

Taking the Pulse on Fiscal Stimulus

- **To fight the adverse impact from the Covid-19 pandemic, the Thai government approved a stimulus package in three phases, 1.46 trillion baht for a fiscal response and 900 billion baht for monetary measures administered by the Bank of Thailand.** Altogether, the measures cost up to 2.36 trillion baht, roughly accounting for 14% of 2019 GDP. The implemented policy tools include soft loans, cash handouts, bond purchase program, economic and social rehabilitation projects, and tax benefits.
- **The cash handout schemes target four main groups. In total, the cash relief programmes totaled 366 billion baht.** The first scheme, “Rao Mai Ting Gun” (229.5 billion baht), targets those put out of work by the outbreak such as temporary employees, contractors and self-employed workers, not covered by the social security system. 15 million people received a cash handout of 5,000 baht per month from April to June. Similarly, the second scheme (112.5 billion baht) provided 5,000 baht monthly from May to July for 7.5 million registered farmers. The Bank for Agriculture and Agricultural Cooperatives has already disbursed 72.4 billion baht for May and June payments. The final payment will be completed by July 22. The third scheme targets 1.2 million welfare card holders who did not participate in the first or the second scheme. The government approved a 3.5-billion-baht budget for a cash handout of 3,000 baht. The payment was completed on July 9. The fourth group targets the vulnerable population (20.3 billion baht). The government aimed to provide a cash handout of 1,000 baht per month from May to July for 6.8 million vulnerable people, which consist of elderly, children and the disabled. Other measures such as electricity and water expense reductions, tax breaks and deductions were automatically effective.
- **On financial stability front, the Bank of Thailand (BOT) announced four major relief measures.** The first measure is a six-month loan payment holiday for small and medium-sized enterprises (SMEs). The second policy is 500 billion baht soft loans for SMEs at 2% concessional rate. Currently, 99.0 billion baht has been approved for 59,528 SMEs. The central bank also established a Corporate Bond Stabilization Fund (BSF) of 400 billion baht for a bond purchase programme, which has not been used yet. The last measure is reducing the Financial Institutions Development Fund (FIDF) fee from 0.46% of the deposit base to 0.23% per annum for two years to allow financial institutions to pass on cost savings to businesses and households. The unprecedented scale of fiscal and monetary stimulus will likely help mitigate the adverse impacts, but the effectiveness depends on the speed of implementation where the necessary funds reach the right target groups. **(See the status of selected stimulus measures in Chart 1)**

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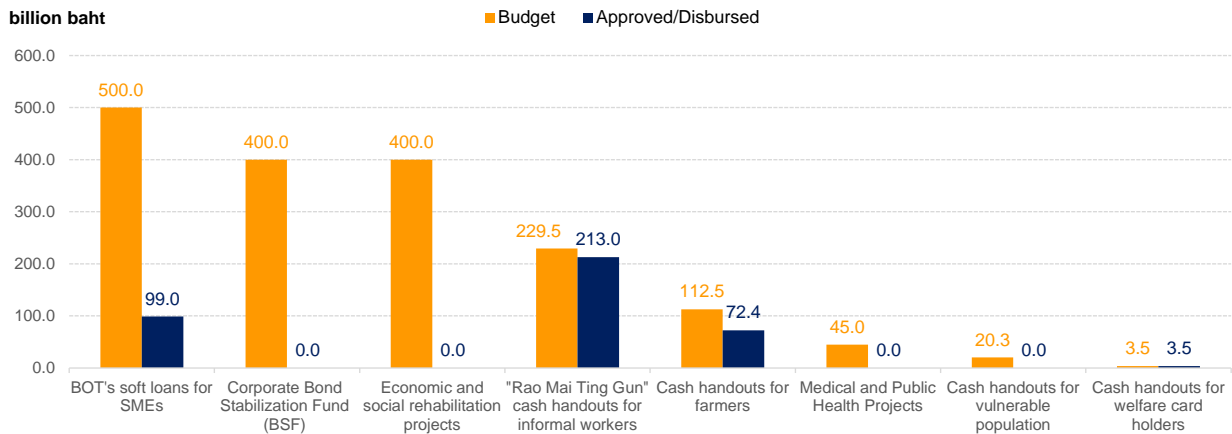
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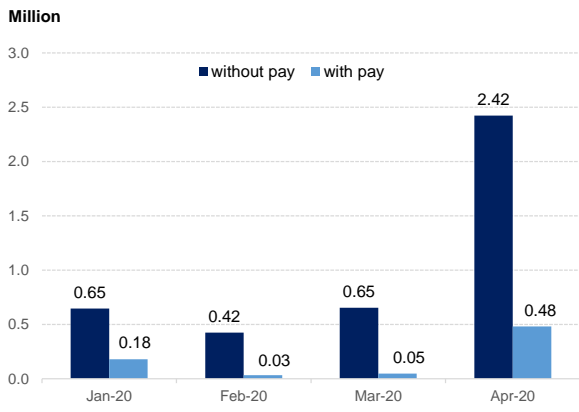
Chart 1: Thailand's Stimulus Measures



Source: The Secretariat of the Prime Minister, Fiscal Policy Office, Bank of Thailand

- In the periods ahead, we expect to see the government to ramp up its efforts to support the tourism industry as the economy gradually opens up.** In June, the cabinet has already approved a stimulus package worth 22.4 billion baht to spur domestic tourism. Of the total amount, 20 billion baht is allocated to the “We Travel Together” scheme, in which the government will subsidise 40% of domestic airfares for up to 1,000 baht per seat (2 billion baht) and 40% of hotel room fees for up to 3,000 baht per night (18 billion baht). A further 2.4 billion baht is set to help fund holidays for 1.2 million health officials and volunteers under the “Moral Support” promotion.
- The two packages are expected to generate over 50 billion baht in spending.** Also, the deadline for these measures, which is now from July 1 – October 31, will likely be extended if they receive good responses from the public. At present, the Finance Ministry is in the process of finding additional ways to encourage domestic travel on the weekdays, as well as including more unregistered operators to the existing programmes. According to the government, all tourism-related measures are targeted at boosting Thailand’s GDP by 0.2-0.3%. However, we think that this target could be a reach given the relatively small amount of tourism stimulus as compared to the nominal GDP of 16.9 trillion baht in 2019.
- For international tourism, we should see limited entry under the travel bubble plan in August at the earliest.** The Tourism Authority of Thailand is collecting polls on public opinion regarding the plan before announcing the final draft. The poll shows that around 74% of 3,000 respondents agree with travel bubbles given strict regulation. These include necessitating a health certificate 72 hours before arrival, having travellers’ temperature checked before departing from their countries, and requiring that those tourists avoid visiting risky destinations 14 days before arrival. But with the number of patients still surging in many parts of the world, the plan could be delayed.
- With the impact of the pandemic dragging on for longer than expected, we might see the government extending support for businesses.** For instance, the Federation of Thai Industries (FTI) proposed to the cabinet at a meeting on July 9 to increase the liquidity of SMEs. Some of the requests include postponing the debt repayment deadline by about two years from originally September, extending time for utility and governmental services discounts, and increasing budget for the Thai Credit Guarantee Corporation (TCG), who acts as a guarantor when SMEs apply for loans.
- Also, there should be more favourable tax measures.** On July 7, the finance minister asked the Excise Department to implement tax policies to prevent unemployment and business closures. These involve reducing excise tax on fruits and vegetables from 20% to 10%, a zero tax rate until September 30 for companies that retain their employees, and no tax increase for tobacco and cigarette until the end of September. More exemptions and discounts should be seen given the bleak economic outlook.
- Going forward, we expect more cash handouts and incentives to boost consumption, especially for the auto and property industries.** One example could be the “cash for clunkers” campaign, by which the government provides financial incentives for consumers to trade in old vehicles for new ones. The programme successfully helped Germany to boost car sales and consumption during the financial crisis a decade ago. Without additional support, consumption could remain downbeat for longer, with income loss and greater job uncertainty. In April, the workers on leave without pay increased to 2.42 million from 654,000 in March. The group accounts for approximately 6% of the labour force (Chart 2).

Chart 2: Workers on Leave



Source: National Statistical Office, TDR1

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