

## Possible impact of campaign policies to increase purchasing power:

March 8, 2019

### How much scope for upside to GDP growth?

#### Executive summary

**Policies to increase purchasing power are at the core of parties' election campaigns.** For instance, Palang Pracharat promises to improve the rice subsidy per rai, expand welfare card coverage, and launch a mother-and-child welfare program. Pheu Thai promotes policies similar to the ones implemented during previous TRT/PPP/PT administrations: 1) a rice price subsidy, 2) upgraded old age benefits, and 3) a minimum wage increase.

We conducted a scenario analysis of the possible impact of the aforementioned policies in 2019 and 2020, as they would require only a relatively short time to implement and bear fruit. Yet, we believe that fully implementing these policies would be a challenge, as the required budget will be much larger than the additional welfare and subsidy budget for 2019.

**These policies would give a short-term boost to GDP growth.** Our analysis indicates that the Palang Pracharat policies may boost GDP growth by 0.1-0.5% in 2019 and by 0.6-1.3% in 2020. Similarly, the Pheu Thai policies may add to GDP growth by 0.1-0.6% in 2019 and by 0.4-1.1% in 2020. Our analysis also reveals that the policies which would provide the biggest boost to private consumption are those targeted specifically at low-income demographics, as they have higher marginal propensities to consume (and are more likely to purchase goods and services made/offered in Thailand). In contrast, policies that do not directly target low-income demographics may not add much to private consumption, even under a large disbursement scenario. Note that the results are largely dependent on the speed of policy implementation.

**There is a cost to these policies.** Increasing subsidy and welfare benefits would deepen budget deficits, so would expand public debt going forward. Although the current public debt remains at a comfortable level of around 40% of GDP, increasing transfers while maintaining fiscal sustainability requires careful calibration, particularly if long-term welfare programs are to be sustained and expanded.

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**Anuk Serechetapongse**

Economist

anuk.serechetapongse@bangkokbank.com / +66 2 626 3372

**Kantheera Tipkanjanarat**

Research Associate

kantheera.tipkanjanarat@bangkokbank.com

**Boochita Pitakard**

Research Associate

Boochita.pitakard@bangkokbank.com

**Chananya Bunyalug**






Rachata Tangnaratchakit

Chonlathit Yangwiwat

**Current status**

**Most political parties are fielding the maximum number of MP candidates in order to optimize chances of winning.** After the deadline for MP candidate registration, the Election Commission revealed that most parties registered 350 candidates for all of the constituencies and 150 candidates for the party-list seats. The number of qualified MP candidates for each party is detailed in Figure 1, below (and see Box 1 for how MP seat tallies will be calculated).

**Figure 1: MP candidate registrations, by party (constituency and party-list)**

Party	Constituency MP Candidates	Party-list MP candidates	Total	Party	Constituency MP Candidates	Party-list MP candidates	Total
 Palang Pracharat	350	120	470	 Pheu Thai	250	97	347
 Democrat	350	150	500	 Future Forward	350	124	474
 Thai Pride	350	144	494	 Thai Liberal	349	98	448
 Chart Pattana	266	56	322	 Pheu Chart	349	143	492
 Chart Thai Pattana	315	66	381	 Prachachart	212	56	268
 Action Coalition for Thailand	350	140	490	 Pheu Tham	41	22	63

Source: Office of the Election Commission of Thailand

**Box 1: Calculating the MP seats of each party**

Unlike previous general elections, the March 24 poll will require only one vote for both the constituency MP and the party-list MP. For each constituency, the votes for the winning MP must exceed that of the no-vote. Furthermore, every vote in all constituencies for each party will be used to allocate party-list seats.

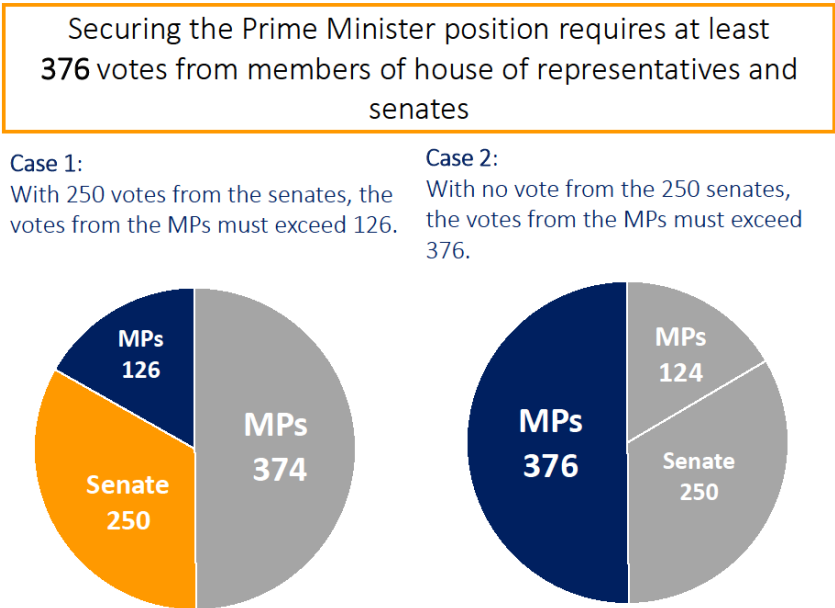
The available MP seats for Party A equals total country-wide votes for Party A divided by the average vote for an MP. The latter is the total amount of votes for all parties divided by the sum of the constituencies and party-list MPs (which is 500 seats).

The number of party-list seats for Party A equals the available MP seats for Party A minus the constituency MP seats won by Party A.

Therefore, nominating the maximum number of MP candidates to cover all of the constituencies optimizes the chances of winning.

**To secure the Prime Minister position, the candidate must be supported by at least 376 votes from MPs and Senators.** In the event that the PM candidate receives the support of all of the 250 Senators, it needs at least an additional 126 votes among House MPs. At the other extreme, should the candidate receive no votes from Senators, he/she must win more than 376 votes from MPs.

**Figure 2: Votes needed to secure the Prime Minister position**

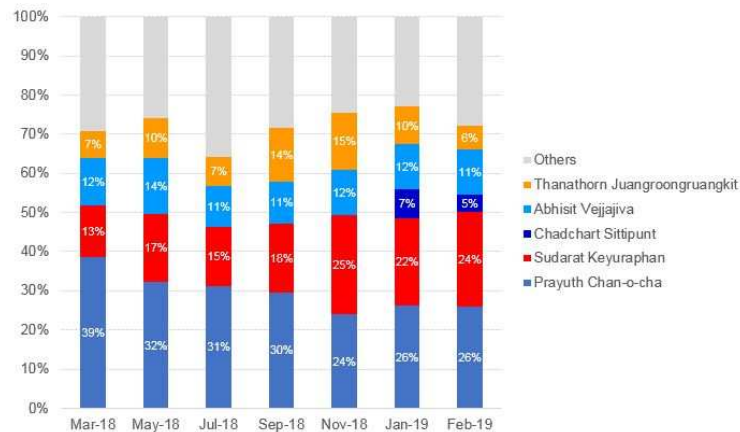


Source: Office of the Election Commission of Thailand

### Opinion poll results

**PM candidates of Palang Pracharat and Pheu Thai Parties lead the poll as favored PM candidates.** NIDA’s latest opinion poll, conducted during February, indicates that the PM candidates of the Palang Pracharat and Pheu Thai parties have the most support. The poll showed that 26% of voters favor General Prayuth Chan-ocha, 24% support Khunying Sudarat Keyuraphan, and 5.5% Dr Chadchart Sittipunt (Figure 3). We do not rule out other parties fielding PM candidates, but they are much more likely to join a coalition as junior partners.

Figure 3: NIDA poll results



Source: NIDA

### Policy focus

**Policies that boost purchasing power are at the core of the campaigns.** Despite different implementation strategies, support for household consumption is front and foremost of the parties’ campaigns. The two strongest policy themes that the Palang Pracharat and Pheu Thai parties have in common are: 1) subsidies for farmers and 2) increasing income and/or extending transfers for targeted groups. Also on party agendas are upgrading the agricultural, SME, and tourism sectors (Figure 4).

Figure 4: Policies of the Palang Pracharat and the Pheu Thai parties



Source: Bangkok Bank Economics and Strategy

**Potential impact on the Thai economy**

**Pheu Thai promotes policies similar to those implemented during earlier administrations:** 1) rice subsidy, 2) welfare boost, and 3) minimum wage increase.

Unlike the rice paddy mortgage scheme during the Yingluck administration, this time Pheu Thai pledges to subsidize the paddy price to Bt10,000/tonne. It's likely that this policy targets non-Hommali (non-Jasmine) paddy, which comprises about 56% of the total harvest and had an average price of Bt7,750/tonne in 2018.

Following the popularity of the 30-baht universal healthcare program of the 2001-06 Thai Rak Thai administration, Pheu Thai plans to increase old age benefits to at least Bt3,000/month. This means tripling old age benefits (the current old age welfare card provides Bt1,000/month).

Pheu Thai also pledges to increase the minimum wage to at least Bt350/day (the current minimum wage is Bt325/day), which would benefit 4.3m workers, about 11% of the labor force and 6.5% of the population.

**Palang Pracharat promises to continue the current government's direct subsidies and targeted welfare programs.** Unlike Pheu Thai's paddy price subsidy, Palang Pracharat intends to increase direct subsidies to farmers from the current level of Bt1,500/rai (not exceeding 15 rai) to Bt2,000/rai (not exceeding 20 rai). It also plans to extend the coverage of the Pracharat welfare card from 15m persons to include an additional 2-3m persons. The regular payment from each card is Bt1,900/month. If the extension is successful, welfare card holders will comprise up to 27% of the Thai population.

In addition, the newly-launched maternity welfare program (Marnda Pracharat) provides funding for mothers with children aged 0-6 years, who together comprise 8% of the Thai population. The program intends to provide Bt3,000/month for nine months of pregnancy, another Bt10,000 for delivery costs, and a stream of Bt2,000/month until the child reaches six years of age. This totals up to Bt181,000 per mother & child pair.

The details of these policies are summarized in Figure 5.

Figure 5: Policies to boost purchasing power

	Pheu Thai	Palang Pracharat
<b>Subsidies for Farmers</b>	<p><b>Rice Price Subsidy</b></p> <p>Under this policy, paddy shall be sold at a price of at least Bt10,000/tonne</p>	<p><b>Rice Subsidy per Rai</b></p> <p>For rice farmers, the policy is to increase the subsidy from Bt1,500/rai (not exceeding 15 rai) to Bt2,000/rai (not exceeding 20 rai)</p>
<b>Purchasing Power Improvement</b>	<p><b>Old Age Benefit Upgrade</b></p> <p>The policy provides at least Bt3,000/month for citizens aged at least 60 years</p>	<p><b>Pracharat Welfare Card Extension</b></p> <p>The policy aims to expand coverage to another 2-3m card holders from the current 15m base</p>
	<p><b>Minimum Wage Increase</b></p> <p>The policy looks to further increase the minimum wage to at least Bt350/day</p>	<p><b>Maternity Welfare Program</b></p> <p>The policy will provide funding for mothers and newborns of Bt3,000/month for nine months of pregnancy, another Bt10,000 for delivery costs, and a stream of Bt2,000/month until the child reaches six years of age. This totals up to Bt181,000 per mother &amp; child pair.</p>

Source: Bangkok Bank Economics and Strategy

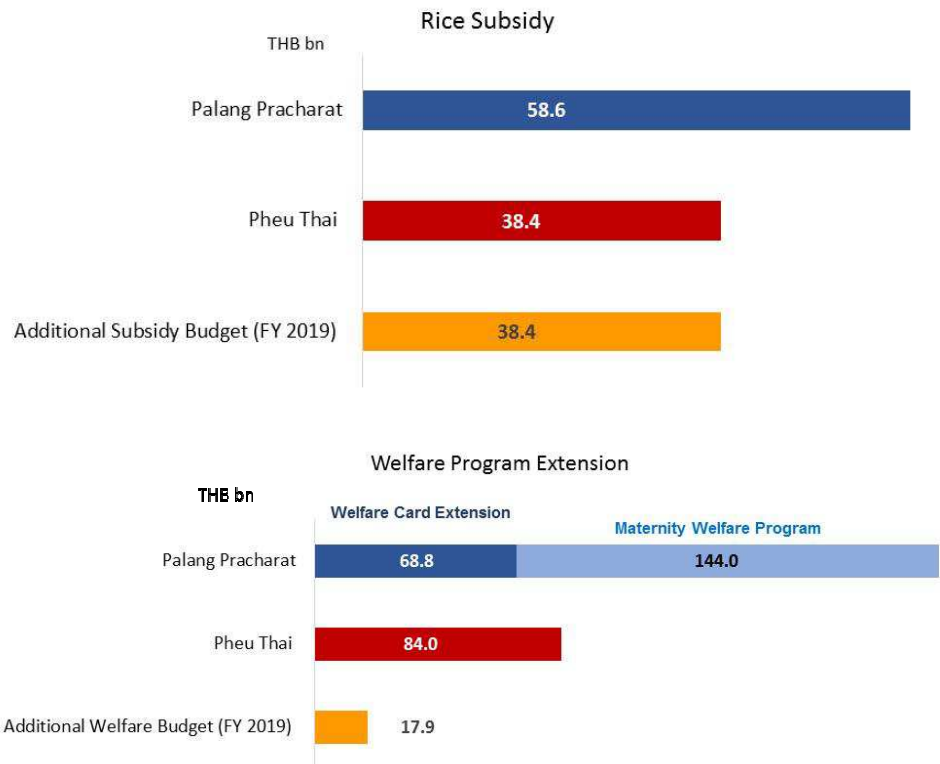
### Modeling the economic impact of different policy implementation scenarios

We ran an analysis of the economic impact of the purchasing power-boosting policies of the Pheu Thai and Palang Pracharat parties, as these policies take a relatively short time to implement and bear fruit.

However, we think fully implementing the campaign policies will be a challenge, as the required budget will be much larger than the additional welfare budget for fiscal-year 2019, which totals only Bt17bn. In particular, if Pheu Thai were to provide at least Bt3,000/month in old age benefits, the fastest way to do so would be to give an additional Bt2,000/month to the existing 3.5m persons who already receive Bt1,000/month from old age welfare cards. That alone would require an extra budget of Bt84bn per year. In the case of Palang Pracharat, the extension of the Pracharat welfare card to 3m more people would require an extra Bt68.7bn/year. Furthermore, the universal implementation of a maternity welfare program would require up to Bt144bn/year. The required yearly budgets for these policies are detailed in Figure 6.

Therefore, we made some assumptions in our analysis to gauge different scenarios. Each policy has three scenarios—strong implementation, moderate implementation, and weak implementation. The key assumptions for each scenario are listed below.

**Figure 6: Required yearly budget for full policy implementation**



Source: Bangkok Bank Economics and Strategy

## Key assumptions

### 1. Pheu Thai scenarios

#### a. Strong implementation scenario

- Rice Price Subsidy: The policy is implemented in 4Q19, covering the in-season harvest for the year and adding about Bt29bn to government expenditure. Implementation in 2020 covers both the in-season and off-season harvests, taking around Bt38bn of the government budget.
- Old Age Benefits: The payout of the old age welfare card doubles from Bt1,000/month to Bt2,000/month, starting 4Q19. We assume that old age welfare card coverage remains 3.5m persons.
- Minimum Wage Increase: We assume that the minimum wage jumps 23% from Bt325/month to Bt400/month. The magnitude of the raise is similar to that of the Yingluck Shinawatra administration. However, we assume the earliest implementation time would be the start of 2020, as notice would need to be given to employers.

#### b. Moderate implementation scenario

- Rice Price Subsidy: The rice price subsidy is implemented at the start of 2020 and takes around Bt38bn of the government budget for the year.
- Old Age Benefits: The payout of the old age welfare card rises from Bt1,000/month to Bt1,500/month.
- Minimum Wage Increase: We assume that the minimum wage increases from Bt325/month to Bt350/month, the minimum level promised by the party.

#### c. Weak implementation scenario

- Rice Price Subsidy: The rice price subsidy is implemented in 3Q20 and covers only the in-season harvest for the year, requiring around Bt29bn of the government budget.
- Old Age Benefits: The payout of the old age welfare card rises from Bt1,000/month to Bt1,250/month.
- No minimum wage increase

## 2. Palang Pracharat scenarios

### a. Strong implementation scenario

- Rice Subsidy per Rai: The extension of subsidy per rai is implemented in 4Q19 and covers the in-season harvest for the year, adding about Bt29bn to government expenditure. Implementation in 2020 covers both the in-season and off-season harvests, taking around Bt58bn of the government budget.
- Pracharat Welfare Card Extension: The welfare card is extended to an additional 2m persons (assuming implementation in 4Q19).
- Maternity Welfare Program: The welfare program successfully covers 60% of the targeted group of mothers and 0-6 year-old children. We assume implementation in 2020, as we expect that—similarly to the start of other welfare cards—registration will take time.

### b. Moderate implementation scenario

- Rice Subsidy per Rai: The extension of the subsidy per rai is implemented in early 2020, taking around Bt58bn of the government budget for the year.
- Pracharat Welfare Card Extension: The welfare card is extended to 1.5m more persons.
- Maternity Welfare Program: The welfare program covers 40% of the targeted group.

### c. Weak implementation scenario

- Rice Subsidy per Rai: The extension of the subsidy per rai is implemented in 3Q20 and covers only the in-season harvest for the year, adding about Bt29bn to government expenditure.
- Pracharat Welfare Card Extension: The welfare card is extended to only one million more people.
- Maternity Welfare Program: The welfare program covers only 20% of the targeted group.

### Main results

The results of modeling the economic impact of the purchasing power-improving policies of both the Pheu Thai and Palang Pracharat parties point in the same direction—**short-term upside to GDP growth via increased government spending and private consumption**. On top of baseline GDP growth, the Pheu Thai policies would lift GDP growth by 0.1-0.6% in 2019 and 0.4-1.1% in 2020. Similarly, the Palang Pracharat policies would add to GDP growth by 0.1-0.5% in 2019 and 0.6-1.3% in 2020 (Figure 7). Nevertheless, such similarity camouflages the differences in the ways these policies would affect government expenditure (Figure 8) and private consumption (Figure 9).

The analysis suggests that Palang Pracharat’s rice subsidy per rai would provide higher average transfers to farmers, so would add more to private consumption compared to Pheu Thai’s paddy price subsidy. This is because Palang Pracharat’s subsidy would be paid based on cultivated area, not production. Therefore, farming households would receive the same subsidy for the in-season and the off-season harvests, which amounts to about Bt9,900 per average household per year. In contrast, Pheu Thai’s rice subsidy depends on production. Given that the off-season harvest yield is lower than the in-season yield, farming households would receive a Bt6,500 subsidy per year, on average.

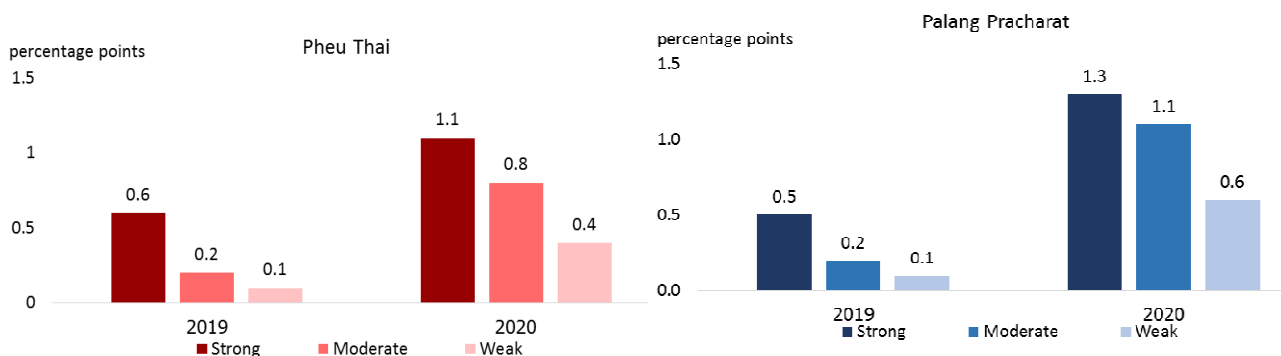
The analysis also reveals that **policies targeted at low-income demographics would yield bigger increases in private consumption**. This is largely due to the fact that low-income groups tend to have a higher marginal propensity to consume.

Under the Pheu Thai minimum wage baseline increase plan, in 2020 it would rise from Bt325/day to Bt350/day, up 7%, which translates into a 0.3% boost to overall private consumption. If the minimum wage were to rise from Bt325/day to Bt400/day, up 23%, the boost to private consumption would be 0.9% (however, our analysis hasn’t factored in the possibility of companies cutting staff—it assumes that all 4.3m elementary workers remain gainfully employed).

The Palang Pracharat Party’s welfare card extension to a further one million persons on low incomes would lift private consumption by 0.2% in 2019 and 0.4% in 2020. If it were to be extended to 2m persons, the increase in private consumption would be 0.5% in 2019 and 1.2% in 2020.

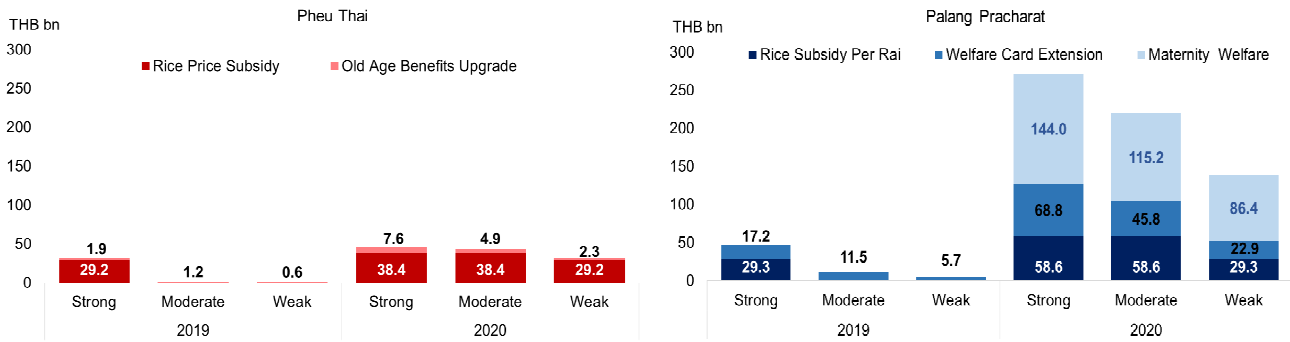
In contrast, our analysis suggests that the maternity welfare program, despite costing a lot of money, would not add as much to private consumption as the welfare card extension program or a higher minimum wage. Given that the maternity welfare program is not directly targeted at low-income households, some of the transfers would be to persons with a lower marginal propensity to consume.

Figure 7: Impact on GDP growth (deviation from baseline scenario)



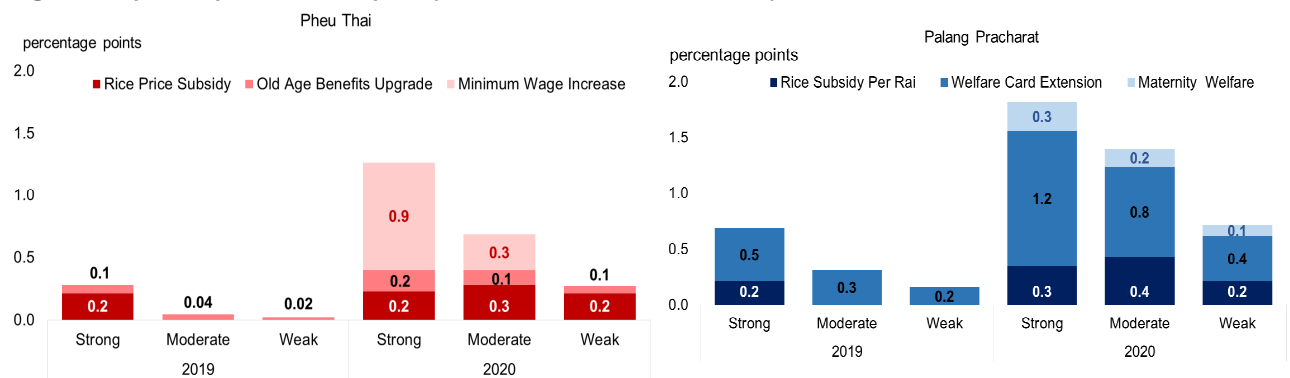
Source: Bangkok Bank Economics and Strategy

Figure 8: Increase in government expenditure



Source: Bangkok Bank Economics and Strategy

Figure 9: Impact on private consumption (deviation from baseline scenario)



Source: Bangkok Bank Economics and Strategy

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