



# Report and Recommendation of the President to the Board of Directors

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Project Number: 54177-001  
June 2020

## Proposed Countercyclical Support Facility Loans Kingdom of Thailand: COVID-19 Active Response and Expenditure Support Program

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Asian Development Bank

## CURRENCY EQUIVALENTS

(as of 7 June 2020)

Currency unit	–	baht (B)
B1.00	=	\$0.03173
\$1.00	=	B31.50

## ABBREVIATIONS

ADB	–	Asian Development Bank
ASEAN	–	Association of Southeast Asian Nations
BOT	–	Bank of Thailand
CARES	–	COVID-19 Active Response and Expenditure Support
CLMV	–	Cambodia, Lao People's Democratic Republic, Myanmar, and Viet Nam
COVID-19	–	coronavirus disease
CPS	–	country partnership strategy
GDP	–	gross domestic product
GMS	–	Greater Mekong Subregion
IMF	–	International Monetary Fund
MOF	–	Ministry of Finance
MOPH	–	Ministry of Public Health
SMEs	–	small and medium-sized enterprises
WHO	–	World Health Organization

## NOTES

- (i) The fiscal year (FY) of the Government of Thailand and its agencies ends on 30 September. "FY" before a calendar year denotes the year in which the fiscal year ends, e.g., FY2020 ends on 30 September 2020.
- (ii) In this report, "\$" refers to United States dollars.

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## PROGRAM AT A GLANCE

1. Basic Data		Project Number: 54177-001	
Project Name	COVID-19 Active Response and Expenditure Support Program	Department/Division	SERD/SEPF
Country	Thailand	Executing Agency	Ministry of Finance
Borrower	Government of Thailand		
Country Economic Indicators	<a href="https://www.adb.org/Documents/LinkedDocs/?id=54177-001-CEI">https://www.adb.org/Documents/LinkedDocs/?id=54177-001-CEI</a>		
Portfolio at a Glance	<a href="https://www.adb.org/Documents/LinkedDocs/?id=54177-001-PortAtaGlance">https://www.adb.org/Documents/LinkedDocs/?id=54177-001-PortAtaGlance</a>		
2. Sector		ADB Financing (\$ million)	
✓ Public sector management	Public expenditure and fiscal management		800.00
	Social protection initiatives		500.00
Health	Disease control of communicable disease		100.00
	Health system development		100.00
		Total	1,500.00
3. Operational Priorities		Climate Change Information	
✓ Addressing remaining poverty and reducing inequalities		GHG reductions (tons per annum)	0
✓ Accelerating progress in gender equality		Climate Change impact on the Project	Low
✓ Strengthening governance and institutional capacity			
✓ Fostering regional cooperation and integration			
		ADB Financing	
		Adaptation (\$ million)	0.00
		Mitigation (\$ million)	0.00
		Cofinancing	
		Adaptation (\$ million)	0.00
		Mitigation (\$ million)	0.00
Sustainable Development Goals		Gender Equity and Mainstreaming	
SDG 1.5, 1.a		Effective gender mainstreaming (EGM)	✓
SDG 3.8, 3.d			
SDG 5.c			
SDG 8.1, 8.7, 8.8		Poverty Targeting	
SDG 10.4		General Intervention on Poverty	✓
4. Risk Categorization:	Complex		
5. Safeguard Categorization	Environment: C Involuntary Resettlement: C Indigenous Peoples: C		
6. Financing			
Modality and Sources		Amount (\$ million)	
ADB		1,500.00	
Sovereign Countercyclical Support Facility Lending (Regular Loan): Ordinary capital resources		1,500.00	
Cofinancing		500.00	
Asian Infrastructure Investment Bank - COVID19 Pandemic Response Option (Not ADB Administered)		500.00	
Counterpart		0.00	
None		0.00	
Total		2,000.00	
Currency of ADB Financing: US Dollar			

## I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on proposed loans to the Kingdom of Thailand for the COVID-19 Active Response and Expenditure Support (CARES) Program under the Countercyclical Support Facility COVID-19 pandemic response option.<sup>1</sup>

2. The proposed program supports the government's efforts to counter the impacts of the coronavirus disease (COVID-19). As of 18 June 2020, COVID-19 has infected 3,141 people and claimed 58 lives in Thailand. As a result, the government imposed a partial lockdown and travel bans in April and significantly increased health spending. However, while the health impact has been contained, the efforts to flatten the pandemic curve have steepened the recession curve. With a large tourism sector, strong global supply chain links, and a large base of migrant workers, Thailand's economy is highly vulnerable to the pandemic. Real gross domestic product (GDP) is forecasted to contract 6.7% in 2020, down from the pre-pandemic projection of 3%.<sup>2</sup> An estimated 3.1 million workers are expected to lose their jobs, and 5.2 million people are expected to fall back into poverty. Given the country's strong regional trade, investment, and labor links, an economic crisis in Thailand could induce large negative spillovers to neighboring countries, particularly Cambodia, the Lao People's Democratic Republic, Myanmar, and Viet Nam (CLMV).

3. The government and Bank of Thailand (BOT) introduced a number of relief and stimulus packages, totaling \$71.4 billion (B2.3 trillion) to support the healthcare sector, protect the poor and the vulnerable, stimulate the economy, and stabilize the financial markets in fiscal years (FY) 2020 and 2021. Fiscal stimulus measures account for \$38 billion (B1.2 trillion), and the rest are monetary measures taken by BOT. The large relief program together with a steep revenue compression will double the fiscal deficit to 5.3% of GDP and almost double the total financing needs for FY 2020 to \$39.9 billion. The government sought Asian Development Bank (ADB) support to cover the exceptional fiscal requirements in FY 2020. Thailand meets all access criteria of the COVID-19 pandemic response option (Table 1).<sup>3</sup>

**Table 1: Compliance with Access Criteria for COVID-19 Pandemic Response Option**

<b>Access Criteria</b>	<b>ADB Assessment</b>
1. Adverse impact of exogenous shocks	Concerns of recurrent outbreaks remain, in view of Thailand's strategic location and connectivity in the region. The pandemic will result in GDP contraction of 6.7% in 2020, the lowest level since the 2008 global financial crisis. COVID-19 is expected to lead to 3.1 million job losses and additional 5.2 million poor people. The budget deficit is expected to widen to 5.3% of GDP and off-budget spending could add an equivalent of 3.8 percentage points to the fiscal-deficit-to-GDP ratio. Gross financing needs have increased by 91.8% to \$39.9 billion, with external financing rising by \$4.8 billion from a very low base of \$0.1 billion. Large capital market volatilities and increased pressure in the finance sector have raised concerns over the liquidity conditions and posed challenges to resource mobilization to meet the financing needs. Regional spillovers of the adverse impact in Thailand to the neighboring economies are significant.
2. Countercyclical development expenditures	The government introduced \$71.4 billion (B2.3 trillion) stimulus and relief packages, of which \$38 billion (B1.2 trillion) is for pro-poor fiscal stimulus measures for FY 2020 and 2021 to (i) support the healthcare sector, (ii) provide social assistance to the poor and the vulnerable, and (iii) help businesses to

<sup>1</sup> Asian Development Bank. 2020. [Policy Paper: ADB's Comprehensive Response to the COVID-19 Pandemic](#). Manila.

<sup>2</sup> International Monetary Fund. 2020. [World Economic Outlook: Chapter 1: The Great Lockdown](#). Washington, D.C. The projection of the Bank of Thailand is -5.3%. ADB's latest projection is -6.5% (ADB. 2020. Asian Development Outlook Supplement: Lockdown, Loosening and Asia's Growth Prospects. Manila).

<sup>3</sup> Details on compliance with the access criteria are in Appendix 4.

Access Criteria	ADB Assessment
	recover from COVID-19. \$19.9 billion is allocated for FY 2020 fiscal measures, of which \$13.7 billion will be for social assistance programs, and the remainder will support the health sector, economic recovery, and tax relief measures. The remaining \$18.1 billion will be allocated for FY 2021, mainly for economic and social recovery. In addition, BOT unveiled \$33.4 billion monetary measures to support businesses and stabilize the financial markets.
3. Pre-shock record of sound macroeconomic management	Average GDP growth during 2015–2019 was 3.4%. Inflation was stable and well below 2%. The fiscal deficit was kept at a healthy level, averaging 2.8% of GDP during 2015–2019. Public debt, including contingent liabilities of state-owned enterprises and public-private partnerships stood at 41.2% of GDP in 2019, below the standard vulnerability benchmark. The external position was strong, with a current account surplus averaging 7.9% of GDP during 2015–2019. In 2019, international reserves reached \$224.3 billion (equivalent to 9.8 months of imports). The Thai baht gained strength for most of 2019. Monetary policy was accommodative in line with modest inflation and the declining global interest rates. However, vulnerabilities arising from relatively high levels of household indebtedness remain. BOT has been conducting regular stress tests and adopted regulatory forbearance to accommodate the deterioration in banks' balance sheets. Financial vulnerabilities appear to be contained and the banking system can withstand a shock as severe as the Asian financial crisis.
4. Structural Reforms	To manage the health crisis, the government established the Centre for COVID-19 Situation Administration, formulated a pandemic preparedness plan, declared a state of emergency, and imposed partial lockdown, and enforced a curfew. \$1.8 billion was allocated to procure medical supplies and support medical staff. The government's COVID-19 response packages also include programs to support the poor and the vulnerable, small- and medium-sized enterprises, and post-COVID-19 economic recovery.
5. Debt Sustainability	Public debt is sustainable. 97% of public debt is domestic with the average time to maturity of over 10 years. The CARES program will contribute 0.3 percentage points to the public debt-GDP ratio. If the government exhausts the borrowing headroom in FY 2020 and 2021, the public debt-GDP ratio will increase to 52.2% in 2020 and 58.4% in 2021—below the 60% legal debt ceiling.
6. Coordination with the International Monetary Fund	ADB is in close contact with the International Monetary Fund on the impact of COVID-19 and Thailand's fiscal, monetary, and overall responses. The International Monetary Fund has provided an assessment letter.

ADB = Asian Development Bank, B = baht, BOT = Bank of Thailand, CARES = COVID-19 Active Response and Expenditure Support, COVID-19 = coronavirus disease, FY = fiscal year, GDP = gross domestic product.

Source: Asian Development Bank.

## II. PROGRAM AND RATIONALE

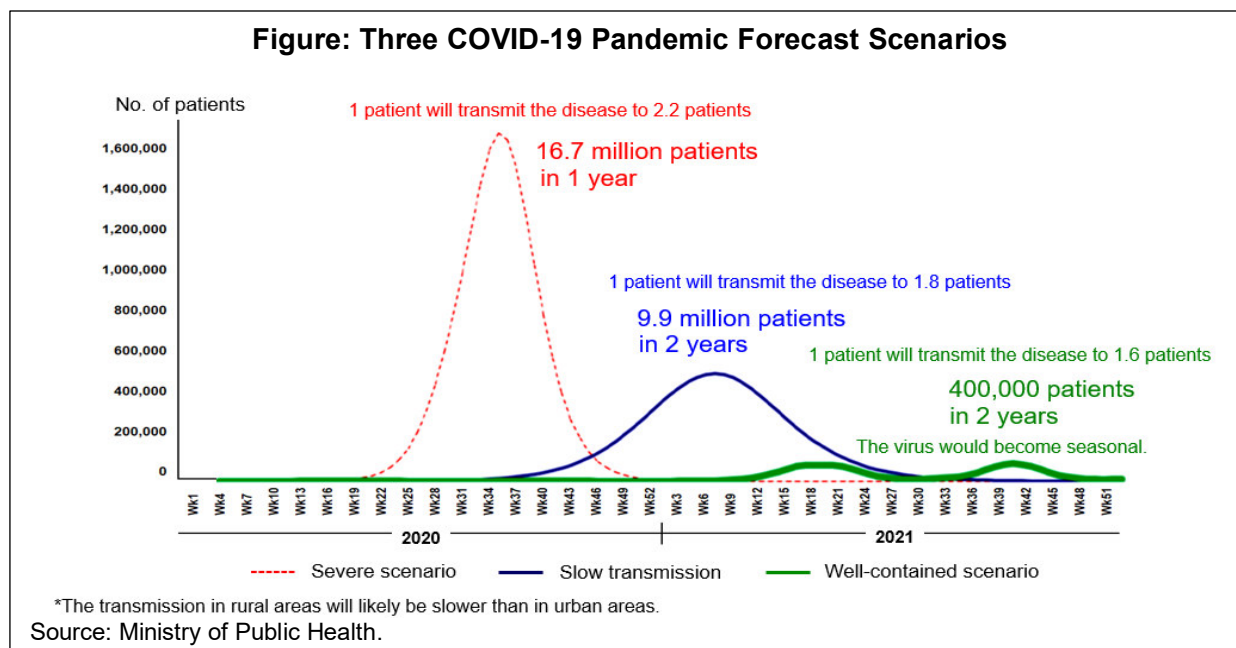
### A. Background and Development Constraints<sup>4</sup>

4. **Thailand's recurrent waves of COVID-19 outbreaks.** Thailand was one of the first countries outside the People's Republic of China to experience the COVID-19 outbreak. In the first two months of 2020, the number of cases was low, and no control measures were imposed. However, in mid-March, the number of cases quickly increased. The Ministry of Public Health (MOPH) projected that a quarter of the population could be infected by the end of 2020 (Figure) if public health measures were to prove ineffective. Even under the "well-contained" scenario where intensive measures are taken, COVID-19 could still infect 400,000 people by the end of

<sup>4</sup> The pandemic has now spread to 188 countries and territories. The IMF has forecast a 3% contraction in global GDP, and ADB estimates global economic losses to reach \$8.8 trillion.



2021.<sup>5</sup> These findings prompted the declaration of the state of emergency, enforcement of curfews, and bans on travel and gatherings. As a result, the infection rate started to fall in April, until a new cluster of migrants were tested positive, prompting concerns over another outbreak among this high-risk group. By 18 June 2020, 3,141 confirmed cases were reported.



5. **Potential surges in COVID-19 cases could overwhelm the health system.** Compared to many countries in Asia, Thailand's healthcare system is relatively developed, having achieved universal health coverage.<sup>6</sup> However, some dimensions of pandemic preparedness, including mapping priority public health risks and utilizing resources, and effectively managing points of entry, remain weak.<sup>7</sup> Thailand, therefore, remains highly vulnerable to the pandemic.<sup>8</sup> As the government begins to relax the lockdown, the healthcare system is on high alert. Without a vaccine, identifying active cases among vulnerable populations is critical. As of 18 June 2020, Thailand had carried out 6,708 tests per one million people, fewer than Singapore (98,516) and Malaysia (20,536).<sup>9</sup> Further, Thailand needs to urgently address its acute personnel constraints in the health sector. The density of medical workers is 3.10 per 1,000 people, below the World Health Organization (WHO) recommended threshold of 4.45 per 1,000 people. Even without COVID-19, the shortage of nurses is critical.<sup>10</sup> There are also shortages in the supply of masks and personal protective equipment due to rising global demand and supply constraints. Finally, Thailand must tackle its health inequalities to ensure that COVID-19 patients in remote areas receive the same access to quality healthcare as those in bigger cities.<sup>11</sup>

<sup>5</sup> MOPH. 2020. [The forecast of the outbreak and measures to prepare if Thailand reaches the third phase](#). Bangkok.

<sup>6</sup> Thailand has 3 health insurance schemes, together covering nearly the whole population. A migrant health insurance scheme is additional available for migrants to voluntarily enroll.

<sup>7</sup> WHO. 2017. [Joint external evaluation of IHR core capacities of the Kingdom of Thailand](#). (accessed 4 June 2020).

<sup>8</sup> Citi Research. 2020. *Asia economic outlook and strategy*. New York.

<sup>9</sup> Summary Cross-Country Comparison of COVID-19 Related Data and Effects (accessible from the list of linked documents in Appendix 2).

<sup>10</sup> Pagaiya et al. Human Resources for Health. 2019. [Forecasting imbalances of human resources for health in the Thailand health service system: application of a health demand method](#). Bangkok.

<sup>11</sup> Sector Assessment (Summary): Health (accessible from the list of linked documents in Appendix 2).

6. **The pandemic has turned into one of the worst economic crises.** With responses to flatten the pandemic curve, Thailand's economy is projected to experience a sharp contraction of 6.7% in 2020 (footnote 2), with a GDP loss of \$45.9 billion, making Thailand the worst-hit economy in the Association of Southeast Asian Nations (ASEAN).<sup>12</sup> Several industries have been impacted, most notably tourism which directly and indirectly accounts for nearly 20% of GDP. Manufacturing (accounting for 34% of GDP in 2019) is expected to contract by 3.2% in 2020 because of declining export demand and disruption in global supply chains. Automotive production dropped 24.6% in March after the suspension of operations in several manufacturing plants. The government estimates that 1.3 million small- and medium-sized enterprises (SMEs) (44% of total SMEs), which employ more than four million people could be affected by COVID-19.<sup>13</sup>

7. **Tourism sector will take the biggest hit.** Besides being a dominant sector, tourism also has several links to the rest of the economy, including hospitality, aviation, and the informal sector.<sup>14</sup> Tourist arrivals collapsed in May due to travel bans, and will likely remain very low throughout the summer. The tourism industry is expected to suffer a \$50 billion revenue loss (9.5% of GDP) in 2020. The aviation industry has experienced a 52% drop in passenger demand in the first quarter and is expected to lose \$8.3 billion in revenue in 2020.<sup>15</sup> Many informal businesses whose livelihoods depend on tourist spending, which fell 40% in the first quarter, are at risk. Finally, empirical evidence suggests that informal tourism sector is more affected by global crises and regional environmental disasters than the general informal economy.<sup>16</sup>

8. **Potential increase in unemployment and reversal of gains in poverty reduction.** With the economic slowdown, ADB estimates that 3.1 million Thai workers could become unemployed. The most vulnerable sectors are manufacturing, wholesale, and retail trade, accommodation, and restaurants. The impact will be most severe on informal workers, accounting for 54% of the labor force (20.4 million out of 38 million people, 45% of whom are women), who are not covered by any social protection scheme and cannot work from home. Informal workers, on average, earn less than half the monthly salary of formal workers and often report low income as their primary problem. Female employment is high in several affected business areas (52% of informal wholesale and retail, and 65% of informal accommodation and food services). COVID-19 could displace an estimated 11.7% of female workers, compared with 7.6% of male workers.<sup>17</sup> The pandemic is expected to increase Thailand's poverty incidence from 8.8% in 2019 to 16% in 2020 under the worst-case scenario. This translates into an additional 5.2 million poor people in 2020, using the national poverty line of \$5.50 per person per day at the 2011 purchasing power parity.<sup>18</sup>

9. **Thailand's aging population at high risk.** Thailand has a large population of older people (13 million people over age 60; 55% of whom are female), who are particularly vulnerable to COVID-19. Many suffer from poor health conditions and need support from caregivers; 10% live alone, increasing the physical and mental health risks associated with isolation. The poverty headcount for households headed by the over 65 is high (12.9% compared with 7.7% of households headed by the 45–64 age group). With pension and remittance support unevenly spread, and almost half of men and a quarter of women over 60 continuing to work, the pandemic will likely disrupt the income streams of the elderly, increasing their financial hardship.

<sup>12</sup> Economic loss using ADB's 2020 GDP forecast for Thailand (-6.5%) is \$44.2 billion.

<sup>13</sup> SMEs make up more than 90% of business entities and employ three-quarters of the total workforce.

<sup>14</sup> World Bank. 2020. Taking the pulse of poverty and inequality in Thailand. Bangkok.

<sup>15</sup> International Air Transport Association. 2020. [COVID-19 impact on Asia-Pacific aviation worsens](#). Montreal.

<sup>16</sup> Cakmak, and Cenesiz. 2020. Measuring the size of the informal tourism economy in Thailand.

<sup>17</sup> Puey Ungphakorn Economic Research Institute. 2020. [When COVID-19 closes the city: the impact on Thai workers in the supply-side dimension](#). Bangkok.

<sup>18</sup> Assessment on Poverty and Unemployment (accessible from the list of linked documents in Appendix 2).

10. **Migrant workers highly vulnerable to COVID-19.** Thailand has an estimated 4.9 million migrants, of whom only 2.9 million are documented. Majority of migrant workers in Thailand are from CLMV, with migrants from Myanmar accounting for the largest share. Every year, \$2.8 billion in remittances are sent through formal channels to CLMV, with informal remittance flows estimated at twice as much.<sup>19</sup> Migrant workers' contribution to Thailand's economy ranges from 4.3% to 6.6% of GDP. However, they typically live in overcrowded environments with heightened risks of infection and but often excluded from communicable disease control program. They also lack the economic means and social safety nets to access quality health services, food, and clean water. This is exacerbated by potential job and income losses because of COVID-19. The partial lockdown made it challenging for support groups to reach the vulnerable migrants in remote areas. This leaves many women and girls at heightened risk of human trafficking. With school closures, many children, especially girls, from poor migrant families are anticipated to drop out of school to supplement their family's income.

11. **Finance sector under rising stress.** Thailand's banking system is highly exposed to manufacturing, SMEs, and households.<sup>20</sup> With COVID-19, the debt-servicing capacity of companies and households is expected to deteriorate. To avoid a surge in non-performing loans, debt restructuring efforts are ongoing, with \$146 billion in debt (25% of total bank loans) being restructured as of 8 May 2020.<sup>21</sup> The insurance industry is expected to experience lower investment incomes and higher insurance payouts related to hospitalization expenses, event cancellations, and business disruptions. As market liquidity conditions and investor confidence deteriorate, the domestic capital markets have borne the brunt. A record outflow of \$14.3 billion from fixed-income funds was experienced in the first quarter. Four bond mutual funds with \$9.4 billion assets under management were closed after panic selling by unitholders. These events triggered sharp increases in government bond yields, with the 10-year local currency government bond yield shooting up 100 basis points in March.<sup>22</sup> In equities, foreign investors liquidated \$3.7 billion worth of shares, the highest level among ASEAN stock exchanges. The Stock Exchange of Thailand Index plunged 30% in the first quarter and market capitalization fell to its lowest level since 2013. In March, the exchange's circuit breaker was activated thrice. Thai baht depreciated 10% in the first quarter, making it one of the worst-performing currencies.<sup>23</sup>

12. **Increasing pressure on the government's budget.** The pandemic will seriously affect Thailand's fiscal conditions, almost quadrupling the impact seen at times of natural disasters which are frequent in Thailand.<sup>24</sup> Tax revenue is expected to decline by \$10 billion (11.6%) from the pre-COVID-19 projection of \$86.7 billion. The biggest fall in tax revenue is expected in the second quarter of 2020 due to the halt in business activities, weak consumption, and tax incentives. Crisis response will require increased government spending mainly in the third quarter of 2020. The government has increased on-budget spending by \$1.5 billion and plans to borrow up to \$19.1 billion off-budget for COVID-19 spending in FY 2020. Thailand's fiscal deficit is expected to widen from 2.7% to 5.3% of GDP in 2020. The expected off-budget COVID-19 spending could add an equivalent of 3.8 percentage points to the fiscal deficit-GDP ratio. These measures are supported by a Royal Emergency Borrowing Decree to accelerate fiscal stimulus measures and resource mobilization without supplementary budget processes.<sup>25</sup>

<sup>19</sup> International Organization for Migration. 2019. Thailand migration report 2019. Bangkok.

<sup>20</sup> Fitch Ratings. 2020. [APAC Banking Outlooks Negative as Coronavirus Heightens Risks](#). (accessed 4 June 2020).

<sup>21</sup> Bank of Thailand. 2020. Performance of the Thai banking system Q1/2020. Bangkok.

<sup>22</sup> Since the government's interventions, the 10-year baht government bond yield has come down by 50 basis points.

<sup>23</sup> Since April, Thai baht has regained some of its loss, following traders' bet on a rebound of the tourism industry.

<sup>24</sup> The 2011 floods led to an estimated \$2.2 billion tax revenue loss, and an expenditure increase of \$13 billion.

<sup>25</sup> Government of Thailand. 2020. Emergency decree authorizing the Ministry of Finance to raise loans to remedy and restore the economy and society affected by the COVID-19 pandemic. B.E.2563 (2020). Bangkok.

**Table 2: Thailand's Fiscal Position**

Item	FY 2020 pre-COVID-19	FY 2020 post-COVID-19	% Change
<b>Revenues (\$ billion)</b>	86.7	76.7	-11.6
<b>Expenditures (\$ billion)</b>	101.6	103.1	1.5
<b>Fiscal Balance (\$ billion)</b>	(14.9)	(26.4)	77.5
(% of GDP)	(2.7%)	(5.3%)	
<b>Off-budget COVID-19 spending (\$ billion)*</b>		19.1	
<b>Fiscal Balance, including off-budget spending</b>		(45.5)	

() = negative, COVID-19 = coronavirus disease, FY = fiscal year.

\* Assuming that the government spends 100% of the total borrowing within FY 2020.

Source: Ministry of Finance, Asian Development Bank calculations.

13. **Thailand's economic crisis adversely affecting CLMV.** With its economy highly interconnected with ASEAN, an economic crisis in Thailand could potentially have large negative spillovers (an estimated \$785 million loss to ASEAN), affecting Lao People's Democratic Republic the hardest, in terms of percentage of GDP. First, as an international transit hub, Thailand plays an important role in regional tourism, which suffers heavily from the travel bans. Second, Thailand has strong regional value chains for agricultural products, electronics, and automobiles. Disruptions to these will have a knock-on effect on the region's employment. As Thailand is one of the region's main food suppliers, trade disruptions will impact the supply, quality, and price of food, which make up a large percentage of consumption of the poor. Third, with the Thai baht depreciation and uncertain investment climate, Thailand's foreign direct investment to CLMV is expected to fall or be diverted away from smaller economies. During the first quarter of 2020, Thailand's committed greenfield investments into CLMV were 33% lower than in an average 3-month period in 2019 and 99% of Thai foreign direct investment went to Viet Nam. As of the end of March, Thai investors held a total \$3.4 billion of foreign bonds from CLMV, of which, 98% are from the Lao People's Democratic Republic. Thailand's deteriorating domestic liquidity conditions could force investors to liquidate their foreign bond holdings, potentially creating a liquidity crunch in these countries.<sup>26</sup> Finally, the economic crisis in Thailand could divert public spending away from critical regional infrastructure or climate-resilient projects. This will have a significant impact on the region's post-COVID-19 recovery and long-term sustainable economic development.

14. **Government's response packages.** The government announced several stimulus packages, totaling \$71.4 billion for FYs 2020 and 2021. Of the announced packages, \$38 billion is for fiscal programs (Table 3) and \$33.4 billion is for monetary measures. They are elaborated in paras. 15–19 below. The fiscal programs, implemented over both FYs, will: (i) provide social assistance to informal workers and farmers; (ii) support economic and social recovery; and (iii) strengthen the health care system. Using Thailand's historical fiscal multipliers, ADB estimates that the fiscal programs could increase economic output by \$51.7 billion (10.1% of GDP) after one year, and \$38.8 billion (7.6% of GDP) after two years.<sup>27</sup>

**Table 3: Fiscal Programs for COVID-19**

Item	FY 2020 (\$ million)	FY 2021 (\$ million)
<b>A: Health expenditures for COVID-19 prevention and control</b>	<b>1,787.3</b>	
Public health relief <sup>a</sup>	1,428.6	
Public health spending for COVID-19 preparedness and control	225.4	
Procurement of masks, PPE, negative isolation rooms, testing kits	133.3	

<sup>26</sup> Regional Cooperation and Integration (accessible from the list of linked documents in Appendix 2).

<sup>27</sup> Fiscal Impact Assessment (accessible from the list of linked documents in Appendix 2).

Item	FY 2020 (\$ million)	FY 2021 (\$ million)
<b>B: Social assistance programs</b>	<b>13,742.5</b>	<b>6,098.7</b>
Cash handout programs to 16 million informal workers	7,619.0	
Social assistance for 10 million families in agriculture sector	4,761.9	
Social assistance for 1.4 million children, 9.6 million older people and 2 million persons with disability	1,250.8	
Social assistance to 1.2 million low-income welfare cardholders	110.8	
Other social assistance programs (details to be announced)		6,098.7
<b>C: Economic and social recovery program</b>	<b>996.8</b>	<b>11,987.3</b>
Domestic tourism stimulus packages (cash handouts and travel subsidies)	711.1	
Economic and social recovery projects		11,987.3
Social protection and subsidies to the provincial economies	285.7	
<b>D: Tax relief measures<sup>b</sup></b>	<b>3,403.2</b>	
<b>TOTAL</b>	<b>19,929.8</b>	<b>18,086.0</b>

COVID-19 = coronavirus disease, FY = fiscal year, PPE = personal protective equipment.

Note: Numbers may not sum precisely because of rounding.

<sup>a</sup> Including compensation to medical workers, procurement of medical equipment, disease control, research, and emergency measures.

<sup>b</sup> Tax relief measures include: (i) income tax exemption for frontline medical workers, (ii) income tax deduction for super saving funding investment, (iii) corporate income tax deduction for businesses that retain employment, (iv) withholding tax reduction for businesses, (v) import duties and value-added tax exemptions for purchase of medical equipment, and (vi) tax deduction for health insurance and debt structuring.

Source: Fiscal Policy Office and Comptroller General's Department, Ministry of Finance.

15. **Support for health sector.** To respond to the pandemic, the government established the Centre for COVID-19 Situation Administration, chaired by the Prime Minister, to coordinate all COVID-19 related health and economic actions.<sup>28</sup> The government allocated \$1.8 billion for health measures, including healthcare workers' compensation, procurement of medical equipment, disease control and emergency measures, and activities to increase preparedness, mitigation, and risk communications. MOPH recruited more medical workers and volunteers to conduct community outreach and detection activities, including in underserved rural areas. Since April, the government has shifted to targeted surveillance, including active case-finding among vulnerable groups. The government launched a contact tracing mobile application and scaled up the procurement of masks, personal protective equipment, testing kits, and ventilators. The National Health Security Office included COVID-19 in its healthcare program to cover prevention, awareness campaigns, diagnosis, treatment, and rehabilitation. Finally, to reduce the risk of transmission, 27 hospitals are piloting telemedicine services and primary healthcare facilities have increased resources to absorb patients.

16. **Support for individuals affected by COVID-19.** The government rolled out several programs to support affected individuals. \$7.6 billion was allocated to the cash handout program which provides B5,000 per person per month for three months to 16 million people not covered by the social security system and \$4.8 billion was allocated to support 10 million families in the agriculture sector.<sup>29</sup> Workers under the social security system will receive unemployment compensation of up to 70% of their salary for up to 200 days. Other measures include: (i) B1,000 per month for three months to 1.2 million low-income welfare cardholders (total 14.6 million

<sup>28</sup> Summary of Strategies for COVID-19 (accessible from the list of linked documents in Appendix 2).

<sup>29</sup> The government has created a cash handout registry. Thai nationals above 18, who are temporary workers not covered under the Social Security System and affected by COVID-19, can apply by filling in their national ID details. Qualified applicants will receive cash handouts via e-payment. Cash receipt is also available at district and municipal offices. As of 22 May, 14.2 million people have received the cash handouts. For those who failed to receive the cash handouts, the government will request for missing information or allow them to appeal.

people, 8.3 million of whom are female); (ii) B1,000 per month for three months to 1.4 million children, 9.6 million older people, and two million disabled people; (iii) reduced compulsory social security contribution; (iv) utility bills and land rental payment waivers; (v) deferred personal income tax; (vi) reduced health insurance premiums; and (vii) occupational training for informal workers. Women who lost their jobs can enroll for free online skills training and their children are provided with free milk. Migrants registered in the social security system are entitled to unemployment benefits and all migrants, regardless of their legal status are eligible for free COVID-19 testing and treatment. Finally, a rice insurance scheme is available to support farmers.

**17. Fiscal and monetary support to businesses.** The government introduced tax incentives to support affected businesses, especially SMEs. Corporate tax filing deadlines were extended. The corporates' withholding tax rate was cut from 3.0% to 1.5% until the end of FY 2020. Imported medical supplies are exempted from value-added tax for one year. Taxes and fees related to the debt restructuring of non-financial institutions are exempted for two years. SMEs that retain their employees can claim a tax deduction of three times the wage expenses during the second quarter of 2020. Monetary measures include soft loans totaling \$6.2 billion from commercial banks, the SME Bank, and the Social Security Office. The BOT allocated \$15.9 billion for soft loans and debt suspension up to six months to support SMEs. Given the adverse impact on the tourism sector, a significant share of the stimulus packages targets individuals as well as SMEs affected. The box below highlights the government's plans.<sup>30</sup>

**Box: Special Measures to Revive Tourism**

The government, through TAT, has taken wide-ranging measures from the onset of the crisis, focused on the short, medium, and long-term aspects:

- Incorporating health and safety policies, including introducing the SHA certification system
- Provision of soft loans to tourism-oriented SMEs, as part of the BOT \$15.9 billion package
- A significant part of the \$7.6 billion social assistance program that provides cash transfers for three months to the most affected individuals will likely reach the informal workers operating in tourism and related activities (1.8 million informal workers in hotels and restaurants, 3.2 million in wholesale and retail trade, and 522,000 in transport and storage sectors)
- Tax incentives and soft loan program for SMEs, including in the tourism sector, through the government's \$4.8 billion package
- A significant part of the \$12.7 billion economic and social recovery projects will be allocated for tourism revival.
- TAT and MOF currently aim to revive domestic tourism (domestic tourists took 166 million trips, generating \$31.7 billion in revenue in 2019), through: (i) \$76.2 million package to offer one-night field trip organized by local tour agencies for 1.2 million health volunteers and local health officials, (ii) \$571.4 million worth of digital vouchers for Thai citizens to spend on travel-related activities and accommodations, and (iii) \$63.5 million package to offer two million domestic airline tickets to travelers.
- TAT and the government plan to initiate bilateral and regional agreements for 'Travel Bubbles' (with focus on places such as Koh Samui, or Koh Pha Ngan) that allow for reciprocal open borders with other destinations that also have their coronavirus situation under control.

BOT = Bank of Thailand; SHA = Security and Health Administration Certification; SMEs = small-and-medium enterprises; TAT = Tourism Authority of Thailand.

<sup>a</sup> National Statistics Office. 2019. Informal Employment Survey 2018.

Source: Asian Development Bank.

**18. Coordinated measures to support the financial markets.** BOT, the Ministry of Finance (MOF), and the Securities and Exchange Commission teamed up to stabilize the financial markets. The BOT has cut the interest rate from 1.25% in January to a record low of 0.50% in

<sup>30</sup> Impact of COVID-19 on Thailand's tourism sector (accessible from the list of linked documents in Appendix 2).

May. To stabilize the government bond market, BOT purchased a total \$5.3 billion in government bonds. The BOT also cut financial institutions' contribution rate to the Financial Institutions Development Fund to lower lending cost to the private sector. A special facility was established to provide liquidity for mutual funds through commercial banks that can use the underlying investment units of fixed income funds as collateral for liquidity support. The Securities and Exchange Commission allowed asset management companies to use money market instruments to manage short-term liquidity. Finally, the emergency decree authorized BOT to purchase units in the Corporate Bond Stabilization Fund of up to \$12.7 billion.<sup>31</sup>

19. **Programs for post-crisis recovery.** The government allocated \$12.9 billion for economic and social recovery programs and projects, of which \$12.0 billion will be for FY 2021.<sup>32</sup> Projects in FY 2021 will be financed by government internal funds and/or by other development partners. The government identified 6 priority areas to support: (i) smart farming; (ii) industry, trade, and investment; (iii) responsible tourism and services; (iv) economic recovery at community level; (v) projects to boost domestic consumption; and (vi) infrastructure development. To date, 31,801 projects, amounting to \$23.4 billion, were submitted to the Loan Fund Disbursement Consideration Committee for consideration. The Committee will evaluate potential projects before submitting to the Cabinet in July 2020 for approval.

20. **Lessons learned from similar programs.** ADB considered four lessons from past operations. First, countercyclical support requires rapid response to mitigate the impact of exogenous shocks on the economy. In the case of COVID-19, delayed government support could lead to business insolvency, structural unemployment, and poverty, which will take a long time to reverse. Second, given that the poor are most impacted during crises, the program design should incorporate strong pro-poor measures with clear spending targets to alleviate the financial burden on the most vulnerable. Third, through ADB's past crisis supports, ADB noted the importance of sequenced actions and identification of experts that could supplement Thailand's own resources to implement and sustain reforms.<sup>33</sup> Finally, given Thailand's role in regional trade, food supply, and labor mobility, timely support to Thailand will help prevent wide-spread regional spillover that could undermine the region's social and economic development. Having included these lessons included in the design of the program, ADB can be more effective in sowing the seeds for a swifter economic recovery in Thailand and the Greater Mekong Subregion (GMS).

## **B. Proposed Program, Impacts, and ADB's Value Addition**

21. **The CARES program.** As highlighted in paras. 4–13, Thailand has been severely impacted by the pandemic. The government has formulated a comprehensive response as outlined in paras. 15–19. The CARES program offers clear benefits because timely countercyclical support will limit the adverse impacts of COVID-19 on the poor and the vulnerable and ensure a speedier economic recovery in Thailand and CLMV (para. 24). Although Thailand has a relatively developed domestic capital market, the large gross financing needs resulting from COVID-19 have raised serious liquidity concerns, especially in the context of heightened market volatility and fragile investor sentiment. The program will diversify the government's financing sources and avoid crowding out the private sector by the government. Finally, the program will strengthen engagement between Thailand and ADB in the post-COVID-19 period through prioritized areas such as sustainable development and regional cooperation and integration.

<sup>31</sup> Bond Stability Fund was set up to stabilize the corporate bond market (estimated at about 20% of GDP) by providing bridge financing to firms with bonds maturing during 2020–2021 and a minimum credit rating of BBB-.

<sup>32</sup> These projects will be financed from government funds and/or by other development partners.

<sup>33</sup> ADB. 2019. [Thailand: Validation of the Country Partnership Strategy Final Review, 2013-2016](#). Manila.



22. The program's impact will be: adverse effects of COVID-19 on economic growth and poverty mitigated. The outcome will be the healthcare system's preparedness for future pandemic surge improved and adverse social and economic impact of COVID-19 mitigated. The program will focus its support to the government's fiscal stimulus program for FY 2020 by assisting the health sector, the poor and the vulnerable, and the affected SMEs. It will have three outputs: (i) measures to prepare the healthcare system for pandemic surges implemented; (ii) support to the poor and the vulnerable impacted by COVID-19 expanded; and (iii) measures to support businesses, including SMEs impacted by COVID-19 implemented. The design and monitoring framework is in Appendix 1.

23. **ADB's value addition.** The COVID-19 pandemic comes at a time when ADB is the only multilateral development bank with ongoing sovereign and nonsovereign operations in Thailand. This puts ADB in a unique position to provide timely countercyclical support to lessen the economic impact of COVID-19 on the poor and the vulnerable. The CARES Program will help shape the government's response to better target the underserved, including women, and will send a strong signal to raise investor confidence. In addition, through the program, ADB has helped to catalyze other support, including by the Asian Infrastructure Investment Bank through a cofinancing arrangement. To supplement the CARES Program, ADB approved a technical assistance project to help assess the adequacy and effectiveness of fiscal policies and to inform a medium-term post-COVID-19 recovery plan in Thailand and other countries.<sup>34</sup>

24. **Clear benefits for Thailand and the entire region.** Thailand's strong regional links mean that the proposed program will bring strong regional value. First, through ADB's support to Thailand, CLMV's economic development will be further advanced through regional trade, tourism, investment, and labor mobility. As an upper-middle-income country, Thailand's role in regional economic development can be innovative in terms of cross-sectoral initiatives and collaboration with the private sector. Furthermore, Thailand, as a leading actor in GMS, ASEAN, and the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation, will play a pivotal role in promoting inter-subregional value chains.<sup>35</sup> Second, Thailand's economic and social stability is a regional public good, especially in healthcare, cross-border infrastructure, and green investments. Finally, Thailand's experience in crisis management and post-crisis reforms will provide knowledge to the region in the post-COVID-19 era.

25. **Future engagement.** ADB's current country partnership strategy (CPS) consultation process has been extended to adjust to the government's emerging priorities.<sup>36</sup> To make post-COVID-19 recovery sustainable and mitigate regional spillovers, ADB's sovereign assistance will focus on: (i) building back better through a pipeline of green and climate-resilient infrastructure projects; and (ii) rebuilding regional cooperation through GMS working groups on tourism, trade, transport, and health. As the CARES Program will help restore growth, it sets the stage for targeted ADB non-sovereign operations that can reinforce key elements of the government's post-COVID-19 recovery priorities. Besides the current strong engagement by ADB's Private Sector Operations Department in infrastructure sectors, near-term non-sovereign assistance will focus on: (i) trade and supply chain finance to companies along the medical and agriculture supply chains; (ii) financial assistance to Thai companies expanding to the GMS; (iii) SME financing; and (iv) investments in digital technology solutions, including those that strengthen the economy's resilience to future pandemics and natural hazards. Finally, as an

<sup>34</sup> ADB. 2020. [Technical Assistance for Policy Advice for COVID-19 Economic Recovery in Southeast Asia](#). Manila.

<sup>35</sup> Regional Cooperation and Integration (accessible from the list of linked documents in Appendix 2).

<sup>36</sup> The new CPS for 2021–2025 is expected to be submitted for Board consideration in the first quarter of 2021.



upper-middle-income country, Thailand is well-positioned to participate in ADB's demonstration projects, including One-ADB solutions to revitalize industry and services after COVID-19.

26. **Alignment with Strategy 2030.** The program is aligned with ADB's Strategy 2030 on: (i) addressing poverty and reducing inequality (through support to the government's countercyclical expenditure program to boost growth and reduce poverty); (ii) accelerating progress in gender equality (through support to female healthcare workers and female migrants); (iii) strengthening governance and institutional capacity (through support to strengthen health responses to COVID-19); and (iv) fostering regional cooperation and integration (through support to migrant workers and regional value chains).

### C. Development Financing Needs, Budget Support and Debt Sustainability

27. Given the impact of COVID-19, the government's FY 2020 financing requirement is expected to increase to \$39.9 billion. Domestic financing is expected to increase by \$14.3 billion, of which \$5.4 billion was raised, to \$35 billion.<sup>37</sup> To avoid crowding out the domestic market under the current tight liquidity conditions, in FY 2020, the government plans to increase foreign borrowing by \$4.8 billion, of which \$2 billion will be from development partners, and \$2.8 billion will be bond issues in the international capital market.<sup>38</sup>

**Table 4: Financing Needs and Sources of Funds for FY 2020**

Item	2020 (pre-COVID-19) (\$ billion)	2020 (adjusted for COVID-19) (\$ billion)	% change
<b>Gross financing requirement</b>	20.8	39.9	91.8%
<b>Gross domestic financing</b>	20.7	35.0	69.1%
<b>Gross foreign financing</b>	0.1	4.9	
Foreign currency bond issuance		2.8	
ADB CARES Program		1.5	
AIIB		0.5	
Other development partners	0.1	0.1	

ADB = Asian Development Bank, AIIB = Asian Infrastructure Investment Bank, CARES = COVID-19 Active Response and Expenditure Support, COVID-19 = coronavirus disease, FY = fiscal year.

Source: Ministry of Finance.

28. The government requested two loans of \$500 million and \$1 billion, both from ADB's ordinary capital resources, to help finance the anticipated deficit arising from the pandemic response and countercyclical support expenditure needs, and the decline in expected revenue collection. The loan of \$500 million will have a 10-year term, including a grace period of 3 years; an annual interest rate determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility; a commitment charge of 0.15% per year; and such other terms and conditions set forth in the draft loan agreement. Based on the straight-line method, the average maturity is 6.75 years, and there is no maturity premium payable to ADB. The second loan of \$1 billion will have a five-year term, including a grace period of three years; an annual interest rate determined in accordance with ADB's LIBOR-based lending facility; a commitment charge of 0.15% per year; and such other terms and conditions set forth in the draft loan

<sup>37</sup> Of the pre-COVID-19 domestic borrowing, the government issued B443 billion worth of bills and bonds, with bond tenors of 3–50 years and coupons of 1.45%–3.6%. The additional COVID-19 borrowing includes B120 billion in promissory notes (with tenors of 1–4 years) and B50 billion in 5- and 10-year saving bonds.

<sup>38</sup> Thailand has not issued foreign currency government bonds in the international capital market since May 2008 when it issued total Y55 billion government bonds with tenors from 3 to 7 years and coupons ranging from 1.07% to 1.45% to refinance existing yen-denominated debts.

agreement. Based on the straight-line method, the average maturity is 4.25 years, and there is no maturity premium payable to ADB. The loan size is based on Thailand's financing needs, and development spending arising from the development expenditure programs. Loan disbursements are expected in four tranches in July and August 2020.

29. **Debt sustainability.** Prior to the pandemic, the public debt-GDP ratio was expected to increase from 41.2% in 2019 to 42.2% in 2020, gradually reaching 45.6% in 2023 before tapering to 45.1% in 2024. With COVID-19, under the worst-case scenario where the government exhausts the emergency decree's borrowing headroom of \$31.7 billion (B1 trillion) (footnote 25), public debt-GDP ratio is forecast at 48.7% in 2020, gradually increasing to 51.2% in 2024. The CARES Program will add only 0.3 percentage points to the public debt-GDP ratio. The COVID-19-adjusted public debt-GDP ratio is still below the government's 60% debt ceiling. The overall public debt outlook remains stable since more than 97% of the public debt is in local currency and 92% is long-term debt (with an average time to maturity of 10.3 years). If the government's domestic debt structure stays the same, an increase in domestic financing of 68.7% will raise the debt-service ratio to around 14.5% of GDP, still below the 15% limit set by the government.<sup>39</sup>

#### **D. Development Partner Coordination**

30. ADB has discussed the proposed program with the IMF which confirmed Thailand's sound macroeconomic and fiscal management, and endorsed the government's fiscal stimulus program.<sup>40</sup> ADB has coordinated with the Agence Française de Développement, Japan International Cooperation Agency, and the World Bank which are discussing with the government potential budget support for FY 2021. At the government's request, the Asian Infrastructure Investment Bank indicated its intention to cofinance the CARES program, with a \$500 million loan, and will disburse its cofinancing directly to the government. Development partners, including ADB and WHO, are discussing a formal health sector donor coordination platform. Japan's Ministry of Health, Labour and Welfare and the United States Agency of International Development provided MOPH with medical equipment. The International Organization of Migration is supporting the MOPH in managing its COVID-19 call line for migrants and Thai nationals.

#### **E. Implementation Arrangements**

31. MOF will be the executing agency. The government and ADB agreed on a country engagement framework to ensure the effective implementation and monitoring of COVID-19 response measures.<sup>41</sup> Under the Royal Emergency Borrowing Decree, the government set up a Loan Fund Disbursement Consideration Committee, chaired by the secretary-general of the National Economic and Social Development Council. The committee will engage with ADB through the Public Debt Management Office to monitor the CARES program. ADB and the committee will hold quarterly meetings to discuss priority reform issues, including periodic reporting of sex-disaggregated data of program beneficiaries. Special working groups chaired by the relevant government agencies involved in specific priority issues (e.g. job creation, social protection, support for SMEs) will be formed. ADB, through a regional technical assistance project, will convene these meetings and invite the respective government agencies to act as co-chair (footnote 34). Engagement with the private sector and civil society organizations is envisaged to seek feedback on the government's policy responses and share regional knowledge on post-COVID-19 recovery. The program implementation period is July 2020 to June 2021. The

<sup>39</sup> Debt Sustainability Assessment (accessible from the list of linked documents in Appendix 2).

<sup>40</sup> IMF Assessment Letter (accessible from the list of linked documents in Appendix 2).

<sup>41</sup> Country Engagement Framework for COVID-19 Response (accessible from linked documents in Appendix 2).

proceeds of the loans will be withdrawn in accordance with ADB's *Loan Disbursement Handbook* (2017, as amended from time to time).

### III. DUE DILIGENCE

32. **Governance.**<sup>42</sup> The World Governance Indicators 2018 ranked Thailand above the ASEAN average in regulatory quality, government effectiveness, rule of law, and voice and accountability.<sup>43</sup> Thailand ranked 47<sup>th</sup> of 117 countries in the Index of Public Integrity, performing above the Organization for Economic Cooperation and Development average in budget transparency.<sup>44</sup> Budget and fiscal risk oversights are comprehensive with sufficient information on macroeconomic outlook, fiscal accounts, and government financial assets in the budget documentation. Public debt reporting includes contingent liabilities associated with guaranteed borrowing by state-owned enterprises. The Treasury Single Account, medium-term expenditure framework and fiscal management information system are in place. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government.

33. **Poverty and social.** Thailand made considerable progress in reducing poverty. The national poverty rate fell from 34.0% in 1988 to 8.8% in 2019. But pockets of poverty remain and are concentrated in the north and deep south provinces. The poorest groups work in agriculture and informal sectors, comprising part-time employees, self-employed households, and informal SMEs. The COVID-19 pandemic will exacerbate Thailand's poverty incidence (para. 8). It could take at least two years to recover to the pre-crisis level. The program will support the government's social assistance measures to shield the poor and the vulnerable from economic shocks.

34. **Gender.** The program is categorized as *Effective Gender Mainstreaming*. It aims to strengthen the government's response to the COVID-19 pandemic by addressing gender and social inclusion needs. Due to the pandemic, women with disabilities, female migrants, rural and older women are increasingly vulnerable to gender-based violence, lost income, infection, and social exclusion because of mobility restrictions and heightened family care responsibilities. The CARES Program recognizes that female health care workers (48% of doctors and 95% of nurses are women) face a disproportionate risk of transmission and infection and responds by ensuring improved testing of healthcare workers through specific protocols, and equal incentive pay for male and female healthcare workers. Further, the program responds to the different needs of women and men by: (i) ensuring equal access to coverage for COVID-19-related health expenses; (ii) extending the cash handout program to 16 million informal workers, 45% of whom are women; (iii) providing unemployment benefits to migrant workers, at least 30% of whom are women; and (iv) supporting highly affected sectors, especially those with a high representation of women workers such as manufacturing (48%), accommodation and food services (63%), health and social work (76%), education (65%), and home-based domestic work (86%).

35. **Safeguards.** In compliance with ADB's Safeguard Policy Statement (2009), the program is classified as category C for environment, involuntary resettlement, and indigenous people's safeguards. The program is not expected to have any environmental or social safeguards impacts within the meaning of the Safeguard Policy Statement.<sup>45</sup>

<sup>42</sup> A governance risk assessment is being prepared as part of the CPS for 2021–2025.

<sup>43</sup> World Bank. World Governance Indicators database (accessed on 5 April 2020).

<sup>44</sup> Index of Public Integrity database (accessed on 5 April 2020).

<sup>45</sup> ADB. 2009. [Safeguard Policy Statement](#). Manila.

36. **Risks and mitigating measures.** Major risks and mitigation measures are summarized in table 5 and described in detail in the risk assessment and risk management plan.<sup>46</sup>

**Table 5: Summary of Risks and Mitigation Measures**

<b>Risks</b>	<b>Mitigation Measures</b>
Escalated outbreaks lead to slow revival of the tourism sector and put the economy deep into recession with prolonged recovery path.	The government stepped up measures to prevent the spread of the virus, while intensifying efforts to stimulate the economy, including the tourism industry, through both fiscal and monetary measures. The government is discussing different proposals to revive the tourism sector (Box).
Limited resources of health agencies, especially in poorer regions, to respond to recurrent waves of outbreaks.	The government is committed to higher and more inclusive health spending across regions to prevent recurrent waves and close coordination with development partners.
Social unrest caused by rising income inequality, poverty, and regional disparities (including unequal distribution of stimulus benefits across different regions of the country) complicates the economic recovery process.	The government, with the support from development partners, has designed social assistance programs to better target the poor and the vulnerable, and continued to strengthen public institutions to boost spending efficiency. The social assistance program is nationwide, and so are the small-and-medium enterprises and other stimulus measures.

Source: Asian Development Bank.

#### **IV. ASSURANCES**

37. The government has assured ADB that the implementation of the CARES Program shall conform to all applicable ADB policies including those concerning anticorruption measures, safeguards, gender equality, procurement, financial management, consulting services, and disbursement as described in detail in the loan documents.

#### **V. RECOMMENDATION**

38. I am satisfied that the proposed loans would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve:

- (i) the loan of \$500,000,000 to the Kingdom of Thailand for the COVID-19 Active Response and Expenditure Support Program from ADB's ordinary capital resources, in regular terms, with interest to be determined in accordance with ADB's LIBOR-based lending facility; for a term of 10 years, including a grace period of 3 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreement presented to the Board; and
- (ii) the loan of \$1,000,000,000 to the Kingdom of Thailand for the COVID-19 Active Response and Expenditure Support Program from ADB's ordinary capital resources, in regular terms, with interest to be determined in accordance with ADB's LIBOR-based lending facility; for a term of 5 years, including a grace period of 3 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreement presented to the Board.

Masatsugu Asakawa  
President

18 June 2020

<sup>46</sup> Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

### DESIGN AND MONITORING FRAMEWORK

<b>Country's Overarching Development Objectives</b> Adverse impact of COVID-19 on the economic growth and poverty mitigated (Government of Thailand, Emergency decree, 2020) <sup>a</sup> .			
<b>Results Chain</b>	<b>Performance Indicators with Targets and Baselines</b>	<b>Data Sources and Reporting Mechanisms</b>	<b>Risks</b>
<b>Effect of the Program</b> Healthcare system's preparedness for future pandemic surges improved and adverse social and economic impacts of COVID-19 minimized <sup>b</sup>	a. By December 2021, Thailand's scores for pandemic preparedness and point-of-entry capacities improved by at least one point. (2017 baseline: preparedness score 2/5; point-of-entry score 3/5) <sup>c</sup>  b. By June 2022, the number of informal workers who report low allowance as their number one problem is not more than 20 percentage points higher than the pre-crisis level <sup>d</sup> (Baseline: 2.4 million out of 20.4 million people surveyed [11.8%], as of end 2019)  c. By December 2021, at least two million SMEs are still in business. (Baseline: three million SMEs in business as of end 2019)	a Joint External Evaluation of IHR Core Capacities report  b. MOF annual report  c. National Statistics Office – The Annual Informal Employment Survey	Prolonged and escalated outbreak puts Thailand's economy deep into recession and prolongs the recovery path.
<b>Outputs</b> 1. Measures to prepare the healthcare system for pandemic surges implemented	1.1. By December 2020, the government's testing capacity, including testing protocols for healthcare workers (78% of whom are women), increased to 50,000 tests/week. (Baseline: 10,000 tests/week in April 2020)  1.2. Between March 2020 and March 2021, expenses for all Thai citizens requiring COVID-19 testing and treatment fully covered by health insurance, <sup>e</sup> with reports on beneficiary data disaggregated by sex, age, and disability status, compiled. (Baseline: NA as of February 2020)  1.3. By June 2021, all healthcare personnel working on COVID-19 received incentive payments for seven months of B1,500 per month for direct staff and B1,000 per month for indirect staff <sup>f</sup> (including up to 60,000 doctors, 48% of whom	1.1-1.3. MOF and MOPH annual reports, Budget Report, National Health Security Office Annual Report	Ineffective inter-agency coordination and coordinated responses to COVID-19 delaying implementation of the announced measures.

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
	are women, and 165,000 nurses, 95% of whom are women). (Baseline: NA as of January 2020)		
2. Support to the poor and the vulnerable impacted by COVID-19 expanded	<p>2.1. By December 2020, the government has provided cash handouts of B5,000 per person per month for three months to 16 million workers who are not registered in the social security system (of whom at least 45% are women). (Baseline: no financial support for unregistered workers as of February 2020)</p> <p>2.2. By March 2021, at least 50,000 migrant workers registered in the social security system, who lost their jobs because of COVID-19 (of whom at least 30% are women), received unemployment benefits. (Baseline: NA as of March 2020)</p>	<p>2.1. MOF quarterly report, Budget reports</p> <p>2.2. Social Security Office quarterly report</p>	
3. Measures to support businesses, including SMEs impacted by COVID-19, implemented <sup>g</sup>	<p>3.1. By March 2021, the government has provided tax deduction to at least 200,000 SMEs that retain employment, of which at least 35,000 SMEs are in manufacturing and tourism (employing 48% and 50% female workers, respectively)<sup>h</sup> (Baseline: NA as of March 2020)</p> <p>3.2. By March 2021, the government has provided a withholding tax reduction to at least 350,000 SMEs, of which at least 60,000 SMEs are in manufacturing and tourism (employing 48% and 50% female workers, respectively)<sup>i</sup> (Baseline: NA as of March 2020)</p>	3.1–3.2. MOF annual report, Budget Report	
<b>Budget Support</b> Asian Development Bank: \$1.5 billion loan Asian Infrastructure Investment Bank: \$500 million loan (cofinancing) The Asian Infrastructure Investment Bank will manage the disbursement of the loan in parallel.			

B = Thai baht, COVID-19 = coronavirus disease, IHR = International Health Regulations, MOF = Ministry of Finance, MOPH = Ministry of Public Health, NA = not applicable, SMEs = small and medium-sized enterprises.

<sup>a</sup> Government of Thailand. 2020. Emergency decree authorizing the Ministry of Finance to raise loans to remedy and restore the economy and society affected by the COVID-19 pandemic. B.E.2563 (2020). Bangkok.

<sup>b</sup> Given uncertainties in how the outbreak and its economic effects may unfold, there is a need for the government responses to be flexible as the situation evolves. Because new data collection and reporting systems to monitor the crisis are being developed and evolving, it is not yet possible to set more specific program targets than those presented in the design and monitoring framework. Additional indicators (such as the numbers of affected SMEs and informal workers who receive government support) to measure the effects of the program may be identified at a later stage and used to discuss the program's effectiveness as comprehensively as possible in the project completion report.

- <sup>c</sup> Specific indicators include: (i) preparedness: priority public health risks and resources are mapped and utilized; and (ii) points of entry: effective public health response at points of entry. World Health Organization. 2017. [Joint external evaluation of IHR core capacities of the Kingdom of Thailand](#).
- <sup>d</sup> Allowance includes salary, overtime pay, and commission.
- <sup>e</sup> Universal Coverage Scheme, Civil Servants Medical Benefits Scheme, or Social Security Scheme (Social Health Insurance).
- <sup>f</sup> Direct staff are those involved in providing clinical care to patients, whereas indirect staff are those who provide care “behind the scenes” or in auxiliary roles.
- <sup>g</sup> SMEs are defined as those with revenues of less than B500 million and employing fewer than 200 people.
- <sup>h</sup> Employment salary from April to July 2020 can be deducted at 3 times the actual amount in the SMEs’ corporate income tax calculation for 2020, provided that (i) the employee is registered under the social security system, (ii) the monthly salary does not exceed B15,000, and (iii) the SME maintains a number of employees not lower than the number of registered employees under the social security system as of the end of Dec 2019.
- <sup>i</sup> The withholding tax rate on certain income such as service fees and commissions, normally 3%, will be reduced to 1.5% from April to September 2020. For taxpayers registered under the e-withholding tax system, the withholding tax rate will be reduced to 2% for payments made from October to December 2020.

Source: Asian Development Bank.

### **LIST OF LINKED DOCUMENTS**

<http://www.adb.org/Documents/RRPs/?id=54177-001-3>

1. Loan Agreement
2. Sector Assessment (Summary): Health
3. Development Coordination
4. Country Economic Indicators
5. International Monetary Fund Assessment Letter
6. Summary Poverty Reduction and Social Strategy
7. Risk Assessment and Risk Management Plan
8. List of Ineligible Items
9. Gender Monitoring Matrix

### **Supplementary Documents**

10. Debt Sustainability Assessment
11. Assessment on Poverty and Unemployment
12. Summary Cross-Country Comparison of COVID-19 Related Data and Effects
13. Country Engagement Framework for COVID-19 Response
14. Fiscal Impact Assessment
15. Regional Cooperation and Integration
16. ADB's Value Addition
17. Summary of Strategies Related to COVID-19
18. COVID-19 and Older People in Thailand
19. Progress of the Key Stimulus Measures in Response to the COVID-19 Impact
20. Impact of COVID-19 on Thailand's Tourism Sector



## DEVELOPMENT POLICY LETTER

**URGENT**  
No. 0905/9325



Ministry of Finance  
Rama VI Road  
Bangkok 10400, Thailand

28 May B.E. 2563 (2020)

Dear Mr. Asakawa,

***Subject: COVID-19 Active Response and Expenditure Support (CARES) Program***

On behalf of the Government of Thailand, we would like to thank the Asian Development Bank (ADB) for the long-term engagement, support and commitment towards the economic development of Thailand. This development policy letter expresses our interest in obtaining USD1.5 billion loan under the Countercyclical Support Facility-Coronavirus Disease (COVID-19) Pandemic Response Option (CPRO) for the COVID-19 Active Response and Expenditure Support (CARES) program.

The rapid rise of COVID-19 infections during March – April 2020 has put tremendous pressure on our healthcare system as well as the livelihoods of Thai people. To curb the spread of the virus and to safeguard the welfare of the people, the Government of Thailand had undertaken extreme and unprecedented measures including declaring a nation-wide state of emergency, partial lockdown and curfews have been implemented, travel restrictions have been introduced to limit the number of imported cases, social distancing requirements and shut down high-risk establishments to reduce risk of local transmissions.

The implementation of these necessary measures, together with the strength of our healthcare system and personnel enabled the spread of the virus to be contained. However, these measures inevitably came with a high cost on the economy. The Office of the National Economic and Social Development Council reported on 18 May 2020 that the economic growth for the first quarter of 2020 dropped by 1.8 percent from the previous quarter and projects that the Thai economy in 2020 will contract in the range of (-6.0) – (-5.0) percent,

Mr. Masatsugu Asakawa,  
President  
Asian Development Bank  
6 ADB Avenue, Mandaluyong City 1550, Metro Manila, Philippines

/due to...

due to (i) the severe contraction of the world economy that will have an immense impact on global trade and our exports, (ii) the sharp decline in tourist arrivals, resulting in significant loss in revenues for all tourism related businesses, and (iii) the adverse impact of the drought on agricultural productions. Consequently, there are growing concerns for the social sector as the crisis of this magnitude may stall the progress of poverty reduction in Thailand since millions of workers, particularly those employed in manufacturing, tourism and agriculture sectors may experience significant reduction in income or lose their employment. Furthermore, the financial sector has also experienced turbulence, with funds outflows from both fixed income and equity markets as investors seek safe assets.

The Government of Thailand immediately recognized the threat of this exogenous shock on the Thai economy and acted swiftly to protect our people and facilitate economic recovery. The Government has put in place an all-encompassing response plan that addresses the health and economic repercussions of the pandemic.

As part of the health response plan, the Government has reallocated THB11.3 billion in the 2020 national budget for health-related expenditures for COVID-19 prevention and control. To contain the potential surge in cases, the Government has instructed state hospitals to receive COVID-19 patients, converted existing hotels and dormitories into field hospitals, and opened a dedicated field hospital. Measures are being taken to ensure the availability of drugs and medical supplies, including ventilators, personal protective equipment, and surgical masks. In addition, testing has also been rolled out nationwide and targeting high-risk groups.

The Government has also introduced social and economic relief and stimulus packages to mitigate the adverse impact caused by COVID-19 outbreak, which can be divided into 3 phases as follows:

Phase 1 (THB207,500 million) was aimed at reducing financial burden and increasing liquidity for households and entrepreneurs including relieving burden of utilities payments, refunding of electricity deposits, reducing contributions to the social security fund of employers and employees, providing low interest rate loans through SFIs, as well as providing principal payment moratorium, interest rate decrease and repayment period extension to entrepreneurs through SFIs.

Phase 2 (THB147,946 million) was aimed at further relieving burdens to people and entrepreneurs at a broader scope to reflect the higher impact of the outbreak by providing cash handouts at the amount of THB 5,000 each for 3 months to workers, freelancers and individuals affected by pandemic and providing soft loan to individuals and also extending personal income tax payment. For entrepreneurs, focusing primarily on SMEs, the government has extended corporate tax payment and provide loans for liquidity enhancement.

/Phase 3...

-3-

Phase 3 (THB1.9 trillion) is a comprehensive package aimed at alleviating the impact of the coronavirus outbreak on households and businesses, the phase 3 package comprises of 3 Emergency Decrees as follows:

1. Emergency Decree authorizing the Ministry of Finance to raise loans in amount of no more than of THB1 trillion to finance Public Health improvements and enhance capabilities in COVID-19 treatment (THB45,000 million), to provide relief measures and compensation to those affected by loss of income (THB555,000 million) and to rehabilitate the economy through projects aimed at strengthening of the local communities and jobs creation. (THB400,000 million).

2. Emergency Decree on provision of financial assistance for small and medium size enterprises (SMEs) (THB500,000 million), which authorizes the Bank of Thailand to provide soft loans to SMEs through commercial banks and SFIs. In addition, loan payment holiday program has also been provided.

3. Emergency Decree on the stabilization of the financial markets by providing liquidity backstop (THB400,000 million). The Corporate Bond Stabilization Fund (BSF) has been established to enable the Bank of Thailand to provide bridge financing to corporates with bonds maturing during 2020-2021.

The Government of Thailand is fully committed to implementing these measures to alleviate the effects of the COVID-19 pandemic on the Thai people and restore Thailand's economic development. To do so, we request that ADB consider providing a CPRO loan to help assist our efforts in ensuring that our financing obligations are met in a feasible and sustainable manner. We also welcome ADB's policy recommendations on the implementation of the Government's health response plan and stimulus packages, including the continuous monitoring and evaluating measures, as well as post COVID-19 economic recovery plan, to ensure that our planned interventions will achieve the desired outcomes.

On this occasion, the Government would like to reaffirm our long standing collaboration and continuing our partnership for enhancing the country's development program with ADB through Country Partnership Strategy and Country Operation Business Plan.

Your kind cooperation is, as always, very much appreciated.

Yours sincerely,



Uttama Savanayana  
Minister of Finance

## ASSESSMENT OF COMPLIANCE WITH ACCESS CRITERIA FOR COUNTERCYCLICAL SUPPORT FACILITY AND COVID-19 PANDEMIC RESPONSE OPTION

Access Criteria	ADB Staff Assessment
<b>1. Adverse impact of exogenous shocks</b>	<p>On 11 March 2020, the WHO declared the coronavirus disease (COVID-19) outbreak a global pandemic. As of 18 June 2020, 8.2 million have been infected and over 448,000 deaths have been recorded in 188 countries.<sup>a</sup> In Thailand, 3,135 positive cases and 58 deaths have been reported as of 17 June 2020.<sup>b</sup> The impact of the COVID-19 pandemic on Thailand's economy is expected to be significant due to its high dependence on tourism, merchandise exports, and global supply chains.</p> <p><b>Impact on economic growth.</b> Thailand's economic growth slowed to 2.4% in 2019 after a strong performance at 4.2% in 2018. The lingering trade conflict and the slowdown in the world economy weighed on the demand for Thai exports, causing investment and employment in export-oriented businesses to decline. Economic growth is expected to be sluggish in 2020 mainly because of the COVID-19 pandemic. The IMF forecasted a GDP contraction of 6.7% in 2020, down from the earlier forecast of 3.0% GDP growth. This is broadly in line with ADB's 2020 GDP forecast for Thailand of (-6.5%) and the official forecast by the BOT which projected a contraction of 5.3% in 2020. Based on the IMF's growth projection, ADB staff estimates that the economic losses may be as high as \$45.9 billion (and \$44.2 billion, using ADB's growth forecast of -6.5%)</p> <p><b>Impact on key economic sectors.</b> Thailand's economy depends on tourism and manufacturing, both of which have been hit hard by COVID-19. Thailand's tourism sector, which contributed 12% of GDP in 2019, has seen a 99% fall year-on-year in the number of tourist arrivals in the first few weeks of May 2020. Thailand's tourism sector could suffer from a \$50 billion decline in revenue in 2020. With air travel restrictions, Thailand's aviation industry has experienced a 52% drop in passenger demand in the first quarter of 2020 and is expected to lose \$8.3 billion in revenue in 2020. In addition, the manufacturing sector, which accounted for 34% of GDP in 2019, has been severely affected by the fall in export demands and the disruptions in the global supply chains. The automotive industry, which is the largest in Southeast Asia, has seen a 24.6% drop in production in March following the suspension of manufacturing at several plants. The industrial production index dropped by 11.25% year-on-year in March 2020. ADB staff projected that the manufacturing sector would contract up to 3.2% in 2020. Wholesale and retail sectors, which accounted for 58% of GDP in 2019, have also experienced a drastic slowdown as non-essential businesses were closed during the state of emergency.<sup>c</sup> Private consumption fell by 4.8% year-on-year in March 2020, with net tourist spending falling by 26.7% month-on-month in March. The government estimated that 1.3 million SMEs (44% of total SMEs), which employ over four million people or 25% of the total labor force, would be affected by COVID-19.</p> <p><b>Impact on employment and poverty.</b> With the economic slowdown, ADB staff estimated that 3.1 million Thai workers could be unemployed (unemployment rate of 8%). The most vulnerable sectors include manufacturing, wholesale and retail trade, accommodation, and restaurants. An extended lockdown period may have a structural impact on the labor market, including a potential rise in structural unemployment and underemployment. This is especially relevant to Thailand as the economy is highly dependent on tourism and informal sectors which cannot support work from home. Female</p>

Access Criteria	ADB Staff Assessment
	<p>employment participation is high in several affected sectors: 52% of informal wholesale and retail and 65% of informal accommodation and food services. Women are also at a higher risk of being crowded out in employment during crises. It is estimated that COVID-19 could displace 11.7% of female workers, compared to 7.6% of male workers. COVID-19 is expected to have a significant effect on poverty due to the complete halt in production, trade, and tourism. Due to the pandemic, poverty incidence is forecasted to increase from 8.8% in 2019 to 16% in 2020 before coming down to 14.6% in 2021. This translates to additional 5.2 million poor people in 2020, using the national poverty line of \$5.50 per person per day at the 2011 purchasing power parity.</p> <p><b>Widening fiscal deficit.</b> The government ran a fiscal deficit equal to 2.6% of GDP in the fiscal year 2019. Government revenue collection in the fiscal year 2019 was 0.5% above the official target, while expenditure was 1.4% higher than the official target. The pandemic has a significant impact on Thailand's fiscal conditions. Tax revenue is expected to decline by \$9.6 billion (11.6%) from the pre-COVID-19 projection of \$82.8 billion. The biggest fall in tax revenue is expected in the second quarter of 2020 due to the halt in business activities, weak consumption, and tax incentives. Crisis response will require an increase in government spending mainly in the third quarter of 2020. The government has increased spending by \$1.4 billion and plans to borrow up to \$19.1 billion off-budget for COVID-19-related spending in the fiscal year 2020. Thailand's fiscal deficit is expected to widen from 2.7% to 5.3% of GDP in 2020. Including the estimated off-budget COVID-19 spending, the deficit could reach 9.1% of GDP in 2020.</p> <p><b>Financial sector vulnerabilities.</b> Thailand's banking sector is among the most exposed to manufacturing and SMEs in the region. Prior to the COVID-19 outbreak, the IMF assessed the build-up of financial vulnerabilities as a medium risk. With the partial lockdown, corporates' ability to service bank loans is expected to deteriorate due to the lack of revenue. Household indebtedness is also among the highest in the region. With COVID-19, debt servicing capacity of households is expected to worsen as most of their debts are for non-income generating purposes (mortgages or consumption). Non-performing loans increased from 2.98% in the fourth quarter of 2019 to 3.0% in the first quarter of 2020 and as of 8 May, \$146 billion worth of debts (25% of the total banking sector loans) from 13 million SMEs and households have been restructured. The insurance sector is expected to experience lower investment incomes and higher insurance payouts related to hospitalization expenses, event cancellations, and business disruptions. As market liquidity conditions and investor confidence deteriorate, the domestic capital markets have borne the brunt. A record outflow of \$14.3 billion from fixed-income funds was observed in the first quarter of 2020. Four bond mutual funds with total assets under management of \$9.4 billion have been closed following panic selling by unitholders. These events triggered a sharp increase of government bond yields, with the 10-year local currency government bond yield shooting up 100 basis points. In the equity market, foreign investors have been liquidating shares with the accumulated net sales of \$3.7 billion, the highest level among ASEAN stock exchanges. The SET Index has plunged almost 30% since January 2020 and market capitalization fell to its lowest level since 2013. In March 2020, the SET circuit breaker was activated thrice. Thai Baht has lost almost 10% in value since the beginning of 2020.</p> <p><b>Social impact.</b> The older population and migrant workers are among the most vulnerable to COVID-19. Thailand has a large population of old people, with 5.7 million people over 70 and 13 million people over 60 (women make up 55% of</p>

Access Criteria	ADB Staff Assessment
	<p>persons over 60 and 61% of those over 80). As of 26 April 2020, the death rate among patients over 60 years old is 6.4%, versus 0.6% for people in the 30s and 1.9% for people in the 40s. Economically, older people rely on a combination of pensions, family remittances, and their own labor, with almost half of men and a quarter of women over 60 continuing to work. The pandemic will likely disrupt the income source of old people and increase financial hardship, due to disruptions in their ability to work and their access to remittances from friends and family. Their ability to restart their livelihoods may be affected by more stringent physical distancing guidelines, and lack of access to credit. Likewise, Thailand has a large population of migrant workers. In 2019, Thailand hosted 4.9 million migrants, 3.9 million of whom came from Cambodia, Lao People's Democratic Republic, Myanmar, and Viet Nam (CLMV). Migrant workers typically live in overcrowded and unhygienic environment, which heightens the risks of infection and disease transmission. According to an assessment by the International Organization for Migration, the primary challenge for migrants since the COVID-19 outbreak is insufficient income to afford food and clean water, as well as access to basic services like health care. The partial lockdown has made it challenging for support groups to reach the most vulnerable people, especially migrants living in remote areas. This leaves many girls and women at heightened risk of human trafficking. With school closure across the country, it is anticipated that many children, especially girls, from poor and migrant families will drop out of school to supplement their family's income.</p> <p><b>Health impact.</b> Thailand's health care system is relatively strong, having achieved universal health coverage. However, as an open and interconnected economy, Thailand is highly vulnerable to the pandemic and recurrent waves of outbreaks. Before vaccines and effective treatments become available, more investment in testing and active case tracing is needed to prevent potential surges, especially as many COVID-19 carriers are asymptomatic. As of 18 June 2020, Thailand has carried out 6,708 tests per one million people, fewer than Singapore (98, 516) and Malaysia (20,536). This equates to roughly 3,442 tests per day since the first confirmed case (reported on 13 January 2020). Further, Thailand needs to urgently address its acute healthcare human resource constraints that may affect its ability to provide the necessary specialized care. The density of medical workers in Thailand is 3.1 per 1,000 people, below the WHO recommended threshold of 4.45 per 1,000 people.<sup>d</sup> In Thailand, approximately 78% of healthcare workers are female, including 48% female doctors, and 95% female nurses. A statistical model shows that even without COVID-19, there is a critical shortage of nurses in Thailand. In the face of rising global demand, Thailand also needs to urgently address shortages in medical supplies. While 37.5 million surgical masks have been delivered, the MOPH aims to procure a total of five million N95 masks (of which 119,100 have been procured and delivered) and five million pieces of PPE (8,640 PPE sets have been delivered and delivery of another 10,650 is planned). The currently available 6,000 intensive care unit beds would not be adequate if the number of severe cases suddenly rises. Finally, poor people, especially those in remote areas, do not have the same access to quality health services as those living in big cities.</p>
<b>2. Countercyclical development expenditures</b>	<p>The government has introduced a well-coordinated pro-poor countercyclical support measures to be supported by the CARES Program under the CPRO. The government launched relief and stimulus packages on 10 March, 24 March, and 7 April 2020 amounting to \$71.4 billion (B2.25 trillion). The measures pertain to a combination of fiscal spending, tax relief, and monetary interventions; and encompass health, social, and economic dimensions, aiming to mitigate the impact of COVID-19 and ensure that the short- to medium-term shocks from COVID-19 will not leave long-term consequences on</p>

Access Criteria	ADB Staff Assessment
	<p>public health, social development, and economic growth. These measures will benefit in total six million informal workers, who account for 22% of the Thai population, 10 million households in the agriculture sector, and 3 million SMEs.</p> <p>These measures include: (i) increased health-related expenditures on COVID-19 prevention and control; (ii) cash handout programs for 16 million temporary workers, contractors, and freelancers not in the social security system, and for 10 million households in the agriculture sectors; (iii) tax reliefs and tax payment deferral to increase liquidity among businesses and individuals; (iv) soft loans and a debt moratorium for SMEs and individuals through commercial banks, specialized financial institutions, and government-owned pawnshops; (v) a corporate bond liquidity stabilization fund; and (vi) economic and social recovery plan.</p> <p><b>Increased health-related expenditures on COVID-19 prevention and control.</b> The government has allocated \$1.8 billion for health relief measures, of which B45 billion is from the stimulus package and \$358.7 million is from the 2020 central budget reallocation. MOPH's 2020 budget has also been reallocated to recruit more medical workers and volunteers. The \$1.4 billion health relief package includes: (i) compensation for healthcare workers (including females who make up 78% of the healthcare workforce); (ii) procurement of medicine and medical equipment; (iii) expenses related to testing, disease control, and research development; and (iv) expenses related to laboratories and hospitals for COVID-19 detection and emergency measures. The \$358.7 million budget reallocation will be used to improve preparedness, mitigation, and control for 'stage 2' of the outbreak, when infections are controlled at community level and traceable, including health literacy and risk communication measures, outreach, and testing by village health workers (as opposed to stage 1 where outbreaks are just beginning). The government has created a mobile application for mental health checkups and offered free access to selected television programs and online concerts for mental wellbeing. Procurement of more surgical masks, testing kits (testing will also target vulnerable populations including women and migrant workers), ventilators, negative pressure isolation rooms, and PPE is underway. In addition, the government has determined that the costs of testing and treatment of COVID-19 will be fully covered under its health insurance schemes.</p> <p><b>Social assistance programs for vulnerable groups affected by COVID-19.</b> The government has rolled out the cash handout program which provides B5,000 per month per person for three months for 16 million informal workers or workers who are not covered by the social security system. The government initially set aside \$2.2 billion from a reallocation of the 2020 national budget for the cash handouts to support three million informal workers. The government later expanded the cash handout programs to cover 16 million informal workers and 10 million households in the agriculture sector affected by the pandemic. It is estimated that women account for 45% of informal workers who can apply for the cash handouts program. Sex-disaggregated data will be collected and analyzed to better monitor the program and makes sure women receive equal access. In addition, a \$4.8 billion cash handout program was approved to support 10 million families in agriculture sectors (B5,000 per family per month for three months). Workers under the social security system will receive unemployment compensation of up to 70% of their salary for up to 200 days. Other social assistance measures include: (i) B1,000 per month for 3 months to 1.2 million low-income welfare cardholders (total 14.6 million people, 8.3 million of whom are female), (ii) B1,000 per month for three months to 1.4 million children, 9.6 million older people, and 2 million disabled people; (iii) reduced compulsory social security contribution; (iv) utility bills and land rental payment waivers;</p>



Access Criteria	ADB Staff Assessment
	<p>(v) deferred personal income tax; (vi) reduced health insurance premiums; and (vii) occupational training for informal workers. Women who lost their jobs can enroll for free online skills training and their children are provided with free milk. Migrants registered in the social security system are entitled to unemployment benefits and all migrants, regardless of their legal status, are eligible for free COVID-19 testing and treatment. Finally, a rice insurance scheme is available to support farmers.</p> <p><b>Tax reliefs and tax payment deferral to increase liquidity among businesses and individuals.</b> The MOF, through the Revenue Department, has rolled out several tax measures aimed at increasing liquidity among businesses and individuals during the state of emergency. ADB estimates that these tax measures will entail revenue losses amounting to \$3.4 billion. For individuals, these measures include: (i) extension of personal income tax filing deadline to August 2020; (ii) deduction of health insurance premiums increased to B25,000 from B15,000; and (iii) a tax exemption on risk payments for medical workers. For businesses, the measures include: (i) extension of corporate income tax fillings until September 2020 and extension of other taxes for affected corporates by 3 months; (ii) reducing the withholding tax from 3% to 1.5% from April to September 2020 and the tax deduction incurred by salary payments up to three times for SMEs; (iii) extension of excise tax filing for service business (by one month) and oil product businesses (to 15th of the following month for three months consecutively); (iv) exemption of import duties for products related to the prevention and treatment of COVID-19; and (v) exemption of taxes and a reduction of fees for debt restructuring with non-financial institutions.</p> <p><b>Soft loans and a debt moratorium for SMEs and individuals by commercial banks, SFIs, and government-owned pawn shops.</b> The government, through the Bank of Thailand, has introduced soft loans, and debt repayment deferral measures to ensure access to liquidity among individuals and SMEs. On 10 March 2020, the government announced the following measures: (i) \$4.8 billion in soft loans with an interest rate of 0.01% to commercial banks for onlending to customers at 2%; (ii) the Bank of Thailand eased measures for debt restructuring, debt-classification, and loan approval for SMEs and debtors, and called for a lower minimum payment amount for credit-card holders (e.g. to 5% from the 10% ceiling); and (iii) \$0.95 billion in soft loans starting at a 3% interest rate for the Social Security Office's registered entrepreneurs to promote employment. On 24 March 2020, the government extended several concessions to individuals and SMEs affected by COVID-19, including: (i) personal loans including a B10,000 emergency loan per person at a monthly interest of 0.1% (no collateral); (ii) a B50,000 special loan per person at a monthly interest (with collateral) of 0.35%, and loans from state-owned charge pawnshops loan at a monthly interest of 0.125%; and (iii) loans up to B3 million for SMEs at 3% interest rate over the first two years.</p> <p><b>Corporate bond stabilization fund.</b> The disruption of economic activities together with heightened volatilities in global financial markets have also impacted the Thai financial market. If the corporate bond market cannot function properly, or investors lose confidence during the period of heightened economic uncertainty, additional financing or rollover will be limited and highly costly, even for high-quality firms. Therefore, there are risks that many corporations will experience a liquidity shortage and may not have enough capital to conduct normal business operations, which may become a systemic risk. This will impact savers through intermediaries such as fixed-income funds, provident funds, saving cooperatives, the Government Pension Fund, and the Social Security Fund. To stabilize the corporate bond market and to provide a liquidity</p>



Access Criteria	ADB Staff Assessment
	<p>backstop, the Bank of Thailand, and the Ministry of Finance, as part of Package 3, established a \$12.7 billion Corporate Bond Stabilization Fund (BSF). The fund aims to provide bridge financing to high-quality firms with bonds maturing during 2020–2021, at higher-than-market ‘penalty’ rates. Eligible corporate bond issuers must meet a number of criteria including: (i) be at least investment grade, (ii) have raised the majority of their funding needs through other means such as bank loans or a capital increase, (iii) have a clear long-term financing plan, and (iv) meet other conditions as set out by the BSF’s investment committee. In addition, if the issuers simultaneously offer secured bonds to the general public, the bonds in which the BSF will invest must also be secured with collateral of equal or better quality to the collateral pledged on the bonds sold to the general public.</p> <p><b>Economic and social recovery program.</b> The government allocated \$12.9 billion for economic and social recovery programs and projects, of which \$12.0 billion will be for FY 2021. Projects in FY 2021 will be financed by government internal funds and/or by other development partners. The government identified 6 priority areas to support: (i) smart farming; (ii) industry, trade, and investment; (iii) responsible tourism and services; (iv) economic recovery at community level; (v) projects to boost domestic consumption; and (vi) infrastructure development. To date, 31,801 projects, amounting to \$23.4 billion, were submitted to the Loan Fund Disbursement Consideration Committee for consideration. The Committee will evaluate potential projects before submitting to the Cabinet in July 2020 for approval.</p>
<b>3. Pre-shock record of generally sound macroeconomic management</b>	<p>Thailand’s macroeconomic conditions were favorable prior to the onset of COVID-19. The average annual GDP growth rate was 3.4% during 2015–2019. The external headwind from the global trade tensions had tilted Thailand’s growth trajectory toward the downside. As a result, Thailand’s economy had a moderate 2.4% growth rate in 2019 after a strong performance (4.2% in 2018). The lingering trade conflict and the slowdown in the world economy weighed on the demand for Thai exports, causing investment and employment in export-oriented businesses to decline as well. Strengthening domestic consumption provided growth momentum on the back of government stimulus measures. Inflation was maintained at a low level of around 1.0% in 2016–2019.</p> <p>The fiscal deficit has been kept at a healthy level, averaging 2.8% of GDP during 2015–2019, thereby providing ample fiscal space as a buffer against external shocks. The government ran a fiscal deficit equal to 2.6% of GDP in the fiscal year 2019 (ending 30 September 2019). To strengthen the fiscal position, the government has embarked on several important reforms. To increase tax revenue, the Land and Property Tax Law and taxation of investment income from bonds through mutual funds were revised. The E-payment Law, effective from 2020, will prevent local online vendors from avoiding income taxes. On the expenditure side, the government has set out a plan to revise the eligibility criteria for low-income earners, so that the welfare program is better targeted to the lower-income group. Government revenue collection in fiscal year 2019 was 0.5% above the official target, and expenditure was 1.4% higher than the official target. The average tax-to-GDP ratio was 16.6% during 2015–2019. During the same period, the public debt-GDP ratio was stable, ranging from 41.2% of GDP to 42.6% of GDP, significantly below the government’s debt ceiling of 60% of GDP. External positions were strong, with a current account surplus averaging 7.9% of GDP during 2015–2019. Gross international reserves averaged \$192 billion (41.4% of GDP) and cover more than nine months of exports during 2015–2019. As of end 2019, international reserves were reported at \$224.3 billion, significantly above the IMF’s Reserve</p>

Access Criteria	ADB Staff Assessment
	<p>Adequacy Metric for emerging markets and 12 months of imports. Thai Baht had been stable (volatility around 4.6% during 2015–2019) and had appreciated from B34.25/\$1 in 2015 to B31.04/\$1 in 2019, due to increases in non-residential inflows.</p> <p>Monetary policy has been accommodative in line with modest inflation and the declining trends of interest rates in the global financial markets. In August 2019, the BOT cut the policy interest by 25 basis points, from 1.75% to 1.50%, representing the first such cut since 2015. In December 2019, the cabinet approved the BOT's new headline inflation target of 1–3% for 2020 to replace the use of an annual average of headline inflation at 2.5% with a tolerance band of <math>\pm 1.5\%</math>, which was in place since 2015. This new policy is attributed to structural factors for driving down prices, including technological advancements and the growth in e-commerce which reduced the costs of production, and an aging population.</p> <p>Thailand's 40th-place global ranking for SDG is ahead of some OECD countries. It is the highest in the ASEAN, and Thailand is one of the few countries in the region to have achieved the first SDG goal of ending poverty. Furthermore, its HDI, which measures long-term progress in three basic dimensions of human development (a long and healthy life, access to knowledge, and a decent standard of living), is 0.76 which places the country in the high human development category. Men and women have similar HDI levels (0.76 and 0.75), indicating a high gender development index of 0.996.</p> <p>The IMF's Staff Report for the 2019 Article IV Consultation noted that Thailand's robust policy framework and ample buffers, created through government's judicious management of public finances, underpin its resilience to shocks. However, the IMF noted that external and domestic headwinds were challenging near-term growth prospects and encouraged the authorities to undertake an investment-led expansion through fiscal stimulus while preserving sufficient buffers and ensuring fiscal sustainability. The IMF also emphasized the importance of better targeting social assistance to protect vulnerable households while minimizing distortions. The IMF also welcomed the decision to cut the policy rate by the Bank of Thailand and noted that Thailand's external position remained stronger than warranted by medium-term fundamental and desirable policies. The IMF agreed that financial stability risks appear contained.</p>
<b>4. Structural reforms</b>	<p>Thailand has strong capacities for COVID-19 case detection, risk assessment, case investigation, laboratory diagnosis, clinical management, infection prevention and control, and risk communication. Thailand scores highly on measures under the International Health Regulations, but some dimensions of pandemic preparedness remain weak, including mapping priority public health risks and utilizing resources, emergency response operations, and effective responses at points of entry. Since April 2020, the government has shifted to targeted surveillance, active case finding among vulnerable groups, and detection at points of entry. To help reduce the risk of transmission and encourage utilization of healthcare services, 27 hospitals are piloting telemedicine services for chronic illness management.</p> <p>The government has allocated \$1.8 billion for health relief measures, of which \$1.4 billion is from the stimulus package and \$0.4 billion is from the 2020 central budget reallocation (please see the discussion in "Countercyclical development expenditures" above for more details on the allocations for health expenditures). Inter-agency coordination mechanisms have been put in place to ensure effective coordination and monitoring of the evolving COVID-19 situation and</p>

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	<p>implementation of the stimulus packages. The government has also created the Centre for COVID-19 Situation Administration, chaired by the Prime Minister, which includes the Medical and Public Health Emergency Centre under the MOPH. On 9 April 2020, to oversee the utilization of the \$31.7 billion emergency borrowing, the Cabinet established the high-level project screening and monitoring committee, chaired by the Secretary-General of the National Economic and Social Development Council, the Governor of the BOT, and Directors of the Fiscal Policy Office, Comptroller General's Department, Budget Department, and Public Debt Management Department of the MOF. The committee is required to report the status of loan implementation to the Cabinet every quarter. The national pandemic influenza preparedness plan and guidelines for epidemic response are being updated.</p> <p>ADB continued its engagement with the MOPH to strengthen its preparedness for public health responses to COVID-19. In February 2020, ADB provided \$2 million in technical assistance resources to cover a rapid response to COVID-19 outbreak and to scale-up support to implement a One Health response to public health threats across GMS countries.<sup>e</sup> To quickly operationalize the expanded support, an extraordinary meeting of the GMS Working Group on Health Cooperation was held on 28 February 2020 to discuss ways to strengthen regional collaboration initiatives in light of COVID-19 to address common capacity constraints hampering the effective response to COVID-19 both at the regional and national levels. ADB has also received an initial request from government to undertake research and knowledge development for vaccines.<sup>f</sup></p>
<b>5. Debt sustainability</b>	<p>The IMF's Staff Report for the 2019 Article IV Consultation noted that Thailand was at low risk of debt distress. Thailand's external debt was projected to remain stable at 32% of GDP in 2019. Of this, short-term debt comprised 15.3% of GDP and over two-thirds of total external debt is held by the private sector. Over the medium-term, external debt was projected to remain contained at 32.5% of GDP until 2024, while debt service was expected to remain low at 6% of GDP. Under the most extreme scenario where the Thai Baht depreciates by 30%, the external debt-GDP ratio would rise to 48%.</p> <p>Prior to the COVID-19 outbreak, the public debt-GDP ratio was expected to increase from 41.2% in 2019 to 42.2% in 2020, gradually reaching 45.1% in 2024. COVID-19 will affect the public debt-GDP ratio by (i) increasing the level of public debt due to the higher budget deficit, and (ii) contracting GDP. ADB staff estimates that the COVID-19 pandemic will result in an increase in the public debt-GDP ratio from 41.2% in 2019 to 48.7% in 2020 and 50.4% in 2021, thereafter rising more slowly to 51.2% at the end of the projection period in 2024. The CARES Program under the CPRO (\$1.5 billion) is estimated to have a small impact, adding around 0.3 percentage points to the public debt-GDP ratio. The existing debt ratio and projected public indebtedness, including the potential impact of the prospective pandemic response option borrowing, is sustainable as the ADB loans comprise a small portion of the country's overall financing needs. Under the worst-case scenario where the government exhausts the borrowing headroom of B1 trillion in fiscal years 2020–2021 under the Royal Decree on emergency borrowing, the public debt trajectories are closer to, but still below, the legal ceiling of 60% of GDP. Therefore, the medium-term public debt outlook remains sustainable.</p>
<b>6. Coordination with International Monetary Fund.</b>	<p>ADB has been in contact with the IMF on the impact of COVID-19 in Thailand, including spending needs on critical health facilities and supplies, support to workers and businesses in the informal sector, and social unrest issues related to a rise in unemployment and shortages of food and medical supplies. ADB has coordinated with the IMF on the CARES Program</p>

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	including the assessment of Thailand's macro and fiscal conditions. The IMF confirmed that: (i) the impact from the COVID-19 pandemic has taken a large toll on Thailand's economy and adds to the impact of the severe drought, delays in fiscal budget execution, and weak domestic demand conditions, (ii) the current account surplus is expected to decline in 2020, with large shocks to services and trade balance, and (iii) the uncertainty on the outlook is greater than usual, with risks tilted to the downside. Nevertheless, the IMF assessed that Thailand still has some fiscal space, with public debt at sustainable level based on announced measures (below the 60% ceiling under the fiscal responsibility law).

ADB= Asian Development Bank, ASEAN = Association of Southeast Asian Nations, B= baht, BOT = Bank of Thailand, CARES = COVID-19 Active Response and Expenditure Support, CPRO = COVID-19 pandemic response option, GDP = gross domestic product, GMS = Greater Mekong Subregion, HDI = Human Development Index, IMF = International Monetary Fund, MOF = Ministry of Finance, MOPH = Ministry of Public Health, OECD = Organization for Economic Co-operation and Development, PPE = personal protective equipment, SDG = Sustainable Development Goal, SET = Stock Exchange of Thailand, SFI = specialized financial institutions, SME = small- and medium-sized enterprise.

<sup>a</sup> <https://coronavirus.jhu.edu/map.html>

<sup>b</sup> WHO. 2020. [WHO Thailand Situation Report](#). Bangkok.

<sup>c</sup> A state of emergency is a situation in which a government is empowered to perform actions or impose policies that it would normally not be permitted to undertake. On 24 March 2020, the government declared one-month long state of emergency, which allowed the government to enforce curfew, travel bans, physical distancing, and bans of mass gathering during the one-month period. The state of emergency was later extended to the end of June 2020.

<sup>d</sup> WHO. 2015. Global strategy on human resources for health: Workforce 2030. Geneva.

<sup>e</sup> ADB. 2020. Major Change in Technical Assistance: Strengthening Regional Health Cooperation in the Greater Mekong Subregion. Manila.

<sup>f</sup> ADB. 2020. Major Change in Technical Assistance: Regional Support to Address the Outbreak of Coronavirus Disease 2019 and Potential Outbreaks of Other Communicable Diseases. Manila.

Source: Asian Development Bank.