2. Debt Sustainability Analysis[1]

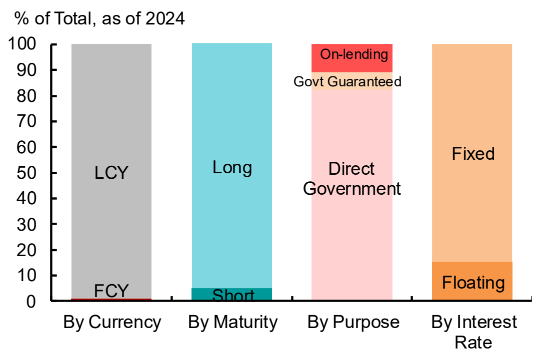
Thailand's debt sustainability risks have increased, reflecting elevated fiscal deficits from recent stimulus measures and a slower-than-expected economic recovery, which have pushed public debt close to the legal ceiling of 70 percent of GDP. Gross financing needs also remain high, approaching the 15 percent of GDP threshold. Narrowing fiscal space has constrained the government's ability to respond to shocks and invest in long-term development. Nevertheless, Thailand's favorable debt profile and strong track record of fiscal discipline help mitigate risks, which can ease further with sustained commitment to fiscal consolidation. The authorities are advised to strike a careful balance between near-term support and medium-term consolidation, anchored by credible revenue and expenditure reforms.

Background

1. **Public debt and gross financing needs are projected to rise further in the near term, reflecting continued fiscal expansion and higher debt servicing costs.** Public debt is expected to increase from 63.2 percent of GDP in FY2024 to 65.6 percent in FY2025, peaking at above 69 percent by FY2028, just below the statutory ceiling. The debt buildup is driven by persistent primary deficits and high interest payments, while economic growth moderates in the short term. Gross financing needs (GFNs) are projected to remain elevated at around 14 percent of GDP in FY2025–2029 due to higher debt service obligations and ongoing deficit financing.

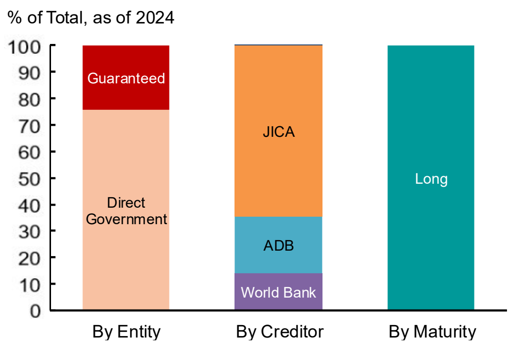
2. **Thailand's public debt is predominantly domestic and long term in nature.** As of 2024, local-currency debt accounts for 99.2 percent of total public debt, with 96 percent in long-term instruments (Figure A2.1). Direct government debt dominates, allowing stronger control over debt management, while the smaller portion of guaranteed and on-lent debt helps contain SOE-related contingent liabilities. The debt portfolio is largely insulated from interest rate volatility, as most borrowing is on fixed-rate terms. External debt consists entirely of long-term direct government borrowing, mainly from JICA, ADB, and the World Bank, helping to mitigate near-term refinancing pressures (Figure A2.2).

Figure A2.1. Public Debt Structure



Source: PDMO, TMOF; and AMRO staff estimates.

Figure A2.2. Public External Debt Structure



Source: PDMO, TMOF; and AMRO staff estimates.
Note: (1) External debt refers to debt denominated in foreign currency. (2) Long-term debt refers to borrowings with an original maturity exceeding one year.

[1] Prepared by Ravisara Hataiseree.

Macroeconomic and Fiscal Projections

3. **Baseline macro-fiscal projections assume a gradual recovery in growth and fiscal consolidation over the medium term.** Growth in 2025–26 is expected to remain below pre-pandemic levels due to projected weaker external demand and persistent weakness in domestic demand. GDP growth is projected to moderate in the near term before gradually improving toward its medium-term potential, with the negative output gap narrowing and closing after 2026. The GDP deflator is projected to stabilize as price pressures remain contained. The higher near-term effective interest rate partly reflects early debt repayments and is assumed to decline gradually over the medium term. The primary deficit is projected to average 1.9 percent of GDP in FY2025–29, broadly returning to its pre-pandemic level, under a gradual fiscal consolidation path. The pace of consolidation is expected to remain moderate, as revenue reforms are limited under the baseline and near-term stimulus is expected to keep expenditure elevated (Table A2.1).

Table A2.1 Macroeconomic and Fiscal Indicators

	2019	2020	2021	2022	2023	2024	2025p	2026p	2027p	2028p	2029p
Macroeconomic indicators (%)											
Real GDP growth	2.8	-4.7	0.0	2.7	1.9	2.2	2.2	1.9	2.6	2.9	3.1
GDP deflator	1.1	-0.8	0.8	4.2	2.3	0.8	1.7	1.7	1.7	1.7	1.7
Effective interest rate	2.2	2.2	2.2	2.0	1.8	1.9	3.0	3.0	2.9	2.8	2.8
Fiscal indicators (% GDP)											
Revenue	15.3	15.0	14.8	14.8	14.9	15.2	15.1	15.0	15.0	15.0	15.0
Expenditure	18.1	20.0	20.1	18.4	18.3	19.3	19.6	19.1	18.6	18.3	18.0
Fiscal balance	-2.8	-4.9	-5.2	-3.6	-3.3	-4.0	-4.5	-4.1	-3.7	-3.4	-3.1
Fiscal balance (including off-budget COVID spending)	-2.8	-7.1	-9.0	-5.9	-3.3	-4.0	-4.5	-4.1	-3.7	-3.4	-3.1
Primary balance	-1.9	-4.0	-4.1	-2.5	-2.3	-2.9	-2.7	-2.2	-1.8	-1.5	-1.3
Public debt	41.1	49.4	58.4	60.5	62.3	63.2	65.6	67.1	68.4	69.1	68.9
Gross financing needs	6.3	8.4	12.2	10.2	11.5	13.3	13.4	14.0	13.6	13.7	13.5

Source: TMOF; AMRO staff estimates

Note: The macroeconomic and fiscal indicators for 2025–2029 are based on AMRO staff estimates and projections.

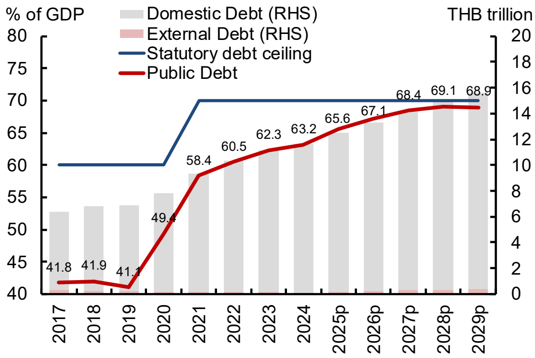
Baseline Debt and GFN Projections

4. **Thailand's public debt is projected to rise over the medium term, as fiscal deficits remain well above pre-pandemic levels and consolidation is delayed under the baseline.** This is due to limited major tax reforms and, more recently, short-term expenditure increases related to the digital wallet and fiscal stimulus measures in FY2024–2025. While continued GDP growth provides some relief as the negative output gap narrows, these factors are insufficient to offset the impact of elevated primary deficits and rising interest payments. As a result, public debt is projected to rise to 65.6 percent of GDP in FY2025 and reach 69.1 percent in FY2028 (Figure A2.3). Economic recovery and fiscal consolidation are expected to contribute to moderating growth in public debt over the medium term (Figure A2.4).

5. **Higher debt service and deficits are expected to keep GFNs elevated amid relatively weak growth.** The government's GFNs nearly doubled from an average of 6.2 percent of GDP in FY2015–2019 to 11.1 percent in FY2020–2024 and are projected to remain elevated at around 14 percent during FY2025–2029 (Figure A2.5 and A2.6). Despite relatively small external amortization, fiscal deficits and domestic debt repayments will keep GFNs near the 15 percent indicative threshold for emerging

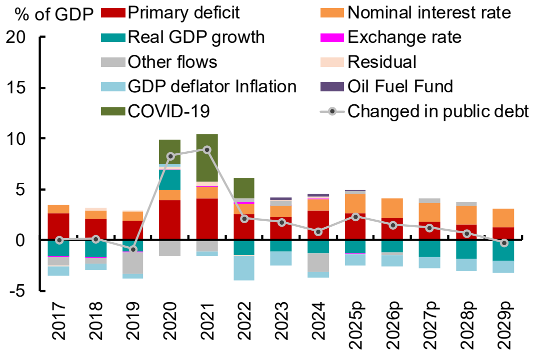
markets.[2] Nevertheless, domestic financial conditions remain stable, supported by Thailand's well-developed bond market and deep domestic liquidity.

Figure A2.3. Public Debt



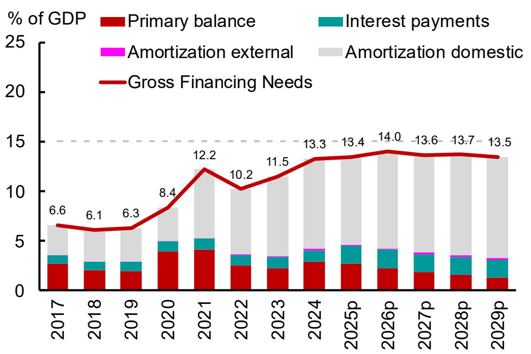
Source: TMOF; AMRO staff estimates

Figure A2.4. Public Debt Dynamics



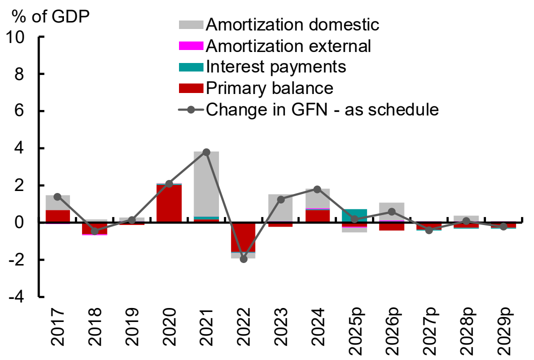
Source: TMOF; AMRO staff estimates

Figure A2.5. Gross Financing Needs



Source: TMOF; AMRO staff estimates

Figure A2.6. GFN Dynamics



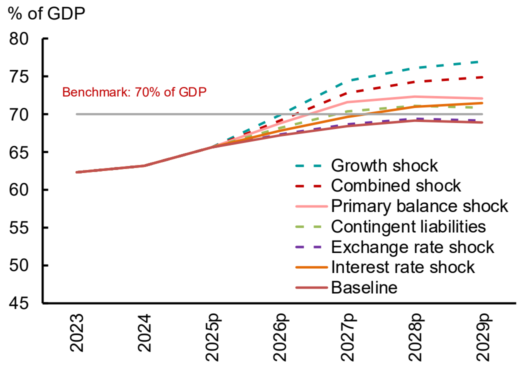
Source: TMOF; AMRO staff estimates

Macro-Fiscal Risks – Stress Tests

6. The public debt-to-GDP ratio is likely to breach the 70 percent threshold under most macro and fiscal shocks, while GFNs are sensitive to growth and primary balance shocks.[3] Debt dynamics are particularly sensitive to growth, primary balance, interest rates, and contingent liabilities (Figure A2.7). A slowdown in growth, driven by weaker-than-expected domestic or external demand, could significantly push up the debt and GFN trajectory. Delays in reprioritizing expenditure toward growth-enhancing areas and setbacks in tax reforms could further weaken the primary balance, increasing the debt ratio in the medium term and pushing GFNs above the indicative threshold in the near term (Figure A2.8). Rising debt and debt servicing costs are also vulnerable to interest rate shocks, which could significantly raise the debt to-to-GDP ratio. Continued reliance on quasi-fiscal operations, primarily agricultural price support, could pose additional contingent liability risks.

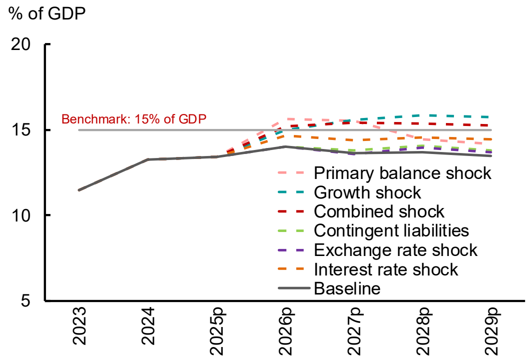
[2] According to the IMF-WB DSA for Market Access Countries (MAC) (2013), the GFN threshold in percentage of GDP for emerging markets is 15.0 percent.
[3] The scenarios for the stress test are: 1) Real GDP growth shock: –2.6 percentage point shock in 2026-2027; 2) Primary balance shock: –1.4 percent of GDP shock in 2026-2027; 3) Interest rate shock: +1 percentage points shock from 2026; 4) Exchange rate shock: +1.6 percentage points shock in 2026-2027; 5) Contingent liabilities: +1 percentage point in 2026-2027; 6) Combined shock: combination of growth, primary balance, interest rate, with half size of individual shocks articulated in 1) – 4).

Figure A2.7. Public Debt Stress Test



Source: TMOF; and AMRO staff estimates.

Figure A2.8. GFNs Stress Test



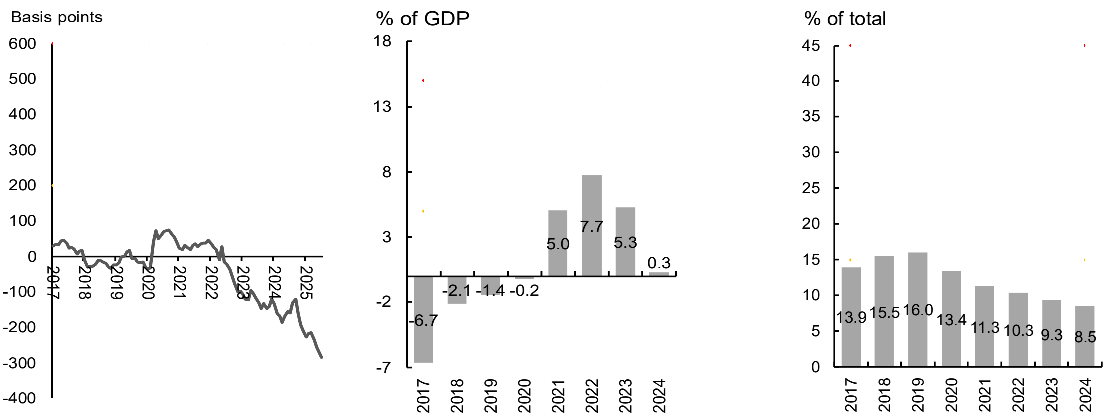
Source: TMOF; and AMRO staff estimates.

Market Perception of Risk and Debt Profile Vulnerabilities

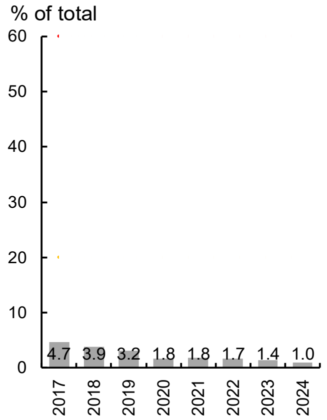
7. Thailand's sovereign risk remains contained despite rising public debt, although recent rating outlook downgrades by credit rating agencies highlight growing fiscal vulnerabilities. As of 2024, Thailand's bond spreads and debt vulnerability indicators all remain below early warning thresholds (Figure A2.9). The negative 10-year bond yield spread against the U.S. Treasury reflects investor confidence and stable macroeconomic conditions. Modest external financing needs, lower share of foreign-currency and short-term debt, and declining nonresident holdings strengthen resilience to external shocks. The country's internal fiscal commitments remain within prudential thresholds, reflecting prudent debt management, while quasi-fiscal activities have moderated (Figures A2.10 and A2.11). Nonetheless, fiscal vulnerabilities are rising as public debt nears the statutory ceiling amid persistent deficits, higher debt servicing obligations, and weak revenue growth. A commitment to fiscal consolidation and well-targeted stimulus would help restore fiscal space and alleviate market concerns over Thailand's fiscal position.

Figure A2.9. Debt Profile Vulnerabilities

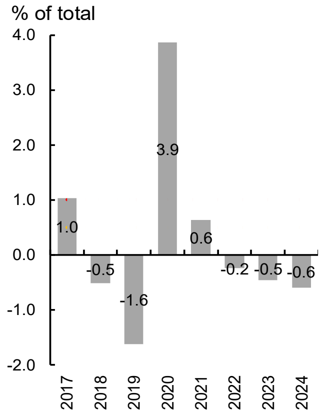
Bond Yield Spread | **External Financing Requirements** | **Government Debt Held by Non-residents**



Government Debt in Foreign Currency

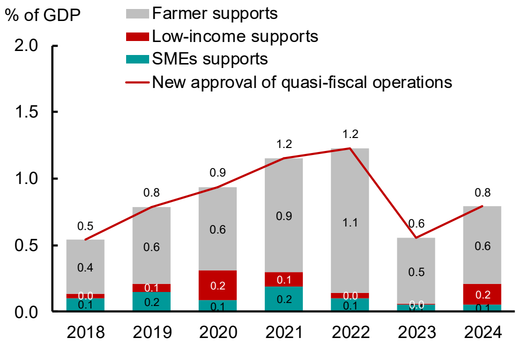


Changes in Short-term Debt Share



Source: National authorities via CEIC, TMOF.
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 A2.10. Quasi-fiscal Operation



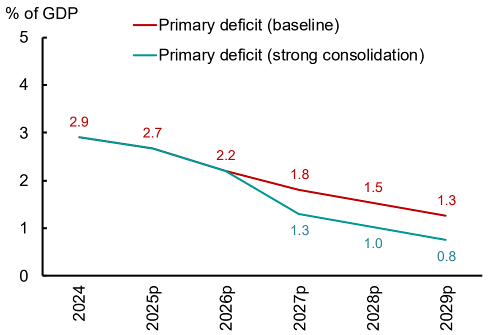
Source: TMOF; AMRO staff estimates

Figure A2.11. Public Debt Management in FY2024

Index	Fiscal Commitments	FY2024 (Percent)
	Expenditure rule	
1	Capital expenditure to total expenditure: ≥ 20 percent	20
2	Principal repayment to total expenditure: 2.5-4.0 percent	3.3
3	Fiscal liability from quasi-fiscal activities of expenditure: ≤ 32.0 percent	29.0
4	Interest payment to revenue: ≤ 10 percent	7.51
	Debt rule	
1	Public debt to GDP: ≤ 70.0 percent	63.2
2	Debt service to revenue: ≤ 50.0 percent	35.1
3	Foreign debt to total public debt ≤ 10.0 percent	1.0
4	Foreign currency debt service to exports: ≤ 5.0 percent	0.05

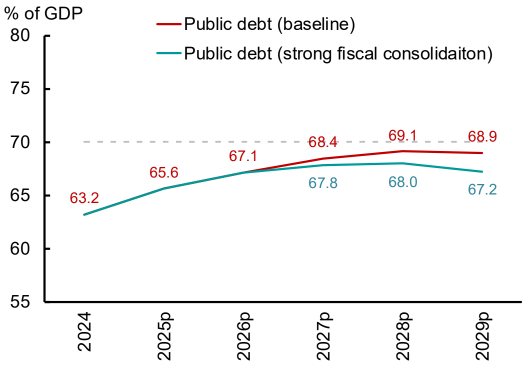
Source: TMOF; AMRO staff estimates

Figure A2.12. Primary Balance: Stronger Consolidation Scenario



Source: TMOF; AMRO staff estimates

Figure A2.13. Public Debt: Stronger Consolidation Scenario



Source: TMOF; AMRO staff estimates

Overall Assessment

8. **Thailand's public debt sustainability risk is assessed to be moderate, as a favorable debt profile helps mitigate rising vulnerabilities amid weaker growth and slowed consolidation.** This underscores the need for a more ambitious medium-term strategy to reduce debt faster and rebuild fiscal space. While the risk of sovereign stress remains low, Thailand faces growing fiscal challenges with policy space narrowing and debt ratios approaching thresholds (Table A2.2). Under the baseline, the primary deficit is projected to average 1.5 percent of GDP in FY2027–2029. A stronger consolidation path—with a reduced primary deficit of 1.0 percent—would allow public debt to peak at the lower level and decline more rapidly (Figure A2.12 and A2.13). This scenario should be supported by the implementation of tax reforms measures and robust expenditure measures, including improved investment efficiency and rationalized spending, to achieve the planned revenue expansion and expenditure normalization. To ensure debt sustainability and rebuild fiscal buffers, authorities are advised to balance near-term support with credible medium-term consolidation, anchored by tax and expenditure reforms and strengthened oversight of quasi-fiscal operations within a robust fiscal framework.

Table A2.2. Heatmap of Public Debt Sustainability

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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