

The role of the government in stimulating the economy

The Thai economy today is confronting risks to growth and stability. The subprime problem in the US has had a negative impact on growth of the world economy and Thai exports, while the volatility of oil and commodity prices has elevated domestic price pressures. The resulting increase in the cost of production as well as the cost of living has widely affected the general public and weakened domestic demand recovery. Under such circumstances, the government's role in stimulating the economy has been significant. In addition to the continued budget deficits since fiscal year (FY) 2007 and the record-high disbursement target in FY 2008 at 94 per cent, the government has implemented a number of stimulus measures since early 2008 in order to sustain the growth momentum as follows.

1) Tax stimulus package, approved by the Cabinet on 4 March 2008. The objective of this package was to help relieve the tax burden on individuals and businesses (including small and medium enterprises (SME's) and listed companies in the stock market). Moreover, it also provided tax incentives for private investment and the real estate sector. This package comprised of 16 measures (see *Inflation Report*, April 2008).

Nevertheless, the public's tax burden which would be alleviated by this package is expected to be small for the current fiscal year (estimated to be about 12 billion baht, compared to the Ministry of Finance's projection of an overall impact of 42 billion baht in 2008-2009), given that personal and corporate income tax payments for FY2008 are mostly due in FY2009. Those who do benefit within this year are individuals who pay withholding tax, some businesses with half-year tax payments due in August, as well as real estate buyers and sellers. Moreover, only 8 measures have been effective so far (see Table 1), while remaining measures are still pending. More stimulus is expected from this package once all measures become effective.

Table 1 Effective measures

Measures	Details	Effective since
- Higher taxable income waiver	First 150,000 baht	29 March 2008
- Higher tax allowance for life insurance premium	First 100,000 baht	29 May 2008
- Higher tax allowance for Retirement Mutual Fund (RMF) plus provident fund or pension fund contribution	Maximum 500,000 baht	29 May 2008
- Higher tax allowance for Long Term Equity Fund (LTF)	Maximum 500,000 baht	29 May 2008
- Tax waiver for community enterprises	Only for enterprises with revenue less than 1.2 million baht per year	29 May 2008
- Tax waiver for SMEs	First 150,000 baht of net profit	29 March 2008
- Specific business tax cut on property sales in commercial or for-profit trading	0.1%	29 March 2008
- Reduction of registration fees for property transfers and mortgages	0.01%	29 March 2008

2) The direct funding scheme for the grass-root economy, approved by the Cabinet on 1 April 2008. The objective of this scheme is to relieve the debt burden of the grass-root economy and entrepreneurs, increase financial access and support their ability to own their own homes, and enhance the potential of villages and communities. This scheme is comprised of 3 main projects, namely: (1) the grass-root loan project, (2) the village-fund project, and (3) the community potential-enhancement project (SML). These projects are expected to provide a total injection of 732,385 million baht (See Table 2).

Table 2 The direct funding scheme for the grass-root economy

Projects	Expected injection (Million baht)	Periods	Additional injection for 2008 (Million baht)
1. The grass-roots loan project	664,615		6,889
1) The debt moratorium program for farmers	17,990	2 years	1,889
2) The people's bank project (GSB)	5,000	Target of 2008	5,000
3) The housing loan project (GHB)	50,000	Target of 2008	existing project
4) The loan project for farmers (BAAC)	325,000	Target of 2008	existing project
5) Other loans projects (BAAC/GSB/GHB)	171,710		existing project
6) Other loans projects (other than the 3 banks above)	94,915		existing project
2. The village fund project (GSB / BAAC)	27,770	Target of 2008	27,770
3. The SML project	40,000	2008-2010	20,000
Total	732,385		54,659

Source: Ministry of Finance News, Issue 22/2008.

However, a number of individual measures are existing operations of specialized financial institutions (SFIs). Therefore, most of the new injection will come from the debt moratorium program for farmers, the people's bank project (decreasing interest burden), the village fund project and the SML project. Nevertheless, the actual injection into the real economy depends largely on the effective outreach and availability of qualified projects.

3) Energy conservation measures, approved by the Cabinet on 27 May 2008. The objective of this policy package is to cushion the effect of the oil crisis to individuals as well as the overall economy. This package is compounded by a wide range of subordinate measures, including measures to reduce expenses by energy conservation and to promote alternative sources of energy, measures to increase incomes of low-income households and SMEs, as well as measures to accelerate budget disbursement to help stimulate the economy and to speed up investment in railway projects to help reduce costs of transportation. In addition, measures to enhance national income by strengthening the confidence of foreign investors and improving the quality of tourism were also introduced.

4) Supporting living expenses for low-income civil servants, approved by the Cabinet on 17 June 2008. The objective of this measure is to raise the income of civil servants of the 5th Class and less. Those with salaries lower than 11,700 baht per month would receive a temporary allowance for living expenses of up to 1,500 baht per month, which combined must not exceed 11,700 baht. For those with a combined salary plus allowance for living expenses of less than 8,200 baht, this allowance would be increased so that total income reaches 8,200 baht. This measure became effective from May 2008, and would result in an additional cost to the budget of around 140 million baht per month.

5) The 6 measures - 6 months package, approved by the Cabinet on 15 July 2008. The objective of this package is to help cushion the high cost of living of the public. These measures include reducing oil excise tax rates, free fares for third class trains and 800 buses, subsidizing electricity and water consumption fees, and maintaining household LPG prices. These measures will remain in effect for a 6-month period^{1/}. The revenue loss from this package is expected to be about 46 billion baht.

6) Continued budget deficit in FY2009. The budget deficit was increased from 1.8 per cent of GDP in FY2008 to around 2.5 per cent of GDP in FY2009. Nevertheless, FY2009 would be the first year that the government would have to set aside a part of the budget for treasury cash repayment in accordance with the Constitution B.E. 2550. This registered at approximately 0.3 per cent of GDP. Therefore, the actual injection into the economy would be less than set out in the budget initially. Nevertheless, the fiscal position remains sound with respect to the fiscal sustainability framework.

^{1/} The measure of oil excise tax rates reduction will be effective on 25 July 2008, while the rest will be effective on 1 August 2008.