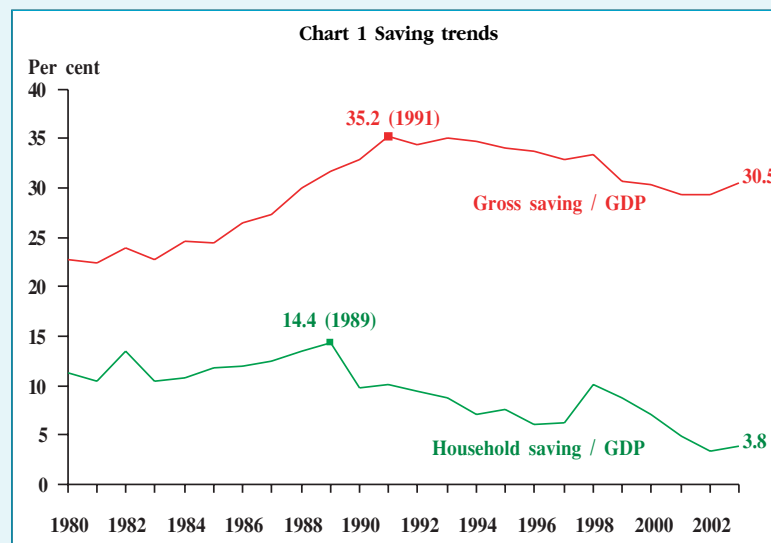


The adequacy of saving in Thailand

One of the critical issues facing policymakers in Thailand is the decline in gross national saving as a share of GDP over the past decade or so, from its peak of 35.2 per cent in 1991 to 30.5 per cent in 2003, along with a decline in household saving from its peak of 14.4 per cent in 1989 to just 3.8 per cent in 2003. This fall in saving should be of concern to policymakers because saving plays a central role in the capital accumulation process and has direct implications on growth and external stability.



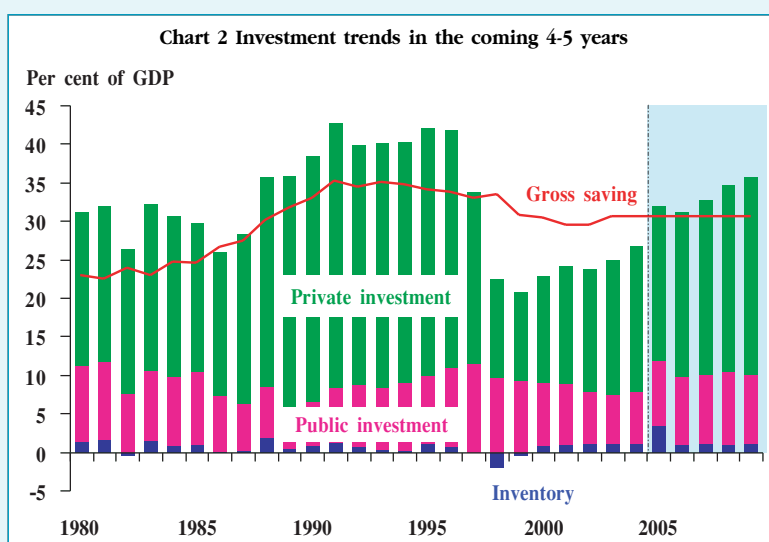
Source: National Economic and Social Development Board

As a result, the Bank of Thailand undertook a study to discern the reasons behind the downward trend in gross saving and whether the current saving rate is high enough to sustain economic growth and external stability. The results of the study are as follows.

First, the latest national income data (as of 2003) compiled by the National Economic and Social Development Board (NESDB) show that the decline in the aggregate saving rate came mainly from the decline in net government saving and net household saving which declined by 4.1 per cent and 5.0 per cent, respectively, between 1991-1993 and 2001-2003. An examination of the data indicates that **the recent fall in household saving was driven primarily by the boom in consumption.** In particular, consumption of durable goods such as automobiles, mobile phones, and electrical appliances grew on average by 16.1 per cent per annum between 1999 and 2003, much faster than total consumer expenditures and total disposable income that grew on average by only 6.1 and 3.9 per cent per annum, respectively. This trend of consumerism was partly stimulated by increased financial access in the past few years.

Second, the analysis of micro-level data from the Socio-economic Surveys by the National Statistical Office (NSO) yields several insights. The rise in consumption between 1996 and 2004 occurred across all age groups, but saving rates fell the most among the poor. It is also the poor who save the least in absolute terms. Furthermore, econometric analyses indicate that households save less because they have less precautionary motives and less credit constraints. Specifically, household saving depends on variables such as financial access to saving and credit, government medical insurance schemes, uncertainty associated with certain occupations, housing tenure, and educational attainment. The study also finds that many households, especially those with low income, low financial literacy or low education, report that they are currently not saving enough for retirement needs.

Third, **the gross saving rate is high by international standards but this by no means implies that the current rate of saving is adequate.** As the pressure on the current account continues to build up in the next couple of years, Thailand will probably need to increase its aggregate saving from the present level of 30.5 per cent of GDP by another 2-3.5 per cent over the next 5 years to maintain growth and keep the current account deficit within 3 per cent of GDP. The increased domestic saving will go toward meeting the needs of both increased public investment which is expected to rise by 2 per cent of GDP from the planned large public projects (i.e., mega projects) and increased private investment which is expected to rise by 4.0-5.5 per cent over the next 5 years. An increased gross saving rate will allow Thailand to meet its increased domestic investment needs without compromising external stability and growth prospects in the medium run.



Source: National Economic and Social Development Board and Bank of Thailand