Fiscal Policy Management in Thailand
Fiscal Analysis and Forecasting Workshop
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Consultant

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CONTENT

Fiscal Policy Management
Revenue Forecasting
Expenditure Formulation
Cash and Debt Management
Fiscal Sustainability
Fiscal Policy Management

Counter Cyclical Fiscal Policy

GDP growth

Contraction fiscal policy
slowing economy down

coping overheat
economy

Expansionary fiscal
policy dealing with
economic downturn in
order to stimulate
economy

time
### Fiscal Policy & Economy

#### GDP = C + I + G + (X –M)

<table>
<thead>
<tr>
<th>Fiscal Policies</th>
<th>Objectives</th>
<th>Methods</th>
</tr>
</thead>
</table>
| **Contraction**| Trim down domestic demand aiming to decrease national income and cooling down overheated economy | ▪ Surplus budget  
▪ Tax increase |
| **Expansion**  | Enhancing domestic demand aiming to increase national income | ▪ Deficit budget  
▪ Tax reduction |

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### Long-term Fiscal Policy

- Economic Growth and Stability
- Fiscal Sustainability
- Income Redistribution

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Long Term Sustainability  
Economic Growth
Fiscal Policy Design
(Expansion/Contraction/Neutral)

Budget Policy
(Balance/Deficit/Surplus)

Receipt
Budgetary Receipt
Non-Budgetary Receipt

Fiscal Policy Framework

Treasury Reserve
Account #1
Account #2
(Receipt)
(Disbursement)

Budgetary Disbursement
Non-budgetary

Budget Preparation
Budget Adoption
Budget Execution

Economy & Social

Revenue Forecasting
GDP & Taxation

GDP = C + I + G + (X - M)

Revenue Base
- Personal Income Tax
- Corporate Income Tax
- Petroleum Income Tax

Consumption Base
- VAT
- Specific business tax
- Stamp Duty
- Excise Tax

International Trade Base
- Import
- Export

- Upturn Economy Increasing Revenue Trend
- Downturn Economy Decreasing Revenue Trend

Revenue Policies

<table>
<thead>
<tr>
<th>Source</th>
<th>Categories</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue Department</td>
<td>Personal Income Tax, Corporate Income Tax, Petroleum Tax, Value Added Tax, Specific Business Tax, Stamp Duty</td>
</tr>
<tr>
<td>Excise Department</td>
<td>Oil, Tobacco, Liquor, Beer, Automobile, Beverage, Electrical appliances, Motorcycle, Battery</td>
</tr>
<tr>
<td>Custom Department</td>
<td>Import Duty, Export Duty</td>
</tr>
<tr>
<td>SOE</td>
<td>SOE-Remittance, Dividend</td>
</tr>
<tr>
<td>Others</td>
<td>Mining-royalty, Petroleum-royalty, Licensing Fees and Others</td>
</tr>
</tbody>
</table>
**Revenue Structure**

- 90% of revenue collection come from 3 main collected departments

<table>
<thead>
<tr>
<th>Categories</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal Income Tax</td>
<td>11.2</td>
<td>11.8</td>
<td>10.4</td>
<td>10.6</td>
<td>11.3</td>
<td>11.6</td>
</tr>
<tr>
<td>Corporate Income Tax</td>
<td>25.1</td>
<td>23.3</td>
<td>22.7</td>
<td>25.8</td>
<td>23.1</td>
<td>23.0</td>
</tr>
<tr>
<td>Value Added Tax</td>
<td>27.4</td>
<td>25.6</td>
<td>25.1</td>
<td>26.0</td>
<td>28.0</td>
<td>27.2</td>
</tr>
<tr>
<td>Excise Department</td>
<td>15.1</td>
<td>17.3</td>
<td>20.3</td>
<td>18.0</td>
<td>16.1</td>
<td>16.8</td>
</tr>
<tr>
<td>Import Duty</td>
<td>5.3</td>
<td>4.6</td>
<td>4.7</td>
<td>4.5</td>
<td>4.9</td>
<td>4.3</td>
</tr>
<tr>
<td>SOE</td>
<td>5.5</td>
<td>5.1</td>
<td>4.6</td>
<td>4.4</td>
<td>5.2</td>
<td>4.2</td>
</tr>
<tr>
<td>Treasury Department</td>
<td>0.3</td>
<td>0.2</td>
<td>0.2</td>
<td>0.2</td>
<td>0.2</td>
<td>0.3</td>
</tr>
<tr>
<td>Other Government Agencies</td>
<td>4.2</td>
<td>5.0</td>
<td>7.0</td>
<td>4.6</td>
<td>4.8</td>
<td>5.9</td>
</tr>
<tr>
<td>Others</td>
<td>5.9</td>
<td>7.1</td>
<td>5.9</td>
<td>5.9</td>
<td>6.4</td>
<td>6.7</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>
Revenue projection on FY 2014 is expected to be 2.275 Trillion BHT higher than FY 2013 by 175,000 million BHT (8.3%), 17.2% for the revenue to GDP ratio.

### Revenue Changes Over Assumptions

1. Economy
   - GDP: 4.5%
   - Inflation: 3.2%
   - Nominal GDP: 7.7%

2. Include tax restructuring resulting in revenue loss of 49,900 million BHT
   - CIT cut (22,500 million BHT)
   - Restructuring PIT (25,000 million BHT)
   - First time home buyer policy (2,400 million BHT)

### Estimated Revenue

<table>
<thead>
<tr>
<th>Department</th>
<th>2013</th>
<th>2014</th>
<th>Amount</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. The Revenue Department</td>
<td>1,774,000</td>
<td>1,890,550</td>
<td>116,550</td>
<td>6.6</td>
</tr>
<tr>
<td>2. The Excise Department</td>
<td>412,000</td>
<td>463,700</td>
<td>51,700</td>
<td>12.5</td>
</tr>
<tr>
<td>3. The Customs Department</td>
<td>115,900</td>
<td>131,800</td>
<td>15,900</td>
<td>13.7</td>
</tr>
<tr>
<td>4. Total from 3 Department</td>
<td>2,301,900</td>
<td>2,486,050</td>
<td>184,150</td>
<td>8.0</td>
</tr>
<tr>
<td>5. State Enterprises</td>
<td>100,000</td>
<td>116,000</td>
<td>16,000</td>
<td>16.0</td>
</tr>
<tr>
<td>6. Others</td>
<td>199,100</td>
<td>116,250</td>
<td>7,150</td>
<td>6.6</td>
</tr>
<tr>
<td>7. Total (Gross)</td>
<td>2,511,000</td>
<td>2,718,300</td>
<td>207,300</td>
<td>8.3</td>
</tr>
<tr>
<td>8. Deduct</td>
<td>411,000</td>
<td>443,300</td>
<td>32,300</td>
<td>7.9</td>
</tr>
<tr>
<td>9. Total (Net)</td>
<td>2,100,000</td>
<td>2,275,000</td>
<td>175,000</td>
<td>8.3</td>
</tr>
</tbody>
</table>
Revenue Projection Preparation

- Economic Assumptions
- Involved Factors
- Previous collected data
- Selected Method

Revenue Projection Assumptions

- Real GDP Growth
- Inflation
- Export growth
- Consumption growth
- Exchange rate
- World Oil Price
- Bank Deposit
- Interest Rate
Revenue Analysis

1. Effective Tax Rate: ETR

- Tax revenue
- Tax Base

2. Tax Buoyancy

- Percentage change in taxation
- Percentage change in GDP

3. Revenue/GDP

Revenue to GDP will be in line with economic expansion. Economic expansion has resulted in hiking in revenue to GDP, vice versa.

Revenue / GDP Correlation

- Revenue to GDP will be in line with economic expansion.
  - Economic expansion has resulted in hiking in revenue to GDP, vice versa.
Expenditure Formulation

Expenditure

- Budget formulation process according to The Budget Procedure Act B.E. 2502 (A.D.1959)
- Annual Budget ACT

Methodology
- Design suitable budget structure to current economic situation and build up fiscal space for new fiscal policy
- Macro & Micro Concerns
  - Macro: optimize budget structure under the concern of long-term fiscal discipline, economic objectives, and sustainable growth
  - Micro: the main concerns cover necessity, public services, income redistribution, and improving quality of life
Expenditure

Key concern on Budget Structure

- **Budget Structure**: Current economic and fiscal situations, response to government policies
- **Current Expenditure**: Efficiency and sufficiency
- **Principle Repayment**: Fiscal discipline and management efficiency
- **Capital Expenditure**: Prioritize capital expenditure by considering country strategy and readiness of implementing agencies

Budget Analysis Methodology

- **Macro view on budgeting under the concern of off-budget financing; loans, external funding**
- **In line with national plans & strategies**
- **Equally distribution**
- **Avoid operational replicate**
- **Value for money and Economic value**
- **Absorptive Capacity**
- **Proceeding continue projects**
Budget Allocation

**Budget Classification**
- Personal
- Operating
- Investments
- Subsidies and Grants
- Others

**Economic Classification**
- Current
- Capital
- Principle repayment
- Treasury Reserve Repayment

**Agencies**
- Ministries
- Departments
- Public Agencies
- Public Organizations
- SOEs
- Central Fund
- Revolving Funds

Budget Structure FY 2002 - 2013

Million Baht

- Total Budget
- Capital Expenditure
- Current Expenditure

Budgeting Process

Revenue Projection: MOF

Working Committee on Tracking Revenue Collection
- Bank of Thailand
- Budget Bureau
- National Economic and Social Development Board (NESDB)
- Revenue Department, Excise Department, Custom Department,
  Treasury Department, State Enterprise Policy Office, Fiscal Policy Office
  (Committee Secretariat)

Budget Planning: 4 Main Economic agencies
- MOF
- Bank of Thailand
- Budget Bureau
- NESDB
Budgeting Process

Budget Preparation
- Budget Design
- Cabinet Approval on Overall Expenditure, Budget Structure and Budget Request
- Drafting Annual Budget ACT

Budget Adoption
- House of Representative Consideration
- Senate Consideration
- Endorsement

Disbursement
- Involved Agencies request for the budget
- Reapproving the budget by Budget Bureau

Output
- Disbursement by CGD via GFMIS

Monitoring
- Involved Agencies report disbursement details to Budget Bureau
- Monitoring via Office of The Auditor General of Thailand

Approved by the cabinet and propose to the parliament

FY 2014: Budget process Calendar

Oct 2012 – Jan 2013
Organizing workshop on major policies and measures

Jan 2013
22 Jan
P.M. reviews major policies

2 Feb
The cabinet approves the detailed budget structure & major strategies

Feb 2013
22 Feb
Requested

Mar 2013
4-5 Apr
The Bureau of the Budget propose the details to P.M

Apr 2013
29-30 May
The parliament 1st reading

May 2013
9 Apr
The cabinet approves the detail

Jun 2013
14 May
The cabinet approves the ACT

Jul 2013
30 Apr
The cabinet refinement

Aug 2013
14-15 Aug
The parliament 2nd and 3rd reading

Sep 2013
2 Aug
The senate approves the act

12 Aug
The Secretariat of the Prime Minister propose the draft annual budget to the king for royal endorsement

Endorsement

Approved by the cabinet and proposed to the parliament
Budget Strategies for 2014 Budget

- Fiscal sustainability concern
- Enhancing Disbursement Efficiency
- Shaping Agencies Strategies to be in line with National Social and Economic Policies; AEC, Urgent Issues etc
- Tailoring Policies to Serve Local Necessities; social equality, improve quality of life
- Both of Budgetary and Off-budgetary projects has been analyze together under the concern of projects linkage
- Review and reallocate budget from less necessary project to more necessary and urgent Project under the Budget Framework
### Budget Structure

<table>
<thead>
<tr>
<th>Budget Structure</th>
<th>FY 2012</th>
<th>FY 2013</th>
<th>FY 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Budget</strong></td>
<td>2,380,000</td>
<td>2,400,000</td>
<td>2,525,000</td>
</tr>
<tr>
<td>(% of GDP)</td>
<td>20.2</td>
<td>19.5</td>
<td>19.1</td>
</tr>
<tr>
<td>1.1 Current Expenditures</td>
<td>1,855,841</td>
<td>1,900,477</td>
<td>2,017,244</td>
</tr>
<tr>
<td>(% of GDP)</td>
<td>15.7</td>
<td>15.5</td>
<td>15.2</td>
</tr>
<tr>
<td>(% of the budget)</td>
<td>78</td>
<td>79.2</td>
<td>79.3</td>
</tr>
<tr>
<td>1.2 Expenditures for replenishment of treasury account balance</td>
<td>53,918</td>
<td>0</td>
<td>13,424</td>
</tr>
<tr>
<td>(% of GDP)</td>
<td>0.5</td>
<td>0</td>
<td>0.1</td>
</tr>
<tr>
<td>(% of the budget)</td>
<td>2.3</td>
<td>0</td>
<td>0.6</td>
</tr>
<tr>
<td>1.3 Capital Expenditures</td>
<td>423,387</td>
<td>495,374</td>
<td>457,000</td>
</tr>
<tr>
<td>(% of GDP)</td>
<td>3.6</td>
<td>3.7</td>
<td>3.5</td>
</tr>
<tr>
<td>(% of the budget)</td>
<td>17.8</td>
<td>18.7</td>
<td>18.1</td>
</tr>
<tr>
<td>1.4 Principle Repayment</td>
<td>46,854</td>
<td>40,150</td>
<td>53,208</td>
</tr>
<tr>
<td>(% of the budget)</td>
<td>2</td>
<td>2.1</td>
<td>2.1</td>
</tr>
<tr>
<td>2. Estimated Revenue</td>
<td>1,980,000</td>
<td>2,100,000</td>
<td>2,275,000</td>
</tr>
<tr>
<td>(% of GDP)</td>
<td>16.8</td>
<td>17.1</td>
<td>17.2</td>
</tr>
<tr>
<td>Deficit / overbalance (1-2)</td>
<td>-400,000</td>
<td>-300,000</td>
<td>-250,000</td>
</tr>
<tr>
<td>(% of GDP)</td>
<td>-3.4</td>
<td>-2.4</td>
<td>-1.9</td>
</tr>
<tr>
<td>4. GDP</td>
<td>11,794,200</td>
<td>12,295,000</td>
<td>13,242,000</td>
</tr>
</tbody>
</table>

Source: Bureau of the Budget

### Budget Structure and Economic Impact

#### Object of Expenditures

<table>
<thead>
<tr>
<th>Expenditures</th>
<th>% of Budget</th>
<th>% of the 2014 Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personnel</td>
<td>24-27</td>
<td>24</td>
</tr>
<tr>
<td>Operations</td>
<td>9-11</td>
<td>9</td>
</tr>
<tr>
<td>Investments</td>
<td>8-12</td>
<td>12</td>
</tr>
<tr>
<td>Subsidies</td>
<td>24-27</td>
<td>28</td>
</tr>
<tr>
<td>Others</td>
<td>27-29</td>
<td>27</td>
</tr>
</tbody>
</table>
## Actual Expenditures FY 2007-2013

<table>
<thead>
<tr>
<th>FY</th>
<th>Budget Expenditure (Million BTH)</th>
<th>Current Year Disbursement (% of the budget)</th>
<th>Carry over Budget Disbursement (% of the total budget)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>1,566,200.0</td>
<td>1,466,915.2 (93.6)</td>
<td>112,594.6 (7.2)</td>
</tr>
<tr>
<td>2008</td>
<td>1,660,000.0</td>
<td>1,541,847.5 (91.2)</td>
<td>140,947.5 (8.5)</td>
</tr>
<tr>
<td>2009</td>
<td>1,951,700.0</td>
<td>1,771,446.4 (90.8)</td>
<td>183,692.9 (9.4)</td>
</tr>
<tr>
<td>2010</td>
<td>1,700,000.0</td>
<td>1,663,095.4 (97.8)</td>
<td>102,636.8 (6.0)</td>
</tr>
<tr>
<td>2011</td>
<td>2,169,967.5</td>
<td>2,056,352.1 (94.8)</td>
<td>157,631.6 (7.3)</td>
</tr>
<tr>
<td>2012</td>
<td>2,380,000.0</td>
<td>2,148,475 (90.3)</td>
<td>146,852 (7.5)</td>
</tr>
<tr>
<td>2013</td>
<td>2400,000.0</td>
<td>2,171,459.5 (90.5)</td>
<td>231,022.0 (9.6)</td>
</tr>
</tbody>
</table>

### Cash Management
**Treasury Reserve Management**

Treasury Reserve: high liquidity asset at Treasury

**Objectives:**
Supporting disbursement with the concern of managing cost

**Component:**
- Treasury Reserve at Bank of Thailand
- Cash at Provincial Treasury
- Cash at Treasury Department
- Deposit at Commercial Bank

**Liquidity Management**

Revenue Projection → Expenditure Projection → Treasury Reserve Management
Treasury Reserve Management Working Committee
→ Deficit Financing
Deficit Financing Working Committee
Public Debt Management Act, B.E. 2548 (2005)

Component
- Direct Government Debt
- Non-financial SOE Debt
- Financial SOE Debt (Government Guarantee)
- Financial Institutions Development Fund (FIDF)

PDMO has been in charge with debt obligation and management
Fiscal Discipline
Public Debt Management Act, B.E. 2548 (2005)

- **Budget deficit financing in domestic currency**
  
  - 20% of annual budget and supplementary budget
  
  - 80% of principle repayment budget

- **Raise loan in foreign currency not exceed 10% of annual budget with an aim for economic and social development**

- **Guarantee loans shall not exceed 20% of annual budget and supplementary budget**

Debt Obligation & Management

- **Obligation**
  - Domestic Financing
  - Foreign Financing

- **Debt Reconstruction**
  - PREPAY
  - REFINANCE
  - ROLL OVER

T-bill: Short-term (less than 1 year)
Promissory Note: Medium-term (1-5 years)
Government Bond: Long-term (more than 3 years)
## Fiscal Sustainability Framework

- **Debt to GDP ceiling at 60%**
- **Debt Service to Budget at 15%**
- **Capital expenditure to Budget 25%**

<table>
<thead>
<tr>
<th>Sustainability Target Indicator</th>
<th>Nov 01 – Jun 02</th>
<th>Jun 02 – Jul 03</th>
<th>Jul 03 – Apr 04</th>
<th>Apr 04 – 16 Aug 09</th>
<th>17 Aug 09 - Present</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Public Debt / GDP (CY) (%)</td>
<td>≤ 65.0</td>
<td>≤ 60.0</td>
<td>≤ 55.0</td>
<td>≤ 50.0</td>
<td>≤ 60.0</td>
</tr>
<tr>
<td>- Debt Service / Total Budget (%)</td>
<td>≤ 15.0</td>
<td>≤ 12.0</td>
<td>≤ 12.0</td>
<td>≤ 15.0</td>
<td>≤ 15.0</td>
</tr>
<tr>
<td>- Capital Budget / Total Budget (%)</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>≥ 25.0</td>
<td>≥ 25.0</td>
</tr>
</tbody>
</table>
Public Debt to GDP

Public Debt 2006 – 2012 (30th September 2012)

Public Debt: Mostly in Domestic Debt

Public debt classify by type (Mar 14)

<table>
<thead>
<tr>
<th>Public Debt</th>
<th>External Debt</th>
<th>Domestic Debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount</td>
<td>Amount</td>
<td>%</td>
</tr>
<tr>
<td>1. Government debt</td>
<td>3,919,398</td>
<td>73,281.2</td>
</tr>
<tr>
<td>2. Non-Financial State Enterprise Debt</td>
<td>1,091,895</td>
<td>306,940</td>
</tr>
<tr>
<td>3. Financial State Enterprise Debt (Guaranteed Debt)</td>
<td>532,183</td>
<td>3,151</td>
</tr>
<tr>
<td>4. Other Agencies Debt</td>
<td>6,914</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>5,550,391</td>
<td>383,372</td>
</tr>
</tbody>
</table>
Public Debt: LT-debt is the majority

Public debt classify by maturities (Mar 14)

<table>
<thead>
<tr>
<th>Description</th>
<th>Public Debt</th>
<th>LT-debt</th>
<th>ST-debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount</td>
<td>5,550,391</td>
<td>5,422,470</td>
<td>107,895</td>
</tr>
<tr>
<td>%</td>
<td>98.6%</td>
<td>96.0%</td>
<td>2.0%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (Million BHT)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Government debt</td>
<td>3,919,398</td>
<td>97.7</td>
</tr>
<tr>
<td>2. Non-Financial State Enterprise Debt</td>
<td>1,091,895</td>
<td>97.6</td>
</tr>
<tr>
<td>3. Financial State Enterprise Debt (Guaranteed Debt)</td>
<td>532,183</td>
<td>99.2</td>
</tr>
<tr>
<td>4. Other Agencies Debt</td>
<td>6,914</td>
<td>100.0</td>
</tr>
</tbody>
</table>

PDMO

(Draft) Public Finance Act.

- Enhance fiscal discipline and transparency
- Fiscal Discipline: major issues
  - Government’s duty to implement fiscal policy effectively and take into account the economic stability and sustainability
  - Government to conduct medium term fiscal plan (3 years) with annual revision
  - Government must take into account all fiscal burden
  - Any revenue from government agencies that will not be submitted to the treasury must be authorized by separate Act/Regulations
  - Other issues covering revenue, expenditure, budget formulation, debt, cash and asset management
Fiscal Risk

Fiscal Risk from Operation

Current Fiscal Risk
- Economic Fluctuation

Medium-term Fiscal Risk
- Infrastructure Development

Revenue
- Tax
- Non-tax

Expenditure
- Current
- Capital
- Off-budget