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August 29, 2022

**Statement by Mr. Bevilaqua, Mr. Saraiva, and Mr. Fisher Hogan on Thailand  
(Preliminary)  
Executive Board Meeting  
August 31, 2022**

We thank staff for the report and Ms. Lim, Ms. Wongwaisiriwat, and Mr. Dacharux for their useful statement.

**We agree with the thrust of staff's appraisal, and consider the measures enacted by the authorities as generally appropriate in the face of multiple shocks, despite lingering structural problems.** Swift and bold policy responses capitalized on economic buffers built before the pandemic, but as social demands rose, the use of subsidies weakened the authorities' ability to face new threats that came with higher gas prices and renewed global uncertainty. On that note, plausible new economic shocks may upset such good performance, and for this we urge caution in prospective policy actions.

**Economic headwinds from the war in Ukraine lowered 2022 growth prospects by almost half a percentage point to the current rate of 2.8 percent.** Staff also notes that inflation reached its highest level in a decade due to rising commodity prices. Such price pressures are already a concerning development for a country whose recovery is deemed uneven across sectors. On that note, the role of government policy is crucial to produce broad-based welfare gains in trying times, while retaining overall sustainability.

**With inflation reaching historically high levels, the monetary authority should act early and decisively to avert second round effects from the shocks and the unmooring of inflation expectations.** While we take note of the recent signal by the Bank of Thailand (BOT) that the focus of monetary policy is being shifted from growth to inflation, we caution against a delayed or weak response to the inflationary pressures, given the pervasive global inflationary environment. In this sense, we agree with staff that an earlier and well-calibrated normalization may be warranted by inflation dynamics.

**While we concur with staff that fiscal performance has been broadly appropriate, we caution against the recommendation to face possible adverse developments with more**

**fiscal stimulus even if compensated by tighter monetary policy stance.** The use of fiscal space to face the previous shocks has brought to the forefront considerations about debt sustainability. Indeed, the debt sustainability report suggests that plausible macro-fiscal shocks where growth declines and interest rates rise, can push Thailand's economy to the brink of the newly modified debt ceiling. Such numbers are too close for comfort. This resembles the scenario where staff calls on the authorities to tighten monetary policy further to bring inflation under control if geopolitical uncertainty continues, while advocating higher and more targeted discretionary expenditures to assist vulnerable groups. However, the report also notes that such unevenness is largely the result of unequal access to financial opportunities, where bankruptcy procedures are costly and heavily penalizing. *In this regard, we would welcome staff's thoughts on how these financial sector considerations should be reconciled to better sequence and calibrate the policy recommendations.*

**The external sector has shown resilience, with a liquid baht and the exchange rate broadly determined by market conditions, but considerations about shocks and the policy mix are key to future performance.** EBA models suggest that external accounts have been moderately stronger than warranted by fundamentals and appropriate policies. Staff recommends a more gradual fiscal consolidation to support a narrowing of the savings-investment gap. We continue to see scope for a stronger consolidation path with broad-based subsidies being replaced by more targeted support to the most vulnerable, coupled by efforts to enhance revenue mobilization. External rebalancing would be bolstered by an appropriately tighter monetary policy stance, enough to bring inflation back on track in a reasonable timeframe and uphold the baht in an uncertain global environment. That said, we sympathize with the authorities' reservations about the external balance assessment and agree that caution should be observed in the presentation and interpretation of EBA results.

**In addition, we agree on the need for structural reforms in education, labor, and digital transformation to improve potential output and address widening gaps.** Low productivity and weak investment are singled out as the main reasons for a relatively low growth performance, and such challenges must be met with decisive action, as rightly envisioned by the 13<sup>th</sup> National Economic and Social Development Plan.

With these remarks, we wish the authorities success in current and future endeavors.