In this regard, the DSA examined the worst-case scenario whereby the government exhausts all the borrowing headroom of B1 trillion ($31.7 billion) under the emergency decree on public borrowings for COVID-19 in 2020–2021 (figure 5). Including the CARES program, the public debts are expected to increase to 52.2% of GDP in 2020 and 58.4% of GDP in 2021, and gradually increment to 58.8% in 2024. The public debt trajectories under this worst-case scenario are closer to, but still below, the legal ceiling of 60% of GDP.

7. **Thailand's public debt outlook is likely to remain sustainable.** The trust in the ability of a country's government to repay its debt depends not only on the size of debt but also on a

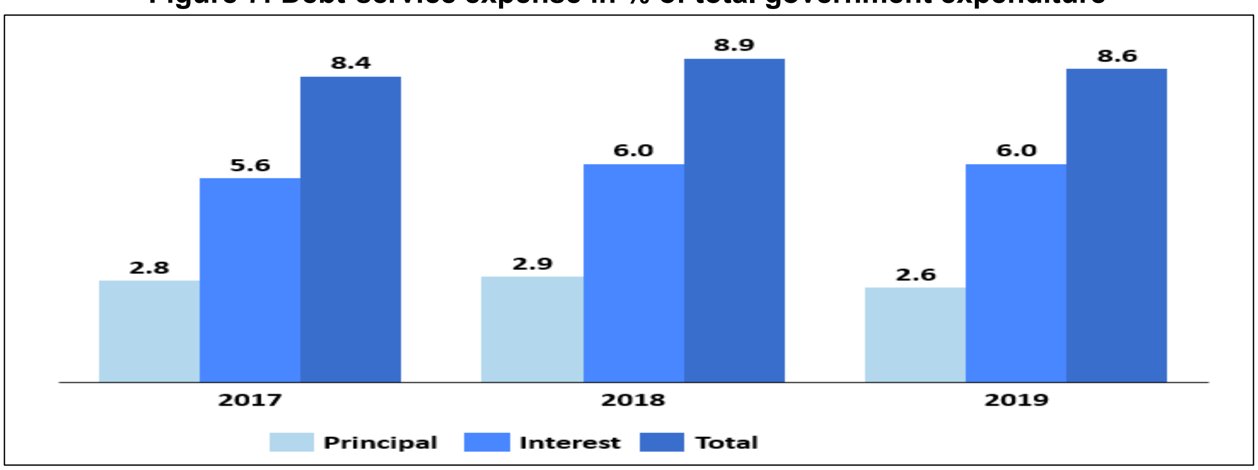
number of factors, key of which includes the composition of debt and the fiscal discipline track record. Over 97% of the public debt is denominated in local currency at the end of 2019 (Figure 6). This makes Thailand less susceptible to a currency crisis. In addition, around 92% of the public debt is long-term debt, i.e. having maturity date longer than one year. The average maturity to date is 10.3 years. Such long maturity of the debt curtails the risk of Thailand facing abruptly higher yields due to self-fulfilling process of investors in the near term. In addition, the Thai government has strictly adhered to its fiscal sustainability rule under the 2018 Fiscal Responsibility Act. Its public debt has remained well below 60% of GDP over the past decade (figure 1). The debt-servicing expenditure is also around 9% of total government expenditure over the 2017–2019 period, well below the 15% limit (figure 7). Assuming the government's domestic debt structure stays the same, an increase in domestic financing of 68.7% will raise debt-service ratio to around 14.5% of GDP, still below the 15% limit. Nevertheless, although the COVID-19 outbreak warrants the extraordinary higher deficits, it is critical that the Thai government employ the loan effectively to support an economic recovery. This will ensure a declining path of public debt—retrieving additional fiscal space for productive investments.

Figure 6: Composition of public debt (End of Fiscal Year 2019)



Note: Long-term debt refers to debt with time to maturity of one year or longer, while short-term debt refers to those with time to maturity less than one year.
Source: Public Debt Management Office, Ministry of Finance.

Figure 7: Debt-service expense in % of total government expenditure



Source: Fiscal Policy Office, Ministry of Finance.

Appendix Table 1: Key macroeconomic and fiscal assumptions under the baseline projection

	2020	2021	2022	2023	2024
Baseline (Without Covid-19)					
Real GDP growth	3.0%	3.4%	3.6%	3.6%	3.6%
Fiscal balance (% of GDP)	-2.7%	-2.7%	-2.8%	-2.6%	-2.0%
Baseline (With Covid19 and ADB loan)					
Real GDP growth	-4.8%	2.5%	3.6%	3.6%	3.6%
Fiscal balance (% of GDP)	-5.3%	-3.5%	-3.3%	-3.0%	-2.8%

Source: ADB.

Appendix Table 2: Key macroeconomic and fiscal assumptions under the alternative scenario projection

	2020	2021	2022	2023	2024
Alternative scenario 1 (Shorter containment, smaller demand shocks)					
Real GDP growth	-0.5%	3.4%	3.6%	3.6%	3.6%
Fiscal balance (% of GDP)	-4.8%	-3.5%	-3.3%	-3.0%	-2.8%
Alternative scenario 2 (Longer containment, Larger demand shocks)					
Real GDP growth	-7.0%	0.3%	3.6%	3.6%	3.6%
Fiscal balance (% of GDP)	-5.9%	-3.5%	-3.3%	-3.0%	-2.8%

Source: ADB.