OECD Economic Surveys

Thailand 2023

Executive summary

December 2023

- The economy is still recovering from recent shocks
- Fiscal and monetary policies need to work in tandem for a stable recovery
- Stronger productivity growth will hinge on structural reforms
- Growth could become more inclusive
- The green transition requires bold and swift policy action

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THAILAND 2023

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THE ECONOMY IS STILL RECOVERING FROM RECENT SHOCKS

Thailand has achieved remarkable economic progress over the past decades, followed by several years of moderate growth prior to the pandemic. A strong and timely policy response helped to cushion the negative economic and social impact of the pandemic and of rising energy and food prices.

As tourist arrivals rebounded, the economy has been picking up rapidly since mid-2022 (Table 1). Real GDP is expected to grow by 2.7% in 2023 and to strengthen to 3.6% in 2024 and 3.2% in 2025. Private consumption is projected to remain strong, despite the gradual phase-out of government relief measures and high household debt. Robust exports will benefit from rising tourism revenues in the context of China's ongoing reopening since March 2023.

Downside risks stem from Thailand's high dependence on trade and investment flows amid increasing global uncertainties. Tightening financial conditions in advanced economies may lead to weaker-than-expected external demand. As a large importer of oil, Thailand remains vulnerable to swings in global energy prices.

Table 1. A gradual recovery is expected

	2021	2022	2023	2024	2025
Real GDP	1.5	2.6	2.7	3.6	3.2
Private consumption	0.6	6.3	5.3	4.2	3.7
Private investment	3.0	5.1	1.8	3.7	3.8
Exports	11.1	6.8	2.5	6.6	4.3
Imports	17.8	4.1	0.7	6.3	4.2
Inflation (CPI)	1.2	6.1	1.6	2.2	2.0
Government budget balance*	-4.6	-3.9	-3.9	-3.1	-2.9
Public debt*	58.4	60.5	62.1	62.5	62.6

Note: Percent changes. * denotes a percentage of GDP.
Source: CEIC; NESDC; MOF; and OECD calculations.

FISCAL AND MONETARY POLICIES NEED TO WORK IN TANDEM FOR A STABLE RECOVERY

The most immediate short-term challenge for Thailand is the phase-out of special policy support measures introduced during the pandemic amidst high inflation. Fiscal and monetary policies should work hand in hand to rebuild fiscal buffers while closely monitoring remaining inflationary pressures.

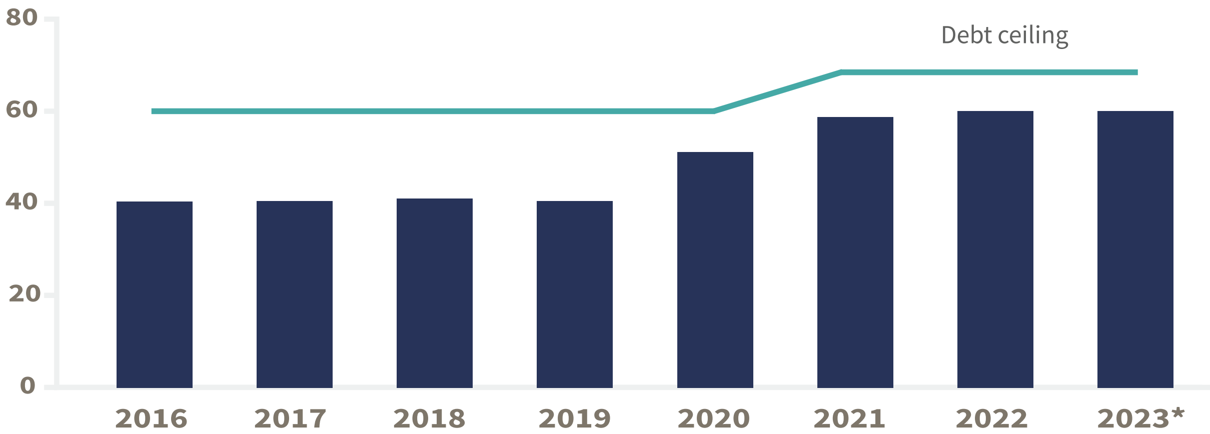
Public debt has increased rapidly during the pandemic, and fiscal consolidation should continue at a gradual pace (Figure 1). Support for the most vulnerable population segments may be needed on a permanent basis. But it should be narrowly targeted to those most in need, for example by building on the recently expanded State Welfare Card benefit or non-contributory old-age pensions from the Old Age Allowance. A medium-term fiscal strategy should include a plan to lower the debt ceiling.

Current tax revenues of 16% of GDP will be insufficient to address future spending pressures. Rising social demands, population ageing and the green transition will likely call on additional public resources. A newly introduced property tax still awaits full implementation, personal income taxes could be expanded in a progressive manner and the reduction of the VAT rate from 10% to 7%, originally meant to be temporary, could be undone. Broadening the personal income tax base can also help increase tax revenues.

Maintaining the current monetary policy stance will help to anchor inflation expectations. Inflation has eased, after exceeding 6% in 2022 amid high energy and commodity prices. But demand pressures from the ongoing recovery will remain significant, and real interest rates remain low.

Figure 1. Public debt remains elevated

% of GDP



Note: * denotes the latest data as of September 2023.
Source: Ministry of Finance; NESDC.

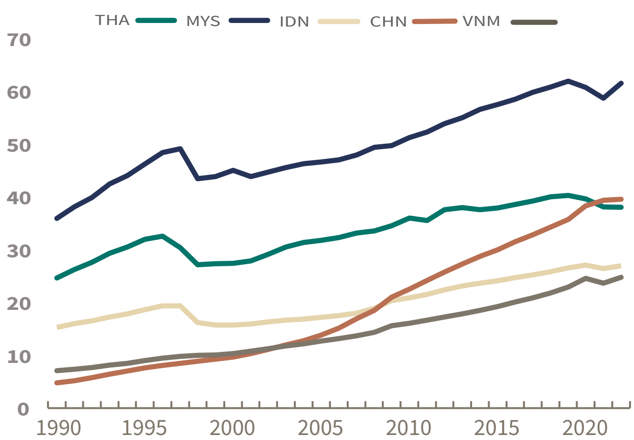
STRONGER PRODUCTIVITY GROWTH WILL HINGE ON STRUCTURAL REFORMS

Income convergence with OECD economies has stalled as productivity gains have failed to deliver stronger improvements in material living standards over the last two decades (Figure 2). Boosting productivity and mastering the transition towards more sustainable and inclusive growth will require stepping up delayed structural reforms.

Competition remains limited across several sectors, likely due to market entry barriers and high regulatory burdens. This holds back innovation and productivity growth, and can deter both foreign and domestic investment. Previous regulatory reform efforts to reduce anticompetitive regulations have slowed, and a comprehensive review of existing regulations would help to eliminate or adapt outdated regulations. Despite considerable progress in trade facilitation, fees and charges remain an obstacle to international trade. Bilateral agreements have been key for integration into Global Value Chains, but their coverage remains limited. Economic governance could be improved through continued efforts to prevent and fight corruption.

Figure 2. Income convergence has stalled

GDP per capita relative to the OECD average, computed at 2017 USD PPP



Source: World Bank, World Development Indicators database.

GROWTH COULD BECOME MORE INCLUSIVE

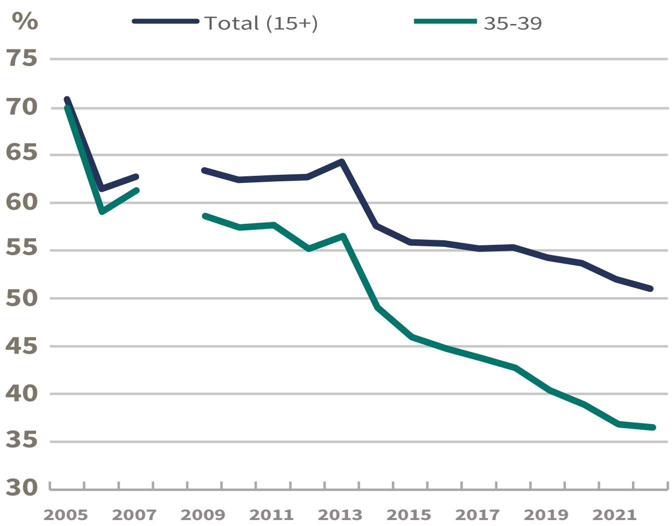
Despite remarkable resilience of the labour market during the pandemic, young people have been disproportionally affected, and many of them have become inactive. Moreover, more than half of workers lack formal employment, and social security does not cover most of them. This calls for stronger social safety nets, especially amid accelerating population ageing.

Many youths are struggling to find quality jobs. Around 15% of the those aged 15-24 are neither in employment nor training and are largely left without policy support. Stronger and better-coordinated policy support through better education and active labour market policies, including training, job-search support and career guidance would help youths better integrate into the labour market.

Widespread informality of workers and firms creates challenges for social protection. The current social protection system is highly fragmented, and coordination needs to be improved. Despite a gradual decline among younger generations, labour informality is persistent (Figure 3). Digitalisation has given rise to new types of informal workers, notably platform workers. A tax-funded social pension provides a minimum income floor for elderly people, but the allowance is small. Raising it could allow Thailand to make significant inroads in the fight against poverty and inequality. Job discrimination on the basis of age is not prohibited but remains a common practice, making it more difficult for older workers to remain attached to the formal labour market.

Figure 3. Labour informality is high

Share of informal labour in total employment
Aged 35-39 and 15+



Note: Informal workers are those who are not protected or have no social security from work. Data cover only private sector workers.
Source: National Statistics Office, Informal Labour Survey.

THE GREEN TRANSITION REQUIRES BOLD AND SWIFT POLICY ACTION

Thailand has pledged to achieve net zero greenhouse gas emissions by 2065. Like in many other emerging-market economies, particular emphasis will need to be placed on making the green transition conducive to economic growth and further improvements in living standards.

Success will hinge on better policy coordination. Several ministries and agencies are involved in the design of environmental policies and there are different and sometimes overlapping plans, making policy coordination complex. A newly created leading environmental agency is tasked to coordinate the overall green transition strategy and monitor policy progress. Ensuring a strong mandate for this new agency will be paramount.

The energy sector is a major source of CO2 emissions (Figure 4). Renewable power generation has advanced but is mostly limited to small-scale producers incentivised by feed-in tariffs. The overall share of renewable energy sources remains lower than in peer countries. More large-scale energy generation from renewable sources through public tenders and renewable energy certificates would help to address rising electricity demand and reduce emissions. That would require reducing private entry restrictions in the retail electricity market.

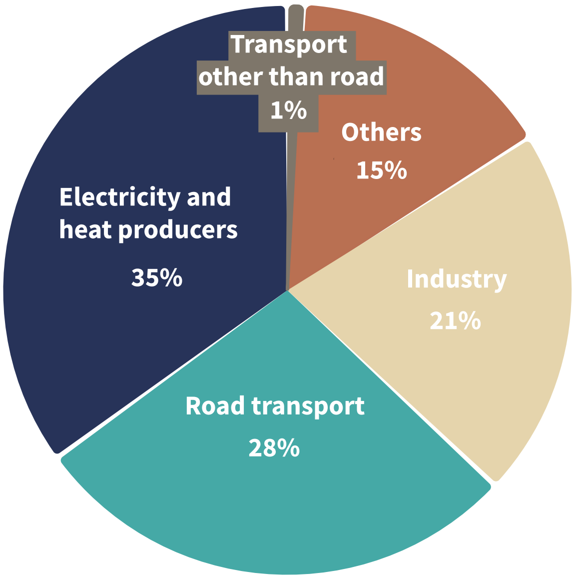
An effective carbon pricing mechanism is still lacking. A voluntary emission trading system is in operation, but carbon prices are low compared with OECD countries (Figure 5). Plans for the introduction of carbon pricing still lack detail. Although explicit energy subsidies are small, regulated energy prices, such as a cap on diesel prices, weaken the effect of market prices and fossil-fuel taxes. A mandatory cap-and-trade system for key sectors complemented by a carbon tax for the rest, consistent with the planned emission trajectory to net zero, should become a backbone of the green transition.

Stricter environmental regulations should complement consistent carbon pricing. A mix of price-based and regulatory measures is likely to enhance the effectiveness and political viability of mitigation efforts. Stricter air pollution standards could be one way forward, including on coal power plants and internal combustion engine cars.

Greening road transport is crucial. Biofuels are widely used, and the number of electric vehicles (EVs) is increasing rapidly, albeit from low levels. The government has strengthened tax incentives for EVs, aiming to boost new registrations of zero-emission cars. However, many vehicles do not meet current fuel economy standards, and the retirement of old cars is slow.

Figure 4. Energy and transport are the largest emitters

CO_2 Emissions from fuel combustion
%, 2019



Source: IEA, Greenhouse Gas Emissions from Energy.

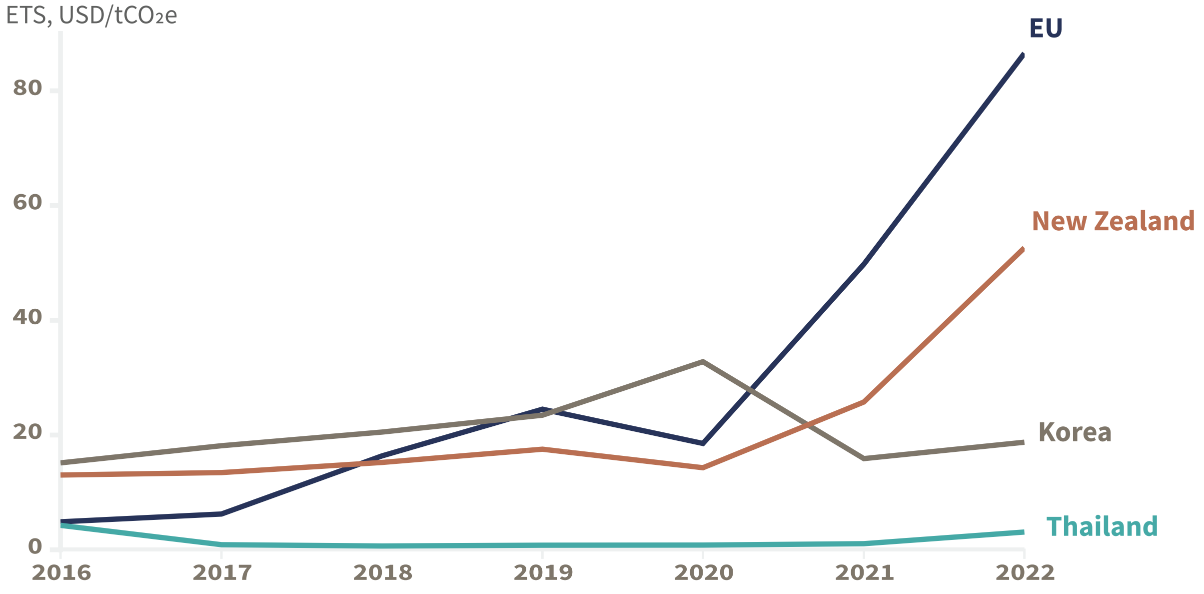
Green innovation could lead to new mitigation opportunities. Private green research and development has increased, and public investment is still low. A range of tax incentives for research and development exist, but limits on the carry-forward of unused allowances may hamper their effectiveness. Increased public-sector research and development in basic sciences and technologies could stimulate green innovation.

Promoting the circular economy could help to reduce the country's carbon footprint and improve resource efficiency. Management of municipal solid waste has improved, but recycling and reusing of secondary material resources still remains weak.

Figure 5. Carbon prices are low

Carbon Price

ETS, USD/tCO_2e



Source: World Bank, Carbon Pricing Dashboard.

Main findings | Key recommendations

PURSUING ROBUST AND SUSTAINABLE GROWTH

- *Inflation has fallen below the target range as monetary policy has tightened. Upside risks to inflation include the strength of the ongoing recovery and supply pressures from El Niño and geopolitical uncertainties.*
  - **Maintain the current monetary stance while closely monitoring remaining inflationary pressures.**

- *Fiscal buffers have declined, while population ageing and the green transition will require additional resources. Public debt has reached 61% of GDP as the debt ceiling was increased to finance emergency relief measures.*
  - **Phase out remaining emergency measures.**
  - **In the medium term, raise more tax revenues, while reducing energy subsidies and scaling up spending on social protection, education and the green transition.**

- *Tax revenues remain low due to narrow tax bases. A planned new property tax still awaits full implementation. The statutory VAT rate was temporarily reduced from 10% to 7% in 1997 but has stayed there since.*
  - **Implement a broad tax reform including the following elements:**
    - **Bring more people into the personal income tax system**
    - **Fully implement the planned property tax**
    - **Return to the regular 10% VAT rate**
    - **Improve tax compliance**

ENHANCING THE BUSINESS CLIMATE AND STRENGTHENING PUBLIC INTEGRITY

- *Competition remains limited in some sectors and entry barriers are high. Previous regulatory reform efforts to reduce anti-competitive regulations and cut red tape have lost steam without substantive outcomes.*
  - **Revive the comprehensive review of existing regulations with a view towards eliminating or adapting outdated regulations, lowering barriers to entry and strengthening competition.**

- *Despite considerable progress in trade facilitation, fees and charges remain an obstacle to international trade. Bilateral agreements have been key for integration into Global Value Chains, but their coverage remains limited.*
  - **Further improve trade facilitation by reducing fees and charges.**
  - **Expand preferential trade agreements, including by implementing the Thailand-EU Free Trade Agreement and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership.**

- *Corruption indicators imply room for improvement. Anti-corruption agencies are decentralised without a focal point and the referral process among public integrity agencies is discretionary and lengthy.*
  - **Continue efforts to prevent and fight corruption and foster coordination among anti-corruption agencies.**

Main findings | Key recommendations

IMPROVING JOB OPPORTUNITIES AND SOCIAL PROTECTION

- *Around half of the workforce is in informal employment, with no contributions to and no coverage by social security benefits.*
  - **Take comprehensive measures to reduce informality, including:**
    - **Reduce non-wage labour costs for low-income earners**
    - **Review labour market regulations**
    - **Step up enforcement, including through a wider use of digital tools**
- *The job recovery among young people is lagging behind, and active labour market policies for young people are weak. Many are neither in employment nor training and are largely left without policy support.*
  - **Expand active labour market policies for young people, including training, job-search support and career guidance in a well-coordinated manner.**
- *A social pensions programme has allowed substantial increases in pension coverage, but benefit levels are below the extreme poverty line.*
  - **Consider raising benefit levels of the Old Age Allowance, while continuing to strive for full coverage of all elderly persons in need.**
- *A new transfer programme established in 2017 delivers well-targeted benefits electronically and has alleviated poverty.*
  - **Strengthen targeted support for vulnerable households and improve targeting, building on a rising number of State Welfare Card registrations.**
- *Elderly people are struggling to find formal jobs and there is no legislation to ban job discrimination based on age.*
  - **Prohibit job discrimination based on age and ensure effective enforcement.**

DESIGNING EFFECTIVE POLICIES FOR THE GREEN TRANSITION

- *Many ministries and agencies are involved in the design of environmental policies and there are several different plans, making intra-governmental policy coordination complex.*
  - **Give a strong mandate to the newly created leading environmental agency, notably for the monitoring and surveillance of policy progress towards emission reduction targets.**
- *Carbon prices are low compared with OECD countries. A voluntary emission trading system is in place, but plans for the introduction of a mandatory emission trading system still lack important details.*
  - **Introduce a mandatory cap-and-trade system, complemented by a carbon tax for the remaining sectors, consistent with the planned emission trajectory to net zero.**
- *Although energy subsidies are small, a cap on diesel prices weakens the effect of market prices and fossil fuel taxes.*
  - **Allow retail fossil fuel prices to fluctuate more freely, while gradually phasing out the price cap on diesel.**
- *Thailand's environmental policies operate mostly on a voluntary basis. The stringency of market-based and non-market-based policy instruments such as environmentally related taxes and regulations is low.*
  - **Make environmental regulations more stringent, including air pollution limits on coal power and combustion engine cars.**
- *Renewable power generation has advanced rapidly, mostly due to small scale producers, but the share of renewables remains low.*
  - **Promote the use of renewable energy sources in large-scale producers through public tenders and renewable energy certificates.**
- *The electricity market is dominated by state-owned enterprises, hindering competition and private investments in renewables.*
  - **Reduce private entry restrictions in the retail electricity market, including by allowing peer-to-peer trade.**
- *A range of tax incentives for research and development is offered, but support to SMEs may not be sufficient compared with other countries.*
  - **Allow carry-forward of unused allowances for research and development tax incentive.**

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