

Fiscal Consolidation : Thailand's Key to Economic Sustainability

Natoch Jitsomboon

Senior Economist

Domestic Economy Department

Bank of Thailand

NOTWITHSTANDING domestic political uncertainty, Thailand's recovery since the meltdown has been evident since the second quarter of 2009, spurred by the global economic recovery and the government's fiscal stimulus measures. However, there is no such thing as a free lunch.

On the bright side, the rapid economic recovery has helped government revenue exceed its target for the first half of this fiscal year by 23.6 per cent, with forecasts indicating that figure should rise to Bt170 billion above the target by the end of 2010. If the government uses part of the additional revenue to repay its debts and invest in the Stimulus Package 2 instead of borrowing under special laws, this will help keep the level of public debt in check in the short term.

Considering public expenditure for fiscal year 2011, however, the budget deficit will be 4.2 per cent of GDP, with current expenditure accounting for 80 per cent of total budget expenditure. Including contingent liabilities partly arising from the operation of specialised financial institutions according to government policy and rising costs for demographic change, the level of public debt cannot be decreased easily in the foreseeable future unless the government begins a fiscal consolidation process early.

To effectively address the public debt problem in the longer term, the government needs to conduct fiscal consolidation by effectively streamlining current expenditure stemming from social and welfare expenses, and limiting contingent liabilities. Capital expenditure must be utilised effectively in order to be able to generate revenues for the government in the future, while public-private partnerships (PPPs) should be further promoted. Meanwhile, revenue collection must be enhanced and tax reform needs to be implemented efficiently and fairly, so as to expand revenue collection capacity.

Therefore, successful implementation of fiscal consolidations is essential for the long-term fiscal sustainability of the country. However, appropriate timing for the introduction of fiscal consolidation is also important as this will lead to public acceptance as well as its success. Failing in this will hamper the economic recovery and prospects for the country, which may land Thailand in similar difficulties to those being faced by some European countries.

All this said, the fiscal consolidation challenge will be set against an even bigger goal of using fiscal policy to address social welfare and income distribution concerns, which makes setting medium-term fiscal policy a very tough act of balancing competing objectives.

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

Published in The Nation on Tuesday, May 18, 2010