



THAILAND ECONOMIC MONITOR

UNLOCKING THE GROWTH POTENTIAL OF SECONDARY CITIES

July 2024



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Preface

The Thailand Economic Monitor (TEM) reports on key developments in Thailand's economy over the past six months, situates these changes in the context of global trends and Thailand's longer-term economic trajectory, and updates Thailand's economic and social welfare outlook. Each edition of the TEM also provides an in-depth examination of selected economic and policy issues and an analysis of Thailand's medium-term development challenges. The TEM is intended for a wide audience, including policymakers, business leaders, financial-market participants, and the community of analysts and professionals engaged in Thailand's evolving economy.

The TEM is produced by the staff of the World Bank's Bangkok office, consisting of Kiatipong Ariyapruchya, Steven Rubinyi (Task Team Leaders), Warunthorn Puthong, Yus Medina Pakpahan, Anna Twum, Ekaterine Vashakmadze, Anchidtha Roonguthai, Agustin Penaloza, Matthew Glasser, Alain Bertaud, Putu Sanjiwacika Wibisana, Ildrim Valley, Pichaya Moeller, Phonthanat Uruhamanon, Robert Palacios, Nadia Belhaj Hassine Belghith, Agustin Penaloza, Jonathan Marskell, Ji Oun Choi, Ou Nie, Samuel Hill, Kwanpadh Suddhi-Dhamakit, and Buntarika Sangarun. Fabrizio Zarcone, Lars Christian Moller, Yoonhee Kim and Gonzalo Varela provided overall guidance. The team is grateful to Kim Alan Edwards, Daisuke Fukuzawa, Uri Raich, and Megha Mukim for their constructive peer review comments. Kanitha Kongrukreatiyos, and Piathida Poonprasit are responsible for external communications related to the TEM, as well as the production and design of this edition.

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ABBREVIATIONS

ASEAN	Association of Southeast Asian Nations
BOI	Board of Investment
BOT	Bank of Thailand
CAR	Capital Adequacy Ratio
CODESA	Convention for a Democratic South Africa
CPSD	Country Private Sector Diagnostic
DNA	Designated National Authorities
DPAI	Development Potential Assessment Index
EAP	East Asia and Pacific
EEC	Eastern Economic Corridor
ENSO	El Niño Southern Oscillation
EMDEs	Emerging Market and Developing Economies
EVs	Electric Vehicles
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GFS	Government's Fiscal Deficit
GEF	Global Environment Facility
GPP	Green Public Procurement
IBRD	International Bank for Reconstruction and Development
IFC	International Finance Corporation
km	kilometer
KPI	Key performance indicator
kW	kilowatt
L	liter
LAOs	Local Administrative Organizations
LCR	Liquidity Coverage Ratio
MOF	Ministry of Finance
MRR	Marginal Retail Rate
NEER	Nominal Effective Exchange Rate
NESDC	National Economic and Social Development Council
NPL	Non-Performing Loan
NSO	National Statistical Office
OECD	Organization for Economic Co-operation and Development
PPP	Public-Private Partnership
REER	Real Effective Exchange Rate
SMEs	Small And Medium Enterprises
SOEs	State-Owned Enterprises
TFP	Total Factor Productivity
THB	Thai Baht
USD	United States Dollar
VAT	Value added tax

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EXECUTIVE SUMMARY

Recent Developments

The economic recovery faltered due to global and domestic headwinds as growth fell to 1.5 percent year-on-year in 2024 Q1, (Figure ES 1). Goods exports and manufacturing contracted by 2.0 percent and 3.0 percent¹, respectively, due to weak external demand. Internally, budget delays resulted in public investment and public consumption contracting by 27.7 and 2.1 percent, respectively. Tourism and private consumption, supported by cost-of-living measures, continued to expand. However, Thailand's tourism arrivals showed signs of losing momentum: arrivals reached only 86 percent of pre-pandemic levels in March as the recovery in global services trade neared completion; Chinese arrivals remained significantly below pre-pandemic levels (58.2 percent). The budget delay combined with the exposure to tourism and trade caused the Thai economy's post-pandemic recovery to lag further behind peers such as Malaysia and Philippines (Figure ES 2).

The current account remained positive at 2.2 percent of GDP in Q1 2024 but underlying weaknesses persist. Despite a goods trade surplus, goods exports contracted by 9.5 percent, in line with weak manufacturing. The financial account balance registered a deficit for the first half of this year, amid exchange rate depreciation, net FDI outflow and net foreign portfolio outflow. Meanwhile, the Real Effective Exchange Rate (REER) depreciated by 2.5 percent, one of the largest in the region. This depreciation was linked to the US dollar appreciation, uncertainty within local markets regarding new fiscal stimulus measures, and the persistent vulnerability of the current account balance.

Inflation has turned positive but remained the lowest among emerging markets due to energy subsidies and a weak recovery. After seven months in negative territory, headline inflation turned positive due to the partial withdrawal of energy subsidies and elevated food prices (Figure ES 3). In April, the government lifted the ceiling on retail diesel prices. However, subsidized electricity prices, including the reduced price for low-income households, were kept unchanged. Core inflation (excludes energy and raw food) remained weak at 0.4 percent, below its pre-pandemic average of 0.7 percent over 2016-2019, due to lower-than-expected prepared food prices and the delayed closing of the output gap. More price pressures may emerge if electricity price subsidies are further reduced and global energy prices surge. The central bank maintained its neutral policy rate but risks of underlying price pressures obscured by price controls and the potential impact of the large Digital Wallet universal cash transfer on growth and inflation complicates monetary policy.

The financial system remained stable amid improving but weak profitability, although risks associated with high levels of household debt persist. Capital and liquidity buffers at commercial banks remained well above regulatory requirements, with profitability rising. Indicators of asset quality continued to improve. Non-performing loan (NPL) ratio remained low at 2.8 percent as of Q2 2024. Profitability stood below pre-pandemic levels with return on assets at 1.2 percent and return on equity at 8.9 percent but continued to improve. Household debt stood at elevated level even compared to advanced economies (91.6 percent of GDP as of Q4 2023) and the highest among ASEAN peers. The composition of household debt in Thailand warrants attention due to the large share of uncollateralized lending (44 percent of GDP). Higher interest rates could strain households' ability to service debt.

The fiscal stance has become less expansionary as capital spending lapsed due to the delayed budget. The FY24 budget of THB 3.48 trillion (18.9 percent of GDP, cash basis) took effect in late April, after a seven-month delay. In the first half of FY24 (October 2023 - March 2024), the central government's fiscal deficit (GFS basis) declined to 3.5 percent of GDP, a notable decline from the 7.1 percent in the same period last year. The general government structural balance in FY23-24 showed a smaller deficit due to less expansionary policies, mirroring trends among ASEAN peers as governments prioritized fiscal consolidation in the wake of the pandemic. However, Thailand's decline was more pronounced than that of its ASEAN peers, due to delays in FY24 budget approval, which led to minimal capital spending (0.04 percent of GDP) and moderated recurrent spending.



Poverty declined in 2022 due to the labor market recovery. Per capita household consumption showed an 8.1 percent growth between 2021 and 2022 as the unemployment rate declined and average wages rose. Certain stimulus programs, such as the half-half initiative, and social assistance programs like the state welfare card and old age allowance, provided support to low-income households. With the rise in household income and consumption, the national poverty rate fell from 6.3 percent in 2021 to 5.4 percent in 2022. The decline in poverty was slightly more pronounced in urban areas compared to rural ones, decreasing from 5.2 percent to 4.2 percent in urban areas and from 7.8 percent to 7.1 percent in rural areas between 2021 and 2022.

Outlook and Risks

The economy is projected to recover in 2024 supported by sustained private consumption as well as tourism and goods exports recovery. Growth is projected to accelerate from 1.9 percent in 2023 to 2.4 percent in 2024 (Table ES 1). Private consumption and tourism will be key drivers but their pace will slow. Goods exports are expected to rebound due to favorable global trade (Figure ES 4). Tourism is projected to return to pre-pandemic levels in mid-2025, set back by the slowdown of the Chinese economy. The planned Digital Wallet² is not yet included in the baseline but could potentially boost near-term growth further if implemented. Potential growth for 2023-30 is estimated at 2.7 percent, 0.5 percentage points lower when compared to the previous decades due to aging and subdued productivity growth. This slowdown is also observed among regional peers, as the average potential growth in the East Asia and Pacific (EAP) region is projected to average 4.8 percent over the remainder of this decade (down from 6.2 percent in the decade to 2021).³

The current account balance will moderate in 2024 and support external stability but remain below pre-pandemic levels. The current account surplus will moderate from 1.4 percent of GDP in 2023 to 1.0 percent of GDP in 2024, driven by weaker-than-expected goods export in Q1 and a net services trade deficit due to supply disruptions in the Red Sea despite recovering tourism revenue.

Headline inflation is projected to slow to a regional low of 0.7 percent in 2024, below the central bank's target range, due to the moderation in food and energy prices and a negative output gap. This decline is attributed to lower-than-expected food prices energy prices and core inflation despite the partial withdrawal of energy subsidies. Food prices and core inflation are expected to increase.

Public debt is projected to rise to 64.6 percent in FY25. The fiscal deficit is projected to increase to 3.6 percent of GDP as budget execution normalizes and fiscal stimulus measures aimed at boosting consumption are implemented, in line with the government's medium-term fiscal framework. While public debt is projected to remain sustainable (Figure ES 5), the pressure for higher social spending and public investments in human capital due to aging is rising. Thailand currently still has the room to raise tax revenue and maintain fiscal sustainability while meeting both spending pressures and investment needs (WB Thailand [Public Spending and Revenue Assessment 2023](#)).

Thailand faces the mounting challenge of reconciling fiscal sustainability and short-term stimulus. The government projected that public debt will rise to 68.6 percent of GDP by 2028 as spending needs rise.⁴ Pro-growth consumption-stimulating measures such as the Digital Wallet have added to this pressure. To enhance fiscal resilience amid rising spending needs, Thailand can start by focusing on more targeted social assistance and transfers to effectively support vulnerable households and poverty alleviation. In addition, Thailand has room to raise tax revenue, promote equity, create fiscal space and accelerate investment. In the long-term, potential growth could be lifted through fiscal reforms to unleash multiple growth poles across the country; implementing public infrastructure investments can connect and empower lagging regions,

¹ Growth terms are in year-on-year terms, unless specified otherwise.

² The government is waiting for BAAC's estimates of financial and management costs before seeking approval from the Council of State regarding financing from the BAAC, a state-owned bank. Once there is certainty about how the scheme will be implemented, the scheme would be included in World Bank baseline projections.

³ World Bank Global Economic Prospects, June 2023

⁴ Medium-Term Fiscal Framework, Fiscal Policy Office, May 28, 2024.



crowd in private investment and support structural transformation (Figure ES 6; see Chapter 2 on Secondary Cities).

Building Tomorrow: Infrastructure Finance for Thailand's Secondary Cities

Thailand's urbanization has been heavily focused on Bangkok. Bangkok is one of the most primate cities⁵ in the world. Bangkok's strategic geographic position within Southeast Asia, coupled with its comparatively developed infrastructure and transportation networks, has fostered economic growth and activities within the city and surrounding areas. At the same time, Bangkok has become ever more congested, and the inefficiencies and problems related to that congestion are becoming more expensive and harder to overcome. The 2011 floods also highlighted Thailand's economic vulnerability due to the concentration of critical industries in Bangkok. Climate change will further strain Bangkok's infrastructure and the nation's economy, emphasizing the need for a more diversified economic base.

A portfolio of places is needed for economic growth. The World Bank's 2009 *World Development Report* (WDR) advised policymakers to see their role as "prudent managers of a portfolio of places." One city cannot do it all. Different types of cities serve different functions, with large cities like Bangkok providing world-class levels of services for business and government, while medium size cities may be better suited for manufacturing. Many of Thailand's secondary cities are already regional centers of economic activity, with a diverse array of industries and sectors. These cities are vitally important in their regions, and they have the potential to be much stronger contributors to a balanced national economy.

Recently, per capita GDP growth in Thailand's secondary cities has been nearly 15 times higher than in Bangkok. While Bangkok's economy seems to be mature and potentially saturated, these cities have been growing their productivity faster than their populations. With appropriate investments in infrastructure, human capital, and institutional capacity; and with adjustments to the intergovernmental framework, a number of these cities have the potential to further enhance Thailand's productivity, spur its economic growth, and bolster its global competitiveness. Within their respective regions, these urban centers can prospects for individuals and businesses alike, while contributing to the mitigation of poverty in surrounding rural areas.

Thailand's secondary cities are overly dependent on nationally raised revenues. Because they have little control over their own spatial planning, infrastructure development, and fiscal policies, these cities depend heavily on transfers from the national budget to support the required infrastructure development, and this keeps them from realizing their economic potential. While substantial capital investment is necessary, they do not need to rely on national resources. If local governments have greater authority over urban planning, infrastructure development, and access to long-term financing mechanisms—complemented by robust fiscal instruments such as property taxes, income tax piggybacking, and user charges—these cities could effectively chart their own economic growth trajectories.

Cities need robust revenue instruments to thrive. These instruments could include a property tax with more local control or surcharges on national income taxes. Additionally, fees and charges for urban services need to be reassessed, as they currently fall short of supporting the infrastructure necessary for a modern economy. Thailand's cities do not have the authority to set their own property tax rates or tax base. This lack of control impairs the adequacy and reliability of local taxation, starving cities of the revenues they need for operations and investment. If greater autonomy and reliability in property taxes proves difficult in the Thai context, an alternative could be a "piggyback" local tax which relies on the national personal income tax collection system. Empowering local authorities to implement fair and reasonable taxes, in consultation with their communities, would be an important first step in ensuring fiscal sustainability.

Cities with adequate and reliable revenues can access capital for infrastructure development. Municipal borrowing and public-private partnerships (PPPs) are proven ways for cities to secure capital for

⁵ Primary cities and primate cities are related concepts in urban geography. Bangkok is both primary and primate. A primary city is the largest and most important city in a country or region, while a primate city is disproportionately large compared to other cities in the country, dominating the country's urban system economically, culturally, and politically. See discussion of Bangkok's primacy in Box 4 of Part 2.



infrastructure investment, allowing citizens and firms to benefit from modern services while they pay for them. Wherever there are reliable and adequate revenue streams, cities can leverage these to secure infrastructure and pay for it over time. Cities across the world use these tools and are able to attract significant capital to finance local infrastructure.

Empowering Thailand's secondary cities would be a significant paradigm shift. The possibilities that we suggest in this chapter cannot be realized through marginal adjustments to existing policies. An intergovernmental fiscal policy that puts more responsibility and accountability on local government, and frees communities to plan their own futures, would require systemic change. The planning authority, fiscal instruments, and long-term financing powers of local government would all need to change, as would requirements for local government transparency, consultation, participation, and downward accountability. The model could be what the European Union calls the principle of subsidiarity: governance decisions should be taken at the lowest practical level of government, and as close to the citizen as possible – so that if a matter can be handled by local government, it should be.

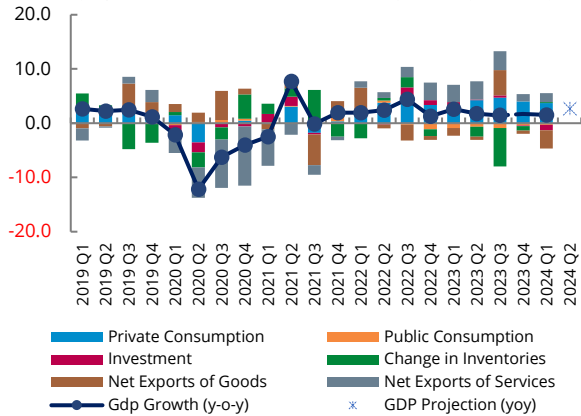
A paradigm shift of this magnitude could not occur overnight. If the decision to empower local governments were made in principle, it would still necessitate years of capacity-building and experiential learning. Local Administrative Organizations (LAOs) would need to cultivate expertise in consistently assessing community needs, designing projects to address these needs, and securing financing for implementation. The transition would require legislative and institutional reforms to grant LAOs increased authority while ensuring greater accountability. It would require local planning processes that are responsive and adaptable to market demands for land, housing, labor, and transportation. The challenge lies not just in the decision itself, but in the complex, multi-faceted implementation process that would follow.



Recent Developments and Medium-Term Outlook

Figure ES 1: The Thai economy slowed due to the contraction in government consumption and total investment

(Percentage-point contribution to real GDP growth, year-on-year)

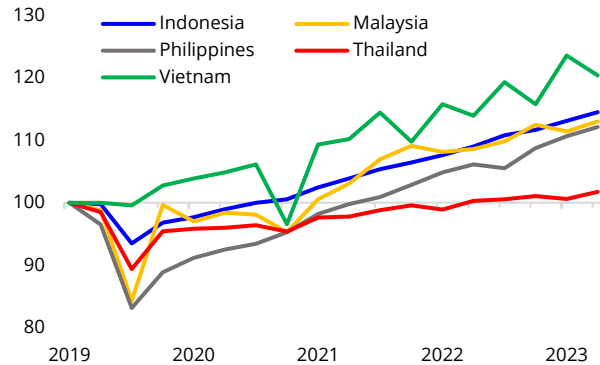


Source: NESDC.

Note: Change in inventories include statistical discrepancies; 2023 Q4 is estimated.

Figure ES 2: ...Thailand's post-pandemic recovery lagged behind ASEAN peers

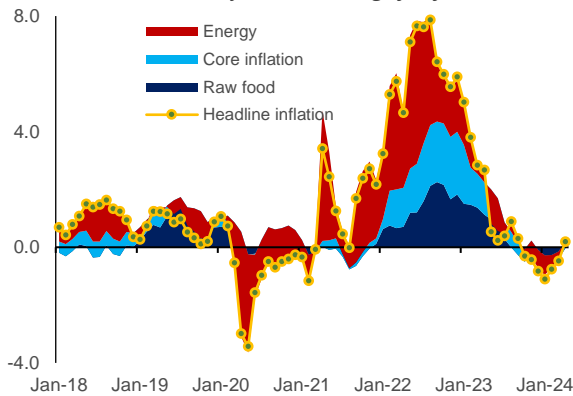
(GDP Index, seasonally adjusted, Q4 2019 = 100)



Source: CEIC; World Bank staff calculations.

Figure ES 3: Headline inflation turned positive due to cost-of-living measures and easing global prices

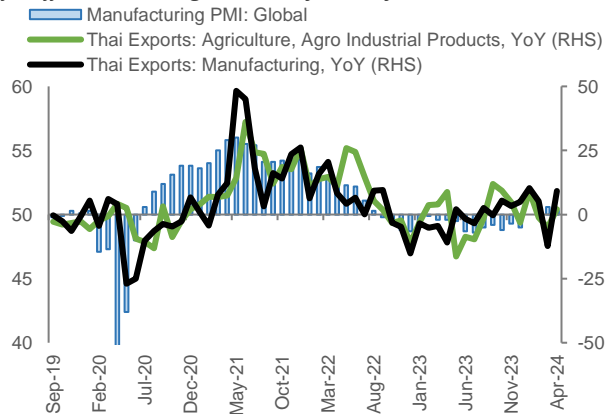
(Contribution to headline inflation, % change y-o-y)



Source: CEIC; World Bank staff calculations.

Figure ES 4: Indicators point to an ongoing recovery in goods exports

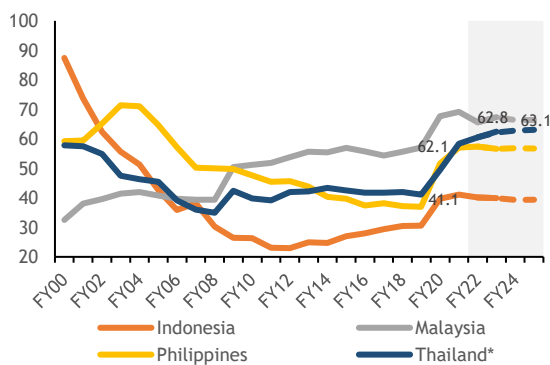
(left: diffusion index; right: Percent year-on-year)



Source: Haver Analytics; CEIC; World Bank staff calculations.

Figure ES 5: Public debt is projected to rise but remains sustainable

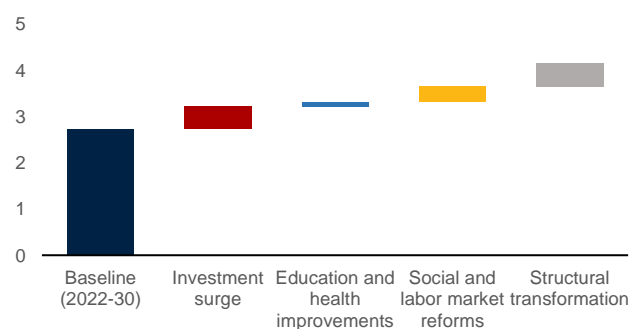
(Percent of GDP)



Source: CEIC; World Bank staff projections.

Figure ES 6: The growth potential could be uplifted by investments including in secondary cities

(Potential growth, illustrative reform scenario, percentage points)



Source: Thailand SCD; World Bank staff projections.



Table ES 1: Macroeconomic Indicators

	2020	2021	2022	2023	2024f	2025f
Real GDP Growth Rate (at constant market prices)	-6.1	1.6	2.5	1.9	2.4	2.8
Private Consumption	-0.8	0.6	6.2	7.1	3.6	2.6
Government Consumption	1.4	3.7	0.1	-4.6	1.2	2.6
Gross Fixed Capital Investment	-4.7	3.1	2.3	1.2	2.1	2.8
Exports of Goods and Services ¹	-19.7	11.1	6.1	2.1	4.7	3.5
Imports of Goods and Services	-13.9	17.8	3.6	-2.3	4.0	3.4
Real GDP Growth Rate (at constant factor prices)						
Agriculture	-2.7	2.5	1.4	2.0	1.5	2.0
Industry	-4.9	6.0	3.6	-2.3	1.2	2.7
Services	-5.7	-0.3	3.1	4.3	3.2	2.9
Inflation (Consumer Price Index)	-0.8	1.2	6.1	1.2	0.7	1.1
Current Account Balance (% of GDP)	4.2	-2.0	-3.2	1.4	1.0	3.3
Fiscal Balance (General Government, % of GDP)	-4.5	-6.7	-4.4	-2.0	-1.3	-3.6
Debt (% of GDP)	50.1	57.7	59.7	62.1	63.4	64.6

Note: 1/ Exports of goods and services accounted for 69.4 percent of GDP in 2022. See more details in the outlook section.

Source: NESDC; World Bank staff calculations.



Part 1. Recent Economic Developments and Outlook: Unexpected Setbacks



1. Recent Economic Developments: Maintaining Recovery amid External and Internal Headwinds

i. The Global Economy

Global growth remains subdued.

Despite some modest firming in recent months, global growth remains subdued, with advanced economies and emerging market and developing economies (EMDEs) set to grow, in aggregate, at a slower pace over 2024-26 than in the decade preceding the pandemic. There is marked divergence across the three main engines of global growth, with the United States exhibiting remarkable resilience, contrasting with feeble growth in the euro area and a notable slowdown in China this year.

Global trade appears to be recovering.

After reaching a standstill last year, global trade growth appears to be recovering, supported by a pickup in goods trade. Services trade growth is expected to provide less of a tailwind, given the post-pandemic tourism recovery is nearing completion. The trade outlook nonetheless remains lackluster compared to the two decades preceding the pandemic, weighed down by proliferating trade-restrictive measures—with the number of new measures well above pre-pandemic levels—and elevated trade policy uncertainty, among other factors.



ii. Growth and Real Sector Developments: Internal and External Headwinds Set Back the Recovery

GDP growth remained subdued at 1.5 percent in Q1 2024.

Growth remained subdued at below 2 percent for the fourth consecutive quarter (Figure 1) and relatively uneven across demand components. On a quarterly basis, GDP expanded by 1.1 percent (seasonally adjusted), reversing the previous quarter’s dip (-0.4 percent qoq sa) and thus avoiding a technical recession.

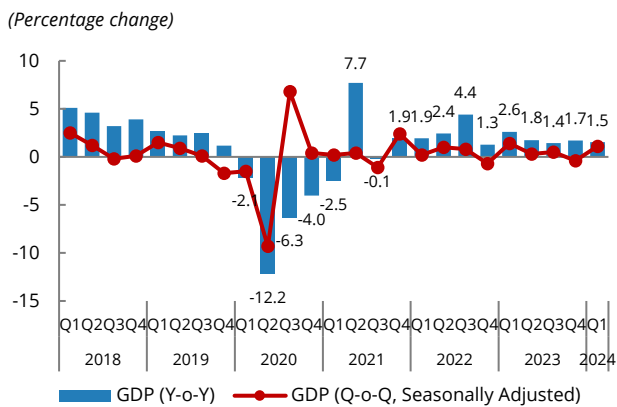
Growth remained uneven as goods exports and public investment contracted.

Domestic demand, particularly stronger-than-expected private consumption (6.9 percent), proved to be a key driver and was supported by energy subsidies as well as the continued, albeit slowing, tourism recovery (Figure 2). Private investment slowed slightly (4.6 percent) as investment in equipment and exports weakened. Public consumption and public investment contracted (-2.1 and -27.7 percent, respectively) due to the budget delay as well as phasing out of COVID-related social transfers. The main drag was net exports of goods (-1.6 pp contribution) due to weak global demand, transport disruptions in the Red Sea and lower-than-expected benefits from the global electronics cycle. However, high frequency indicators show that the manufacturing down cycle, which had fallen close to pre-pandemic levels may have bottomed out (Figure 3).

External and internal shocks exacerbated by underlying weaknesses have set back Thailand’s recovery.

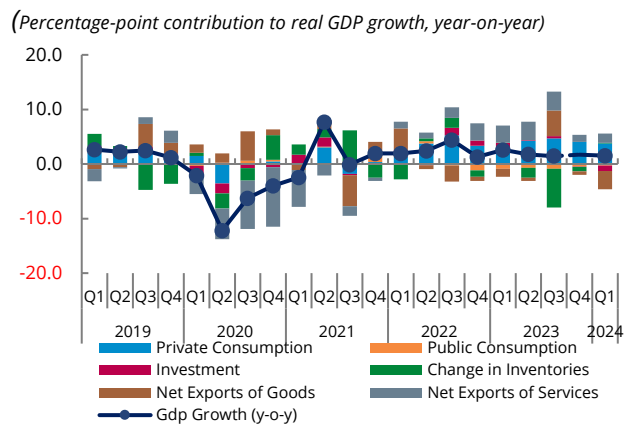
Weak global trade has particularly impacted Thailand due to the country’s position as a trade and tourism hub. Despite tourism receipts remaining as a driver of growth, Thailand’s tourism arrivals reached only 86 percent of pre-pandemic levels in March. Chinese arrivals remained significantly below pre-pandemic levels—at a subdued 58.2 percent of the 2019 level. Thailand’s downstream position in global value chains also meant that Thailand did not reap the full benefit of the global electronics cycle recovery in higher value-added components (e.g., semiconductors).⁶ In addition, the delayed budget approval led to minimal public spending in Q1. As a result, Thailand diverged further from ASEAN peers; the gap is equivalent to accumulated losses of 9-15 percent of GDP following recovery to pre-COVID income levels (Figure 4).

Figure 1: Growth disappointed in Q1 2024 but the subdued recovery remained intact



Source: NESDC.

Figure 2: The contraction in goods exports, public consumption, total investment was offset by private consumption

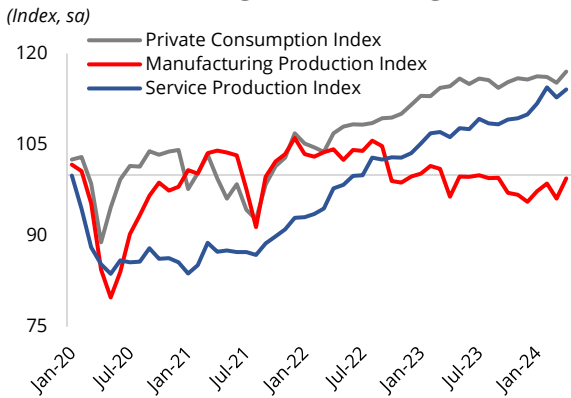


Source: NESDC.

⁶ There is increasing evidence that Thai manufacturing firms have not fully reaped the benefits of moving into more innovative services-oriented parts of global supply chains. Constraints include competition, services trade restrictions and human capital. See WB Thailand *Monthly Economic Monitor*, February 2024, and WB Thailand *Systematic Country Diagnosis Update 2024*.

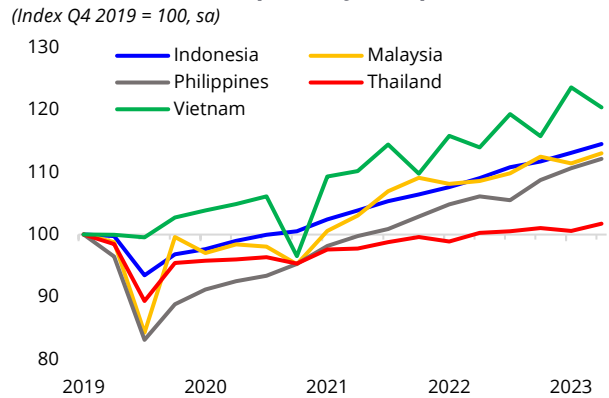


Figure 3: Manufacturing remained below pre-covid levels, but showed signs of bottoming out



Source: CEIC; World Bank staff calculations.

Figure 4: Thailand's lagging recovery diverged further from ASEAN peers by 9-15 percent of GDP

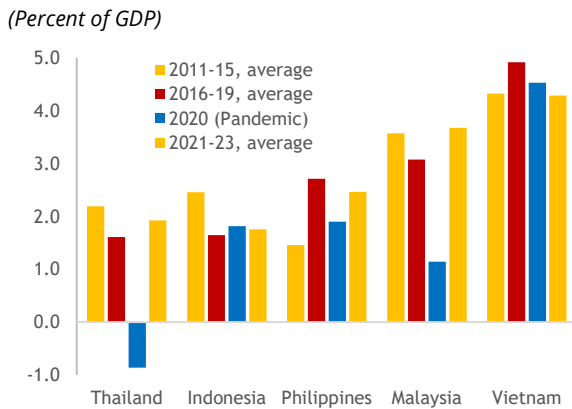


Source: NESDC; CEIC; World Bank staff calculations.

The uptick in foreign direct investment, particularly for EVs and electronics, continued.

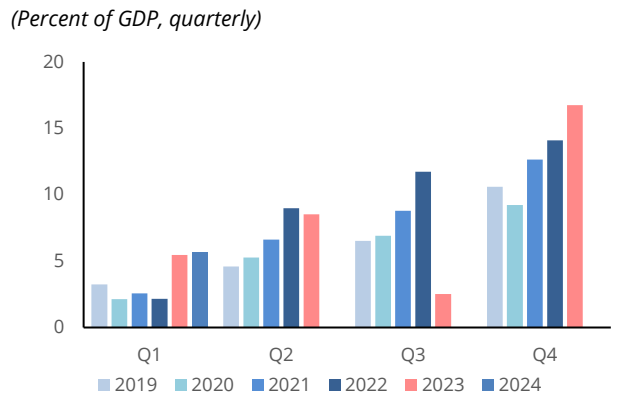
After contracting during the pandemic, Q1 2024 data on investment promotion applications from the Thailand Board of Investors (BOI) point towards a potential positive reversal in FDI: the number and value of approved projects increased by 41 and 13 percent (y-o-y) respectively with China, Singapore and Australia emerging as the primary source of investments (Figure 6). Targeted sectors in the Eastern Economic Corridor (EEC) such as the electronics, machinery and automotive sectors received the largest inflows over the quarter. Nevertheless, net FDI inflows remained behind Malaysia and Vietnam (Figure 5). EV and parts producers from China and Taiwan benefited from investment promotion as well as tax and subsidy measures to support EV usage, imports and production.⁷

Figure 5: FDI inflows in 2021-2023 improved but remained behind Philippines, Malaysia and Vietnam



Source: CEIC; World Bank staff calculations.

Figure 6: Applications for investments in targeted sectors continued to rebound



Source: Board of Investment; World Bank staff calculations.

On the supply side, services expanded while manufacturing dragged on growth.

Recovery has proven uneven across sectors. Services, particularly accommodation and food services, continued to be the key driver of growth amid recovering tourism and employment (Figure 7). However, construction contracted due to public investment delays. The manufacturing sector, particularly industries associated with exports such as electronics as well as

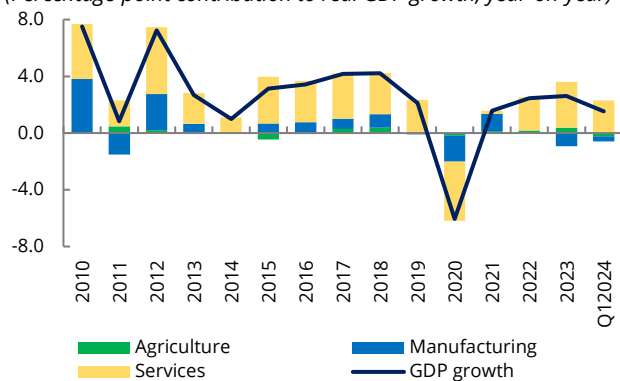
⁷The new government (1) extended the subsidy for EV producers until 2027 but revised the amount down from THB 150,000 per unit to THB 100,000; (2) reduced import tariffs on EV cars ranging from zero to 40 percent, depending on engine size; and (3) exempted import duties for parts imported between 2022 and 2025, and treated the value of imported battery cells as a cost of local manufacturing (up to 15% of an EV's retail price) to promote local production.



computers and equipment, continued to contract for the sixth consecutive quarter, in line with weak global demand. While agriculture contracted as production of major crops were adversely affected by drought, high frequency data point to a recovery in crop output (Figure 8).

Figure 7: Manufacturing continued to contract and set back the services-led recovery

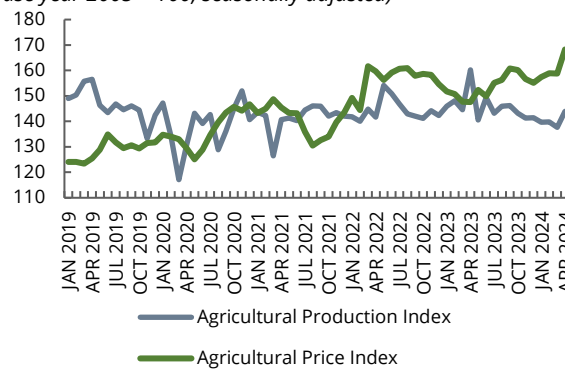
(Percentage-point contribution to real GDP growth, year-on-year)



Source: NESDC.

Figure 8: Agricultural production recovered from drought

(Base year 2005 = 100, seasonally adjusted)



Source: Office of Agricultural Economics, Ministry of Agriculture and Cooperatives.

iii. The Current Account Remained in Surplus but Underlying Vulnerabilities Persist

In Q1 2024, the current account maintained a surplus at 2.2 percent of GDP, but underlying vulnerabilities persist.

The Q1 2024 surplus reflected gains from a positive net primary and secondary income balance. However, the goods trade balance declined on account of an increase in imports partly due to higher shipping costs stemming from the crisis in the Middle East. Traffic volumes through the Suez Canal and the Bab El-Mandeb Strait declined by 50 percent as of the end of March.⁸ Consequently, freight costs, particularly for the Thailand-Europe route, saw a four-fold increase with some freight companies canceling shipping services entirely.⁹ Manufactured exports, particularly electronics and peripherals, to major markets—China, US and Japan—also remained weak. The Purchasing Managers’ Index (PMI) shows that manufacturing export orders experienced their sharpest decline in over three years point but point to a recovery by the end of the year.¹⁰ This is substantiated by Q1 2024 customs data which shows a modest contraction in goods exports (0.2 percent) over the period but a more substantial 10 percent decline in March 2024 possibly reflecting the buildup of shipping delays in the Suez Canal and the decline in orders captured in the PMI. Notably, robust earnings from tourism continued to contribute to the services surplus.

⁸ World Bank, *Navigating troubled waters: The Red Sea shipping crisis and its global repercussions* <https://blogs.worldbank.org/en/developmenttalk/navigating-troubled-waters--the-red-sea-shipping-crisis-and-its-#:~:text=This%20crisis%20has%20far%2Dreaching,to%20the%20additional%20fuel%20burned.>

⁹ The Nation, *Attacks on ships in the Red Sea quadruple shipping costs*, www.nationthailand.com/thailand/general/40034827

¹⁰ Based on headline S&P Global Thailand Manufacturing Purchasing Managers' Index™ (PMI). PMI is a composite single-figure indicator of manufacturing performance. It is derived from indicators for new orders, output, employment, suppliers’ delivery times and stocks of purchases. www.pmi.spglobal.com/Public/Home/PressRelease/987dc4e3adc64e57a6a2bedfcab6d2ad



Foreign portfolio and FDI outflows exceeded inflows in Q4 2023 resulting in a financial account deficit for end-2023.

In Q4 2023, the capital and financial account balance weakened to -3.5 percent of GDP, down from 4.3 percent in Q4 2022. The full year capital and financial account balance for 2023 closed off at -2.4 percent of GDP (down from 1.4 percent of GDP in 2022). Cumulative FDI inflows for 2023 declined by 74 percent to 0.5 percent of GDP compared to 2.3 percent in 2022 as uncertainty surrounding new domestic fiscal stimulus measures and volatile global financial conditions weighed on investor confidence and prospective FDI flows (Figure 10). The foreign portfolio also continued to register net outflows on account of similar external and domestic pressures. Notably, Thailand experienced the largest outflows in the region when compared to Indonesia, Malaysia, India, and Emerging Asia.

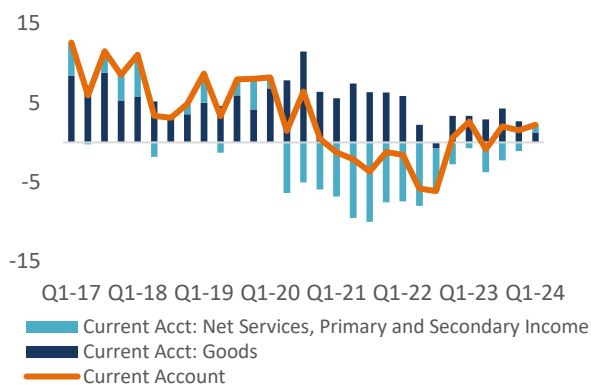
The Real Effective Exchange Rate continued to weaken since Q4 2023 as outflows from equity and bond markets persisted.

In the first five months of 2024, the REER has continued to depreciate as Thailand's equity and bond markets continued to record outflows due to expectations regarding tightening of US monetary policy, a stronger US economy, geopolitical concerns in the Middle East and the lower-than-expected economic performance of Thailand. The baht proved to be the weakest performing currencies against the USD in the region (Figure 11). The weakness began in 2023 during which the REER depreciated by 5.1 percent stemming in part from portfolio outflows driven by shaky investor confidence regarding Thailand's economic outlook and long political transition (Figure 11). These pressures outweighed the increase in the demand for baht from substantially higher tourism inflows over the course of the year.

The reserve position remains strong and well above the levels of most ASEAN peers.

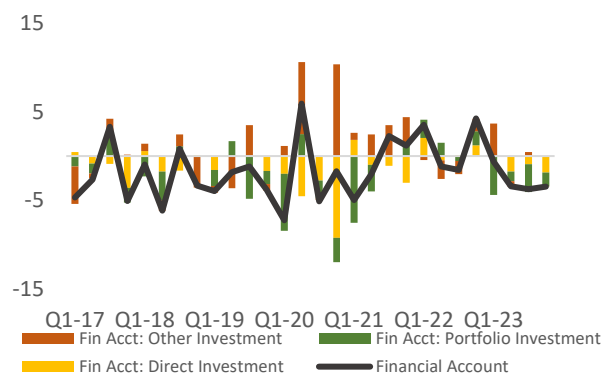
The overall improvement in the current account supported high levels of gross international reserves amounting to around 45.4 percent of GDP or 3.5 times the level of short-term external debt (Figure 13). International reserves covered around 10.5 months of imports end-2023. Between 2022 and 2023, international reserves increased by 3 percent providing sufficient buffer and adequate flexibility for the authorities to respond to external shocks. Reserves remained stable in the first quarter of 2024.

Figure 9: In Q4 2023, the current account maintained a surplus at 2.2 percent of GDP
(% of GDP)



Source: Bank of Thailand; World Bank staff calculations.

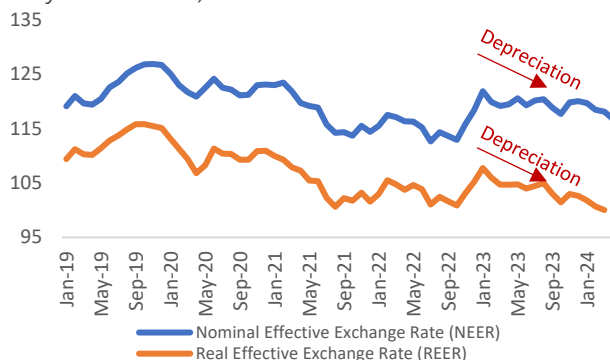
Figure 10: The net financial account deficit was driven by FDI and foreign portfolio outflows
(% of GDP)



Source: Bank of Thailand; World Bank staff calculations.

Figure 11: The REER and NEER continued to depreciate

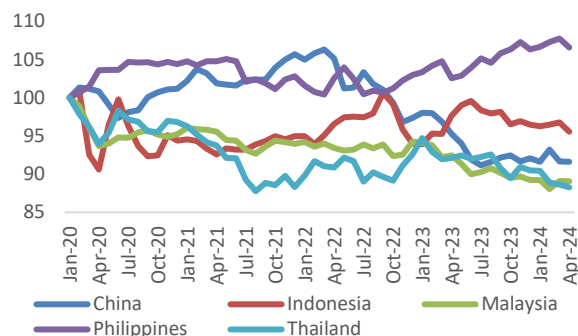
(Base year 2012 = 100)



Source: Bank of Thailand; World Bank staff calculations.

Figure 12: The REER for Thailand depreciated in line with Indonesia and Malaysia

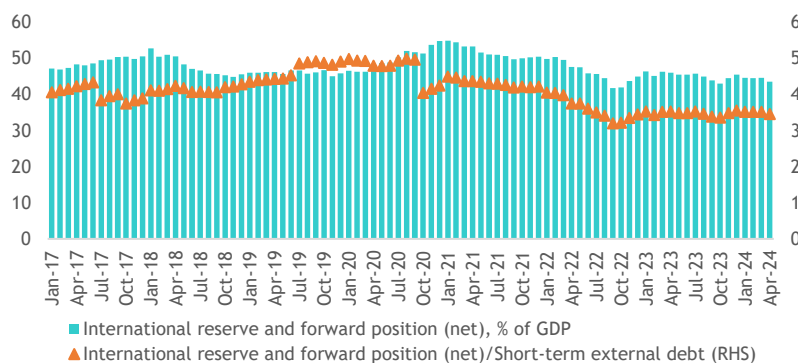
(January 2020 = 100)



Source: Bank for International Settlements (BIS).

Figure 13: Thailand's international reserves and forward position remain strong at three times the level of external debt

(LHS: % of GDP, RHS: short-term debt)



Source: Bank of Thailand; World Bank staff calculations.

iv. Inflation turned positive but remained the lowest amongst emerging markets

Inflation returned to positive territory due to the removal of energy subsidies.

In April, headline inflation turned positive for the first time in seven months, reaching 0.2 percent year-on-year, due to the partial withdrawal of energy subsidies and elevated food prices. This increase was primarily driven by higher energy prices, following the still elevated global oil prices and reduced energy subsidies, along with elevated domestic fresh food prices. The government began reducing costly and regressive fuel subsidies in April, lifting the ceiling on retail diesel prices by THB 1.40 per liter to reach THB 31.44 per liter, the highest since October last year. However, both the general electricity price and the reduced electricity price for vulnerable households were kept unchanged since January¹¹. Due to energy subsidies as well as the weak recovery, inflation remained the lowest among ASEAN peers and emerging markets (Figure 14). The Bank of Thailand estimated that energy subsidies lowered headline inflation by 0.77 percentage points in 2023.

¹¹ In January 2024, the general electricity price was increased by 4.8 percent, reaching 4.18 baht per unit. The reduced price, implemented in September 2023, remained unchanged at THB 3.99 per unit for vulnerable households with consumption of no more than 300 units per month, benefiting about 18 million households (78 percent of all households liable for electricity bills).



Core inflation has slowed.

Core inflation (excluding energy and raw food) fell to 0.4 percent, below its pre-pandemic average of 0.7 percent over 2016-2019 due to lower-than expected prepared food prices amid lower energy prices (Figure 15). Strengthening domestic consumption and removal of energy subsidies is expected to exert more pressure on core prices.

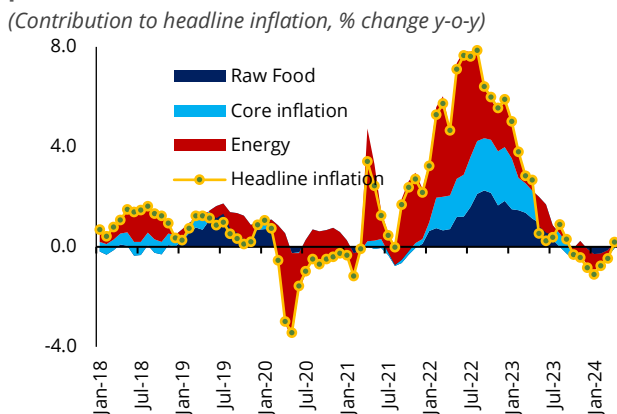
The Bank of Thailand maintained a neutral interest rate amid subdued economic recovery.

The BOT kept the policy rate unchanged at 2.5 percent despite pressure to lower rates. As a result, the government pressed commercial banks and state-owned banks lowered lending rates for vulnerable retail customers. Major commercial banks and state-owned banks lowered the marginal retail rate (MRR) by 25 basis points for six months by the end of April. These cuts are aimed at alleviating the interest burden on vulnerable individuals and SMEs in the short term. However, they may undermine monetary policy transmission and are unlikely to address the structural issue of household debt, which remained the highest among ASEAN peers (91 percent of GDP in Q4 2023).

Monetary policy accommodation is premature due uncertainty around the Digital Wallet.

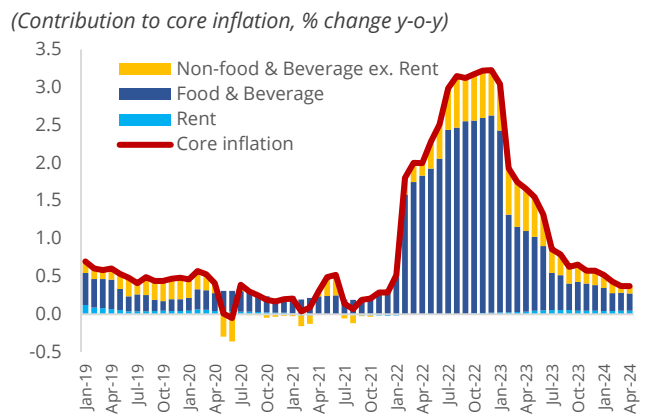
The Taylor rule¹² suggests that there is scope to pursue additional monetary accommodation of 50 bps in the baseline, considering the slower-than-expected recovery, delayed closing of the output gap in 2025 or later, and anchored inflation expectations (Figure 17). However, potential implementation of the still uncertain Digital Wallet will stimulate private consumption and possibly increase price pressures, thereby shifting the balance of risks from growth to inflation, and pre-empting monetary accommodation.

Figure 14: Headline inflation turned positive after partial removal of energy subsidies and higher food prices



Note: Headline inflation includes raw food and energy.
Source: CEIC; World Bank staff calculations.

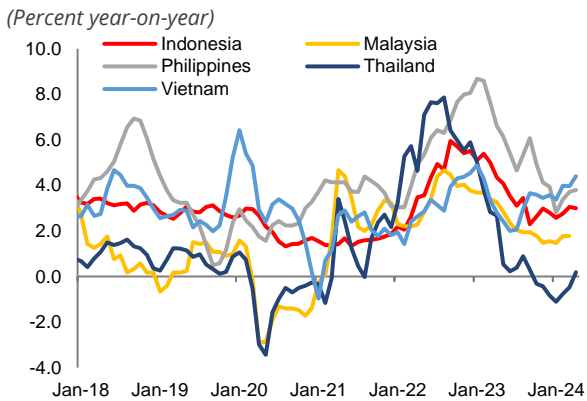
Figure 15: Core inflation declined due to food and non-food yet remained above pre-pandemic levels



Note: Core inflation includes prepared food and excludes raw food and energy.
Source: Haver Analytics; World Bank staff calculations.

¹² The estimation is based on a standard Taylor rule that relates the central bank policy rate to inflation expectations, deviations from target, and output deviations from potential output. This estimation incorporates degree of persistency, an augmented version of the Taylor Rule, which includes a lagged interest rate term. Potential output is derived from a Cobb-Douglas production function, with calibration of the function's parameters.

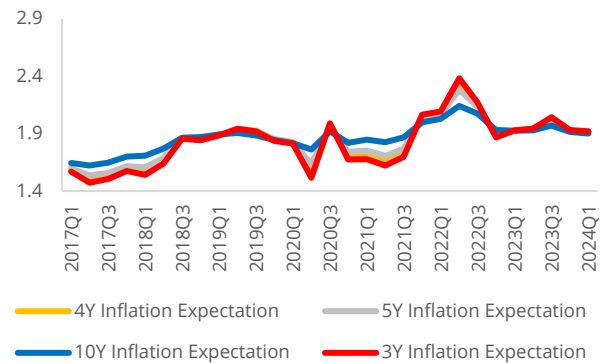
Figure 16: Inflation turned positive but remained well below other ASEAN economies



Source: MOC; CEIC; World Bank staff calculations.

Figure 17: Long-term inflation expectations remained within the target range

(Expectations inflation index-linked bonds, percent year-on-year)



Source: Puey Ungphakorn Institute for Economic Research, Bank of Thailand.

v. Thailand’s Financial System Remained Stable amid Improving but Weak Profitability

The financial sector remains generally resilient with timid lending growth, but high household debt warrants close monitoring.

System-wide non-performing loans (NPL) ratio remained low at 2.8 percent as of December 2023, declining from its level during the pandemic. The banking sector has adequate buffers to withstand potential adverse shocks: the capital adequacy ratio (CAR) stood at 19.6 percent end-2023, above the regulatory minimum of 10.5 percent. The liquidity coverage ratio (LCR), designed to gauge bank liquidity conditions in times of stress, stood at 202 percent in December 2023, well above the 100 percent regulatory minimum. Although the banking sector has been profitable, with Return on Assets (ROA) and Return on Equity (ROE) at 1.2 percent and 8.9 percent, respectively, lending to the real economy has weakened with recent reading of credit to private non-financial corporate sector registering a lackluster 1.5 percent in March 2024, in line with slower economic growth post-pandemic which may reduce demand for credit if even the financial sector is willing to supply more. The level of household debt has declined to 91.6 percent of GDP in Q4 2023 from its peak of 95.8 percent two years ago. However, it still remains a major vulnerability for the financial sector due not only to its level but also the fraction of uncollateralized consumer loan in bank lending portfolios. Recent measures by the BOT to promote responsible lending, curb excessive pricing in informal lending and enhance macroprudential policies are welcomed progress in tackling the root causes of the household indebtedness.

The government’s directive to lower loan interest rate for vulnerable low-income households could provide temporary relief if well-targeted...

The reduction of debt burden for lower-income households could reduce income and wealth inequality as well as boost aggregate demand due to the higher marginal propensity to consume by lower-income households.¹³ Over 2011-2019, the average low- and middle-income household saw their household debt rise by 36 percent and 17.2 percent, respectively; the average high-income household saw a mere 1.5 percent increase. Nevertheless, high-income households still hold a much-higher level of average debt than lower income households¹⁴. Furthermore, since poorer households are more likely to face credit and liquidity constraints, higher debt concentration among households with limited access to credit tend to amplify negative aggregate demand shocks. Hence, well-targeted

¹³ Lombardi, Mohanty and Shim (2017) finds evidence that negative long-run effects on consumption and growth intensify as household debt-to-GDP exceeds 60 percent and 80 percent, respectively.

¹⁴ Belghith, Nadia Belhaj Hassine; Arayavechkit, Tanida; Fernandez, Francine Claire Chang; Sangarun, Buntarika. *Bridging the Gap - Inequality and Jobs in Thailand (English)*. Washington, D.C. : World Bank Group.



relief measures aimed at changing the distribution of household debt burdens could potentially reduce inequality and increase consumption, and hence have positive implications for economic growth through improved consumer sentiments and higher aggregate demand.

...but care must be taken to avoid unintended consequences on the functioning of the financial sector.

Globally, interest rate caps/ceilings are a policy tool that has been applied in close to 80 countries around the world, including EMDEs, for different purposes and for different reasons¹⁵. For instance, the US, UK and Australia have interest rate ceilings on payday loans to prevent usury and protect vulnerable and the less financially literate segments of the society from predatory lending. China and India have had regulations to cap interest rate charged for micro-finance institutions to promote financial inclusion. When the intention is related to financial inclusion and consumer protection (i.e., to protect consumers from exorbitant interest rate rates charged) such policies could be effective at removing predatory lending from the market with little effects on the functioning of formal market, if the cap is set well above equilibrium rates and hence only affect extreme pricing. However, like any other form of price controls, longer-term and persistent directed interest rate changes could reduce the financial market's ability to send market-based price signals, and cause a variety of distortions including increases in non-interest fees and commissions, reduced price transparency, lower credit supply and loan approval rates for small and risky borrowers. On the demand side, directed interest rate decreases to reduce debt burdens may introduce some moral hazard if borrowers change their expectations of future obligations to repay their loans. Since the proposed measures have a limited time frame, these side-effects will likely not materialize, but further extensions should be carefully managed to avoid potential ramifications on both the supply side and the demand side of the credit market.

vi. The Fiscal Stance has Become Less Expansionary due to the Delayed Budget

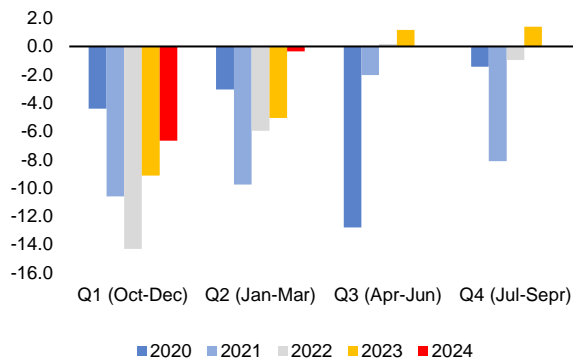
The central government's fiscal deficit decreased in the first half of FY24 due to delayed budget approval and less expansionary policies, with potential economic boosts expected from accelerated budget execution.

In the first half of FY24 (October 2023 - March 2024), the central government's fiscal deficit (GFS basis) declined to 3.5 percent of GDP, a notable decline from the 7.1 percent in the same period last year (Figure 18 **Error! Reference source not found.**). The general government structural balance in FY23-24 showed a smaller deficit due to less expansionary policies, mirroring trends among ASEAN peers as the COVID-19 situation stabilized and governments prioritized fiscal consolidation. However, Thailand's decline was more pronounced than that of its ASEAN peers, due to delays in FY24 budget approval, which led to minimal capital spending (0.04 percent of GDP) and moderated recurrent spending. However, the FY24 Budget of THB 3.48 trillion (18.9 percent of GDP, cash basis) took effect in late-April, after a seven-month delay. Accelerating budget execution could boost economic activity for the remainder of 2024.

¹⁵ See Ferrari, Aurora & Masetti, Oliver & Ren, Jiemin, 2018. "Interest rate caps: theory and the practice," *Policy Research Working Paper Series* 8398, The World Bank.

Figure 18: The central government’s fiscal deficit in Q2 of FY24 continued to decline...

(% of fiscal year GDP, Central Government, GFS basis)



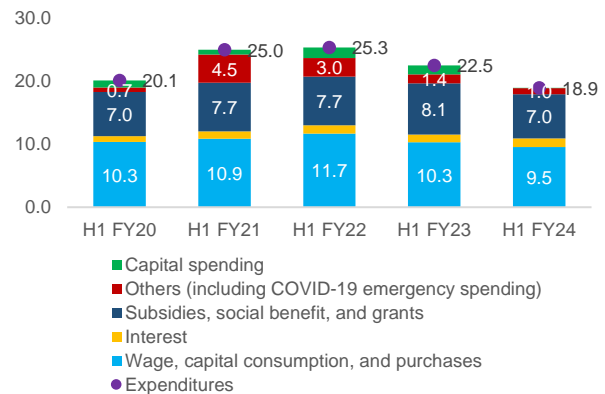
Source: Fiscal Policy Office, Ministry of Finance.

The government announced its Digital Wallet universal cash transfer program and begun rolling back energy subsidies.

The government’s flagship Digital Wallet program (a one-time digital transfer of THB 10,000 or USD 286 to 50 million Thais) is scheduled to be implemented over Q4 2024 - Q1 2025. The fiscal cost of THB 500 billion (2.7 – 3.0 percent of GDP) will be financed through the fiscal budget for FY24 and FY25¹⁶, as well as quasi-fiscal means—potential borrowing by the Bank for Agriculture and Agricultural Cooperatives' (BAAC), a state-owned bank (Figure 20). While the latter will not be reflected in the public debt, it will increase the contingent liabilities of the government.¹⁷ At the same time, the government began reducing costly and regressive fuel subsidies in April, lifting the ceiling on retail diesel prices by THB 3 per liter to reach one-year high at THB 33.0 per liter¹⁸. Excise tax reduction on diesel in the first half of FY24, has caused the total excise revenue to remain well below the pre-pandemic level and the largest State Oil Fund deficit in 16 months (Figure 21 and Figure 22). The implementation of energy subsidies though has helped alleviate living costs, but also slowed the pace of consolidation and incentivized the overconsumption and inefficient use of carbon-intensive energy, thereby undermining efforts to mitigate climate

Figure 19: ...due to budget approval delay and energy subsidies

(% of fiscal year GDP, Central Government, GFS basis)



Source: Fiscal Policy Office, Ministry of Finance, NESDC.

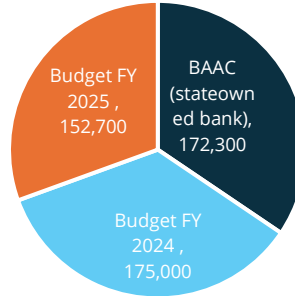
¹⁶ To accommodate for the program, the government plans to increase FY2025 budget proposal by 152.7 billion and introduce the 122-billion-baht supplementary budget for FY2024, which will replace the previously planned use of under-utilized transferred budgets. If the plans are approved, the fiscal deficit for FY24 increased to 805 billion baht (4.3 percent of GDP) and FY25's budget deficit was proposed at 865.7 billion baht (4.5 percent of GDP).

¹⁷ Contingent liability stood at 1 trillion baht (5 percent of GDP) as of September 2023. Section 28 of the Fiscal Responsibility Act relates to stock of fiscal liability for expenses or revenue loss from compensation arising from quasi-fiscal activities. The fiscal rule for contingency liability limit under Section 28 was set at 32 percent of the total budget. Section 28 requires that BAAC prepares cost of the program to be borne by the State.

¹⁸ The cost of the subsidy was funded by two instruments: (1) a temporary cut to excise tax from THB 5.99 per liter and (2) a subsidy from the State Oil Fund.

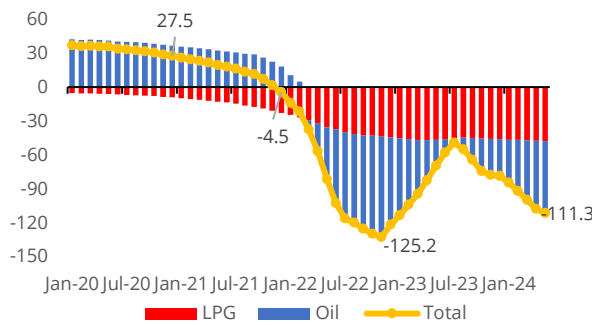


Figure 20: The Digital Wallet (THB 500 billion) will be Funded Through the Budget and a State-Owned Bank
(THB million)



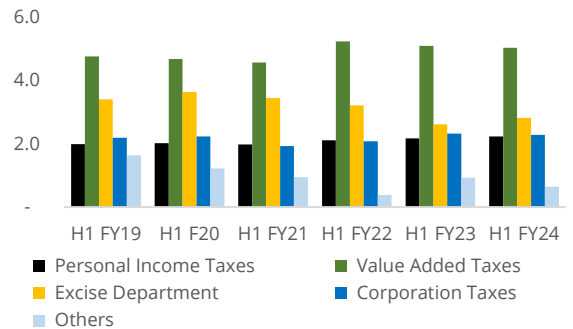
Source: Royal Thai Government; World Bank

Figure 21: The State Oil Fund deficit widened due to oil and gas prices subsidy
(State Oil Fund balance, THB billion)



Source: Oil Fuel Fund Office; World Bank staff calculations.

Figure 22: Revenue from income taxes, VAT, and excises stabilized
(% of fiscal year GDP, Cash basis)



Source: Fiscal Policy Office, Ministry of Finance, NESDC.

Public debt remains sustainable due to low external debt and prudent fiscal management.

Public debt rose to 63.4 percent of GDP at the end of March 2024, 22 percentage points higher than the pre-pandemic period (Figure 23). The public debt is assessed to remain fiscally sustainable with low levels of foreign currency denominated debt at 1.2 percent of total debt and relatively low cost of funding. The impact of the potential implementation of the digital wallet program on sovereign bonds remains relatively muted. The 10-year government bond yield remains relatively stable in the first half of FY24 consistent with most ASEAN peers (Figure 24).

Table 1: Key fiscal-responsibility indicators remain well within their established parameters

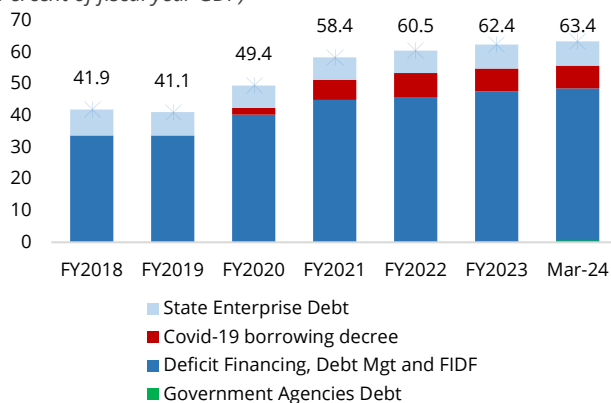
Key fiscal responsibility, % or otherwise specified	Ceiling (%)	FY20	FY21	FY22	FY23	H1 FY24
Public Debt / GDP	70	49.5	58.4	60.5	62.4	63.4
Government Debt Service / Revenue	35	6.5	8.6	8.1	8.2	7.9
External Debt / Public Debt	10	1.8	1.8	1.7	1.4	1.2
External Debt Service / Exports	5	0.07	0.08	0.15	0.17	0.26
Principal repayment / Annual budget expenditure	1.5-3.5	1.1	2.1	2.1	2.1	1.2
Average Time to Maturity		9 years 10 months	9 years 1 month	8 years 9 months	8 years 9 months	8 years 10 months**
10-year government bond yields*		1.4	1.6	2.4	2.7	2.8

Note: *average of the period, **Maturity as of May 31

Source: Public Debt Management Office, Ministry of Finance; World Bank staff calculations.

Figure 23: Public debt increased but remained sustainable

(Percent of fiscal year GDP)

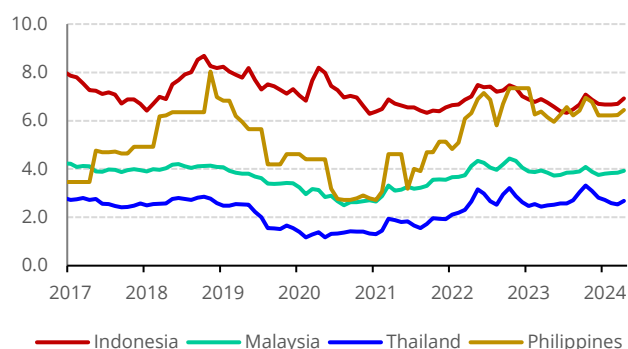


Note: *includes SOEs, SFI guaranteed and agency debt.

Source: PDMO, World Bank staff calculation.

Figure 24: Government bond yields remained stable

(10-Year Government Bond Yields, Percent)



Source: CEIC, World Bank staff calculation.

The FY2024 budget will roll out in May 2024, 7 months into the fiscal year, and faces execution challenges.

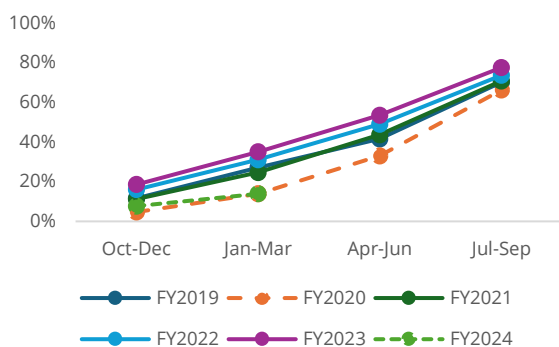
The FY2024 budget act was finally enacted at the end of April 2024. The approved budget, amounting to 3.48 trillion baht (18.7 percent of GDP, marks a 9.3 percent increase from the previous fiscal year. The increase is driven by expenditures for replenishment of treasury account which was not budgeted last fiscal year and expenditures for revolving funds and public debt repayments (24.5 and 13 percent higher than FY2023). However, despite the government expectation that the fiscal budget deficit will reach 693 billion baht (3.6 percent of GDP)¹⁹, the timely execution of new large infrastructure projects in the FY2024 budget will prove challenging given the limited time remaining in this fiscal year (Figure 26). Budget execution typically falls below historical averages in fiscal years with delayed budgets (Figure 25). While the central government's spending continued to contract, investment from SOEs expanded marginally due to the front-loaded disbursements in the first half of FY2024 (Box 1: Public Investment and Large Pipeline Projects of State-owned Enterprises).

¹⁹ The budget was slightly down from 695 billion baht (3.9 percent of GDP) in FY2023.



Figure 25: Capital expenditure disbursement was lower in fiscal years with delayed budget¹

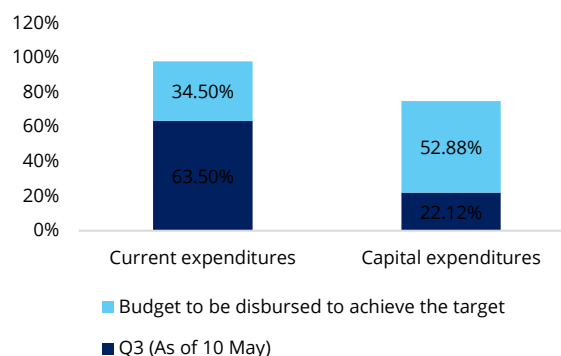
(Public investment disbursement, % of total budget, cash basis)



Note: 1. Budget delayed in FY2020 and 2024.
Source: Fiscal Policy Office, Ministry of Finance, NESDC; World Bank staff calculations.

Figure 26: Given the historical capital disbursement rate of 66-78 percent¹ ...Achieving the 75 percent capital disbursement target by September 2024 would require disbursing nearly half of the capital budget in the remaining four months

(Budget disbursement targets, % of total budget, cash basis)



Note: 1. Average capital disbursement rate of FY2019-2023 is 72%; Capital disbursement rate in FY2020 with 1-month delayed budget was 66%
Source: Comptroller General's Department, Ministry of Finance

Box 1: Public Investment and Large Pipeline Projects of State-owned Enterprises

In the first half of 2024, the government front-loaded the disbursement for SOE projects. For FY2024, SOEs are expected to receive a total investment budget of THB 380.41 billion (2.05 percent of GDP). The accumulated disbursement of the top 10 major projects reached 50.5 percent of the budget over 6 months of FY2024. The government has announced several measures to accelerate investment by SOEs. These measures include a 95 percent disbursement target, an acceleration deadline for contract signing by March 2024, contract signing preparation for projects using the national budget, a front-loaded disbursement plan, and regular monitoring and reporting to ensure effective implementation. To sustain the momentum of public investment through the remainder of 2024, expediting the signing of contracts for SOEs' investment projects funded by the annual budget would be the key.

The ten largest pipeline projects of SOEs have potential to connect lagging regions and improve household access to water and energy. The top 10 projects will receive the lion's share of the allocation, with a budget of THB 67.55 billion (18 percent of the total budget). These top 10 projects encompass investments in the transport sector (4 projects), energy sector (4 projects), commerce and services sector (1 project), and public utility sector (1 project). As of the second quarter of FY 2024, the disbursement of the top 10 projects already reached THB 34.12 billion, accounting for 50.5 percent of the approval limit or 9 percent of the total investment budget.



Table B. 1: Top ten state-owned enterprises investment projects of 2024

Unit: Million baht

	Projects	SoEs	Sector	Operational approval limit	FY2024	
					Estimated disbursement (Q2/2024)	Disbursement rate (%)
1	The MRT purple line project: Tao Pun - Rat Burana	MRT	Transport	16,720	11,352.88	67.9
2	Transmission system and distribution system development project, phase 2	PEA	Energy	9,500	2,660.00	28.0
3	The first phase of the Thai-Sino high-speed rail linking Bangkok and Nong Khai (Bangkok-Nakhon Ratchasima)	SRT	Transport	8,714	5,568.25	63.9
4	The expressway linking Rama III Road-Dao Khanong and the western Outer Ring Road	EXAT	Transport	7,555	3,218.43	42.6
5	The 9th waterworks improvement master plan	MWA	Public utility	5,186	2,795.25	53.9
6	Double track railway construction: Lopburi - Pak Nam Pho section	SRT	Transport	4,677	813.798	17.4
7	The twelfth power distribution system improvement and expansion plan, Year 2017 - 2021	MEA	Energy	4,334	1,430.22	33.0
8	Electrical transmission system expansion project, phase 12	EGAT	Energy	3,839	2,080.74	54.2
9	The electrical transmission system improvement in the northeastern, northern, central and Bangkok regions to enhance the stability of the electrical system.	EGAT	Energy	3,805	2126.995	55.9
10	The government complex	DAD	Commerce and services	3,221	2,071	64.3
Total 10 projects				67,551	34,118	50.5

Source: NESDC

vii. Poverty Declined in 2022, Underpinned by Labor Market Recovery and Social Assistance

Poverty declined in 2022, underpinned by the labor market recovery.

Per capita household consumption showed an 8.1 percent growth between 2021 and 2022, with the bottom quintile experiencing an even more rapid growth rate of 9.7 percent. This upswing in household consumption attributed to the sustained recovery in the labor market and agricultural output, coupled with an increase in wages from private sector jobs as some COVID-19 relief measures and stimulus packages were phased out. The unemployment rate declined by 0.4 percentage points from 2022 to 2023 and was accompanied by a 1.9 percent increase in the average wage for private sector jobs. The most significant gains were recorded in the agricultural and service sectors. Certain stimulus programs, such as the half-half initiative, and social assistance programs like the state welfare card and old age allowance, were sustained to provide support to low-income households. Between 2021 and 2022, with the rise in household income and consumption, the national poverty rate declined from 6.3 percent to 5.4 percent.



The labor market remained stable in Q1 2024.

The unemployment rate remained stable at 1.0 percent, close to the rate observed in 2023 (0.98 percent). Agricultural employment fell due to drought, while non-agricultural sectors, particularly services, continued to grow.

Income and spatial disparities persist.

Inequality improved in 2022 with low-income households experiencing a greater increase in consumption per capita compared to their better-off counterparts. However, the average per capita consumption in the richest quintile's households was nearly six times higher than that in the poorest quintile. Spatial disparities persist. The average per capita consumption in Bangkok is over two times higher in Bangkok than in the rural areas in North and Northeast regions. Low-income households, especially in rural areas, continue to concentrate in agriculture and self-employment, facing longstanding challenges, exposure to climate risks, and persistent vulnerability to poverty.

2. Outlook: Accelerating the Recovery



i. The economy is projected to improve but significant challenges remain

Global growth is projected to remain subdued at 2.6 percent in 2024, amid broadly restrictive monetary policies, tepid investment, and moderating consumption growth.

In the United States, growth is expected to remain resilient, holding steady at 2.5 percent in 2024, a 0.9 percentage points upward revision from previous projection. Growth is expected to moderate to a below-trend rate of 1.8 percent in 2025. In China, growth is projected to slow to 4.8 percent this year, from 5.2 percent in 2023, 0.3 percentage points higher than previously forecast. Excluding China, growth in EAP is projected to pick up to 4.6 this year, following below average growth of 4.3 percent in last year, supported by a recovery in exports. In 2025 growth in EAP is projected to continue moderating, to 4.2, mainly owing to slowing growth in China. Global trade growth is expected to pick up this year but remain well below the average rates observed in the two decades preceding the pandemic. Oil prices have fluctuated this year, trending substantially higher in the context of escalating tensions in the Middle East, before easing. Against a backdrop of continued geopolitical risks, the average price of Brent oil is forecast to be slightly higher this year than last, at \$84/bbl, before receding to \$79/bbl in 2025 amid the partial unwind of OPEC+ supply cuts and expanding non-OPEC+ production. The near-term oil price forecast is notably uncertain, however, given the potential for price spikes resulting from conflict related-supply disruptions.

In 2024, Thailand's economy will be driven by recovering tourism and private

In 2024, Thailand's economic growth is anticipated to accelerate to 2.4 percent²⁰, up from 1.9 percent in 2023 (Table 2). However, this is 0.4 percentage points lower than the forecast made in April, primarily due to weaker-than-expected outcomes in goods exports and public investment in the first quarter, which are

²⁰ The forecast has not incorporated impact of the Digital Wallet scheme.

consumption, with further acceleration in 2025 supported by stronger domestic and external demand as well as improved fiscal budget execution.

expected to affect their momentum going forward. Despite these challenges, the tourism sector's recovery and sustained private consumption are projected to remain the key growth drivers, albeit at a slower pace (Figure 27). The latter is limited by a deleveraging cycle, with elevated household debt posing risks to financial stability, necessitating tightening of macroprudential policies and more stringent lending standards by commercial banks. Additionally, goods exports are expected to rebound, and private investment is projected to expand, bolstered by positive business sentiment and global trade recovery. The substantial rundown of stock experienced in 2022 and 2023 is expected to have bottomed out, consistent with the ongoing economic recovery. Looking ahead to 2025, growth is expected to reach 2.8 percent, supported by both domestic and external demand. This outlook is further bolstered by the revised fiscal budget proposal for FY 2025 and the anticipated acceleration in budget execution following significant delays earlier this year.

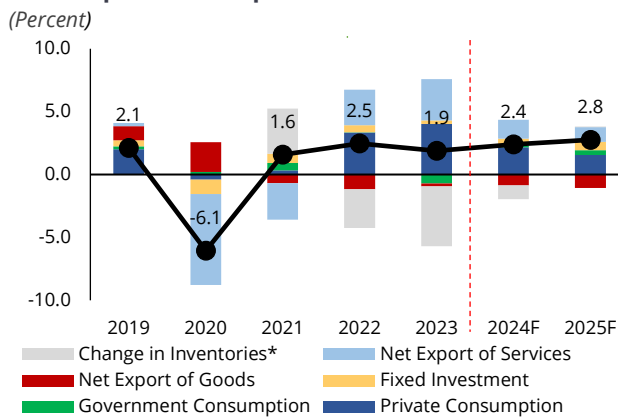
Table 2: Growth is projected to rebound in 2024 and further in 2025

Percentage change	Share of GDP (2023)	Forecast				Contribution to GDP growth	
		2022	2023	2024F	2025F	2024F	2025F
GDP	100.0%	2.5	1.9	2.4	2.8	2.4	2.8
Private Consumption	54.2%	6.2	7.1	3.6	2.6	2.2	1.5
Government Consumption	16.1%	0.1	-4.6	1.2	2.6	0.2	0.4
Fixed Investment	24.5%	2.3	1.2	2.1	2.8	0.5	0.7
GFCF-Private	17.7%	4.6	3.2	3.5	2.6	0.6	0.5
GFCF-Public	6.8%	-3.9	-4.6	-2.0	3.5	-0.1	0.2
Exports of Goods and Services	66.6%	6.1	2.1	4.7	3.5	3.3	2.4
Exports of Goods	61.8%	2.4	-3.5	2.1	1.7	1.2	1.0
Exports of Services	5.5%	48.7	43.7	17.5	10.9	2.0	1.5
Imports of Goods and Services	68.1%	3.6	-2.3	4.0	3.4	2.7	2.3
Import of Goods	57.8%	4.8	-3.4	4.0	3.7	2.1	2.0
Imports of Services	10.6%	-0.3	2.6	4.2	2.3	0.5	0.3
Net Export of Goods and Services						0.6	0.1
Change in Inventories*						-1.0	0.0
		2022	2023F	2024F	2025F		
Exports of Goods, USD term		5.4	-1.7	2.4	2.8		
Imports of Goods, USD term		14.0	-3.1	4.5	2.0		
Goods trade Balance, USD Billion		13.5	17.0	12.0	14.6		
Current Account Balance, USD Billion		-15.7	7.0	5.6	18.6		
Current Account Balance (% of GDP)		-3.2	1.4	1.0	3.3		
Headline CPI		6.1	1.2	0.7	1.1		

Note: *including statistical discrepancies.

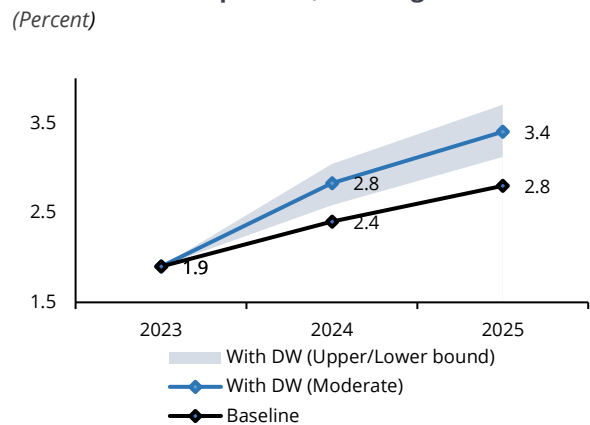
Source: NESDC, Haver Analytics; World Bank staff calculations.

Figure 27: Output will be supported by private consumption and exports of services



Note: *including statistical discrepancy.
Source: World Bank staff projections.

Figure 28: Growth in 2024 and 2025 is estimated reach 2.8 and 3.4 percent, with Digital Wallet



Source: World Bank staff projections.

The Digital Wallet is expected to boost GDP by 1 percentage point over the short-term, at a fiscal cost of 2.7 percent of GDP.

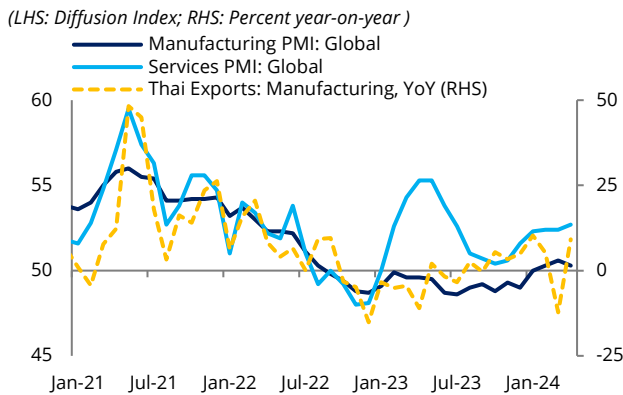
The program is scheduled to be implemented in Q4 2024 and Q1 2025. The fiscal cost, which will be financed through the fiscal budget for FY24 - FY25 and potentially quasi-fiscal means –borrowing by the BAAC, a state-owned bank, is expected to account for THB 500 billion (2.7 percent of GDP). The program is not incorporated into the baseline due to uncertainties surrounding the legality of the borrowing by the BAAC and the details of the program. Once rolled out in Q4, private consumption is expected to benefit from the stimulus measure, with an estimated impact on GDP growth at 0.5 – 1.6 percentage points over the two-year period (See Box 2: Universal Social Transfers: Impact and Opportunity Costs). Growth is estimated to reach 2.8 percent in 2024 and 3.4 percent in 2025 (Figure 28). The impact may be lower due to the reallocation of the budget from other spending purposes. The public debt is expected to increase by 1.3 percentage points of GDP by the end of FY 2025 compared to baseline projections due to increased spending pressures. The borrowing by the BAAC, if implemented, it will be a quasi-fiscal measure. The amount will not be immediately reflected in public debt, but any potential future losses incurred will be compensated by the government, thereby becoming actual public debt.

Goods exports are anticipated to rebound in 2024, driven by the global trade recovery.

Exports of goods in 2024 are projected to rebound after a deep contraction last year, reaching a growth rate of 2.4 percent in US dollar terms, supported by global trade recovery (Figure 30). Stronger demand in the United States, the anticipated normalization of global goods trade volume, and stabilizing demand from China are projected to help shore up demand and partially offset the impact of export contraction in Q1. Exports to China, the United States, and ASEAN together account for more than half of Thailand's total exports, with ASEAN exports also being highly dependent on trade with China and the United States. Global Manufacturing Purchasing Manager Index expanded in the first four months of 2024, indicating an improvement of the global production, and signaling a stronger pickup of export demand in coming months (Figure 29). In 2025, the export growth is expected to moderate as demand from the major trading partners, especially the US and China, slows. However, there remains risks of deepening trade deficit with China as a result of potential trade diversion

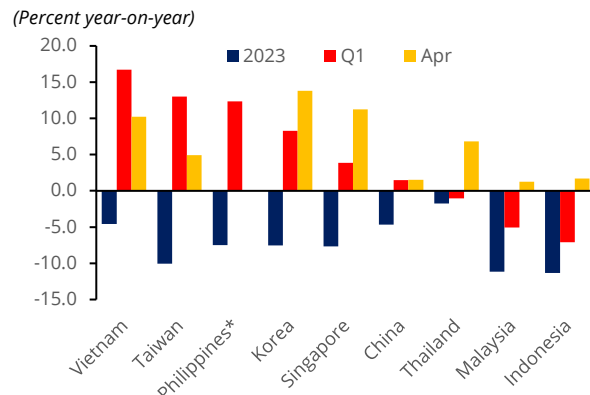
from the US-China tensions and the ongoing China's industrial policy measures²¹ (Figure 31 and Figure 32).²²

Figure 29: Global Purchasing Manager Index continued to expand



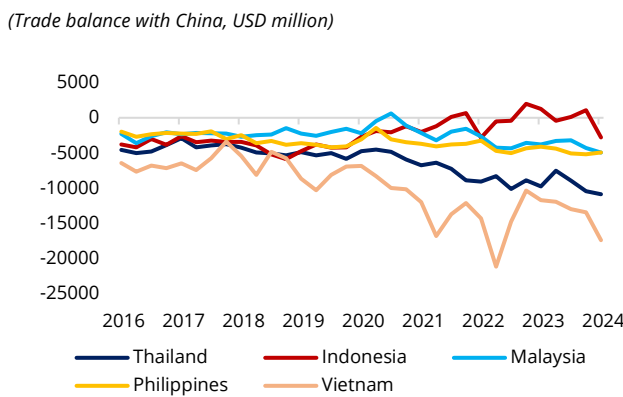
Source: CEIC; S&P Global; World Bank staff calculation.

Figure 30: Exports are showing sign of reviving after contracting in Q1 and a rebound in April



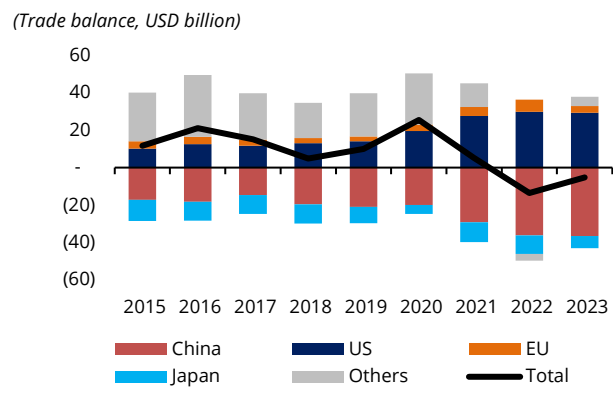
Source: Haver Analytics; World Bank staff calculation.

Figure 31: The trade balance with China has been declining, marking the second-largest drop among ASEAN peers...



Source: CEIC; World Bank staff calculation

Figure 32: ... This decline was partially attributed to US-China trade tensions.



Source: CEIC; World Bank staff calculation.

The tourism recovery is expected to continue in 2024, reaching pre-pandemic levels in 2025, while a focus

In 2024, tourist arrivals are expected to surge to 36.1 million, achieving 90 percent of the pre-pandemic 2019 level, a notable increase from 28.2 million in 2023 (Figure 33). This recovery outpaced earlier projections, due to the stronger-than-anticipated return of tourists from China, EU, and ASEAN countries. Key factors contributing to this robust recovery include the implementation of a visa-free policy for visitors from China²³ and a marked increase in Malaysian arrivals. Tourists from Malaysia were the second highest

²¹ EAP update April 2024 <https://openknowledge.worldbank.org/server/api/core/bitstreams/9bf0f0aa-bd08-4c91-b665-caee561fb5d3/content>

²² Trade data shows that while Thailand's exports to the USA have risen along with imports since 2015, trade with China has been stagnant for much of the period with slower growth of exports since 2021. Part of the decline can be attributed to lower agricultural exports (rice and rubber) which have been affected by unfavorable weather, together with possible ramifications stemming from escalating US-China trade tensions. In 2025, exports are projected to strengthen in tandem with stronger global growth but it is not immediately clear how this will bode for the structure of trade with the US and China.

²³ A visa-free policy for visitors from China and Kazakhstan has been implemented since September 2023

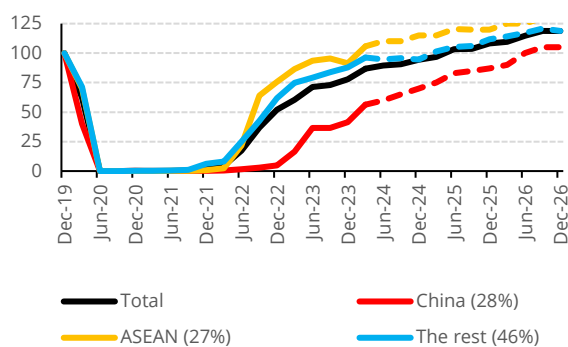
on higher value-added tourism can raise spending per trip.

after Chinese visitors, due to a robust resumption of flights and heightened cross-border travel. In 2025, total arrivals are expected to reach 41.1 million, surpassing the pre-pandemic level. A one million increase in arrivals is estimated to contribute 0.2 percentage points to GDP growth. This contribution is lower than pre-pandemic levels, as tourist spending per person per trip has decreased significantly by 20 percent. Government policy should focus on boosting high-quality tourism by targeting high value-added and sustainable travel services to increase tourism spending per person. This approach will help maximize economic benefits and enhance the sector's long-term resilience.

As a result, the current account surplus is projected to moderate.

The current account balance is expected to be slightly lower at 1.0 percent of GDP in 2024, down from 1.4 percent of GDP in 2023, driven by both goods and services trade (Figure 34). The weaker-than-expected goods exports in Q1, increase in oil import bill due to elevated global oil prices, and rising trade deficit with China contributed to a downward revision in the goods trade balance. Despite the increase in tourism revenue, the net service trade remains in deficit territory as disruptions to international shipping routes, including those through the Red Sea, have raised transport costs for exporters.

Figure 33: Tourist arrivals is forecasted to reach pre-pandemic levels by Q1 2025
(Percent of pre-pandemic level in 2019)

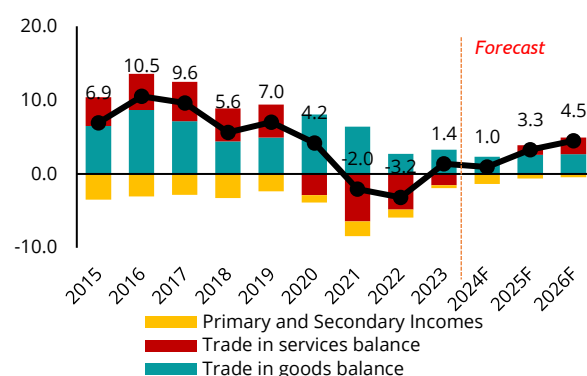


Source: CEIC; World Bank staff projection.

Inflation is expected to decline due to the moderation in food and core prices, as well as lower energy prices.

Inflation is projected to decline to 0.7 percent in 2024, lower than 1.3 percent in the previous year and remaining the lowest among emerging markets, before rising to 1.1 percent in 2025. This decline is attributed to the gradual recovery, lower-than-expected food prices and core inflation, as well as the decline in energy prices, despite some pressures from the recent heightened geopolitical tensions and partial withdrawal of the energy subsidies (Figure 35). The impact of the minimum wage²⁴ increase on core inflation is anticipated to be limited; the increase in the real wage is estimated to be below labor productivity growth²⁵. The projection assumes no significant shock in domestic food and energy prices, despite challenges from El Niño. However, potential implementation of measures to stimulate private consumption in the fourth quarter this year may shift the balance of risks from growth to inflation. In this scenario, the monetary stance is not expected to become accommodative in 2024.

Figure 34: The current account balance will remain well below pre-pandemic levels
(Percent of GDP)



Source: CEIC; World Bank staff projections.

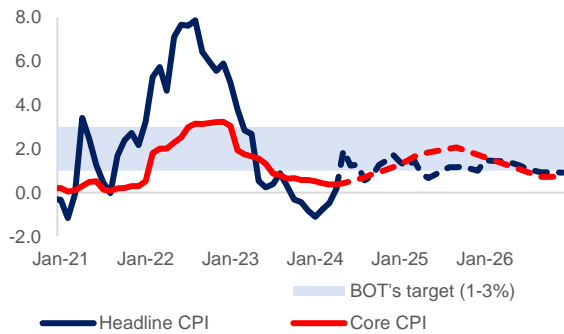
²⁴ Effective from January 1, the average daily minimum wage increased by 2.4 percent, ranging from 330 to 370 baht depending on the province.

²⁵ See [TEM December 2022](#) for more details



Figure 35: Headline inflation is projected to remain low

(Percent of GDP)



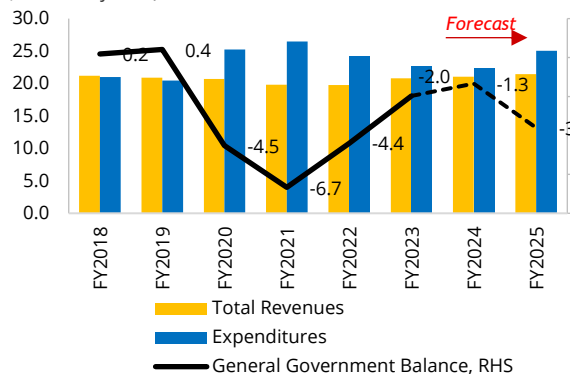
Source: CEIC; World Bank staff projection.

The fiscal deficit will decline in FY24 due to the budget delay but is expected to normalize in FY25.

The general government deficit in FY24 is projected to decrease from 2.0 percent of GDP in FY23 to 1.3 percent in FY24 (not including the Digital Wallet) (Figure 36). This is largely attributed to the delayed approval of the FY24 budget which resulted in minimal capital spending (0.04 percent of GDP) during the first six months of FY24 and moderated recurrent spending. Even with an anticipated acceleration in budget execution following its approval in April, total expenditure for FY24 is expected to remain the lowest in four years. On the revenue side, the economic recovery is expected to enhance tax collection. However, in FY25, the fiscal deficit is projected to increase to 3.6 percent of GDP as budget execution normalizes and fiscal stimulus measures aimed at boosting consumption are implemented. These measures align with the government's medium-term fiscal target, which anticipates increased public expenditure in FY24 and FY25, resulting in a higher fiscal deficit. The public debt is projected to reach 63.4 percent in FY24 and 64.6 percent of GDP in FY25 (Figure 37).

Figure 36: The general government deficit is projected to narrow as spending wanes...

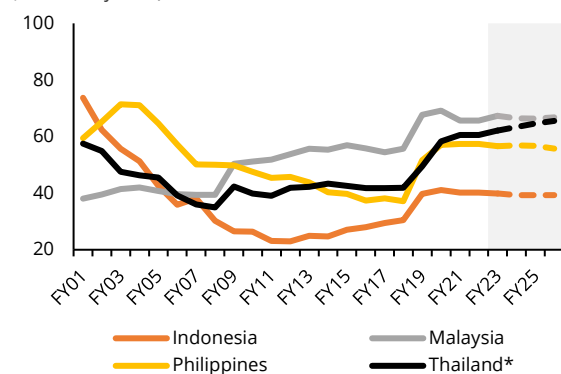
(Percent of GDP)



Source: FPO; World Bank staff projections.

Figure 37: ... and public debt is projected to increase

(Percent of GDP)



Source: IMF WEO; *World Bank staff projections.



Box 2: Universal Social Transfers: Impact and Opportunity Costs

This box discusses universal social transfers and its impact on short and long-term growth, income distribution, sustainability, and the digital economy in the context of other fiscal instruments. While much of the focus has been on the fiscal multiplier (See Annex A), short-term stimulus and digital economy implications, fiscal policy can also be calibrated to achieve other objectives through a combination of relevant instruments and targeting.

Universal social transfers can be evaluated in terms of its objectives, opportunity cost, and implementation. The presence of a positive fiscal multiplier associated with universal social transfers underscores its potential to boost economic activity. However, it is crucial to recognize that a positive fiscal multiplier does not imply that the program is the optimal choice, even if it is relatively high. Evaluating the program's effectiveness requires consideration of its objective, opportunity cost, and its implementation. In particular, fiscal policy and its instruments can be studied among four dimensions: (i) short-term growth, (ii) long-term growth, (iii) redistribution, (iv) sustainability – which emerge as a new priority for fiscal policy due to the net-zero transition and (v) digital economy. Table Box 2 summarizes different fiscal policy options and its objectives regarding growth, stabilization, redistribution, sustainability, and digitalization. Overall, universal social transfers can contribute to short-term growth and redistribution if it is well-targeted. However, this program cannot contribute to long-term growth and sustainability. On the other hand, previous studies suggest that public investment can contribute to both short- and long-term growth. Furthermore, understanding the concept of opportunity cost, which is defined as the value of the best alternative forgone when making a choice, is crucial for policymakers to ensure resources are used where they yield the greatest benefit towards achieving specific economic goals. Finally, even if we agree that cash transfers are the most effective policy to achieve a specific objective, implementation matters. Specifically, the size of the transfer and the recipient's income matter for the marginal propensity to consume. In the case of Korea, for example, the marginal propensity to consume decreased from 0.58 to 0.36 as the transfer size increased about 2.5-3 times. Therefore, the cost of the program could be greatly simplified by designing the optimal size of the transfer and improving its targeting to maximize consumption.

Table Box 2. Fiscal Policy Choices: Trade-offs, Pros and Cons

	Short-term Growth	Long-term Growth	Redistribution	Green	Digital
Digital Wallet	+	n/a	n/a	n/a	Uncertain but upsides exist
Fuel Subsidies	+	n/a	-	-	n/a
Old Age Allowance	+	+	+	n/a	n/a
Public investments	+	+	n/a	+(green)	n/a

Universal social transfers have the potential to facilitate an official digital identity for citizens and merchants to do online transactions, build trust in the digital economy and increase access to services and economic opportunities. The onboarding process for the Thai Digital Wallet, through the *Thang Rath* 'super app', is anticipated to involve secure identity verification against the national ID database and/or the ThaID digital identity smartphone application. This means that, with the incorporation of digital identity features (including to protect privacy), citizens could use *Thang Rath* to sign in and verify themselves when transacting with the websites and applications of government agencies, banks, and other service providers. Thailand is already a regional leader with respect to digital identity, with ThaID, the National Digital ID (NDID) federation, and the Verifiable Credentials standards being developed by the Electronic Transactions Development Agency (ETDA) that are set to create a vibrant digital identity ecosystem, such as for interoperability between ThaID and *Thang Rath*. However, there is limited take up of ThaID (about 10 million users) and NDID to date (less than 10 million users). The



Digital Wallet, as a universal scheme, would provide a significant incentive to get people to sign up for *Thang Rath* (<2 million users) as a digital identity or for ThaID (or other digital identities) to sign into *Thang Rath*, without additional processes or costs (compared with the onboarding process). The spillover impacts, including for more users of *Thang Rath*, include reduced transaction costs for citizens and service providers, and enhanced opportunities for innovation. For example, Estonia's digital identity facilitates more than 99 percent of government, banking, and prescription services being able to be completed end-to-end online. Likewise, Singapore's national digital identity, Singpass, has reduced the time for applying for services online by more than 80 percent.

Increasing the Old Age Allowance to the poverty line would reduce the Gini coefficient and the poverty rate by 1.6 and 2.6 percentage points, respectively, at a cost of only 1.2 percent of GDP (WB PRSA 2023). The stimulus impact would likely be greater than the equivalent spending on other types of households due to the high marginal propensity to consume of the elderly. International experience has also shown that the elderly tend to spend significant amounts of their social pension on education and health of grandchildren contributing to growth through increased human capital. There is already political support for increasing the OAA which has been shrinking relative to incomes for the last decade and a permanent increase would contribute to long-term economic growth.

ii. The outlook faces both upside and downside risks, influenced by both external and domestic factors.

Weak global growth, heightened geopolitical tensions, and trade-distorting measures pose significant challenges.

Persistently high geopolitical tensions may continue to exert pressure on the prices of oil and other critical commodities due to supply disruptions. The trade outlook is further clouded by weaker-than-anticipated global demand, escalating geopolitical tensions, and potential disruptions in maritime transport. Trade-distorting measures, especially those framed as industrial policies, could adversely affect Thailand's export prospects. Thailand, similar to other East Asia and Pacific (EAP) countries, is potentially exposed to the negative effects of such policies due to its significant trade relationships with major markets like the US, China, the Republic of Korea, and Japan. The firms receiving subsidies in these markets can become strong competitors to EAP firms, adding another layer of risk.

Domestic factors present both positive and negative prospects for Thailand's near-term growth.

For instance, the Digital Wallet program is expected to provide substantial short-term stimulus to the economy in 2024 and 2025, boosting consumer spending and economic activity. However, domestic risks also persist, such as elevated household debt levels and the increased risk of insolvency, which may limit consumption growth. Additionally, the agricultural sector faces challenges from El Niño. Drought would lower farmers' incomes and contribute to food price inflation. Balancing these risks will be crucial for policymakers to navigate Thailand through these uncertain times and sustain economic growth.

Thailand's long-term growth potential is slowing.

Thailand's long-term growth potential faces challenges due to an aging population, environmental degradation, climate change, and the necessity to rebuild policy buffers for future shocks. The estimated potential growth for 2023-2030 averages around 2.7 percent annually, which is 0.5 percentage points lower compared to the previous decade (*see Box 3 Potential Growth*). This slowdown is partly due to the persistent decline in Total Factor Productivity

(TFP) growth, an aging and shrinking labor force²⁶ and the stalled transformation from agriculture to higher productivity sectors. While the contribution of capital stock growth is expected to increase slightly from its low base, the overall economic environment demands strategic improvements in various areas to sustain growth.

To achieve sustainable growth, Thailand can benefit from addressing policy priorities to build a foundation for long-term prosperity amidst the challenges posed by demographic and environmental shifts.

Thailand must enhance learning outcomes by increasing education spending and optimizing resource allocation. It is essential to foster a competitive and innovative economy and boost the potential of secondary cities (see Chapter 2 on secondary cities) through resilient, low-carbon development and improved connectivity. Prioritizing a sustainable energy transition is crucial. Efficient allocation of fiscal resources is necessary to support these initiatives, alongside fostering a more inclusive, accountable, and transparent public service environment. By addressing these areas, Thailand can better navigate the complexities of its economic landscape and build a foundation for long-term prosperity amidst the challenges posed by demographic and environmental shifts (See World Bank [Thailand Systematic Country Diagnostic Update 2023](#)).

Thailand faces the mounting challenge of reconciling fiscal sustainability with short-term stimulus.

The government's medium-term fiscal target shows that the budget for expenditure is projected to remain stubbornly high at around 18 percent of GDP. Without fiscal reform for revenue mobilization, the fiscal deficit is unlikely to decline to the pre-pandemic level. The government projected the public debt reaching 68.6 percent of GDP by 2028²⁷. Pro-growth consumption-stimulating measures such as the Digital Wallet will add to spending pressures. To enhance fiscal resilience amid rising spending needs, Thailand can start by focusing on more targeted social assistance and transfers to effectively support the vulnerable households and poverty alleviation. Second, Thailand can also implement reforms to improve efficiency of public spending, particularly in healthcare and education. Third, Thailand has room to raise tax revenue and promote equity. by: (a) adjusting the VAT rate and exemptions; (b) broadening the personal income tax base and streamline tax expenditure measures, (c) expanding property tax collection; (d) improving tax compliance to increase efficiency and avoid base erosion and (e) introducing a carbon tax or emissions trading scheme with auctioned emission permits. The recently announced carbon tax plan²⁸ was a necessary initial step but not sufficient to encourage behaviors that shift to cleaner fuels. Even with higher carbon tax rates²⁹, it would only stabilize emissions rather than reduce them. Additional measures, such as building EV infrastructure and providing training for solar installation, are needed to accelerate the adoption of low-carbon technologies. (World Bank [Thailand Public Spending and Revenue Assessment 2023](#) and [TEM December 2023](#)).

²⁶ Policy can help to address the challenges created by population aging. Policy can help to activate the labor supply of older people, women, and migrants. At the same time, policy makers can help to ensure that sufficient investments are made in the quality of present and future workers so that they become more productive. Finally, population aging creates several opportunities, particularly in the care sector but also in the larger “silver economy” (World Bank *Aging and the Labor Market in Thailand 2021*).

²⁷ Medium-Term Fiscal Framework as of May 28, 2024

²⁸ In June, the Excise Department announced its intention to implement a carbon tax by 2025, set at THB 200/tCO₂ (USD 5.5/tCO₂). This will begin with changing the existing excise tax structure on oil-related products to be based on carbon dioxide emission intensity.

²⁹ The NDC scenario which sets a carbon price sufficient to meet the Nationally Determined Contribution (NDC) target for 2030 at USD21/tCO₂^[1] and the Ambitious scenario at USD41/tCO₂ in 2030

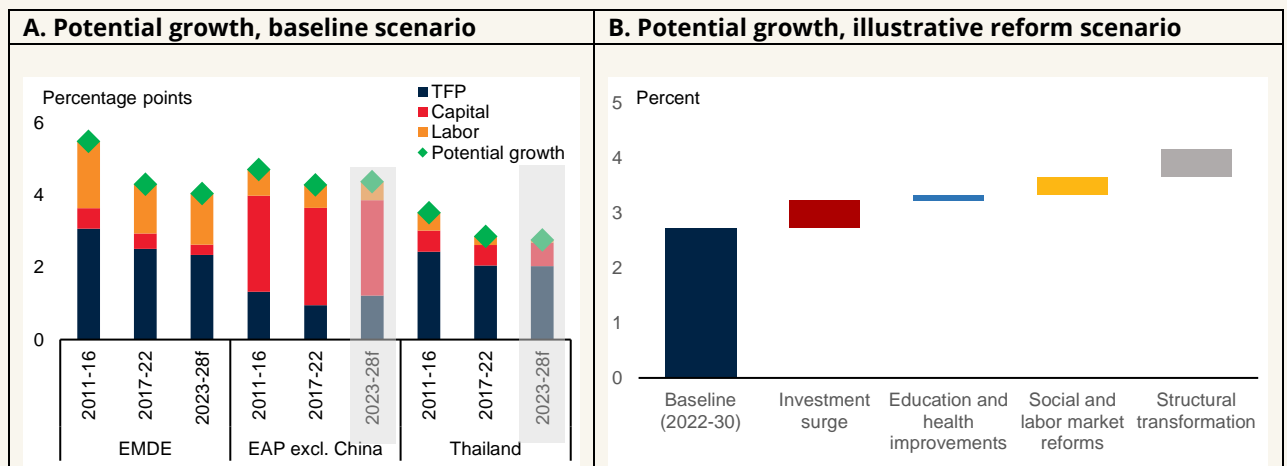


Box 3: Thailand Potential Growth: Evolution, Outlook, and Risks

Outlook for Potential Growth: Projections indicate a sustained structural slowdown in Thailand’s growth without urgent policy reforms. The potential growth rate is expected to decrease by around 0.5 percentage points, dropping from an average of 3.2 percent in 2011–21 to 2.7 percent in 2022–30. The slowdown in TFP growth is expected to persist, partly due to a less productive, aging, and shrinking labor force, alongside subdued transformation from agriculture to higher productivity sectors. While the contribution of capital stock growth will increase slightly from its low base, it will not be sufficient to offset declines in other growth drivers. Subdued growth, without structural transformation, will continue to hinder progress in reducing poverty and inequality.

Recommendations for Boosting Potential Growth: Thailand's potential growth is shaped by its ability to navigate demographic changes, leverage technological advancements, and maintain a stable political environment. The estimated potential growth for 2022–30 is around 2.7 percent annually, 0.5 percentage points lower than the previous decade. The country faces challenges such as rising spending needs due to an aging population and environmental degradation. However, there are positive aspects to consider. The strong, although declining, contribution of TFP growth to potential growth stands in sharp contrast to the decomposition of potential output growth of Thailand’s peers. To boost potential growth, Thailand needs to focus on social and labor market reforms (pensions, female labor force participation, and migration), improve learning outcomes and healthcare service, and reforms to accelerate investment growth by reducing policy uncertainty. Public investment in human capital, climate adaptation, and last-mile infrastructure in lagging regions can help crowd in private investment. Developing secondary cities and promoting urbanization can also drive a significant investment boom, fostering balanced economic development and inclusive growth (see Chapter 2). Implementing these comprehensive structural reforms could boost structural transformation and thereby achieve more robust economic outcomes.

Figure Box 3. Potential growth, EMDE, EAP excl. China, Thailand



Source: Kose and Ohnsorge (2023); World Bank.

Left panel: EMDE = emerging market and developing economies. Right panel: The structural transformation scenario assumes that the share of employment in agriculture will fall by five percentage points over 10 years starting in 2022 and be equally redistributed to the more productive manufacturing and services sector.

Note: Please see [Thailand 2024 Systematic Diagnostic Update](#) for more details

Part 2. Building Tomorrow: Infrastructure Finance for Thailand's Secondary Cities



Introduction

Thailand is at a pivotal moment, needing to address key challenges to rejuvenate its economic growth.

Bangkok's primacy drives growth, but congestion and vulnerabilities show the need for balanced urbanization.

Thailand's economic development trajectory has been falling behind its region. Its per capita GDP growth is slower than that of regional competitors like Vietnam, the Philippines, and Indonesia. Why is this? What can be done to restore Thailand to a healthy pattern of sustainable growth? There is no single answer. The global disruptions associated with the COVID-19 pandemic hit Thailand hard, and recovery has been slower than elsewhere. Sovereign debt has increased as government borrowed to address outstanding social issues. On top of this, Thailand is experiencing a declining birth rate and an aging population, which is likely to lead to a decline in the working population in the years ahead. In brief, Thailand is at a critical juncture, with a combination of productivity challenges and an unfavorable demographic trajectory. The clock is ticking. Changes are needed if the current generation is to leave a legacy of prosperity.

Thailand's urbanization has been heavily focused on Bangkok, acting as a growth engine for the country. This extreme primacy means that the Bangkok area is the only part of Thailand that can effectively compete economically on a regional and global scale. Bangkok's strategic geographic position within Southeast Asia, coupled with its comparatively developed infrastructure and transportation networks, has fostered economic growth and activities within the city and surrounding areas. At the same time, Bangkok has become ever more congested, and the inefficiencies and problems related to that congestion are becoming more expensive and harder to overcome. The 2011 floods also highlighted Thailand's economic vulnerability due to the concentration of critical industries in Bangkok.

This chapter considers how secondary cities could self-manage infrastructure finance to improve Thailand's growth prospects

The configuration of urbanization in Thailand, which is among the most uneven among countries with similar income levels, presents a binding constraint that stands in the way of broad-based economic growth.³⁰ Thailand's secondary cities³¹ do not yet have the powers, flexibility, financial resources, and infrastructure they would need to attract their share of investment and talent. Unpacking and understanding the circumstances of these secondary cities could be a key to getting Thailand back on the path of sustainable development. This chapter considers how empowering secondary cities may improve Thailand's growth prospects, with a focus on their role in financing the infrastructure investment required for long-term growth. By focusing attention on these issues, we hope to contribute to the dialogue within Thailand. We watch Thailand's evolving challenges and opportunities with hope for a prosperous and healthy future.

Context and Background

Thailand's urbanization path has led to an increasingly centralized and monocentric economy.

Thailand's monocentric economic model has reached a point of diminishing returns. This does not mean that Bangkok will not continue to grow – it almost certainly will. Its ports, airports, financial institutions, government institutions, services and goods are central to Thailand's economy and play an important role in the development of the South-East Asia corridor. It is hard to overstate the extent to which the urban economy of Thailand is dominated by Bangkok and its surrounding areas. In terms of the national economy and international competitiveness, the GDP of Bangkok as an urban agglomeration is almost 40 times of the second largest urban agglomeration—much larger than the case in Malaysia (8 times), Indonesia (6 times) and Vietnam (3 times). At the same time, Bangkok's extreme primacy means that Thailand's secondary cities are not effectively competing on a regional and global scale. If Thailand can generate new growth by unleashing the potential of its secondary cities, this will benefit all Thai citizens, including those living far from Bangkok.

Why has Bangkok grown so big?

The dominance of the Bangkok metropolitan area reflects a combination of geographical comparative advantage—a flat plain with plenty of water and a natural port—and a tradition of extreme political centralization. As the nation's historical and cultural nucleus, Bangkok embodies deep-rooted customs and legacy. The legislative, executive and judicial branches are all headquartered in Bangkok. Bangkok straddles the Chao Phraya River, just above the point where it empties into the Gulf of Thailand. The city was already a trading center in the 15th century and became the capital of the Kingdom of Siam in 1782. In the ensuing two and a half centuries, Bangkok and nearby areas have seen steady growth in population and prosperity. Throughout the 20th century, railways and highways were built that radiate outward from Bangkok, reinforcing the city's primacy. Investment in Bangkok has been, and continues to be, disproportionate to the size and economic weight of the city. For example, in 2020, around 60 percent of public spending was concentrated in Bangkok,³² despite Bangkok accounting for 34 percent of the country's GDP and 13 percent of its population.³³

³⁰ See Bridging the Gap - Inequality and Jobs in Thailand, World Bank Group.

<http://documents.worldbank.org/curated/en/099112823133018003/P17759905901d70ed0a968052455d5252f0>

³¹ For this report, secondary cities in Thailand are identified as urban centers with populations exceeding 100,000 people, excluding Bangkok.

³² Bangkok as an administrative division encompasses areas administered by the Bangkok Metropolitan Authority. The Bangkok Metropolitan Region—encompassing the broader urban agglomeration and many discrete administrative areas—is much larger but does not hold administrative powers.

³³ Thailand Public Revenue and Spending Assessment: Promoting an Inclusive and Sustainable Future,” World Bank

Bangkok's scale has generated significant positive outcomes for Thailand.

As the country's primate city, Bangkok's agglomeration has brought substantial productivity and income benefits, as firms, finance, and trade have become increasingly concentrated and more efficient. The city's dense network of businesses and industries facilitates innovation, collaboration, and economic dynamism, making Bangkok a critical driver of national economic growth. Historically, Bangkok has served as the economic and cultural heart of Thailand, attracting investments, talent, and tourism. Its strategic location and well-developed infrastructure have positioned it as a hub for international trade and commerce, enhancing Thailand's global competitiveness. The city's vibrant markets, diverse industries, and robust service sector continue to stimulate economic activity and create employment opportunities. Looking to the future, Bangkok's ongoing development projects and initiatives aimed at improving urban infrastructure and connectivity are set to further bolster its role as a key driver of Thai growth. The city's ability to adapt to global economic trends and attract foreign investment ensures its continued relevance and contribution to Thailand's economic prospects.

However, Bangkok's rapid growth has also led to several negative consequences.

The city faces severe congestion, which slows transport and increases costs. This congestion necessitates continual and substantial investments in transport infrastructure to keep the city moving. Additionally, land and housing prices have escalated, leading to higher rents for workers and firms. The increased costs of housing and transport mean that wages must also rise to compensate workers. Furthermore, pollution has become an increasingly pressing issue, impacting the quality of life and health of residents. These rising costs and environmental challenges offset some of the productivity gains from agglomeration. As congestion and its associated effects worsen, entrepreneurs and businesses might look to invest in other areas with better connectivity, more affordable land and housing, and a suitable labor and skills profile.

Box 4: Assessing Primacy of Bangkok as an Urban Agglomeration

Primate cities are the largest cities in their countries or regions. These cities typically dominate the economic, political, cultural, and social life of the country. The concept of a primate city was introduced by geographer Mark Jefferson in the early 20th century. A primate city is characterized by its disproportionate size and dominance over other cities in the country.

Today, Bangkok as an urban agglomeration has a population 29 times larger than the next largest, Chiang Mai, and a GDP nearly 40 times greater than the next largest, Chon Buri (Figure Box 4). A highly dominant primate city often leads to significant regional disparities. Extreme primacy can result in an overburdened infrastructure and increased urban challenges in the dominant city. Meanwhile, other regions may experience slower development, leading to economic and social inequalities.

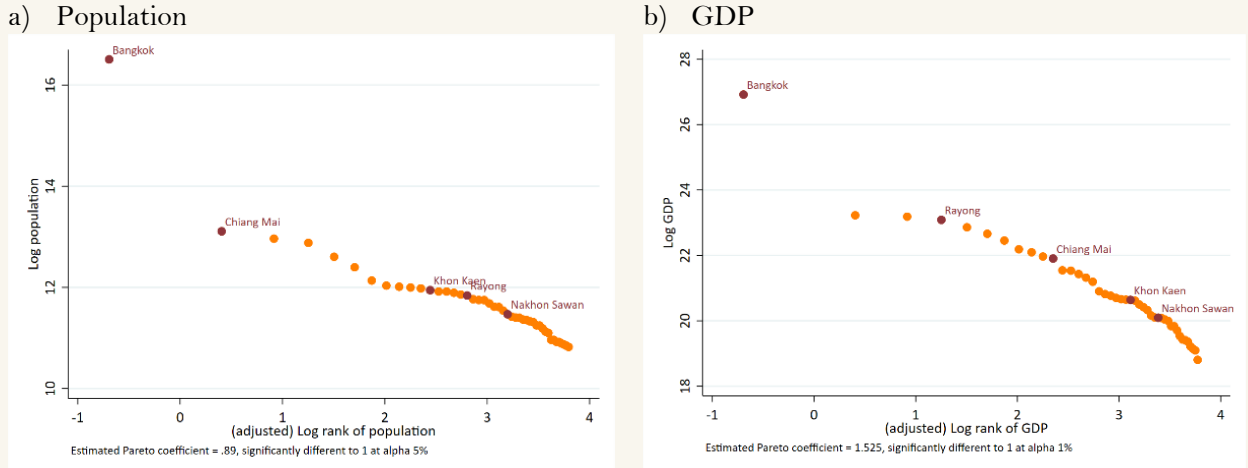
Zipf's law posits that the size of a city is inversely proportional to its rank. Testing Zipf's law is widely done in the literature using the OLS regression method. This involves ranking the cities by population, log-transforming both the size variable and their ranks and regressing the natural logarithm of the sizes on the natural logarithm of the city ranks. The estimated slope coefficient in this log-log regression represents the Zipf's law parameter. A hypothesis test can be conducted to check if the slope coefficient is significantly different from 1, thereby evaluating whether the city size distribution conforms to Zipf's law. Formal statistical tests further confirm the extreme primacy of Bangkok, particularly in GDP ranks with Zipf's coefficient above 1.

2023, p 201.

<http://documents.worldbank.org/curated/en/099052523201510112/P17715703a68af0590b7290234ea94ba989>

In politically centralized countries, the capital city often dominates. The next larger city is typically only a fraction of what would be expected from Zipf's law. For instance, a long tradition of extreme political centralization explains the dominance of Mexico City and Paris. In decentralized countries like Germany or Switzerland, the distribution of cities is closer to Zipf's law.

Figure Box 4. Log and log rank of population and GDP, Thailand urban centers, 2015



Source: WB staff calculation using GHS-UCDB dataset (2019). Population estimates based on Freire et al (2016), GDP estimates follow Kummur et al (2018).

Note: Dots represent urban agglomerations, the extents of which are defined by degrees of urbanization measure (see Dijkstra et al, 2021), and does not correspond to administrative boundaries. In the case of Bangkok, the urban agglomeration includes areas such as Bangkok, Nonthaburi, City of Nonthaburi, Pak Kret, Bangkok Noi, Taling Chan, Bang Phlat, Bang Kho Laem, Thawi Watthana, Rangsit, Samut Prakan, Mueang Nonthaburi, Samut Sakhon, and Bang Kruai. Estimate of Pareto coefficient obtained via OLS regression method with following specification: $\ln(y_i) = \alpha - \beta \ln(\text{Rank}_{y,i} - \gamma) + \varepsilon$, where y_i refers to either population (left graph) or GDP (right graph), and $\text{Rank}_{y,i}$ denotes field rank based on selected size variable. The γ parameter is set at 0.5 to reduce bias from OLS estimator for small sample tests (Gabaix & Ibragimov, 2011).

Cities are where economic development happens.

In his influential book "Triumph of the City," Edward Glaeser discusses the centrality of cities for economic growth and development.³⁴ He points out that cities have been the primary engines of innovation, wealth creation, and economic progress throughout history. He emphasizes the benefits that cities can provide in making a larger pool of workers available to employers, and a wider array of jobs available to workers. Successful cities attract skilled workers who seek opportunity and prosperity. Until they grow to the point that agglomeration effects are overwhelmed by congestion effects, cities make it cheaper and more efficient to deliver better services to more people.

A portfolio of places is needed for economic growth.

The World Bank's 2009 World Development Report (WDR) advised policymakers to see their role as "prudent managers of a portfolio of places." One city cannot do it all. Different types of cities serve different functions, with large cities like Bangkok providing world-class levels of services for business and government, while medium size cities may be better suited for manufacturing. Many of Thailand's secondary cities are already regional centers of economic activity, with a diverse array of industries and sectors. These cities are vitally important in their regions, and they have the potential to be much stronger contributors to a balanced national economy.

³⁴ Glaeser, Edward L. Triumph of the City: How Our Greatest Invention Makes Us Richer, Smarter, Greener, Healthier, and Happier. Penguin, 2011.

Investments and reforms can help secondary cities achieve their potential.

As recommended in the 2009 WDR, for these cities to optimize their economic, social and environmental contributions, investments would be needed in several key areas. First, upgrading urban infrastructure like transportation networks, utilities, and housing is crucial. Second, improving access to education, healthcare and job training would be important to develop human capital and skills. Third, it would be important to strengthen municipal institutions and their capacity to govern effectively. Fourth, reforms would be required to enable more localized and coordinated urban planning, better management of land use and development, and efficient delivery of essential services. Unless these infrastructure, human resource, institutional and governance needs are addressed, Thailand's secondary cities are unlikely to reach their potential as productive economic hubs and livable communities.

Diversifying the economy across multiple cities helps mitigate flood and climate-related risks.

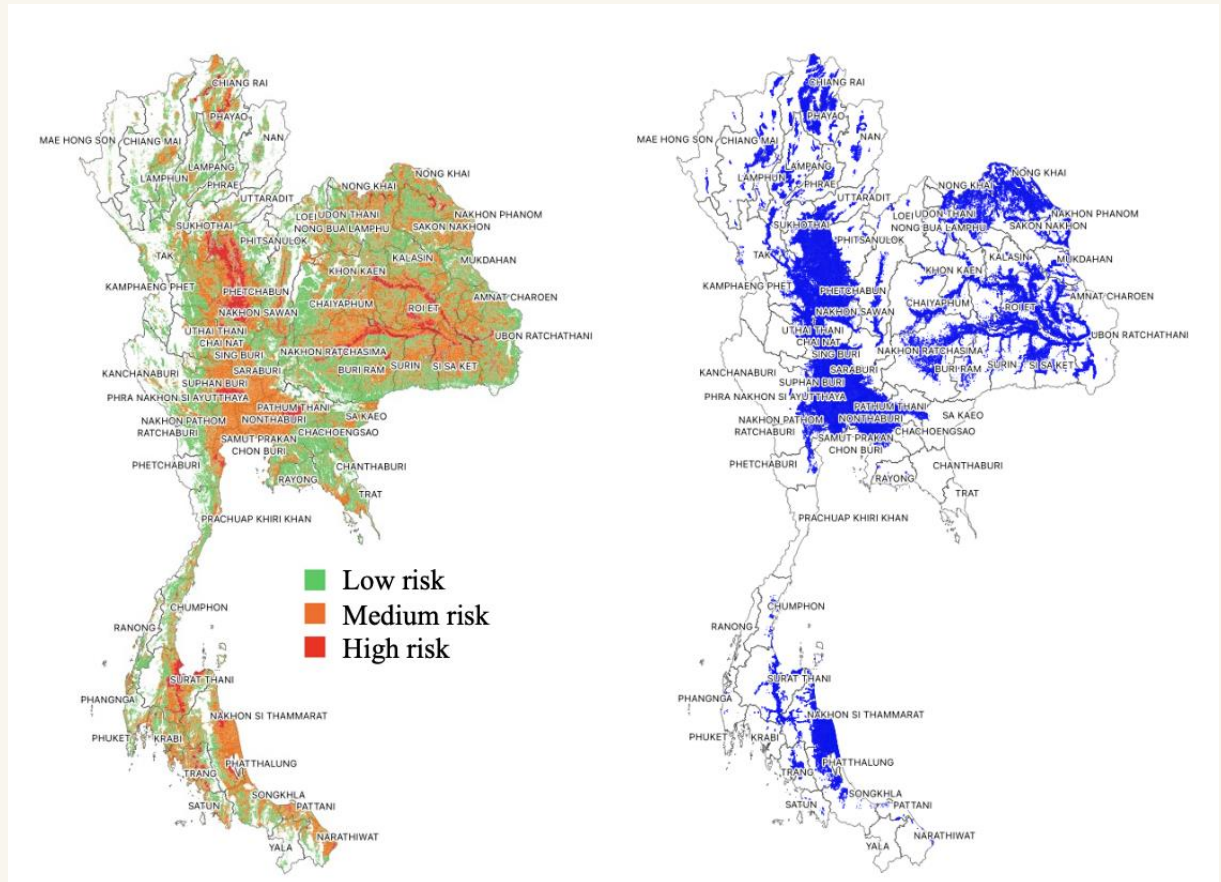
Thailand's economy was particularly vulnerable to the 2011 floods because they affected critical industrial areas in the Chao Phraya basin, which were important not only for Thailand, but also for global manufacturing. Cities further from the coast are less vulnerable to severe flooding, which is likely to increase in frequency and severity, as climate change continues to evolve. Particular risks can be difficult to predict, but a spatially diverse economy has more natural resiliency. When a country's economic vitality is concentrated in a single region, a local disaster can have severe consequences for the entire economy. To the extent that economic activities are spread across regions, the impact of localized shocks is lessened.

Box 5: Thailand's economic reliance on Bangkok makes it highly susceptible to the impacts of flooding and climate change

Ranked ninth globally in the INFORM index for flood risks, Thailand frequently faces devastating impacts from extreme weather events [1]. Bangkok, with its concentration of export industries and critical infrastructure, bears the brunt of these impacts. Despite flood control measures, the city remains susceptible to frequent and severe flooding events. Additionally, Thailand suffers from droughts due to insufficient rainfall, reduced river flows, and poor land management, with the northeastern region being particularly affected. The combination of these factors underscores the country's susceptibility to extreme weather, exacerbated by its dependence on a single, flood-prone urban center.

The 2011 floods were a stark reminder of Bangkok's vulnerability and the broader economic risks it poses to Thailand. These floods caused 680 deaths, affected nearly 13 million people, and resulted in damages and economic losses worth an estimated THB 1.43 trillion (USD 46.5 billion), equivalent to 12.6 percent of the country's GDP. The manufacturing sector in and around Bangkok, which is critical for exports, accounted for 70 percent of all damages and losses during this period. This event highlighted the significant risks associated with concentrating economic activities in Bangkok, as the city's infrastructure and flood control measures were overwhelmed by the flood.

Figure Box 5A. Map of flood risk in Thailand (left) and 2011 flood extent (right)

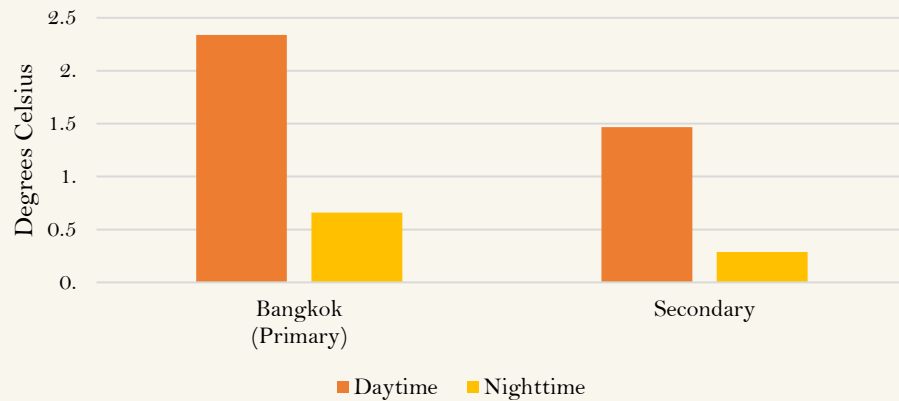


Source: (left) Land Development Department (<http://sql.ldd.go.th/ldddata/mapsoilH2.html>) (right) Geo-Informatics and Space Technology Development Agency (<https://flood.gistda.or.th>)

Looking ahead, climate change is expected to exacerbate the frequency and intensity of both floods and droughts in Thailand, with Bangkok remaining at the forefront of these challenges. Projections suggest an increase in annual precipitation rates, particularly during the wet season, which will heighten flood risks. Rainfall anomalies in 2017 already exceeded those of 2011, and without robust climate adaptation measures, the impacts of future major floods could double. Additionally, average daily temperatures in Thailand could rise by 1.8°C by 2050, leading to more severe and frequent droughts. These climatic changes will further strain Bangkok's infrastructure and the nation's economy, emphasizing the urgent need for diversified economic strategies and effective climate resilience planning.

Moreover, heat issues in Bangkok presents a challenge for livability and future economic productivity. The urban heat island (UHI) effect increases temperatures in Bangkok by around 2.2°C up to 5.3°C compared to rural surroundings [2]. Findings from other study (Chakraborty and Lee, 2019) also suggested that the UHI intensity in Bangkok is higher compared to average of Thai's secondary cities. Intensification of UHI links to severe health risks, including higher incidences of heat exhaustion and respiratory issues, particularly affecting vulnerable populations [3], and leading to an estimated increase of mortality rate by 2-6 percent per 1°C increase [4]. These adverse health impact can potentially affect the economy via reduction in worker's productivity, the need for energy-intense cooling, and infrastructure degradation. While UHI is observed in most of Thai cities, the high intensity of UHI in Bangkok could put more strain to its economy compared to secondary cities.

Figure Box 5B. Average Temperature Difference (°C), Thailand Cities, 2018



Source: World Bank staff calculation based on Yale Center of Earth Observatory (YCEO) Global Surface UHI Data. See estimation of UHI method on [Chakraborty and Lee \(2019\)](#).

[1] See [Thailand Economic Monitor: Coping with Droughts and Floods; Building a Sustainable Future](#)

[2] Based on GFDRR study Cooling Urban Heat Islands: Mitigating Urban Heat Island Effect in Bangkok (forthcoming).

[3] See an example from Kuala Lumpur study by Wong et al (2017).

[4] Chan et al (2012) via [Unlivable: What the Urban Heat Island Effect Means for East Asia's Cities](#)

Cities have different comparative advantages.

Consider the cities that were included in the World Bank’s recent Thailand Urban Infrastructure Finance (TUIF) Assessment conducted in collaboration with the PMU on Area-Based Development (PMU-A) under the Office of National Higher Education Science Research and Innovation Policy Council:³⁵

- *Chiang Mai* is well-known internationally, and is strategically located near Laos, Myanmar, and China, and serves as the economic center of northern Thailand, with strong tourism, agricultural, and logistics sectors. It is an ideal location for 21st century digital nomads.
- *Rayong* sits at the center of the Eastern Economic Corridor. It serves as a vital industrial center, home to major refineries, chemical and automotive manufacturing operations. Furthermore, it boasts a large deep-sea port that acts as a key regional hub facilitating import and export activities.
- *Nakhon Sawan*, once known primarily as a regional transportation and processing hub for agriculture, has expanded into manufacturing and other industries. It has good development potential due to its transport links and its relatively affordable land and labor costs.
- *Khon Kaen*, the largest commercial and industrial center in Thailand’s northeast region, is one of Thailand’s fastest growing cities. It has a diverse economy, based on agriculture, manufacturing, logistics, and education.
- *Phuket* serves as a pivotal destination for tourism, hospitality, and wellness activities, and is also attractive to digital nomads. It has a strong logistics industry and is the commercial center of an important rubber producing area. Its ports serve luxury yachts and pleasure craft, as well as a smaller commercial craft that handle exports of agricultural products.

³⁵ *Thailand Urban Infrastructure Finance Assessment - Challenges and Opportunities (English)*. Washington, D.C.: World Bank. <http://documents.worldbank.org/curated/en/099083023114594259/P17860509429a803a0b215084103677003>

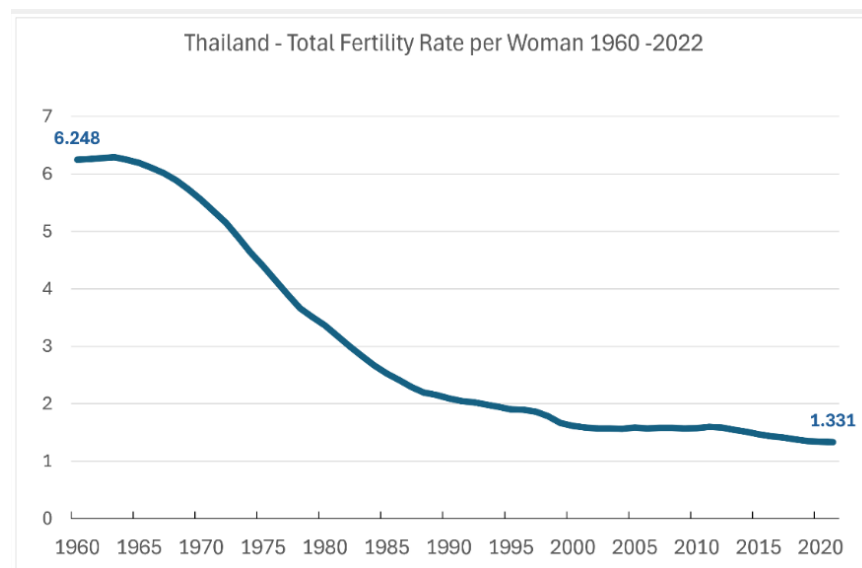
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These different specializations tend to make the national economy more resilient. Diversity offers some protection when a specific sector experiences disruptions or market conditions shift.

The demographic challenge.

The economic development of cities depends on the quality and growth of their labor markets. Firms are attracted to move to cities where skilled labor is abundant and well-qualified. An aging labor market is unattractive to entrepreneurs. The historical trend in the median age of the labor market allows enterprises to project a city's labor attractiveness in the medium and long run. Thailand's fertility rate has dropped precipitously since 1970. It seems to have stabilized around 1.3 per woman in 2023, far below the replacement rate of 2.1 per woman. A few provinces have a fertility rate of slightly over 2.1. Unfortunately, a high fertility rate is closely correlated with low income and low levels of education. So, the provinces with a high fertility rate are unlikely to provide an attractive labor force because of low education levels.

Figure 38: Thailand women fertility rate 1955-2023

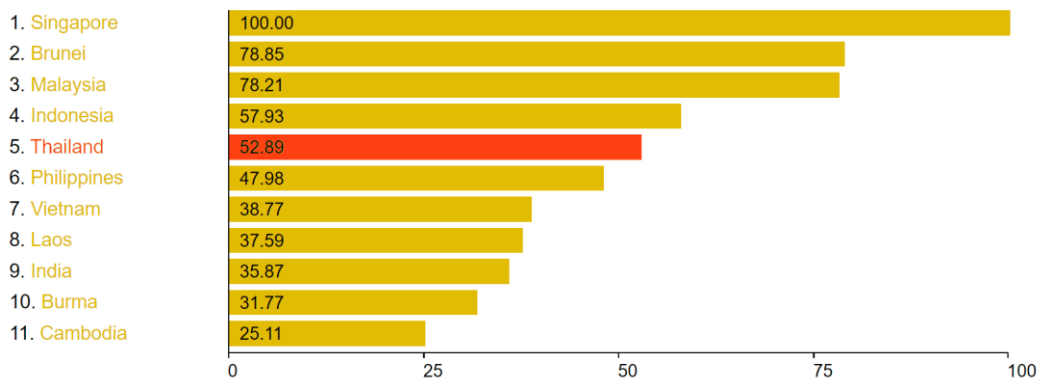


Source: World Bank

Investing in people.

Despite Thailand's overall low fertility rate, secondary cities that manage to be competitive could expect an expanding and reasonably young labor market because of migration from provinces less favored for urban development. Thailand's low urbanization rate of 53% (Figure 39) implies that workers from poorer provinces will tend to migrate to the most prosperous cities, helping to replenish and maintain a younger workforce in those urban centers. Central government could emphasize investment in health and education in these poorer provinces to better equip young migrants to succeed as they move to more competitive cities. Affordable housing and the availability of land might become a decisive advantage for secondary cities in attracting young workers who otherwise would have migrated to the Bangkok metropolitan area.

Figure 39: Thailand urbanization compared to other Southeast Asia countries



Source: World Bank

Large labor markets are more productive and innovative.

A bigger pool of workers across different skills and occupations allows for better matching between employers and employees based on skills and specializations, increasing productivity. Firms are attracted to labor markets that are growing in size and that have talented and skilled workers available. It is not necessary or advisable to artificially stimulate the growth of secondary cities to achieve geographically balanced economic development. Successful cities will naturally attract migration from rural areas and from smaller, less successful cities.

Economic growth will not be spread evenly across Thailand.

This chapter does not suggest that economic growth should be, or could be, spatially balanced across all provinces in Thailand. Nor does it suggest spending more on infrastructure in lagging regions with the idea of transforming them into growth poles. Such efforts have proven futile in many countries that have tried to stimulate economic development in places that lack the fundamental prerequisites of growth, such as market access, skilled labor, and a critical mass of existing urbanization.

Allowing productive and innovative cities to generate their own resources can boost Thailand's overall economic growth.

The growth of a few cities generated by their ability to manage themselves and generate fiscal resources can be difficult to accept if poor areas expect to receive transfers from the central government to compensate for their lack of natural endowment. However, attempting to force economic development in areas that cannot develop because of weak management and/or lack of economic potential will only decrease the welfare of the entire national population while using scarce resources inefficiently. The objective of economic development should be to increase the welfare of the whole national population, not to achieve pseudo-equality through geographically distributed subsidies. The opportunity to migrate toward areas with significant economic potential increases the welfare of households more permanently than geographically distributed subsidies.

Thailand's Secondary Cities

Secondary cities can anchor new regions of economic growth.

The World Bank's 2009 WDR observed that new growth opportunities emerge when growth in a core region – the Bangkok region in this case – has reached a point at which congestion and rising costs encourage entrepreneurs to seek new locations for production. From Thailand's point of view, it would be preferable if such entrepreneurs seek locations in Thailand, but there are many cities in Southeast Asia which are competing for investments. If infrastructure, skills, and connectivity are better in Viet Nam, Indonesia, or Philippines, Thailand could lose these investment opportunities altogether.

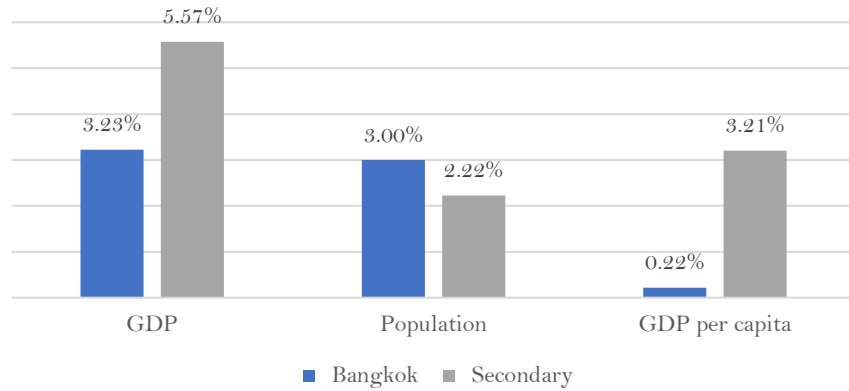
Productivity in secondary cities is

Bangkok's economy shows signs of stagnation, as its GDP growth has been roughly equal to its population growth. This suggests that the city's economy

growing faster than in Bangkok.

is mature and potentially saturated, leading to little or no improvement in productivity. Despite Bangkok’s primacy, per capita GDP growth in secondary cities from 2010 to 2020 has been dramatically higher than in Bangkok. This faster growth in GDP per capita demonstrates the improved productivity, efficiency, and economic potential of Thailand’s secondary cities (Figure 40).

Figure 40: Average annual growth of GDP, population and GDP per capita, 2010-2020



Source: WB staff calculation.

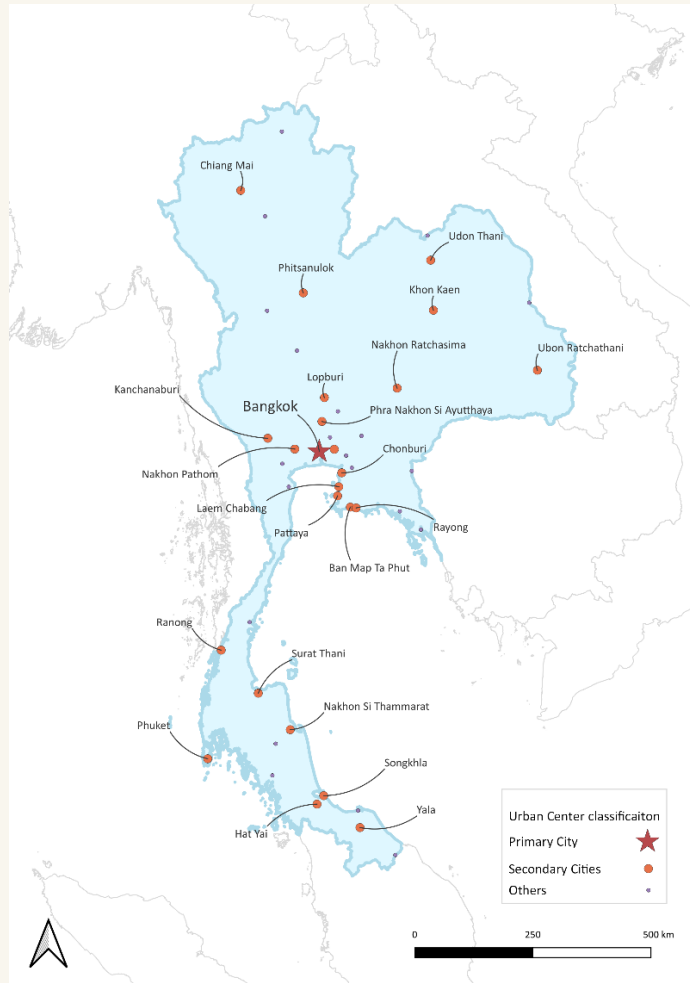
Note: Data at city level calculated based on urban center boundaries as defined in GHS-Urban Center Database (Florczyk et al, 2019). Population data based on WorldPop UN-adjusted estimates (2020), GDP based on estimates by Wang and Sun (2022).

Box 6: Defining Secondary Cities in Thailand's Urban Landscape

In the literature, population size is often used as a proxy to define secondary cities [1]. For this report, secondary cities in Thailand are identified as urban centers with populations exceeding 100,000 people, excluding Bangkok. Out of 45 identified urban centers, 25 qualify as secondary cities. These cities, while spread across various regions of Thailand, are predominantly concentrated around Bangkok and along the shores of the Gulf of Thailand (Figure Box 6).

Secondary cities play a pivotal role in regional development. In Thailand, these cities serve as centers of local government and industry, satellite regions around Bangkok, or key economic trade corridors. Acting as hubs of regional economic activity, they help reduce the strain on Bangkok by providing alternative locations for businesses and industries. These cities play important roles—not only for creating jobs and economic diversification but also by promoting more balanced spatial development across the country.

Figure Box 6. Map of secondary cities of Thailand



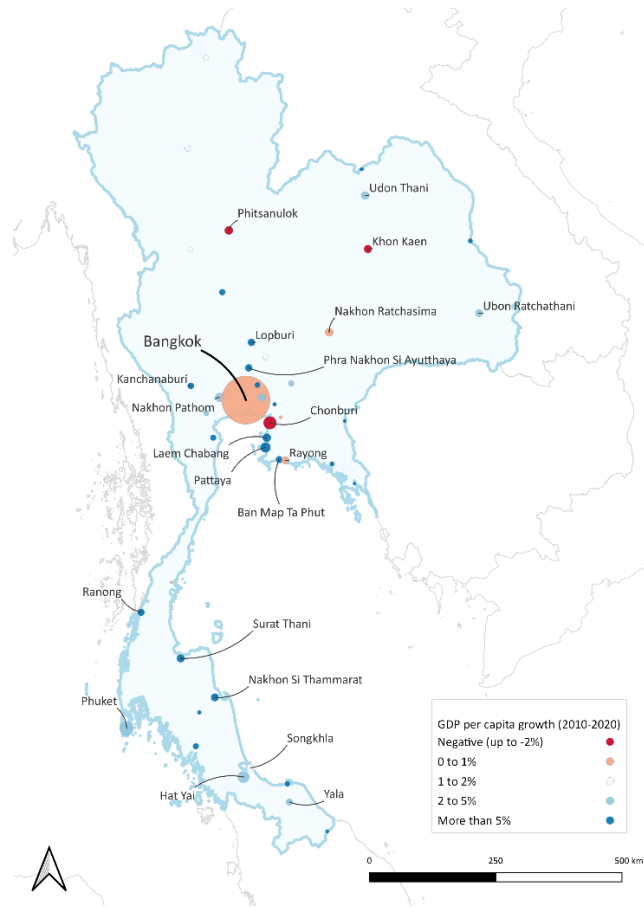
Source: GHS UCDB Urban Center Database (2019)

[1]: see Davis (1955), Rondinelli (1983) and Roberts & Hohmann (2014) for examples.

Urban centers close to Bangkok or foreign markets enjoy high productivity gains.

While not all secondary cities in Thailand grow at the same pace, there are discernible patterns in productivity growth. Secondary cities around the Gulf of Thailand or relatively close to Bangkok, with the exception of Chon Buri, show significant gains in GDP per capita. This suggests that proximity to the capital and coastal economic activities helps boost productivity in these regions. Additionally, cities near borderland regions also exhibit modest productivity growth, likely benefiting from cross-border trade and economic exchanges. These trends indicate that geographical location and access to economic hubs play crucial roles in the economic performance of Thailand’s secondary cities.

Figure 41: Map of average annual growth of GDP per capita, 2010-2020



Source: WB staff calculation.

Note: Data at city level calculated based on urban center boundaries as defined in GHS-Urban Center Database (Florczyk et al, 2019). Population data based on WorldPop UN-adjusted estimates (Lloyd et al, 2019), GDP based on estimates by Wang and Sun (2022). Dots are proportional to urban center population size.

Thailand’s secondary cities trail Bangkok in population and infrastructure density.

Despite their importance, secondary cities in Thailand are lagging behind Bangkok in several aspects. On average, they are less densely populated, with an average population density only about 60 percent of Bangkok's. Infrastructure density, as measured by road density per square kilometer, is also lower by approximately 20 percent. Furthermore, the level of GDP per capita in these secondary cities is on average 25 percent lower than that of Bangkok. Population density in cities is often positively correlated with economic productivity. While congestion and pollution may be limiting Bangkok’s growth potential, these cities have room to grow, provided density is balanced with adequate infrastructure and sound urban planning.

Table 3: Characteristics of Thailand Cities by Size

City Type	Bangkok (Primary)	Secondary	Others
Number	1	25	19
Average Population	16,664,788	152,701	48,687
Mean Share of Built-up Area	40.72%	36.63%	31.12%
Mean Road Density (km road/sq.km area)	18.06	14.35	13.61
Mean Population Density (person/sq.km area)	5,736	3,078	3,308
Mean 2019 Estimated GDP (Million 2005 USD PPP)	668,658	4,917	1,110
Mean 2019 GDP per capita (2005 USD PPP)	40,124	30,309	22,514

Source: WB Staff calculation based on GHS UCDB Urban Center Database (2019) definition. Population of urban centers are based on 2015 estimate by Freire et al. (2016). Road lengths are calculated from OpenStreetMap (2023). GDP based on estimates by Wang and Sun (2022).

The World Bank recently analyzed the development potential of Thailand's provinces.

The Development Potential Assessment Index (DPAI) assessed the extent to which each of Thailand's 77 provinces possesses the ingredients that are critical to achieving a high level of local economic productivity, using a Development Potential Assessment Index (DPAI),³⁶ which measures the economic potential of each province. The DPAI is designed to assess the extent to which each province possesses ingredients that are critical to achieving a high level of productivity. One aim was to help identify border areas with the greatest potential for socioeconomic development. However, the DPAI was calculated for all of the provinces, not just the border areas. While the DPAI analysis did not drill down to the city level, it is indicative; and most of the development potential in the provinces will be in the cities. Helping a province's main city or cities realize its potential would be good for the province and the nation.

Thailand's secondary cities are the key to economic potential in their provinces.

A key finding of the DPAI study is that population density—strongly linked to urbanization—emerges as an important factor that determines the economic potential of provinces. When economic potential maps are superimposed on Thailand's urban centers, we see that most of the secondary cities are located in provinces that have medium, high or very high economic potential, suggesting that these cities have generated agglomeration forces that are beneficial for the economic potential of their province, and their region.

Productive potential is only potential.

Not all provinces with secondary cities managed to boost the economy of their province (Figure Box 7). With some exceptions, most provinces that managed to achieve their expected level of economic output are those adjacent to the Bangkok Metropolitan Area and can benefit from existing infrastructure links in the area. By contrast, if transport in or to a secondary city is poor, or the supply of buildable land is lacking, a city cannot be efficient, and it will not live up to its potential.

³⁶ Summary Report of Development Potential for Prioritized Border Areas, submitted to Program Management Unit on Area Based Development (PMU-A), April 2024

Box 7: Assessing the Economic Potential of Thai Provinces with the Development Potential Assessment Index (DPAI)

Economic potential defined as “the extent to which a subnational area possesses factors that are important determinants of the ability to experience a high level of productivity” (Roberts 2016). The Development Potential Assessment Index (DPAI) serves as a diagnostic tool to measure the long-run productivity potential of various regions. Derived from the Economic Potential Index (Roberts, 2016), DPAI assesses the economic endowments of provinces, including factors like agglomeration strength, industrial specialization, human capital, market access, and climate risk. By establishing an empirical relationship between these factors and GDP per capita, the index predicts the expected productivity level of a province and normalizes it to a score between 0 to 100, centering the national median at 50. Provinces scoring above 50 are seen as having higher economic potential than the national average.

The DPAI provides a comprehensive way to categorize provinces into five tiers: very low, low, medium, high, and very high potential. Using the standard deviation as cutoffs, the index is then used to categorize each province in Thailand, to very low (DPAI \leq 1 SD below average), low ($1 < \text{DPAI} \leq 0.5$ SD below average), medium (within -0.5 and 0.5 SD), high ($0.5 \geq \text{DPAI} > 1$ SD above average), and very high (More than 1 SD above average). This classification helps identify areas with significant development needs or those performing above expectations. Notably, the DPAI also allows for a comparison between a province's economic potential and its actual performance, highlighting regions where further investments in infrastructure or human capital might be necessary to close the gap between potential and performance.

In Thailand, DPAI results reveal an interesting dynamic. While provinces around the Bangkok agglomeration exhibit high economic potential, Bangkok itself underperforms relative to its endowment level, indicating possible issues in short-term growth or investment efficiency (Figure Box 6.). Conversely, peripheral provinces, home to many secondary cities, are surpassing their expected productivity levels. This suggests that these areas are maximizing their economic potential.

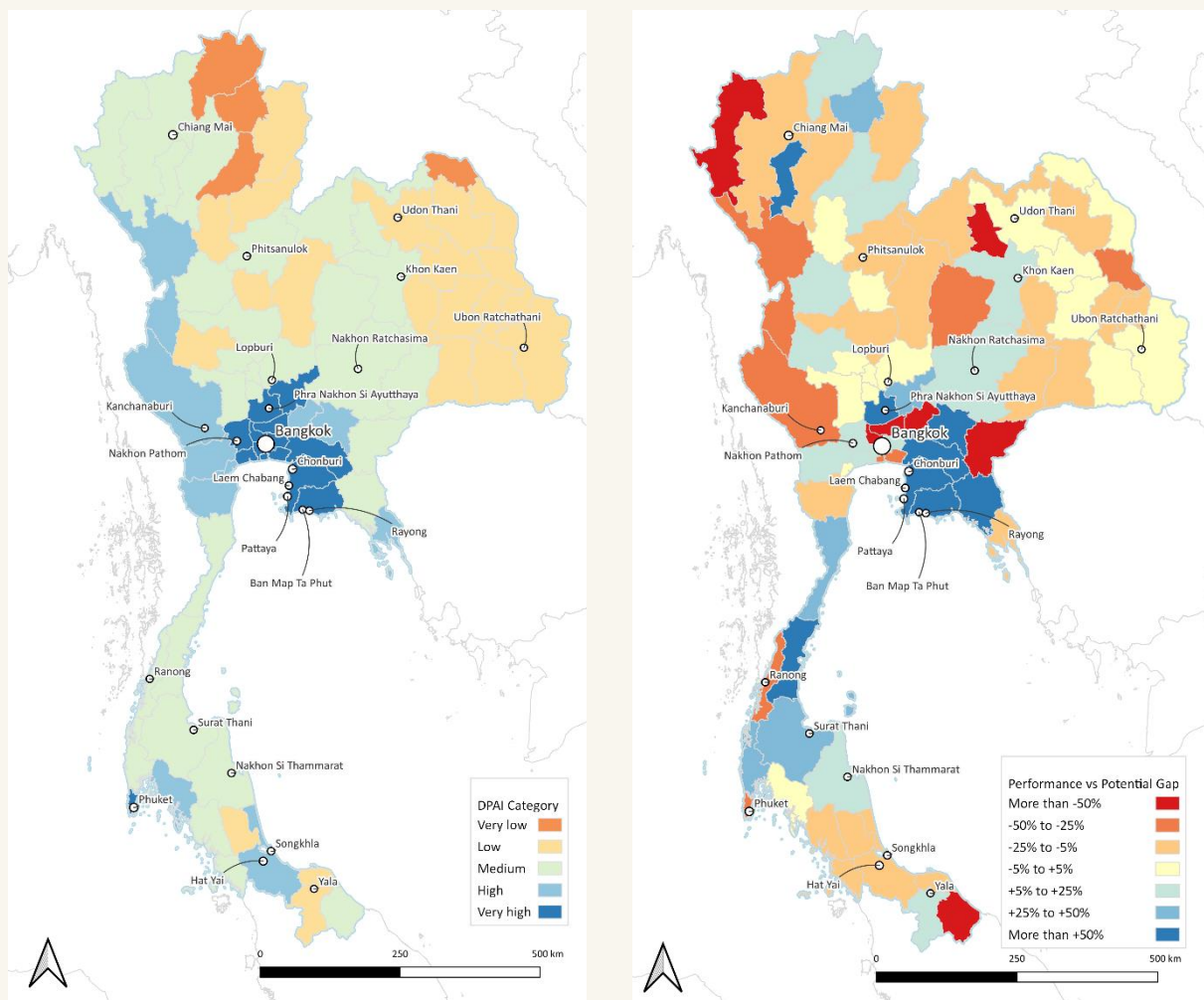
The insights provided by the DPAI can guide policymakers in making targeted investments to boost regional productivity. For instance, regions with a negative gap between potential and performance may require enhanced infrastructure or human capital development. On the other hand, high-performing regions might need strategies to sustain their growth momentum. Overall, the DPAI underscores the importance of tailored policy approaches to harness the unique economic potential of each province.

Box 7: Assessing the Economic Potential of Thai Provinces with the Development Potential Assessment Index (DPAI)

Figure Box 7. DPAI category, potential and performance gap of Thailand provinces

a) Score category

b) Performance gap



Source: World Bank (forthcoming)

Thailand's secondary cities are constrained by institutional and fiscal factors.

They are constrained in terms of revenue instruments, fiscal autonomy, infrastructure planning, and spatial planning. The powers and functions of Local Administrative Organizations (LAOs)³⁷ overlap with those of central and provincial governments. LAOs operate in parallel with deconcentrated central government institutions, which have continued to perform traditional command and control functions.³⁸ Local authorities have little experience with planning their own fiscal policies, with raising their own capital, and with developing

³⁷ In this chapter, we focus on Local Administrative Organizations (LAOs). Many of the same constraints exist for Provincial Administrative Organizations (PAOs), but we have not studied these in detail.

³⁸ "Thailand Public Revenue and Spending Assessment: Promoting an Inclusive and Sustainable Future," World Bank 2023, p 201.

<http://documents.worldbank.org/curated/en/099052523201510112/P17715703a68af0590b7290234ea94ba989>

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their own infrastructure. While central authorities are cautious about more local autonomy, allowing secondary cities to remain underperforming also poses significant risks. Lifting constraints on secondary cities, coupled with appropriate risk management, will allow LAOs to forge meaningful social contracts with residents and firms, and will allow them to develop infrastructure tailored to local needs. This will enable secondary cities to attract more investment and skills, boost their productivity, and help Thailand recover from its current malaise.

Decentralized investment and fiscal autonomy are crucial to secondary cities' growth.

Achieving the secondary cities' economic potential will not be possible without modifying the centralization that restricts their potential. Decentralization of infrastructure planning and investment decisions, with a significant degree of fiscal autonomy, is a prerequisite to sustainable growth in Thailand's secondary cities. Which cities will succeed cannot be known in advance, as it will depend on their own efforts in creating appropriate conditions for investment. Note, however, that Thailand's demographic future will constrain their number.

The growth of cities depends on the quality of their labor markets.

Cities with greater autonomy could compete to develop their particular comparative advantages. These advantages could be environmental quality, a highly educated workforce, ease of doing business, an elastic and affordable land and housing supply, and/or adequate energy and water resources. However, the use of tax and land subsidies to attract investments is not recommended, as it both disrupts the market and forfeits the revenues that cities should be investing in physical and social infrastructure.

Decentralization has been slow in coming to Thailand.

Like many other countries, Thailand adopted decentralization legislation in the 1990s, but moving real responsibility for infrastructure planning and investment to LAOs is not yet a reality. LAOs remain fiscally dependent on the center. As in other countries, a fundamental challenge of fiscal decentralization is that it asks central authorities to give up control over decisions about local spending and capital investment priorities. So far, LAOs have not been given the authority and autonomy they would need to take control of their own investment planning and financing.³⁹

A major obstacle will be the tendency to revert to centralized thinking.

A primary constraint in developing secondary cities will be the temptation to revert to central planning tendencies. National government cannot effectively select which cities should receive public or private investments. Global experience shows that cities selected as growth poles by central government decisions rarely succeed. Local autonomy should precede growth. Only when the main secondary cities have achieved sufficient autonomy will they be able to compete for private investments and human resources. With this autonomy, they will be able to support economic growth with locally funded public investment in physical and social infrastructure.

Financing Urban Infrastructure

The TUIF assessment showed that secondary cities depend on the

The Thailand Urban Infrastructure Financing (TUIF) assessment considered 26 project concepts in five cities. The cities were Chiang Mai, Rayong, Nakhon Sawan, Khon Kaen, and Phuket. While three of the projects evaluated appeared to be nearly ready to solicit PPP proposals, more work would need to be done

³⁹ As one example, the demand for electricity, especially in cities, has been rising rapidly, and is forecast to accelerate. Artificial intelligence (AI) systems rely on power-hungry data centers for their computational power and data storage needs. The growth of AI, along with increased usage of electric vehicles, and automation of manufacturing facilities will all require more electricity. While energy shortages can pose a significant impediment to economic development, cities lack the legislative authority to independently initiate energy projects or enter into PPPs for such endeavors, even those limited to local generation and distribution of electricity. The absence of legal authority prevents LAOs from undertaking energy initiatives within their jurisdictions.

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central government for infrastructure funding.	on the remaining concepts, and some did not seem suitable for PPPs. On the positive side, all five cities appeared to be reasonably creditworthy, with credible financial statements and substantial surpluses. At the same time, none of the cities have yet engaged with credit rating agencies or potential lenders and external investors. None have prior experience with PPPs in which investment and risk are shared between the public and private sector. The cities' planning and budgeting processes are reasonable as far as they go but would need a longer planning horizon to support either borrowing or PPPs. It must be remembered that these projects represent a small fraction of the capital investment needs in each of these cities.
These cities could largely fund their own infrastructure investments.	With the right tools, secondary cities can largely finance their own infrastructure. They do not need more funding from the national budget. Thailand's main cities, including Bangkok and leading secondary cities, can be encouraged to raise more revenues through local taxes and user fees, and could be permitted to leverage these revenue streams through borrowing and PPPs in order to develop the infrastructure that is most important in their local context.
Borrowing authority of Thailand's LAOs is limited.	Due to strict government regulation, subnational debt in Thailand is very low from an international perspective. ⁴⁰ LAO budgets must be approved by the provincial governor, who is appointed by the central government and reports to the Ministry of the Interior. All local government borrowing requires approval by the national Ministry of the Interior, or in some cases, by provincial authorities. Since 2018 LAOs are allowed to borrow for three purposes: investing in capital projects, restructuring of existing debt, or raising money for local government pawnshops. ⁴¹ The debt service ratio must not exceed 10% of local government revenue. ⁴²
National government does not have the resources to fund the infrastructure needed in secondary cities.	The amount of investment needed is considerable, as much of the infrastructure in secondary cities is well below the standards of Bangkok, both in extent and in quality. Competition for financial resources at the national level is a zero-sum game, with sovereign borrowing and deficit spending both on the rise. Slow economic growth means that the national fiscus will not be in a position to fund the infrastructure investment that would be needed for these cities to realize their economic potential and contribute to a healthier economy.
Local authorities are best positioned to make optimal investment decisions.	Public projects that are purely local, with little spillover to other jurisdictions, are most efficiently funded at the local level. ⁴³ When needs are identified by the community, projects are designed to meet those needs, and financing is at the expense of the community, then infrastructure is likely to be tailored to meet the specific needs of the city. Local governments have a better understanding of their communities' needs and priorities and are in the best position to allocate capital to address local infrastructure deficiencies. The resulting investment will be more targeted and effective than if it is funded nationally. Local governments can involve local citizens and firms in developing and prioritizing infrastructure projects. This fosters a sense of ownership and accountability between the local authorities, their citizens, and their taxpayers, which

⁴⁰ OECD (2019), Multi-dimensional Review of Thailand (Volume 2): In-depth Analysis and Recommendations, OECD Development Pathways, OECD Publishing, Paris, <https://doi.org/10.1787/9789264307674-en>.

⁴¹ Bruce Gilley & Sirisak Laochankham (2024) Can Fiscal Recentralization Strengthen Local Government? The Case of Thailand, *International Journal of Public Administration*, 47:4, 257-268, DOI: 10.1080/01900692.2022.2111580

⁴² Public Debt Management Policy and Supervision Committee regulation, pursuant to Public Debt Management Act

⁴³ The European Union's principle of "subsidiarity" is useful. The principle of subsidiarity is that governance decisions should be taken at the lowest practical level, and as close to the citizen as possible. Thus, if a matter can be handled by local government, it should be. The term "decentralization" has acquired multiple meanings and interpretations, leading to a semantic overload that can cause confusion and ambiguity.

improves the odds that public projects will be sustainably operated and maintained over time. International experience shows that nationally funded infrastructure is too often operated in a run-to-failure mode, at which point new national funding is sought for a replacement.

Revenues

Benefits of using local revenues to finance infrastructure and to leverage additional funding.

Municipal borrowing and PPPs are tried and tested methods of converting local revenue streams into capital for investment. These methods have several advantages if they are well managed:

- The infrastructure itself tends to be more efficient and appropriate when it is locally funded.
- Borrowing for infrastructure subjects plans and projects to lender/investor scrutiny, and this discourages ill-conceived projects.
- The process of issuing bonds, securing loans, or developing PPPs subjects the LAO, not only the project, to financial and managerial scrutiny, tending to ensure sustainability.
- Large infrastructure projects have a design life of 30 years or more, so if these can be financed over time, the firms and individuals benefiting from this infrastructure in the future will help pay for it.
- Municipal bonds, bank loans, and PPPs can mobilize private capital for public infrastructure investment, relieving pressure on the national fiscus.

At their core, these financing methods require two things: 1) robust and reliable local revenue instruments, and 2) the ability to pledge future revenue streams to secure capital for today's infrastructure development.

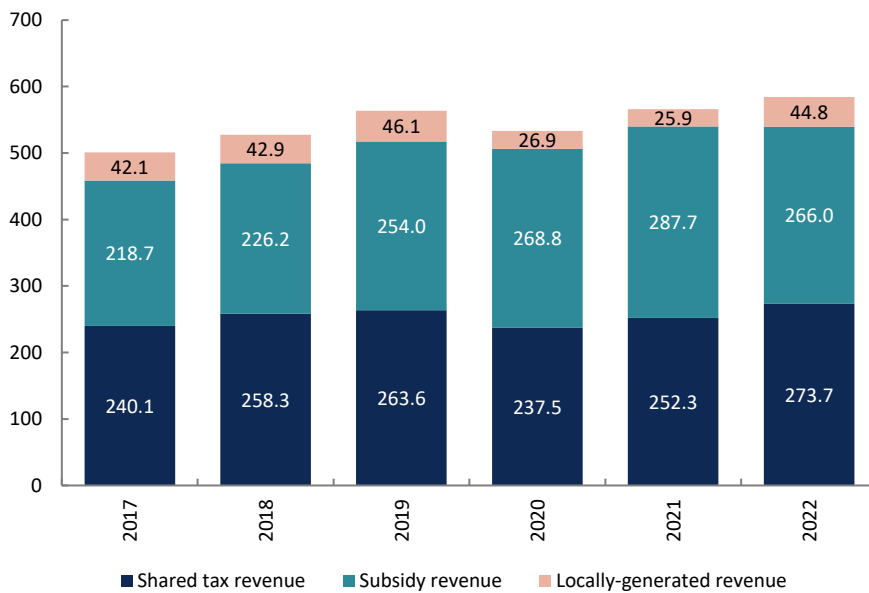
LAOs now rely on shared taxes and transfers from the national government.

LAO revenues in Thailand come from three sources: 1) transfers from the center (also known as subsidies) 2) shared taxes, and 3) locally collected revenues. Figure 42 below shows recent revenue trends excluding Bangkok and Pattaya City. Locally collected revenues are usually about 8 percent of total LAO revenues. During the COVID pandemic, Land and Building Tax collections were severely limited by Royal Decree, resulting in a sharp drop in local revenues, so that these accounted for only 5 percent of total revenues in those years.

To raise capital, LAOs need strong and reliable revenue instruments.

Borrowing and PPPs are long-term commitments. An LAO that issues bonds, takes a loan, or enters into a PPP is making a multi-year commitment, sometimes a multi-decade commitment. For major infrastructure, a 20- or 30-year maturity is not uncommon. Responsible lenders and investors will not take a risk on unstable and unpredictable revenues. They need confidence that the LAO can and will pay them as and when agreed. Local revenue instruments typically fall into two categories: 1) local taxes, and 2) user fees and charges. Taxes are a contribution to the general good, typically based on wealth, income, or consumption. Fees and charges are a payment for specific services, ideally related to the cost of providing the service. Either type of revenue can support borrowing and PPPs, if a local government commits future revenue flows to repay capital for current investment.

Figure 42: LAO revenue by sources, excluding Bangkok and Pattaya (THB billions)



Source: Department of Local Administration

Local taxes involve a social contract.

Ideally, local taxes are the basis of a local social contract between the community members (families and firms) that pay taxes and the LAO that uses these to provide public benefits. People pay local taxes because they are part of the community, and they share in the public benefits supported by taxes. These benefits may take the form of streets, sidewalks, parks, libraries, schools, and other cultural or educational resources. In many countries, property taxes also support communal services, such as water, wastewater, storm drainage, as well as local public safety and public health programs.

Establishing trust is paramount.

Taxpayers pay more willingly if they believe that everyone is treated fairly, whether they are rich or poor, politically connected or not. Taxpayers want to know that their taxes are used to benefit the community and are not ending up in the pockets of individuals or in the war chests of political parties. The idea of local taxation is that individuals and firms contribute some portion of their wealth or income for the benefit of the greater community. Unlike user charges, local taxes do not depend on whether the taxpayer uses any specific services. Globally, the most important taxes for local government are property taxes, business taxes, and income taxes. As noted below, Thailand does have a local property tax (the Land and Building Tax) but does not have a local business or income tax.

Annual property taxes.

Property taxes are widely used by local governments around the world as a primary revenue source, and they help reduce inequality. They often provide a key source of revenue for financing local services and infrastructure.⁴⁴ Property taxes are the cornerstone of local government finances in most Anglophone countries (US, Canada, United Kingdom, Ireland, Australia, New Zealand, South Africa) and are also widely used to support local government budgets in Asia (Japan, South Korea, Taiwan, Hong Kong, Indonesia, Philippines, Malaysia). Property taxes are inherently redistributive since the tax burden falls most heavily on individuals and firms owning the most valuable properties and

⁴⁴ A helpful analysis of global property tax practices can be found in “2022 Synthesis Report, World Observatory on Subnational Government Finance and Investment,” OECD 2022, OECD Publishing, Paris (2022), p. 90 et seq., <https://doi.org/10.1787/b80a8cddb-en> The publication includes information on Thailand’s Land and Building Tax

are used to support delivery of public services and infrastructure for the benefit of all. Property taxes are hard to evade, since the asset being taxed is visible and immobile. Property taxes are more stable than consumption taxes like VAT or income taxes because the value of property is less subject to economic cycles. Where local governments have control over the tax rates and tax base, property taxes support a local social contract – communities can decide what level of taxation they are willing to accept, in exchange for what kind and quality of public goods and services. Property tax has been called the “least bad tax” because it generates little or no economic distortion. The property tax used by local governments in Thailand is called the Land and Building Tax.

Thailand’s Land and Building Tax is underperforming.

Thailand’s Land and Building Tax has not been a strong or reliable revenue source. As a result, neither local authorities nor their prospective lenders and investors can rely on these revenues to pay debt obligations. The Land and Building Tax is locally collected, but not locally controlled. Legislation authorizing the tax was updated in 2019 with a single act⁴⁵ replacing a patchwork of earlier legislation.⁴⁶ In principle, the 2019 Act grants local governments the power to collect tax on land and buildings in their jurisdiction, subject to statutory exemptions. The tax base, exemptions, and tax rate are all established nationally. Notwithstanding the 2019 Act, Land and Building Tax rates have been subject to *ad hoc* changes by national government. The authorized tax rate in the Act was originally 0.15 percent for agricultural uses, 0.3 percent for residential properties, and 1.2 percent for other uses. However, these already low rates were cut by 90 percent in 2020 and 2021 by Royal Decree, to provide financial relief during COVID.⁴⁷ Further restrictions on local property tax collections may be in the offing.⁴⁸ The net effect is that the Land and Building tax is not generating revenues anywhere near the levels we see in other developing or developed economies, and it cannot be relied on as a source of future revenue for LAOs. The lesson learned by local authorities, not to mention potential lenders and investors, is that LAO borrowers can potentially lose the revenues they need to repay capital investment, at any time.

The piggyback option.

In some countries,⁴⁹ local government “piggyback taxes” have allowed municipalities to levy a surtax on top of the income tax paid to central government. The amount of the surtax can vary from one municipality to another, depending on perceived needs and local politics. Significant autonomy as to the tax rate is usually allowed, within some limits, so that the local government can decide the amount of revenue to be generated, based on their understanding of their infrastructure needs, and their citizens’ ability and willingness to pay. Like the property tax, a piggyback tax can be the basis of a social contract between taxpayers and the local government. A challenge in Thailand will be that people’s legally registered addresses frequently differ from their actual place of residence, which could result in the surtax being applied to those who are not actually resident or failing to be collected from actual

⁴⁵ Land and Building Tax Act B.E. 2562 (2019)

⁴⁶ This prior legislation included the House and Land Tax B.E. 2475 (1932); the Land Development Tax B.E. 2508 (1965); the Notification of the National Executive Council No. 156 dated June 4, B.E. 2515 (1972); and the Royal Decree Designating the Medium Price of Land for Land Development Tax Assessment B.E. 2529 (1986).

⁴⁷ Shared tax revenues from central government were also significantly down in these two years. The revenue from the central government was also significantly down in 2020–2021.

⁴⁸ “Ministries vow to ease land & building tax,” Bangkok Post, March 7, 2024, see <https://www.bangkokpost.com/property/2754431/ministries-vow-to-ease-land-building-tax>

⁴⁹ Denmark, Norway, Sweden, Spain, Portugal, and Croatia are examples. See Chattha, Muhammad Khudadad, Jürgen René Blum, and Roy Kelly. “Personal Income Tax Piggybacking.” (2023) at https://documents1.worldbank.org/curated/en/0990833003132330606/pdf/P1741580db379b0190919302915fd8b225_9.pdf

residents of the municipality. Varying surtaxes can also lead to jurisdiction-shopping where people claim residency in a low-surtax or no-surtax jurisdiction despite living or working primarily elsewhere.⁵⁰ Assuming that such challenges could be overcome, the primary policy question is whether to allow local governments to tax wealth (land and building tax) or income (piggyback income tax). There are pros and cons to each, which could be explored in detail if there is consensus on the desirability of more local autonomy in generating revenues.

Fees, charges, and tariffs are very low.

Fees, charges, and tariffs are conceptually different to taxes. They are payment for specific goods, services, or activities. For example, a local fee might be charged for parking, for waste collection, for water, or for electricity. Other examples include building permit fees and transit fares. Fees, charges, and tariffs are often (but not always) in proportion to the amount a customer uses. For example, a typical electricity customer would pay for each kWh used. These fees may not cover the full cost of providing the service (e.g. mass transit is subsidized in most countries) but a citizen that does not use the bus or train does not have to pay the fare. Across the years, local fees, licenses, and fines in Thailand have accounted for only about 1 percent of LAOs revenue. At this low level, there is little hope of borrowing against such fees, or of pledging them as part of a PPP arrangement to provide infrastructure.

Borrowing

Fiscally sound secondary cities can borrow capital for infrastructure investment.

Borrowing on the strength of their own finances would make it possible for growing LAOs to themselves provide the local infrastructure that can support economic growth and sustainability, both in the cities themselves and in their surrounding regions. Capital is not the only requirement, of course. Investment capital must be raised and deployed in accordance with local needs and to maximize local development potential. Good infrastructure is an adjunct to a favorable location, good transport and communication networks, an educated population, a livable environment, affordable land and housing, and other factors that go into making a productive and sustainable city. Where these extrinsic factors are present, investment can make the critical difference. These cities need to invest in water and wastewater systems, in solid waste management, in electricity and telecommunications, in internal transit and transport systems, in recreational facilities and public spaces. Well-situated secondary cities that can directly access capital to invest in local priorities will be able to achieve their potential, without having to depend on the national fiscus.⁵¹

Accessing capital markets.

Capital markets can provide financing for local government infrastructure investments. Developing a municipal capital market is a long-term project, but it is not conceptually difficult. In such a market, local debt instruments (including municipal bonds and notes) are the product.

- **Sellers** of municipal bonds (or other debt instruments) would be LAOs. LAOs would not be only selling the bond itself – they would be selling potential buyers on the soundness of their finances (including the reliability of their revenue streams), their management team, their track record, and their forward planning. LAOs would engage prospective lenders and investors in advance of actual need – they must help them get to know the community, the administration, its finances, and its plans.

⁵⁰ This is less of a problem with the Land and Building tax, since the physical location of the tax base is fixed.

⁵¹ For an overview of issues related to subnational borrowing to finance local infrastructure, see Yilmaz, Serdar, and Robert D. Ebel. "Subnational Government, Infrastructure, and the Role of Borrowing and Debt." (2020); Frank, Jonas, and Jorge Martinez-Vazquez. "Decentralization and infrastructure: from gaps to solutions." (2014);

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- **Buyers** of bonds or other instruments could be financial institutions, insurance and pension fund managers, mutual fund managers, and individuals. Fund managers are often on the lookout for stable long-term investments, as opposed to quick or speculative returns. They are willing to buy fixed rate instruments in a stable economy.
- **Market regulation** is the job of government. Its job is to provide a fair and balanced regulatory framework that clearly assigns risk, responsibilities, and remedies. For example, if Thai policymakers do not want to risk LAO obligations becoming the burden of central government, that should be clearly spelled out in legislation. There is wisdom in putting the burden on investors/lenders to evaluate the creditworthiness of their borrowers.

Enabling Policies for self-financed urban Infrastructure Investment:

- LAOs must have stable, adequate, predictable revenues
- LAOs must plan their capital budgets over the long term
- LAOs must have long term spatial, infrastructure and financial plans
- LAOs must have transparent financial management (budgeting, accounting, reporting)
- LAOs must be able to borrow and to enter into PPPs

Both borrowing and PPPs require:

- Long term financial commitments
- Pledging of revenues, trading away future flexibility to support capital investment today
- A change in mind-set: LAOs must market themselves, their management, their vision, their potential

International Experience

Many countries have strong local governments that borrow to finance infrastructure.

Some countries that we now think of as examples of decentralized governance never went through a process of de-centralization, because they were never highly centralized. Their starting points were different to the current situation in Thailand. The most obvious example, with over \$4 trillion of municipal debt instruments outstanding, is the United States.⁵² Canada's history of decentralization and local autonomy is similar, and its cities issue municipal bonds to finance infrastructure in much the same way as in the US. Mexico has devolved powers to subnational governments, and creditworthy cities like Mexico City, Monterrey, and Guadalajara have used municipal bonds to fund urban infrastructure.

Local government borrowing is not limited to North America. Many European countries have significant local borrowing for infrastructure, sometimes directly from the private sector, and sometimes through intermediaries. Sweden, Denmark, Netherlands, and Germany have cities with a high degree of autonomy in planning and fiscal matters. South Korea has progressively decentralized financial and planning powers to local governments, with borrowing capacity tied to fiscal capacity. China has perhaps the most aggressive recent history of financing local infrastructure with local borrowing, though the extent of borrowing through special financing vehicles has generated concerns about sustainability.

⁵² For a discussion of the US market and its comparison to Indian and South African markets, see Glasser, Matt (2020) "Municipal Bonds in Three Countries: India, South Africa and the United States," Journal of Comparative Urban Law and Policy: Vol. 4: Issue 1 Available at: <https://readingroom.law.gsu.edu/jculp/vol4/iss1/15>

Deciding to decentralize does not automatically create strong local government.

In the 1990s, many countries took policy decisions to decentralize, including Thailand. This global trend followed (and was probably inspired by) the collapse of the Soviet Union, whose economy was based on central planning to an historically unprecedented degree. However, since taking those initial policy decisions to decentralize, many countries have failed to follow through.⁵³ For example, India amended its constitution in 1992, ostensibly to strengthen local self-government. However, implementation was left to the states, and most states have devolved little power to their urban local bodies.

Although Thailand's municipalities are authorized by the Municipalities Act and the Decentralization Act to perform a broad range of functions, in practice they need approvals from various line ministries to do so. And they lack the revenue instruments and autonomy that would be needed to finance major capital investments through loans, municipal bonds, or PPPs.

Poland and South Africa did decentralize.

Both Poland and South Africa changed their intergovernmental systems dramatically and constitutionally from centralized, top-down systems to systems with relatively autonomous local governments. See Boxes 8 and 9 for a brief overview. In both countries, most of the burden for infrastructure planning and financing now falls on local governments. How did these two very different countries manage the transition from centralism to local autonomy? How has it served them? What can their experiences teach us that might be applicable in Thailand?

Box 8: Poland

During the communist period, governance was highly centralized. Local self-government was abolished as incompatible with the vision of a socialist state. The constitution referred not to local government, but to “local organs of state authority and administration.”

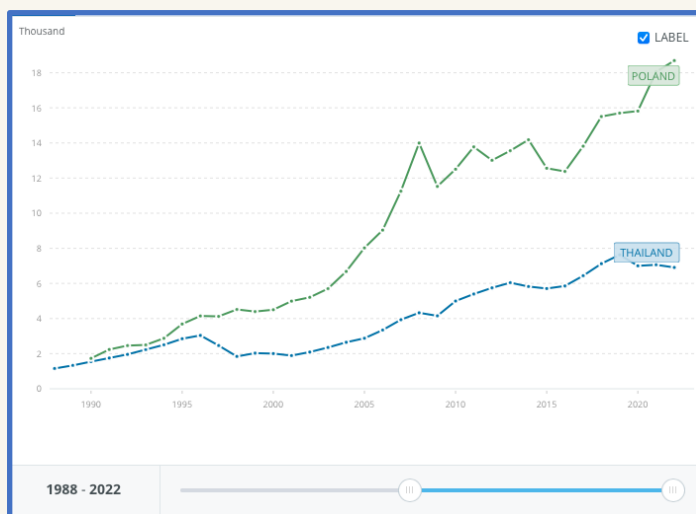
With the collapse of communism, Poland amended its constitution to establish “local self-government.” This was intended as a protection for local self-government in the face of potential centralizing tendencies. [1]. Poland also revised its local government legislation to provide more resources and autonomy to their subnational governments.

Thailand and Poland were once close peers. In 1990, when Poland endorsed local self-government, the *per capita* GDP in Poland and Thailand were close. Since then, as shown below, economic growth in Poland has been greater.

The Financial Times recently ranked several cities for attractiveness to foreign direct investment (FDI). Polish cities have flourished after being granted the autonomy to pursue their own development strategies. Warsaw ranked 4th among major European cities, beating out Paris, Munich, Madrid, Berlin, Stockholm, and Barcelona. Krakow ranked fourth among large cities in Europe. Other Polish cities were also highly ranked [2]. These cities' success in attracting FDI is no coincidence – it is directly linked to the empowerment of local governments. These cities have cultivated dynamism and proactivity, making substantial contributions to Poland's economic growth.

⁵³ Some countries have seen recentralization since the 1990s. Russia, for example, gave significantly more autonomy to regional governments, but has since recentralized in most respects.

Figure Box 8. GDP per capita, expressed in USD, for Thailand and Poland



Source: World Bank

[1] Wojnicki, Jacek. "The Issue of Restitution of Local Self-governments in Poland and Croatia in the Late 20th Century—the Question of Their Constitutionalisation." *Studia Iuridica Lublinensia* 30.5 (2021): 577-599.

[2] "FDI European Cities and Regions of 2024: the best and the brightest among Europe's Investment Destinations," FDI Intelligence February/March 2024, Financial Times Ltd., London, https://www.fdiintelligence.com/content/download/83489/2838195/file/FDIECRF_0224.pdf

Box 9: South Africa

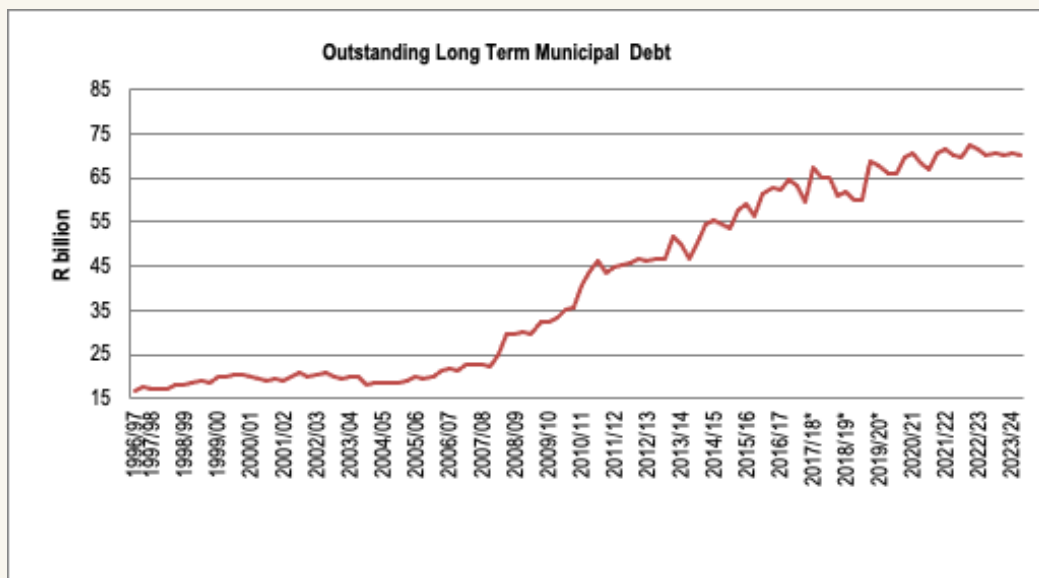
Apartheid South Africa was a centralized, unitary state. Municipalities were subject to oversight and control from the central government, which dictated policies related to segregation, urban planning, and service provision. Local authorities with black populations had inadequate infrastructure and services.

The demand for local self-government was a part of the broader fight against apartheid. Activists sought the right to govern their own communities. In 1955, when the Freedom Charter was launched in Soweto, it called for decentralization [1] of power and the establishment of local government that would be elected by all residents, regardless of race, and empowered to govern their own affairs.

The 1996 Constitution safeguards local government. Local government has its own chapter in the Constitution, providing municipal taxing and borrowing powers. Municipalities are mandated to "structure and manage [their] administration, budgeting, and planning to give priority to the basic needs of the community, and to promote the social and economic development of the community." [2]

Municipalities borrow on the strength of their own finances. The overwhelming majority of municipal revenue is derived from property tax and utility tariffs. This greatly eases pressure on national government's budget. Municipalities have mobilized more than 120 billion rand in infrastructure investment through borrowing. Recently, with growing awareness of financial problems in some municipalities, lending to municipalities has plateaued.

Figure Box 9. Municipal borrowing in South Africa



Source: South Africa National Treasury

[1] The word “decentralization” itself became politically charged since the term was sometimes used by the apartheid government as part of the justification for the bantustans established to preserve separation of the races.

[2] Section 153(a), Constitution of the Republic of South Africa, 1996

Effective decentralization requires fundamental changes

Unlike countries that espoused decentralization without fully implementing it, Poland and South Africa made strong self-government part of their new constitutions, and enacted new legislation to govern municipal finances. Both countries moved decisively away from heavily centralized, top-down systems of local administration, where communities had little say in planning, infrastructure, and investment decisions. They gave their local governments the revenues and powers they needed to develop.

Advocates for strong local government must be prepared.

For more than a decade before the collapse of the communist regime in Poland, and for more than thirty years before the collapse of the apartheid regime in South Africa, activists and academics had been advocating and preparing for an opportunity to make strong local government real. Their moment came in both countries as part of a seismic political shift. One wonders what would have happened if the prior regimes would have recognized the social and political pressure for strong local government, responsive to community needs. Could that have provided a safety valve, and helped avoid a systemic collapse? It is impossible to say.

Developing strong local government is likely to take many years.

In South Africa, advocacy for local self-government goes back at least to the Freedom Charter in 1955. The 1996 Constitution, the 1998 White Paper on Local Government, the 2000 Policy Framework for Municipal Borrowing, and the 2003 Municipal Finance Management Act successively played a role in elaborating the role of local government. In Poland, advocacy for local self-government existed throughout the communist period, most often quietly. The emergence and growth of the Solidarity movement⁵⁴ in the 1970s and 1980s

⁵⁴ “One must begin in three areas: first—in law and the judiciary, so that the courts become truly independent and just; second—in the mass media, which right now are almost wholly under the rule of one party; third—at the local level, starting from the bottom, one must restore authentic territorial self-government.” Lech Walesa, Opening Statement at

provided an opening for these discussions to go mainstream and led to the 1990 Act on Local Government, and to changes in the Constitution, which settled the framework for self-government.

Conclusion and Policy Recommendations

Maximizing the potential of Thailand's secondary cities is essential for bolstering the country's future growth.

The 2011 floods in Bangkok highlighted the economic vulnerability of concentrating too much in a single city, emphasizing the need to diversify growth across multiple urban centers. A portfolio of places is needed for economic development, as the World Bank's 2009 WDR advises policymakers to see their role as "prudent managers of a portfolio of places." Different types of cities serve different functions, with large cities like Bangkok providing world-class services for business and government, while medium-sized cities may be better suited for manufacturing. Many of Thailand's secondary cities are already regional centers of economic activity, with a diverse array of industries and sectors. Recently, per capita GDP growth in Thailand's secondary cities has been nearly 15 times higher than in Bangkok. With appropriate investments in infrastructure, human capital, and institutional capacity, these cities can further enhance Thailand's productivity and economic growth.

Empowering secondary cities to self-finance local infrastructure could significantly bolster their growth and development.

By providing local governments with the financial autonomy to raise revenues through robust and reliable local revenue instruments such as property taxes and user fees, these cities can secure the funds necessary for critical infrastructure improvements. Municipal borrowing and PPPs offer additional avenues for generating capital, enabling cities to invest in transportation networks, utilities, and public services that support economic activity. With the ability to finance and implement infrastructure projects independently, secondary cities can attract businesses and skilled workers, enhance productivity, and create a more conducive environment for economic growth. This localized control over infrastructure development ensures that investments are more closely aligned with the community's needs and priorities, leading to more efficient and effective use of resources. Ultimately, self-financing empowers secondary cities to drive their own economic growth, reduce dependency on national budgets, and contribute more robustly to the overall national economy.

Self-financing of local infrastructure would require consensus on a new paradigm.

It is not difficult to imagine what strong local government in Thailand could look like. Various models have emerged globally, each molded by the unique political, historical, and institutional landscapes of their respective nations. However, a critical caveat remains: those models evolved within contexts distinct from Thailand's specific circumstances. A mere "copy and paste" approach would unlikely yield the intended outcomes.

Supporting a new paradigm requires clarity on roles, development of capacity, and flexibility.

A new paradigm for Thailand would require clarity on what will be done by LAOs, by PAOs, and by agencies of national government. It would require a sustained effort to build the capacity of LAOs to regularly identify community needs, develop projects to meet those needs, and arrange financing for those projects. It would require significantly greater freedom for LAOs to raise the funds they need through taxes and fees that are agreed with their communities. It would require that local planning be responsive and adaptable to market demands for land, housing, labor, and transport.

the "Round Table" Conference, Feb. 6, 1989, quoted in Omatowski, C. M. (2005). "I Leapt over the Wall and They Made Me President": Historical Context, Rhetorical Agency and the Amazing Career of Lech Walesa. *Advances in the History of Rhetoric*, 8(1), 155-192.

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Secondary cities can catalyze growth, innovation, and global competitiveness.

While there would be challenges, empowering secondary cities to develop and finance local infrastructure holds promise. Local infrastructure investment can spur economic growth in secondary cities and their surrounding regions. It can foster innovation and experimentation in addressing the needs of communities, businesses, and industries. It can lead to a higher quality of life for more people. And it can enhance Thailand's global competitiveness.

Two parallel tracks for local infrastructure finance.

There are at least two ways to move forward with the local infrastructure finance model discussed in this chapter. These could be done sequentially, but given Thailand's economic and demographic challenges, it may be wise to pursue both tracks in parallel. The two tracks we propose are:

- 1) A White Paper process to test whether consensus can be reached on a new model for financing local infrastructure.
- 2) A "sandbox initiative" to pilot the locally empowered model in a select group of secondary cities.

Track 1: A White Paper process

We suggest the development of a government White Paper that lays out a comprehensive policy framework for local government infrastructure finance. This process of developing such a White Paper could test whether consensus can be reached on fundamental issues. The White Paper framework could address the role of grants and shared taxes, local revenue instruments, municipal borrowing, and PPPs – all with a view to accelerating local infrastructure investment. The White Paper would provide policy guidance to all levels of government and to the private sector. The development of this White Paper would require inputs from many stakeholders who would help support the conceptual shift towards more self-financing.

If the White Paper process does generate policy consensus, then implementing legislation will be required. In addition, as per the TUIF Assessment report, three additional activities would be appropriate:

- a Policy Support Unit to manage and monitor policy implementation at the national scale,
- an Infrastructure Investment Support Unit to bring technical expertise to local officials as they develop their capital planning skills and seek investment capital, and
- a Project Development Fund to defray the up-front costs of preparing local infrastructure projects for investment.

These institutional arrangements would only be required once a White Paper consensus is reached.

Lessons from elsewhere demonstrate that developing and implementing new policies for local infrastructure finance will take considerable time, perseverance, and coordination. The outcome can be substantial and impactful urban investment, yielding improved living conditions and productivity.

Track 2: A sandbox initiative

In consultations with Thai counterparts since the TUIF report was released, the idea of a "sandbox" initiative has been suggested. This would involve experimenting with new policies for financing local infrastructure in a select group of cities, so that these approaches can be tested, refined, and evaluated before being implemented on a larger scale.

We recommend selecting a few secondary cities, based on their demonstrated need and interest, to pilot the model proposed in this chapter. Appropriate legal and regulatory authority would be given on an experimental basis to allow LAOs to take charge of their local economic development, using appropriate

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planning and infrastructure financing tools. Infrastructure financing arrangements may involve partnerships with local, provincial, and national government agencies, non-governmental organizations, academia, and the private sector. Success with these initiatives will require flexibility, collaboration, and an attitude of learning-while-doing.

There is a bargain to be made: stronger cities would place less of a burden on the national fiscus.

From the perspective of national government, much of the burden of raising funds for urban infrastructure could be assumed by cities with high development potential, relieving pressure on national fiscal resources. In exchange, these cities could be freed to take control of their own destinies, plan their own futures, and engage the participation of investors, entrepreneurs, executives, professionals, university graduates, workers, families, and firms. The question is whether Thailand is ready to change its model of infrastructure financing from one where weak cities compete for limited national funds to a model where strong cities take on responsibility for their own development.

Transforming secondary cities in Thailand requires strong and visionary leadership.

Shifting secondary cities from a deep dependency on national government will be a difficult challenge. Existing institutions often exhibit a significant degree of inertia, which can make them resistant to profound change. Political leaders and officials can be risk-averse, preferring to maintain the status quo rather than taking on the uncertainty and potential disruptions associated with change. Strong and consistent leadership will be important in setting the direction, in building consensus, and in motivating and inspiring national and local government to keep on the path. Without strong, visionary leadership to champion change, inertia is likely to prevail, causing change efforts to falter or stall. Finding new ways to finance local infrastructure in Thailand's secondary cities requires leaders who can provide direction and motivation, hold a clear vision, and adapt as circumstances evolve and challenges arise.

A paradigm shift of this magnitude would not occur overnight.

If the decision to empower local governments were made in principle, it would still necessitate years of capacity-building and experiential learning. LAOs would need to cultivate expertise in consistently assessing community needs, designing projects to address these needs, and securing financing for implementation. The transition would require legislative and institutional reforms to grant LAOs increased authority while ensuring greater accountability. It would require local planning processes that are responsive and adaptable to market demands for land, housing, labor, and transportation. The challenge lies not just in the decision itself, but in the complex, multi-faceted implementation process that would follow.

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Annex A – Fiscal Multipliers

International empirical evidence suggests the fiscal multiplier associated with the Thai Digital Wallet program could be 0.3-0.6. The short-run increase in GDP for each 1 THB increase in transfers is known as the “fiscal multiplier”. Kraay (2014) uses a large sample of 102 developing countries over the period 1970-2010 to estimate a one-year spending multiplier around 0.4, including programs targeted at the poor. Although the Thai digital wallet covers 76 percent of the population, going well beyond the poor, the policy’s time limit (spent in 6 months) and location restrictions (<4km from home) suggest a higher regional multiplier, if well implemented. Challenges include enrolling geographically disperse vendors in the program, beneficiaries that live far away from their registered residences and regional supply capacity. Given the complexity of the program, the multiplier is subject to high uncertainty and could be smaller or larger than currently estimated. An evaluation of the program, once completed, would be important to fully understand its impact. Table A.2 presents a comprehensive overview of fiscal multipliers estimates derived from various studies using different countries, fiscal instruments, and methodological approaches to gauge both short and long run multiplier effects (Also see Box 2: *The Impact of Social Transfers on Economic Growth*, WB TEM December 2023).

Kraay (2014) uses a large sample of 102 developing countries over the period 1970-2010 to estimate a one-year spending multiplier around 0.4. In the context of China, Guo et al. (2016) study the effect of earmarked transfers to low-income counties and obtain a county-level multiplier of about 0.6. Similarly, Chen et al. (2021) estimates a fiscal multiplier of 1.0 during 2000-2019. Even though there are limited studies on government transfers, Pennings (2021) estimates a transfer multiplier of 0.33 for the US. Furthermore, the multiplier could be larger (0.4 to 0.6) for transfer payments targeted at low-income households.

The Thai Digital Wallet program has common elements with the Korean Economic Impact Payment program, which was implemented during COVID-19 and had an estimated fiscal multiplier effect of 0.5. During COVID-19, the South Korean government implemented the Korean Economic Impact Payment (KEIP) program, which provided a one-time transfer of KRW 1,000,000 (about USD 880) to all households. This transfer was restricted to offline stores and had to be used between May and August 2020. Using an SIR-macro model, Kim, Kim, and Shim (2021) estimate a transfer multiplier of 0.5 associated to the KEIP program. While the KEIP program shares some elements with Thailand’s upcoming Digital Wallet program, the expected fiscal multiplier for the Thai initiative is uncertain. On the one hand, Thailand’s relatively high propensity to consume and lower capital stock than Korea suggests larger fiscal multiplier effects associated to the Thai Digital Wallet program. On the other hand, the timing of the program might constrain the size of the fiscal multiplier as they tend to be significantly higher in economic downturns such as the pandemic.

Table 2. Fiscal multiplier estimates from selected studies

Source	Sample coverage	Fiscal component	Short-term fiscal multiplier	Long-term Fiscal multiplier
Alchi et al. (2019)	23 small states	Govt consumption	0.10	-0.08
		Public investment	0.26	1.06
	34 small states	Govt consumption	0.12	0.72

		Public investment	0.21	0.84
Asea (2016)	36 LICs	Total spending	0.78	
Auerbach and Gorodnichenko (2013)	OECD countries	Total spending	0.14 to 0.35	0.14 to 0.23
Baum et al. (2012)	G7	Total spending	0.79	
		Tax cuts	0.29	
Chen et al. (2021)	China	Total spending	1.0	
Cosertii et al. (2012)	OECD countries	Total spending	0.7	
Kim et al. (2020)	Korea	Govt transfers	0.5	
Egger et al (2022)	Experiment in rural Kenya	Cash transfers	2.5	
Guo et al. (2016)	China	Total spending	0.6	
Ilzetzki et al. (2013)	44 countries, 1960-2007	Govt consumption	-0.03 to 0.39	-0.63 to 0.66
		Public investment	0.39 to 0.57	1.5 to 1.6
Karras (2011)	61 developed, developing countries, 1951-2007	Govt purchases	0.8 to 0.98	1.01 to 1.35
Koh (2017)	120 countries	Govt consumption	0.4 to 1.8	
Kraay (2012)	29 primarily LICs	Total spending	0.48 to 0.67	
Kraay (2014)	102 developing countries, 1970-2010	Total spending	0.4	
Mineshima et al. (2014)	G7	Total spending	0.79	
Pennings (2021)	United States	Govt transfers	0.5 (one-time transfers) to 1.5 (permanent)	
Shen et al. (2018)	LICs, 2000-2015	Govt consumption	0.3 to 0.4	-0.5 to 0.3
		Public investment	0.2	0.6 to 0.7
Sheremirov and Spirovska (2019)	129 countries (36 advanced, 93 developing), 1988-2013	Total spending	0.75 to 0.84	

Source: Raga (2022).



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