

Are Hopes on Fiscal Stimulus too High?

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During an economic downturn, fiscal stimulus is believed to take the lead role in shoring up the economy. Like most countries during this crisis, the Thai government has launched several measures in order to create jobs, reduce the impact of the downturn on the public and induce domestic demand.

Towards the end of the first quarter of 2009, the supplementary budget of Bt116.7 billion was launched as Stimulus Package 1 (SP1), in order to restore short-term confidence in the Thai economy.

SP1 included subsidies for water, electricity, transport and education as well as the Bt2,000 cheques for low- to middle-income people, which began to be distributed in March.

We saw virtually no contribution of government spending in GDP growth for the first quarter, but this should turn around in the second quarter as SP1 - most of which is direct transfers to the public - starts to kick in.

While SP1 is short-lived, Stimulus Package 2 (SP2) focuses on restructuring the economy, with investment plans totaling Br1.4 trillion over the next three years. These investment projects cover a wide range, from small-scale but countrywide investments in irrigation, community development, healthcare and education to the ongoing mega-project plans in energy and mass transit.

Investment plans in SP2 are categorised as Tier 1 to Tier 3 in accordance with the projects' readiness. Projects in Tier 1 are those ready to start immediately after the budget approval for fiscal year 2009-2010, with a total value of around Bt1 trillion, or 70 per cent of SP2. If these projects can be carried out as planned, the impact of SP2 should be evident by the second half of the year and throughout fiscal 2010.

Of course, this is a big "if" for any government, given that public investment has almost always been delayed - not to mention the risk from the instability of the current government. Since the global economy, and thus exports, will take quite some time to rebound, the recovery of the Thai economy depends heavily on the assumption that these stimulus packages can be carried out as planned.

Last but not least, fiscal spending is no free lunch. The government also has constraints on budget spending due to revenue shortfalls from subdued economic activity and taxcut measures. More borrowing will be needed to finance the higher fiscal deficit. We start to see the public debt climbing up, though still below the 50 per cent of GDP called for under the guidelines in the fiscal sustainability framework.

Taking into account SP2, a large deficit - as much as 6 per cent of GDP - could be expected in fiscal 200910. Together with extra borrowing in order to finance some SP2 projects, public debt will inevitably edge up and could possibly reach 60 per cent of GDP in the next few years. Hopefully, by that time, Thai economic growth will be back on track and the government will be able to reduce the budget deficit such that public debt can be brought down gradually in order to maintain fiscal discipline in the long run.

(The views expressed are the author's own.)

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