4. Debt Sustainability Analysis[80]

Thailand faces higher debt sustainability risks compared to last year, with public debt projected to trend close to the legal ceiling of 70.0 percent of GDP, driven in part by large one-off spending for the digital wallet program. However, both public debt and gross financing needs are expected to decline in the medium term, supported by fiscal consolidation efforts and stable economic growth. Additionally, Thailand also has a favorable public debt profile—dominated by local currency debt with low fixed interest rates and long maturities. Nevertheless, fiscal space has narrowed since the pandemic. To restore fiscal space and ensure sustainability, it is crucial for authorities to focus on accelerating revenue mobilization, rationalizing expenditure, and improving the management of contingent liabilities.

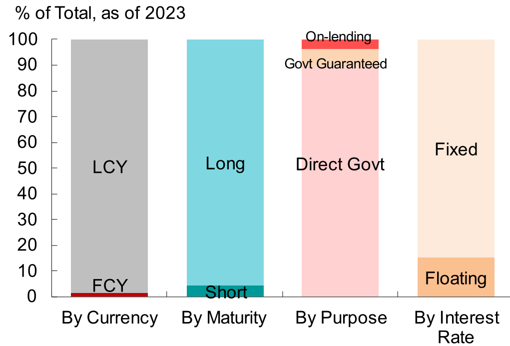
Background

1. **Thailand's public debt-to-GDP ratio and gross financing needs (GFNs) have increased sharply since the pandemic.** Thailand's public debt-to-GDP ratio has increased from 41.1 percent in FY2019 to 62.4 percent in FY2023. The large increase in public debt is primarily driven by THB 1.5 trillion in COVID-19 borrowing, large fiscal deficits, significant quasi-fiscal liabilities, and, more recently, the large, budgeted funding for the digital wallet scheme. GFNs have nearly doubled, rising from 6.3 percent of GDP in FY2019 to 13.8 percent in FY2023, driven primarily by increased domestic borrowing during the pandemic.

2. **Thailand's public debt primarily relies on domestic borrowing with long-term maturity.** As of FY2023, local currency-denominated debt accounted for 98.6 percent of total public debt, of which 95.7 percent was long-term debt. By purpose, direct government debt accounted for the majority at 89.6 percent of total public debt, followed by government-guaranteed debt at 6.9 percent, and on-lending to State-Owned Enterprises (SOEs) at 3.5 percent. Lastly, in terms of interest rate structure, 84.8 percent of the total debt was at fixed interest rates. (Figures A4.1). Of the public external debt, a majority is government-held and denominated in Japanese yen, followed by U.S. dollars. In terms of maturity, a significant portion of external debt has long-term maturities of 10 to 15 years, reflecting a stable debt structure that reduces short-term refinancing risks (Figures A4.2).

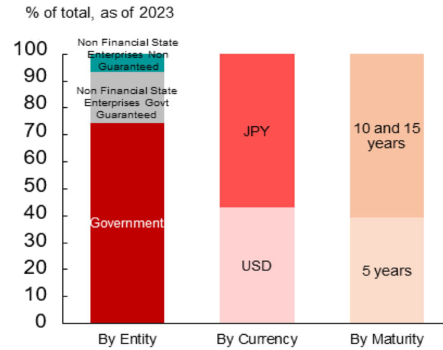
[80] Prepared by Ravisara Hataiseree.

Figure A4.1. Public Debt Structure



Source: PDMO, TMOF; and AMRO staff estimates.
Note: SFIs stand for Specialized Financial Institutions.

Figure A4.2. Public External Debt Structure



Source: PDMO, TMOF; and AMRO staff estimates.
Note: External debt by currency and maturity is based on debt management activities in FY2023, while external debt by entity represents the stock as of 2023.

Macroeconomic and Fiscal Projections

3. **Baseline projections of public debt are based on the assumption of GDP growth improving in 2025 and trending toward the pre-pandemic potential of 3.0 percent afterwards.** GDP growth in the short-term is assumed to exceed the pre-pandemic average as the economy continues to close the negative output gap but will trend toward pre-pandemic potential from 2026 onward as the output gap gradually narrows. The GDP deflator projections are consistent with expectations that CPI inflation will reach the central bank's target range of 1.0–3.0 percent in 2025 and stabilize around 2.0 percent thereafter. Additionally, effective interest rates align with the assumption of a gradual decline from the current 2.5 percent to 2.0 percent in the medium term (Table A4.1).

4. **The projected primary deficits for FY2024–28 average 2.7 percent of GDP, down from the pre-pandemic average of 3.0 percent, reflecting the assumption of a gradual fiscal consolidation.** The Thai authorities aim to reduce the fiscal deficit to around 3.0 percent of GDP, but the pace is expected to be slower due to limited major tax reforms under the baseline and the short-term expenditure increase from the Digital Wallet program in FY2024–25. With elasticity around 1.0 for tax revenue and 0.9 for non-tax revenue, and over 65.0 percent of total expenditure being discretionary, the planned fiscal adjustments will require careful management of spending and moderate tax base expansion. Given that the economy is still in the recovery stage, the baseline fiscal assumption includes the possibility of new government-guaranteed debt for SOEs or government agencies whose profitability may not have fully recovered, along with repayment assumptions during the projection period (Table A4.1).

Table A4.1 Macroeconomic and Fiscal Indicators

	2018	2019	2020	2021	2022	2023	2024p	2025p	2026p	2027p	2028p
Macroeconomic indicators (%)											
Real GDP growth	4.3	2.8	-4.7	0.0	2.6	1.8	2.8	3.3	3.0	3.0	3.0
GDP deflator	1.7	1.1	-0.8	0.8	4.3	2.2	1.7	1.8	1.8	1.9	1.9
Effective interest rate	2.1	2.2	2.2	2.2	2.0	1.8	1.9	2.0	2.0	2.0	2.0
Fiscal indicators (% GDP)											
Revenue	15.7	15.3	15.0	14.8	14.8	15.0	15.0	14.8	14.8	14.7	14.9
Expenditure	18.6	18.1	20.0	20.0	18.4	18.3	19.5	19.3	18.4	18.3	18.3
Fiscal balance	-2.9	-2.8	-4.9	-5.2	-3.6	-3.3	-4.5	-4.6	-3.6	-3.6	-3.4
Fiscal balance (including off-budget COVID spending)	-2.9	-2.8	-7.1	-9.0	-5.9	-3.3					
Primary balance	-2.1	-1.9	-4.0	-4.1	-2.5	-2.3	-3.4	-3.4	-2.3	-2.3	-2.0
Public debt	41.9	41.1	49.4	58.3	60.5	62.4	65.6	67.7	68.7	69.5	69.2
Gross financing needs	6.1	6.3	11.8	12.2	10.2	11.6	13.8	12.7	11.6	11.0	10.7

Source: TMOF; and AMRO staff estimates.
Noted: The macroeconomic and fiscal indicators for 2024–2028 are based on AMRO staff estimates and projections.

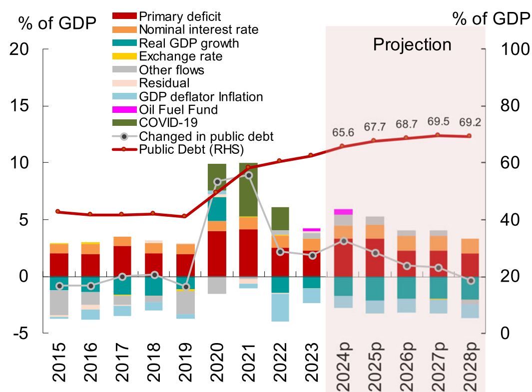
Baseline Debt and GFN Projections

5. The debt-to-GDP is projected to decline from its peak in 2027 but will remain close to the legal ceiling at 70.0 percent of GDP.[81] Thailand's public debt-to-GDP ratio is projected to continue to rise and peak at 69.5 percent in 2027, driven primarily by the one-off widening of fiscal deficits to fund the digital wallet program, before declining gradually after that. Although the primary balance is expected to improve over the medium term, it will remain in deficit throughout the projection period, contributing to debt accumulation. While positive GDP growth and moderate inflation pressures provide some public debt mitigation, these factors are insufficient to fully offset the contributions from primary deficits and nominal interest rate. Additionally, other flows, such as debt guarantees for SOEs and government agencies such as the Oil Fuel Fund, further contribute to rising public debt. As the economic recovery progresses, repayments from guaranteed debt and reduced government guarantees are expected to contribute less to debt-creating flows over the medium-term. If the digital wallet program is excluded, the public debt ratio would follow a more moderate trajectory, peaking at 67.8 percent in 2026 and declining to 67.4 percent by 2028 (Figures A4.3 and A4.5).

6. GFNs are expected to decline in the medium term due to fiscal consolidation efforts. Thailand's GFNs surged during the COVID-19 pandemic before declining as fiscal deficits narrowed. However, GFNs are projected to increase and remain elevated in FY2024–2025, driven by the THB 122 billion FY2024 supplementary budget and THB 157.0 billion (nearly 2.0 percent of GDP) budgeted spending in FY2025. Despite relatively small external amortization, fiscal deficits and domestic amortization will keep GFNs elevated, before tapering off in line with planned consolidation in the medium term. GFNs are expected to decline from around 14.0 percent of GDP in 2024 to 11.0 percent in 2028 (Figures A4.4).

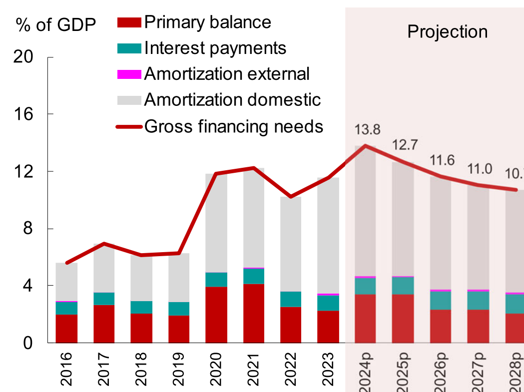
[81] Thailand's fiscal and monetary policy committee increased the public debt-to-GDP ceiling to 70.0 percent from 60.0 percent in September 2021, allowing the government to raise more funds to deal with COVID-19 outbreak.

Figure A4.3. Public Debt Dynamics



Source: PDMO, TMOF; and AMRO staff estimates.

Figure A4.4. Gross Financing Needs Components



Source: PDMO, TMOF; and AMRO staff estimates.

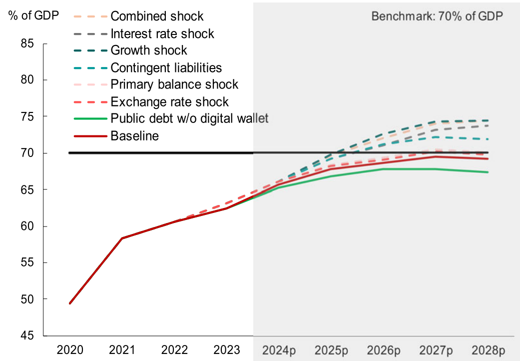
Macro-Fiscal Risks – Stress Tests

7. **Thailand's public debt-to-GDP ratio will breach the indicative threshold of 70 percent under most standard macro and fiscal shocks.**[82] This 70.0 percent threshold is suggested by the IMF for emerging markets, and adopted by the authorities.[83] Standard stress test scenarios, including slower-than-expected economic growth, higher borrowing costs, and excessive quasi-fiscal operations, are expected to push public debt-to-GDP above the 70.0 percent benchmark. Debt dynamics are particularly sensitive to growth, interest rates, and contingent liabilities (Figure A4.5). A growth slowdown, possibly driven by weaker-than-expected domestic or external demand, could push up the debt trajectory significantly. The on-going use of quasi-fiscal operations for farmers, SMEs, and low-income households, as well as the State Oil Fuel Fund's deficit (driven by prolonged energy subsidies), could pose additional contingent liability risks. In addition, delays in shifting expenditure policies to support long-term growth and setbacks in tax reforms could lead to further deterioration of the primary balance, further increasing the debt ratio above the ceiling in the medium term. Exchange rate shock has relatively small impacts due to Thailand's low foreign currency debt exposure.

8. **All stress test scenarios show GFNs remaining below 15.0 percent of GDP (Figure A4.6).** Interest rate shocks significantly raise GFN-to-GDP by increasing debt servicing costs, while growth shocks indirectly reduce government revenues, leading to higher primary deficits and borrowing needs. Nevertheless, the GFN-to-GDP ratio in all scenarios remains well below the threshold of 15.0 percent for emerging market economies despite the shocks.[84]

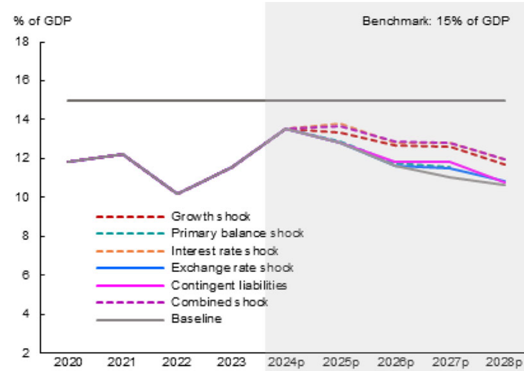
[82] The scenarios for the stress test are as follows: 1) Real GDP growth shock: one standard deviation or a -1.5 percentage point shock to 2025 and 2026; 2) Primary balance shock: one standard deviation or a -0.5 percent of GDP shock to 2025 and 2026; 3) Interest rate shock: a +1.0 percentage point shock from 2025; 4) Exchange rate shock: one standard deviation or a +1.5 percentage point shock in 2025 and 2026; 5) contingent liabilities shock: a shock of 1.0 percent of GDP in 2025 and 2026, assuming quasi-fiscal operations equivalent to the five-year average from 2019 to 2023, which was around 1 percent of GDP, will continue to be implemented over these two years; 6) Combined shock: combination of growth (half size), primary balance (half size), interest rate and exchange rate shocks.
[83] According to the IMF-WB DSA in MAC (2013), the threshold for the public debt-to-GDP ratio in emerging markets is 70.0 percent.
[84] According to the IMF-WB DSA for Market Access Countries (MAC) (2013), the GFN threshold in percentage of GDP for emerging markets is 15.0 percent.

Figure A4.5. Public Debt Stress Test



Source: MOF; and AMRO staff estimates.

Figure A4.6. GFN Stress Test

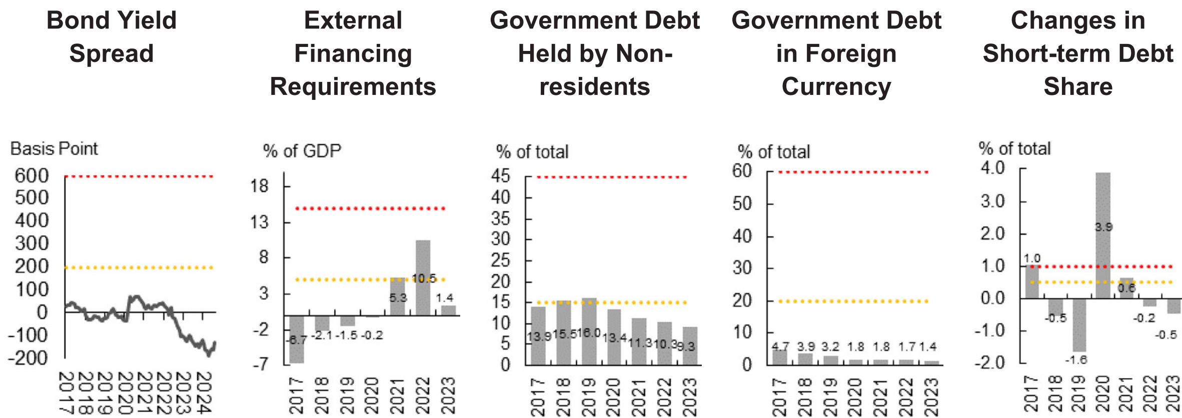


Source: MOF; and AMRO staff estimates.

Market Perception of Risk and Debt Profile Vulnerabilities

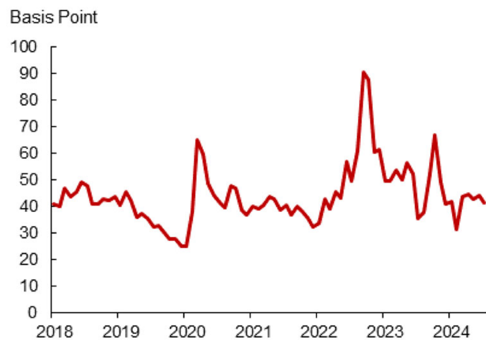
9. Despite rising public debt, the financial market continues to view the country's sovereign risk as relatively low. As of 2023, Thailand's bond spread, and debt profile vulnerabilities indicators all stayed below early warning thresholds (Figure A4.7). The 10-year bond yield spread between Thai and the U.S. government bonds continued to be negative. While Thailand's 5-Year CDS spreads were volatile during the pandemic, they have since stabilized, nearing pre-pandemic levels (Figure A4.8). Despite the significant increase in public debt and market concerns over delay in government transition, Thailand has avoided credit rating downgrades.

Figure A4.7. Debt Profile Vulnerabilities



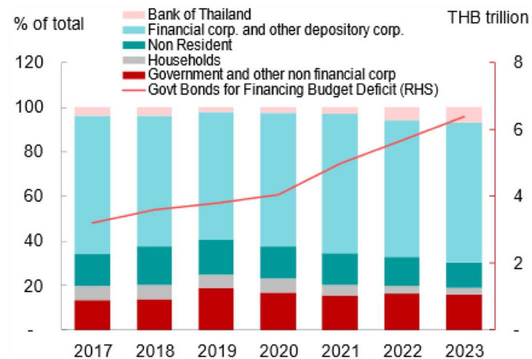
Source: TMOF; and CEIC.
Note: 1) – – – Lower early warning (25.0 percent of the benchmark), – – – Upper early warning (75.0 percent of the benchmark). See IMF (2013) for a detailed discussion; 2) Bond yield spreads are computed by the difference between the Thai Government Bond Yield Curve 10 Years and the U.S. Treasury Notes Yield 10 Years; 3) External financing requirements = current account deficit + amortization of public external) debt + amortization of private external debt; 4) Public debt held by nonresidents is based on the jurisdiction of issuance; 5) Public debt denominated in non-local currency; 6) Short-term debt is based on the debt instrument.

Figure A4.8. Thailand 5-Year Credit Default Swap (CDS)



Source: CEIC.

Figure A4.9. Government Bond Holders for Financing Budget Deficit (End of period)



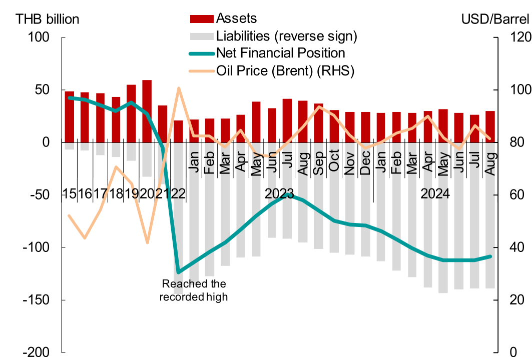
Source: CEIC; and AMRO staff estimates.

Figure A4.10. Public Debt Management
(as of December 2023)

Index	Fiscal Commitments	2023 (Percent)
Expenditure rule		
1	Capital expenditure to total expenditure: ≥ 20 percent	20
2	Principal repayment to total expenditure: 2.5-4.0 percent	3.14
3	Fiscal liability from quasi-fiscal activities of expenditure: ≤ 32.0 percent	30.8
4	Interest payment to revenue: ≤ 10 percent	8.31
Debt rule		
1	Public debt to GDP: ≤ 70.0 percent	62.9
2	Debt service to revenue: ≤ 35.0 percent	26.39
3	Foreign debt to total public debt ≤ 10.0 percent	1.42
4	Foreign currency debt service to exports: ≤ 5.0 percent	0.05

Source: PDMO, TMOF; and AMRO staff estimates.

Figure A4.11. Net Financial Position for Oil Fuel Fund



Source: Oil Fuel Fud Office; and CEIC.

Overall Assessment

10. Under the standard DSA, risks of both debt-to-GDP and GFN-to-GDP are assessed as moderate. However, these risks are mitigated by Thailand's relatively favorable debt profile (Table A4.2). Public debt is expected to remain below the ceiling in the baseline scenario due to the assumption of continued economic recovery. Nevertheless, stress tests indicate the public debt ratio could exceed the ceiling if downside risks such as growth shocks materialize. Contingent liabilities from quasi-fiscal operations and increased debt guarantees for SOEs and agencies, including the Oil Fuel Fund, is an additional source of risk (Figure A4.11). GFNs will spike in FY2024 due to large fiscal deficits, but the government's commitment to medium-term fiscal consolidation should gradually reduce them. Notably, GFNs are projected to stay below indicative thresholds in both baseline and stress scenarios.

11. A balanced approach to fiscal consolidation, focusing on revenue mobilization and expenditure reforms, is essential for ensuring debt sustainability. While Thailand has committed to a revised fiscal consolidation plan and maintained key fiscal indicators within thresholds, the digital wallet scheme poses challenges to fiscal consolidation, slowing

the decline in the debt-to-GDP ratio. Although the primary deficit is expected to narrow to an average of 2.7 percent of GDP in FY2024–28, down from pre-pandemic average of 3.0 percent, this progress hinges on successful implementation of revenue-enhancing measures. The pace of fiscal consolidation will significantly influence the debt trajectory beyond our 2028 forecast horizon. Under the scenario of a 2.0 percent primary deficit persisting beyond 2028, the public debt-to-GDP ratio would only decrease to 60.0 percent by 2038. To safeguard debt sustainability, fiscal consolidation through revenue mobilization and a comprehensive expenditure review is crucial for reducing the primary deficit without compromising necessary investments in inclusive growth. Without these reforms, GDP growth and inflation alone will be insufficient to lead to more rapid moderation in public indebtedness, underscoring the need for a balanced fiscal policy.

Table A4.2. Heatmap of Public Debt Sustainability

		2018	2019	2020	2021	2022	2023	2024p	2025p	2026p	2027p	2028p
Public Debt												
Gross Financing Needs												
Debt Profile	Bond Yield Spread											
	External Financing Requirements											
	Debt Held by Non-residents											
	Debt in Foreign Currency											
	Changes in Short-term Debt Share											

Source: AMRO staff estimates.
Note: 1) For Public Debt and Gross Financing Needs, the cell is highlighted in green if the benchmark is not exceeded under any shocks or the baseline, yellow if it is exceeded under any specific shock but not the baseline, and red if it is exceeded under the baseline; 2) For Debt Profile, the cell is highlighted in green if the country value is less than the lower early warning benchmark, red if it exceeds the upper early warning benchmark, and yellow if it is between the lower and upper early warning benchmarks.

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