

Thailand Economic Monitor

Aging Society and Economy

June 2016



WORLD BANK GROUP

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The World Bank

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Summary

The Thai economy shows signs of a nascent recovery but faces challenges on the path toward a broad-based and sustained recovery. The Thai economy accelerated to 2.8 percent in 2015, compared to 0.9 percent in 2014, partly on the basis of government consumption and investment, and partly on declining imports. Tourism and private consumption have mildly recovered, whereas merchandise exports dropped in the last quarter of 2015. Economic growth is expected to moderate to 2.5 percent in 2016 primarily due to sluggish exports of goods and private investment amid a slowing and difficult global environment. Fiscal stimulus and tourism receipts will remain key drivers of growth in 2016. Poverty rates are expected to fall at a slower rate, with poor households concentrated in rural areas affected by falling agricultural prices. Downside risks to economic growth include a hard landing in China accompanied by global financial turmoil as well as heightened domestic political uncertainty. Nevertheless, ample fiscal and monetary buffers, a sound financial sector and strong fundamentals will help Thailand weather shocks.

The Thai economy's strong performance in Q1 2016 due to tourism receipts and fiscal stimulus suggests

that a recovery, albeit narrowly-based, is underway. The Thai economy expanded by 3.2 percent, higher than 2.8 percent growth in previous quarter and the highest rate in 12 quarters. While fiscal stimulus and tourism receipt have driven demand recovery, there is a risk that spending—either from lower tourist arrivals amid a slowing global economy, or from moderating fiscal stimulus due to implementation fatigue—before the recovery becomes broad-based and self-sustained. Fiscal stimulus in recent quarters has been an impressive pickup in public infrastructure investment, which has risen toward 7 percent of GDP, the highest in almost 15 years. In contrast to past periods of fiscal expansion, however, the effect on overall public debt has so far been minimal.

The prolonged slowdown has laid bare structural challenges such as slow public investment implementation, lackluster export competitiveness and skills mismatch that impinge on both the recovery and long-term growth. Structural reforms would help address these challenges and lift Thailand's long-term growth path. In addition, the Thai population is aging at an unprecedented pace—the share of working-age population is projected to start declining in 2016

while the elderly dependency ratio in Thailand (the percentage of people 65+ relative to the working age population) is expected to almost triple from around 15 percent presently to 42 percent by 2040. Demographic dividends can no longer contribute to growth and inclusiveness in the same manner as before. Society as whole will have to rethink how to care for the elderly in light of more limited resources.

Continued economic reforms can address structural challenges and unleash new sources of growth. The current government has drafted Thailand's first 20-year strategic plan and embarked on an ambitious economic reform program for inclusive and sustainable growth by harnessing new engines of growth such as technology, innovation, and services. Reform progress has already been made in many areas such as large public infrastructure investment, state-owned enterprises, specialized financial institutions, taxes and a retirement safety net for informal workers. Going forward, the sustained pace and quality of reforms as well as sound implementation will be crucial for translating the reform effort into the desired economic outcomes. The reform agenda takes on an added sense of urgency in light of Thailand's ticking aging clock. The greater the progress made on reforms, the better prepared Thailand will be for an aged society.

Thailand continues to make progress in reducing poverty. Extreme poverty as measured by the international extreme poverty line (US\$1.90 per day, 2011 purchasing power parity [PPP]) is no longer a concern for

Thailand as a whole, falling from 14.3 percent in 1988 to an estimate of around 0.03 percent in 2015. Based on the national poverty line (in 2013, approximately US\$6.20 per day 2011 PPP), the poverty rate fell from 12.3 percent in 2011 to 10.9 percent in 2013.

Outlook

Real GDP growth is projected to be 2.5 percent in 2016 primarily due to fiscal stimulus and tourist receipts. Consumption would continue to underpin growth, although modestly, in a context of improving consumer confidence, whereas private and foreign direct investment are likely to stay at low levels due to weak external demand and political uncertainty. Exports of goods will remain flat amid a difficult external environment. Global growth is projected at 2.4 percent due to sluggish growth in advanced economies, slowing growth in major emerging markets, stubbornly low commodity prices, weak global trade, and diminishing capital flows. The current account balance is expected to narrow in the following years as imports recover. Finally, the timely implementation of public infrastructure projects (dual track rail and rail upgrading) in 2016 and 2017 would help contribute to a more positive outlook.

The stagnation of manufacturing production is likely to adversely impact poor urban households with low-skilled workers employed in the lower end of the manufacturing sectors. Rising agricultural income in the recent years mainly reflected real increase in agricultural prices and not

productivity increases in agriculture. As the agricultural prices fall back to more normal levels, growth could become less inclusive, with the rural poor negatively affected. Constrained by education and skills levels, a large share of the poor workers might not be able to reap the full benefit of job opportunities in the high-end services sector. As a consequence, poverty is expected to decline at a slower rate in both urban and rural areas.

Emerging Challenges

In the unlikely event of a hard landing for the Chinese economy, accompanied by global financial turbulence, Thailand would be mostly affected through the trade and expectations channel, as China represents 12 percent of total exports and 8 percent of total FDI inflows. Nonetheless, Thai exports are well diversified in terms of products and markets, and authorities still have ample monetary and fiscal buffers. The second risk is that of a return to the administrative gridlock seen in the years prior to the current government's tenure if ongoing reforms, economic and political, do not satisfy civic society at large. In such a scenario, administrative gridlock may lead to heightened political uncertainties and weigh on consumer and investor confidence. A third risk is that fiscal stimulus runs out of steam as the impact of incentives taper out and large public infrastructure projects are not implemented on time.

The Thai population is aging rapidly—the share of working-age population might start

to decline in 2016—demographic dividends can no longer contribute to growth and inclusiveness in the same manner as before. The elderly dependency ratio in Thailand (the share of people 65+ relative to the working age population) is expected to almost triple from around 15 percent presently to 42 percent by 2040. Pockets of poverty increasingly concentrate in the lagging Northeast, North, and Deep South, and among the households residing in remote areas and with limited means to support themselves through productive means, for example elderly households with few individuals of working age.

Policy Watch

The current government has embarked on an ambitious economic reform program for inclusive and sustainable growth by harnessing new engines of growth such as technology, innovation, and services. The reform program encompasses areas such as competitiveness (5 S-curve innovative sectors, SME promotion, ease of doing business, skills and education), tax (personal, property and inheritance taxes, FDI and SME tax incentives), state-owned enterprises (state-owned enterprises and specialized financial institutions), infrastructure (rail, road, and air links; integrated water management) and digital economy (broadband access and e-payments for SMEs and online commerce).

Progress has been made with regards to the implementation of multi-year large public infrastructure projects, setting up of a State Enterprise Policy Committee and a holding company to improve state-owned enterprise

governance, transfer of supervisory oversight of specialized financial institutions to the Bank of Thailand, approval of progressive inheritance and property taxes and the launch of the National Savings Fund, a retirement safety net for informal workers. The government has also ceased the rice-pledging scheme which incurred large losses and contributed to labor market misallocation.

Going forward, the sustained pace and quality of reforms as well as sound implementation will be crucial for translating the reform effort into the desired economic outcomes. With regards to the large public investment project program it is recommended that the authorities conduct robust cost-benefit analysis, take these projects through an implementation-readiness criteria, secure multiyear budgets, and put in place a monitoring and evaluation system to ensure projects with high economic value are implemented in a timely and cost effective manner. Planned reforms in additional areas such as education and competition will be particularly important to take Thailand from middle to high income. The reform agenda take on an added sense of urgency in light of Thailand's rapid aging. Unlike many advanced economies that transitioned from middle to high income before aging, Thailand will likely age before attaining high income status. Nonetheless, the greater the reform progress, the better Thailand will be prepared for an aged society.

Promoting Healthy and Productive Aging in Thailand

Thailand is aging at an unprecedented

pace, faster than other ASEAN countries. As of 2016, around 11 percent of the Thai population, or almost seven and a half million people, are 65 years old or older, up from only 5 percent as recently as 1995. By 2040, there is projected to be 17 million Thais 65 years and older, accounting for more than a quarter of the population. The speed of aging is among the fastest seen globally to date. Together with China, Thailand already has the highest share of elderly people of any developing country in East Asia and Pacific, and it is expected to have the highest elderly share by 2040. Put another way, the elderly dependency ratio in Thailand (the percentage of people 65+ relative to the working age population) is expected to almost triple from around 15 percent presently to 42 percent by 2040.

The primary driver of rapid aging has been the steep decline in fertility rates, with the total fertility rate per woman falling from around 6.1 in 1965 to only 1.5 in 2015 as a result of rising income and educational levels and the successful National Family Planning Program launched in 1970. In the same period, life expectancy rose from just under 62 years old to almost 74.7 years (World Development Indicators). Both indicators can be considered positive outcomes of development and supportive government policies.

An important consequence of these trends is the expected decline in working age population. Using the standard International Labor Organization (ILO) definition of 15-64 years old, the working age population of Thailand is expected to shrink by around 11

percent as a share of the total population between now and 2040, with an even sharper decline in terms of absolute numbers from just under 49 million to around 40.5 million people. In terms of population share, the forecasted decline in working age population is higher in Thailand than any developing EAP country in the period (even higher than China).

The other notable feature which Thailand shares with a number of its developing Asian neighbors is that it is aging rapidly at a relatively low level of GDP per capita. While Thailand is a solidly upper middle income country, compared to rich East Asian countries and those of the OECD, it is aging at a much lower income level, suggesting that fiscal and administrative capacity to address aging is likely to be constrained.

The speed of demographic transition in Thailand poses new challenges for policymakers, employers and citizens, but also opportunities. Aging will require policy action and behavioral change in a number of areas. In labor markets, the challenge is to mitigate the structural decline in working age population and to enhance labor productivity of the shrinking labor force. In fiscal terms, the biggest risk will be pension spending, but there are significant challenges also for healthcare and aged/long-term care systems to ensure affordable care for all in a sustainable manner in a context of rapid aging. At the same time, aging offers expanded opportunities for Thailand as a provider of services to the growing elderly population across the region.



Part 1.

Macroeconomic Developments and Outlook

A. The Economy in 2015

Real Sector Developments

Economic growth accelerated to an estimated rate of 2.8 percent in 2015, compared to 0.9 percent in 2014, underpinned by public consumption. Quarterly GDP attained growth rates of 2.9 percent and 2.8 percent in Q3 and Q4 2015, respectively. Following stagnation in Q3 2015, domestic demand recovered in the last quarter of the year (5.1 percent growth, y-o-y), fostered by a series of short-term fiscal incentives. Net exports contributed positively to growth in Q3 2015, in a context of declining imports, but merchandise exports dropped again in the last quarter of the year, as China slowed down. Private investment remains subdued.

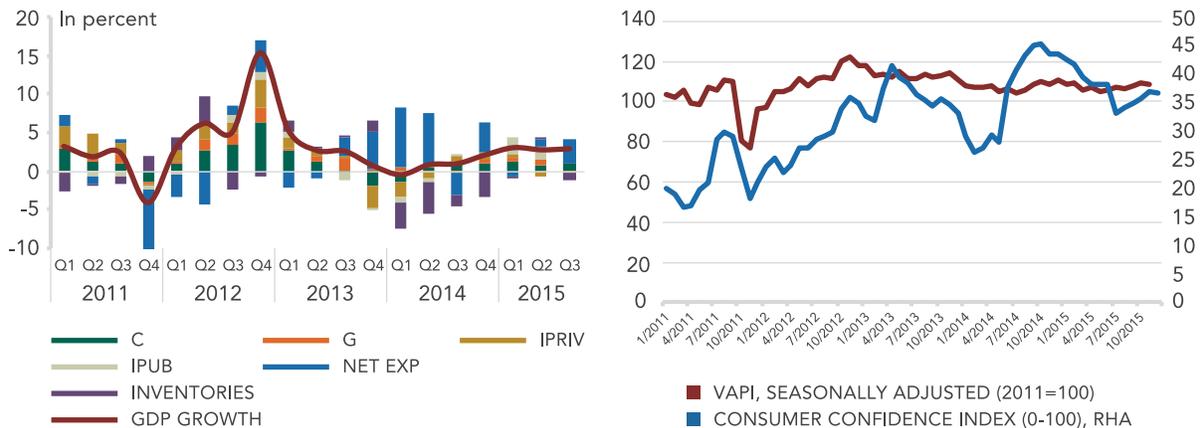
Economic recovery in 2015 was not as broad-based and sustained as expected in late 2014. As a result, consumer confidence dropped in the first nine months of the year, prior to increasing in the last quarter, when temporary tax deductions helped underpin consumption. As can be observed in Figure 1, the Value Added Production Index has overall presented a similar evolution, while following smoother patterns, and timidly recovered in the second half of 2015. Industrial production levels are still well below

the values attained in 2013. In addition, by end-2015 producer prices declined by 3.6 percent, year on year (Figure 2, right panel).

Consumption only jumped in the last quarter of 2015, sparked by fiscal incentives. Car sales remained weak in 2015, below 2010 levels. The index of car sales for consumption purposes jumped from 94.8 to 118.9 points between November and December 2015, to fall back to 78 points in January 2016 (Figure 2); this is explained by a surge in car sales prior to an increase in the automobile excise tax in January 2016. Similarly, retail sales remained weaker than in 2013 and 2014, and experience a surge by the end of the year. In turn, the VAT of hotel and restaurant index, continued improving in 2015 respect to previous years, presumably helped by the recovery in tourism. Still weak consumption coupled with low international commodity prices resulted in inflation being slightly negative in 2015.

On the production side, the performance of the services sector in 2015 improved noticeably with respect to 2014. Construction (16.4 percent, y-o-y) and hotels and restaurants (14.5 percent) were the fastest growing sectors in 2015, although they represent

FIGURE 1. THAILAND: CONTRIBUTIONS TO QUARTERLY GDP GROWTH (LEFT) AND INDUSTRIAL PRODUCTION AND CONSUMER CONFIDENCE (RIGHT)

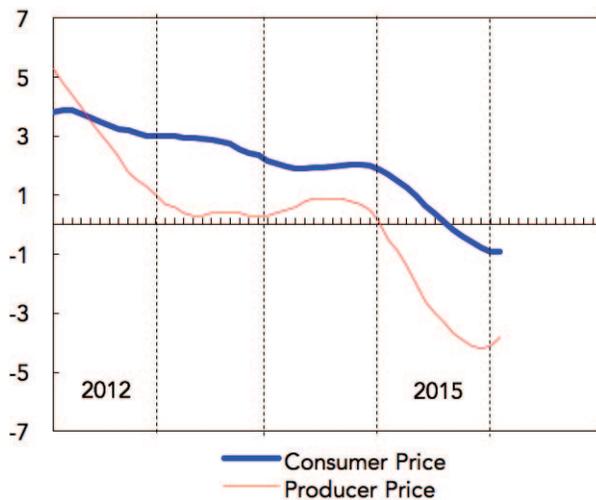
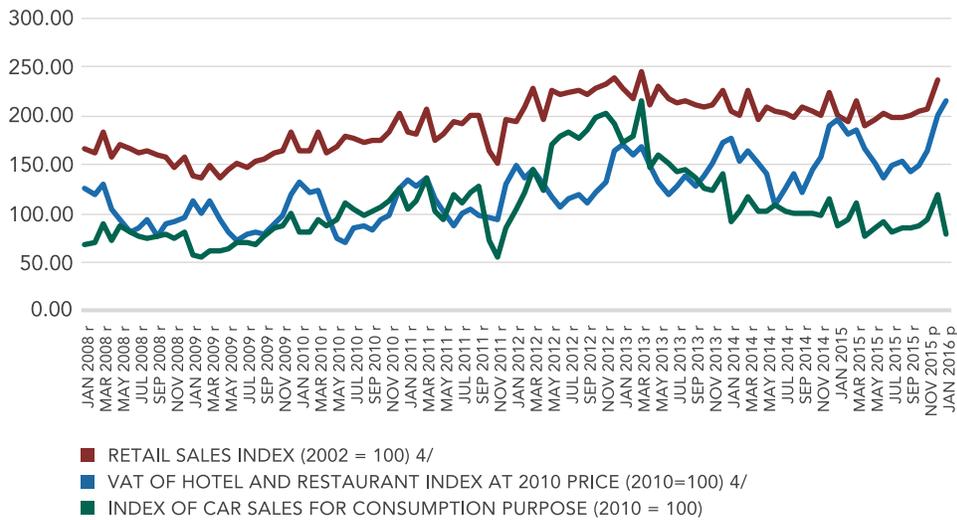


Sources: World Bank staff using NESDB and Bureau of Trade and Economic Indices, MOC

a relatively small share in total GDP. Related to the latter, growth in quarterly tourist arrivals averaged 28 percent in January-September 2015, prior to easing to 4.3 percent in Q4, y-o-y. Larger service sectors such as financial intermediation and transport and communication presented also healthy growth rates (7.5 and 7.3 percent, respectively). On the other hand, public administration, and education presented negative growth rates, recovering only in Q4 2015 as the government introduced some fiscal stimulus measures. Agriculture activity severely contracted in 2015, affected by a delayed rainy season and low international commodity prices, and resulted in a drop in farm income. Manufacturing, traditionally the main engine of growth struggled in 2015 in a context of weak external demand, and despite the acceleration in car production and rubber sheets and rolls observed in late 2015, prior to tax hikes starting January 2016.

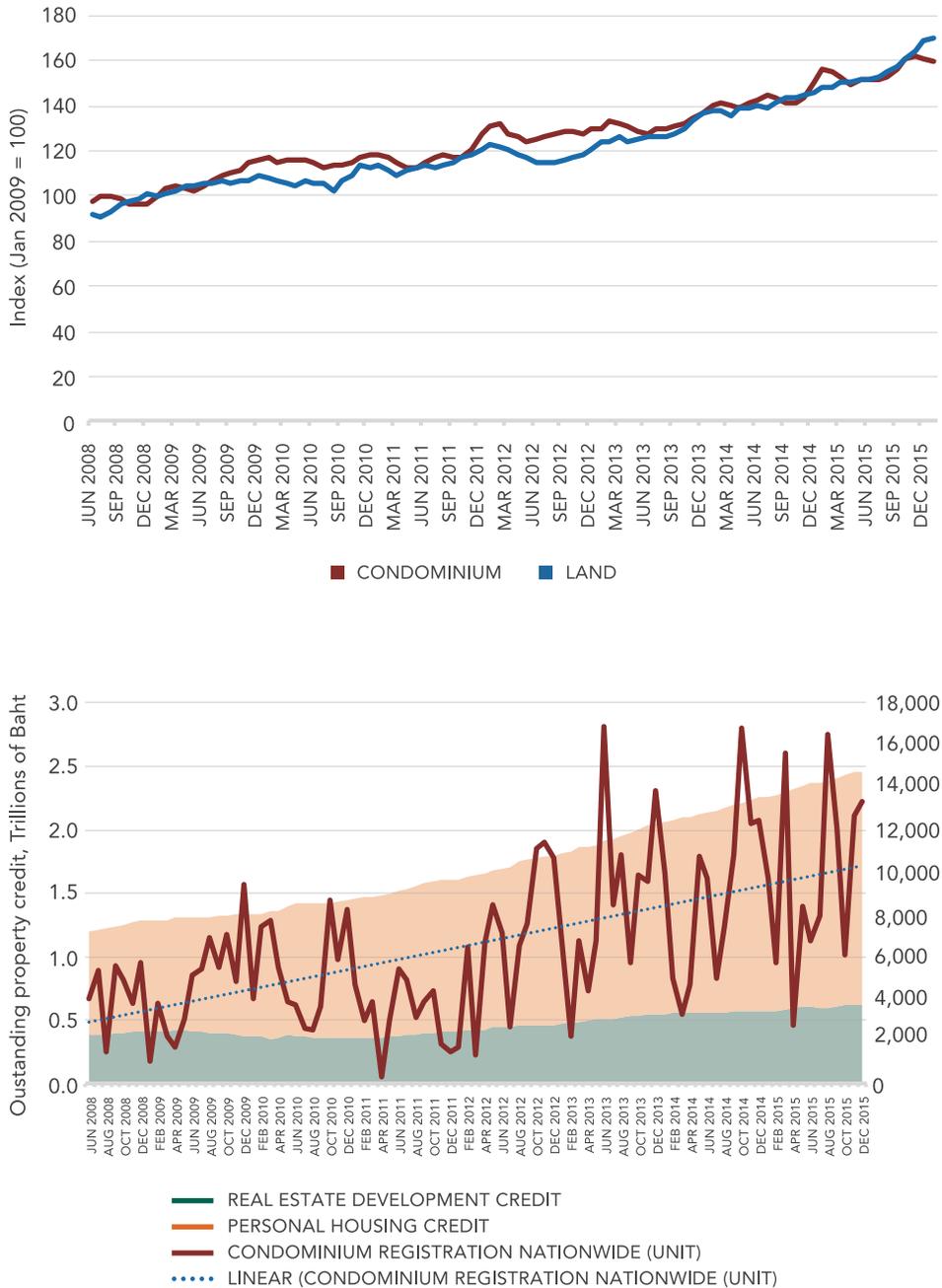
Construction and real state accelerated in 2015. Condominium registration increased by 8.8 percent in 2015, compared to 2014. The price of land and condominiums has been experiencing a steady decline since early 2009 (around 60 percent, in nominal terms). Outstanding debt hold by real estate developers increased by 48 percent since January 2009, whereas outstanding personal housing credit more than doubled. This is likely to be explained by the fast increase in the number of property units sold (also per capita), as well as by lower household saving resulting in the need to request higher mortgages.

FIGURE 2. EVOLUTION OF CONSUMPTION RELATED INDEXES (TOP) AND PRICE INDEXES (BOTTOM)



Sources: The Office of Industrial Economics, Ministry of Industry, and NESDB

FIGURE 3. EVOLUTION OF PROPERTY PRICES (TOP) AND CREDIT (BOTTOM)



Source: Department of Land, Ministry of Interior, Real Estate Information Center

TABLE 1. SUPPLY SIDE OF GDP, REAL Y-O-Y GROWTH RATES

	2013	2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Share of 2015 GDP
Total Agriculture	0.8	0.7	-4.6	-4.1	-5.5	-3.4	6.7%
Agriculture	1.5	0.9	-5.3	-4.2	-5.5	-4.4	5.2%
Fishing	-7.0	-2.0	2.2	-1.5	-3.1	6.5	1.4%
Non-Agriculture	2.9	0.8	3.9	3.2	3.2	4.2	93.8%
Mining	1.8	-1.6	0.1	-1.4	2.4	3.7	2.5%
Manufacturing	1.7	-0.2	2.2	-0.2	1.0	0.8	28.1%
Electricity, Gas, Water supply	-1.0	2.7	3.7	2.8	4.8	5.0	3.3%
Construction	0.1	-3.7	19.6	12.5	9.4	23.9	2.8%
Retail & Wholesale	0.8	-0.5	4.1	3.7	4.1	5.5	14.6%
Hotels and Restaurants	10.1	2.4	18.0	22.1	12.7	5.0	5.2%
Transport and communication	5.6	3.4	8.1	9.7	6.7	5.3	10.2%
Financial intermediation	14.1	6.8	8.0	7.7	5.9	7.5	6.9%
Real Estate	2.6	0.5	4.5	2.2	3.1	6.6	8.3%
Public administration	0.2	1.3	-2.8	-1.4	0.0	1.3	5.2%
Education	2.1	0.9	-5.8	-4.0	-3.9	2.3	3.3%
Health	0.5	2.7	-0.8	0.9	3.0	4.2	1.8%
Other social services	6.8	-0.1	2.9	5.4	6.1	8.3	2.0%
Domestic service	-7.3	-4.4	-2.3	-0.9	-0.6	1.5	0.2%
Gross Domestic Product	2.8	0.9	3.0	2.7	2.9	2.8	100%

Source: World Bank staff; NESDB

TABLE 2. EVOLUTION OF AGRICULTURE SECTOR INDICATORS IN THAILAND

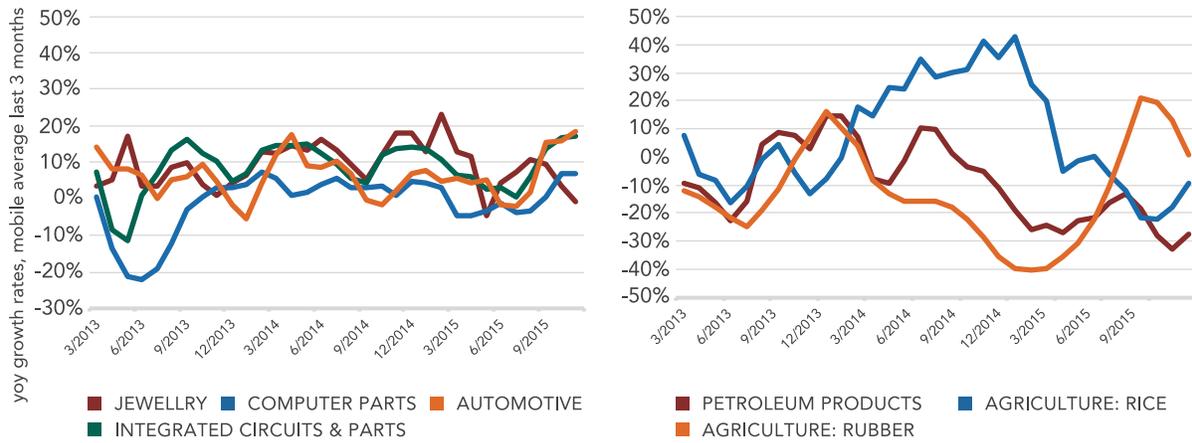
%YoY, unless otherwise indicated	Q1 2015	Q2 2015	Q3 2015	Q4 2015
Farm Income	-6.4	-15.9	-14.8	-8.8
Production	1	-10.8	-10.6	-3.2
Price	-7.3	-5.8	-4.7	-5.8
Farm Income Index SA (2005=100)	177	160.1	160.9	159.4

Source: Office of Agricultural Economics

Agriculture activity severely contracted in 2015, affected by falling prices and el Nino phenomenon. Both agriculture production and agriculture prices declined by 5.9 percent in 2015. As of January 2016, the prices of rubber, jasmine rice and cassava were at 76, 84, and 86 percent of its average 2014 level, whereas those of paddy rice and maize were at 2014 levels. As a result of subdued international demand and falling prices, seasonally adjusted farm income dropped by 17 percent in Q2 2015.

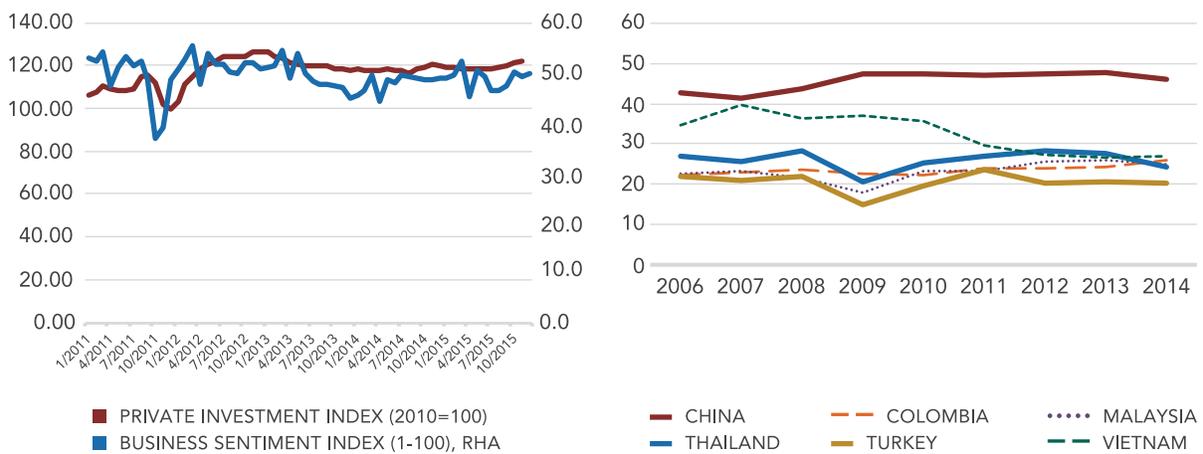
Low manufacturing growth is attributed to weakened external demand. Merchandise exports contracted by 5.6 percent in 2015, in a context of slowdown in China and other emerging economies. Nonetheless, a recovery in exports of automotive components, circuits, and computer parts seem to have started recovering in the second half of 2015, the former presumably helped by the commercialization of new models of cars. While exports of optical appliances and instruments continued to grow, according to the Bank of Thailand they have slowed in a context of weakening global demand for smart phones. Meanwhile, the prices of petroleum-related exports continued to drop. As can be observed in commodities present much larger volatility than other merchandise exports, with rubber and rice exports moving in opposite directions. In a context of contracting exports and sluggish manufacturing, imports of raw materials, intermediate goods, and capital goods dropped in 2015, with only consumer good exports recovering in late 2015.

FIGURE 4. EVOLUTION OF KEY EXPORTS



Source: World Bank staff using Bank of Thailand

FIGURE 5. PRIVATE INVESTMENT INDEX (LEFT) AND GROSS CAPITAL FORMATION AS % OF GDP (RIGHT)



Source: World Bank staff using Bank of Thailand, World Development Indicators

Private investment has remained subdued, although there are modest signs of recovery. Weak external demand coupled with political uncertainty on the domestic front results in lower private capital formation and delayed foreign direct investment decisions. Investment for capacity expansion in manufacturing remains subdued. Nonetheless, it is worth noting an improvement in the private investment index during the second half of 2015, facilitated by improved corporate funding, new investments in alternative energy and telecommunications, and acceleration in car purchases (Bank of Thailand, 2016). Thailand has traditionally maintained levels of capital formation similar to those of other peer middle income economies, although they decelerated substantially between 2013 and 2014, declining from 27.5 to 24.1 percent of GDP.

Thai exports contracted by 5.6 percent amid a slowing global economy but suffers from long declining competitiveness. While major trading partners such as the US and the Euro continued to recover moderately, China's slowdown affected ASEAN as well as Thai exports. The fall in commodity prices, such as rubber, have also hurt Thai exports. However, neighbors' exports in the region have performed better than Thailand's. Stagnant Thai export growth in the past few years may therefore indicate falling competitiveness. Thailand's major export products have expanded at a slower pace than those same products from

its regional neighbors since 2008. As a result, Thailand's market shares for many of its top exports have declined from 2008 to 2016 or risen slower than its competitors in developing Asian countries. China and India, on the other hand, have been able to increase the global shares of almost all of Thailand's top exports products. One illustrative example is Thailand's export focus on hard disk drives (HDD) and inability to move up the value chain into solid state drives (SSD) which are commonly used in innovative electronic products. One underlying reason is skills and education. The World Bank enterprise survey (2012) indicates a shortage of workers with basic and technical skills. Also, a recent World Bank study¹ finds functional illiteracy across the various types of schools in Thailand, indicating that there are still system-wide issues affecting the quality of education. One manifestation of this issue is that close to a third of young university graduates elect to join the informal sector.

A series of fiscal stimulus measures introduced in FY2016 is expected to result in a larger budget deficit of 2.9 percent of GDP, compared to 1.8 percent in FY2015. The result of slowdown in global economy, the government short-term priority is to stimulate domestic economy through expansionary fiscal policy. The budget deficit of 390 billion baht planned for FY2016 increased significantly by 140 billion baht (or 56 percent) from 250 billion baht deficit in FY2015.

¹ Dilaka Lathapipat and Lars M. Sondergaard (2015). Thailand – Wanted: a quality education for all. World Bank.

FIGURE 6. BUDGET DEFICIT AS PERCENT OF GDP

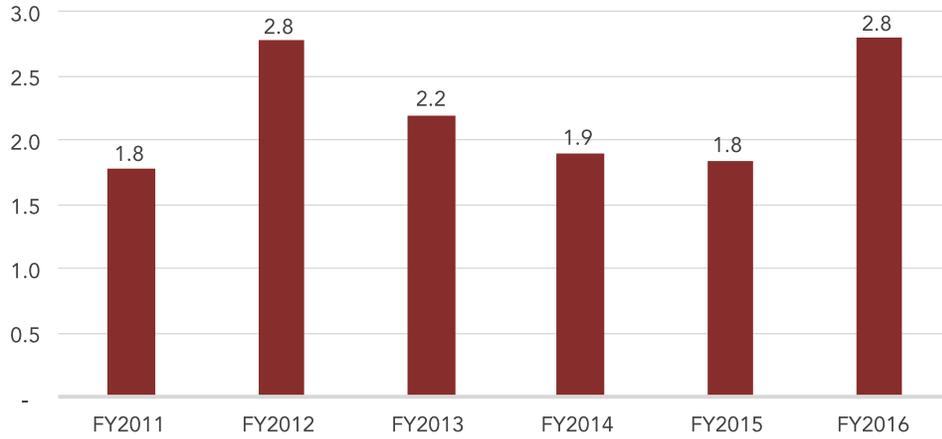
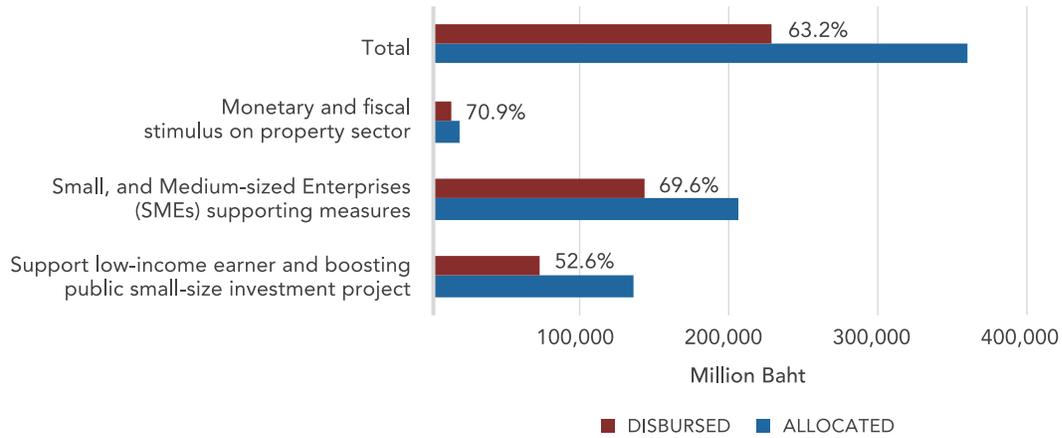


FIGURE 7. THAILAND STIMULUS MEASURES 2015 (PERCENT ALLOCATED)



Thailand's new economic team appointed in August 2015, has introduced a series of stimulus measures to revive the economy. The stimulus measures amount to 360 billion baht or 2.7 percent of GDP which can be classified into three categories according to objectives 1) support low-income earners and boost public small-size investment project including soft loans to village funds, sub-district investment projects, and small public investment projects worth 136 billion baht; 2) Small, and Medium-sized Enterprises (SMEs) supporting measures including soft loans to SMEs, SMEs credit guarantee schemes, and venture capital funds worth 206 billion baht; 3) monetary and fiscal stimulus on property sector including personal income tax exemption for homebuyers, transfer and mortgage fee reduction, and accommodation loans for low income earners worth 18 billion baht.

In addition, the government also introduced a series of incentives and changes in tax policy aimed at supporting individual and promoting business investment. This includes a new personal income tax structure which will allow more low-income earners to be exempted from tax, a permanent reduction of Corporate Income Tax rate from 23 percent to 20 percent, real estate stimulus package, R&D promotion, national e-payment, tax exemption and reduction up to 15 years for FDI.

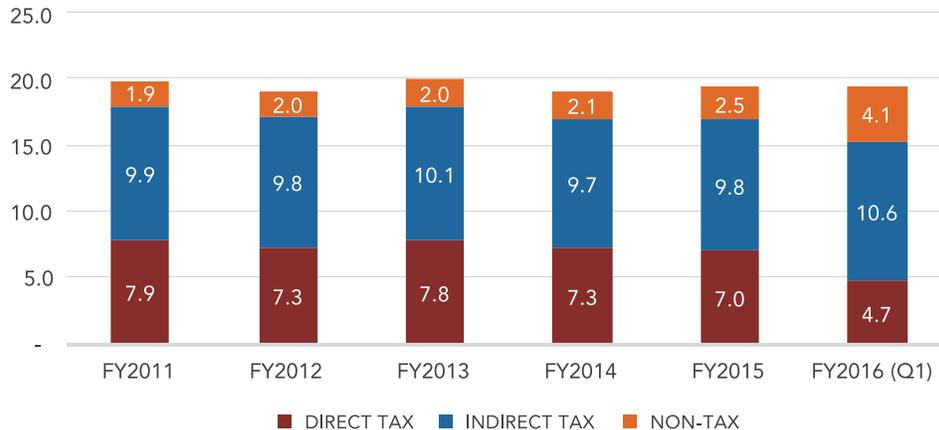
However, as of 30 December 2015, disbursement stimulus measures stood at only 63.2 percent of the allocated amount.

Moreover, in fiscal year 2016 (Oct 2015 – Sep 2016), government tried to accelerate capital budget spending in projects valued less than 2 million baht to complete disbursement within the first quarter (Oct 2015 – Dec 2015). The total amount of investment project under 2 million baht is 39,700 million baht. However, as of 15 January 2016, the disbursed amount was only 25,800 million baht or 65 percent.

Revenue collection slightly increased in FY2015 respect to FY2014. Even though revenue collection in FY2015 was slightly lower than estimated due to slower-than-expected economic recovery and falling crude oil prices, it proved higher than FY2014 because of remittances from SOEs, revolving fund, and VAT collection. In FY2016, the revenue collection is expected to be slightly higher than FY2015 as a result of economic stimulus measures. Moreover, in Q1 of FY2016, there was extra revenue collection from the remittance of the 4G licensing fee with the amount of 40,290.5 million baht by the Office of National Broadcasting and Telecommunications Commission (NBTC) which expanded the share of non-tax revenue collection significantly from 13 percent to 21.3 percent.

The remittance revenue from SOEs and revolving funds are the main drivers behind an increase in FY2015 revenue collection. SOEs in Thailand were able to remit their revenue 18 percent higher than last fiscal year equivalent to 41.25 billion baht. The top five SOE remittances include Electricity Generating Authority of Thailand (EGAT), PTT Public Company Limited, Government Saving Bank

FIGURE 8. REVENUE COLLECTION CLASSIFIED BY REVENUE BASE AS PERCENT OF GDP



(GSB), Government Lottery Office (GLO), and Provincial Electricity Authority (PEA).

Revenue collection in Thailand has remained flat historically, close to 20 percent of GDP. Thailand has relied mainly on tax revenue which account for 90 percent of total revenue collection. The major sources of tax revenue are General Sales Tax, Corporate Income Tax, Excise Tax, and Personal Income Tax. The remaining 10 percent come from non-tax revenue such as sales of goods and services, income from State Own Enterprises (SOEs), fees and charges, etc. The government has tried to overcome this bottleneck by expanding the tax base by introducing the “Single Account Scheme” to formalize Small and Medium-Enterprises’ tax filing under a system, incentivize SMEs to pay taxes and expand tax revenue in the future. Another attempt was the introduction of the inheritance tax in July 2015 which is expected

to raise an additional tax revenue of around 0.01% of total tax revenue. However, in 2015 to early 2016, the government introduced a number of tax exemptions and reductions to stimulate domestic consumption, support businesses, and attract FDI to counter the impact of the global economic slowdown. The total amount of tax expenditure is unclear and the net impact on revenue collection remains a question.

Fiscal stimulus resulted in a slightly higher budget execution in FY2015 compared to the previous year. The budget allocation in FY2015 was 2.575 trillion baht, increasing from 2.53 trillion baht in FY2014 by only 0.05 trillion baht or 2 percent. The recovery of domestic economy slowdown through budget expenditure, the execution rate raised from 89 percent in FY2014 to 92.4 percent in FY2015. The major improvement was in the capital budget execution rate which increase from 65.8 percent in

FIGURE 9. CAPITAL BUDGET VS. ACTUAL (PERCENT OF BUDGET)

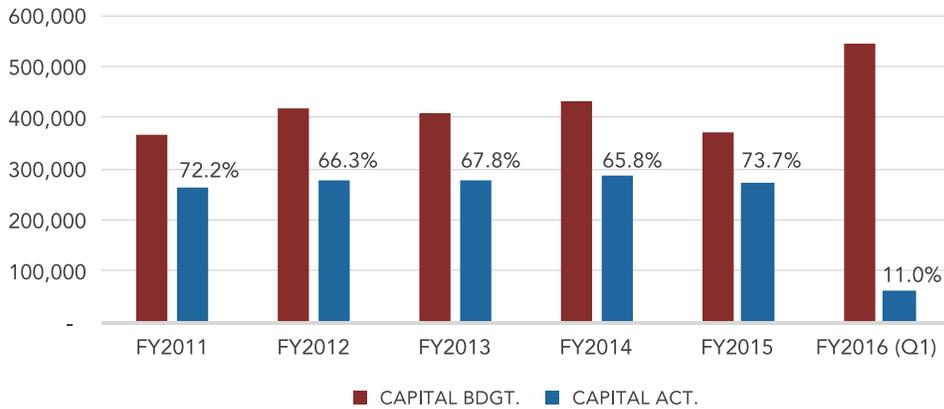
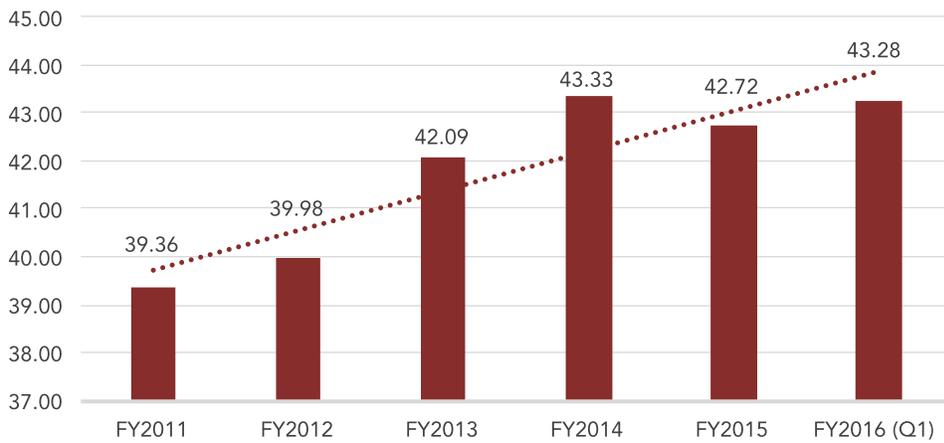


FIGURE 10. PUBLIC DEBT TO GDP RATIO



FY2014 to 73.7 percent in FY 2015 while current budget execution rate increase slightly from 93.7 percent to 95.5 percent respectively. For the current budget, in FY2015, around 6.0 percent of GDP goes to compensation of employees, 3.7 percent for goods and services, 1.2 percent for interest payment, 1.9 percent for social benefits, and 3.5 percent for other expenses. This pattern of composition has been observed since FY2010.

Capital expenditure is the main focus for the government in FY2016 but implementing mega projects will be challenging. The annual budget increased by 0.145 trillion baht or 5.6 percent from 2.575 trillion baht in FY2015 to 2.720 trillion baht. The government has focused on expanding capital expenditure from 2.7 percent to 4.0 percent of GDP. The growing annual budget reflects the government's determination to stimulate the economy. Nevertheless, past total budget disbursement of annual budget has been lower than the budgeted amount by around 1-2 percent of GDP causing fiscal stimulus to be less effective than it should be. The deviation was largely caused by capital expenditure and suggests that implementing the planned mega projects will be challenging (see Box 1).

The fiscal position remains sound with ample fiscal room. Public debt in FY2015 declined slightly from FY2014. However, the share of public debt to GDP increased slightly to 44.64 percent in the first quarter of FY2016 due to fiscal stimulus and the concomitant increase in the budget deficit. Despite the slight increase, the public debt level remains well below the 60 percent debt ceiling set by the Ministry of Finance. According to the latest public debt sustainability analysis prepared by the IMF (IMF Article IV report for Thailand, May 2015), under the baseline, the debt-to-GDP ratio is forecasted to remain around 47 percent of GDP which is below the government's ceiling of 60 percent and far below the IMF benchmark of 70 percent. The baseline assumes an average growth of 4 percent in the medium run and expansion in overall public sector deficit from 1.9 percent in FY2015 to 2.6 percent in FY2019, as the government starts implementing large infrastructure projects. Strong fiscal rules are applied to maintain fiscal sustainability. Even though there are no legal implications, the fiscal sustainability framework, established by the Ministry of Finance since 2001, is strictly observed.²

² There are four main indicators including:

1) Public debt to GDP ratio (<60 percent); 2) Debt service to total annual budget (<15 percent); 3) Budgetary balance (within FY2017); and 4) Capital investment budget to total budget (at least 25 percent). There is also the Public Debt Management Act of 2005 (amended 2008) which allows the government to only borrow up to 20 percent of its annual budget plus 80 percent of principal debt repayments. However, in times of emergencies such as during the great floods of 2011, the Cabinet can issue Emergency Decrees for additional borrowing in amounts that exceed those stipulated in the PDMO Act.



Box 1. Thailand: Pushing Mega Projects through Fiscal Bottlenecks

Thailand’s history of slow capital expenditure disbursement suggests that timely implementation of planned large public infrastructure investment, or “mega projects”, will be difficult. Over the past 15 years or so, on average only 70 percent of capital expenditure is executed each year. In FY2016, the government attempted to expedite capital spending through the Bureau of the Budget (BOB)’s Efficiency Enhancement Measure and Comptroller’s General Department (CGD)’s e-Government Procurement (e-GP). These measures and systems were designed to encourage line agencies to disburse capital expenditure. Despite considerable efforts from BOB and CGD, the actual capital disbursement in the first quarter of FY2016 (Oct-Dec 2015) was only 11 percent of budgeted capital expenditure, well below the targeted 19 percent. Therefore, the six mega investment projects approved by the cabinet FY2015 for 250,000 million baht and the 12 projects approved in FY2016 for 1.5 trillion baht may not provide the intended impact to the economy.

There are five appraisal bottlenecks which delay large public investment projects. First, the project appraisal process is unclear with no written guidelines for agencies to follow. The appraisal should have detailed project design, cost and benefit analysis, and an implementation timeline. Second, agencies are not allowed to begin the procurement process before budget approval. In fact, pre-procurement should be allowed so implementation can start right after the budget approval. Third, it takes

agencies at least 18 months to secure approval on Environmental Impact Assessments (EIAs). Furthermore, agencies do not get enough budget allocation for mitigation measures. As a result, affected communities do not trust mitigation measures and may be unwilling to move. Fourth, G-to-G procurement should also be more transparent (i.e. cost of borrowing and terms of repayment needs to be published). Fifth, an independent appraisal institution (e.g. Korea Development Institute in South Korea publishes assessment and multi-criteria methodology) is important to validate project appraisals and increase transparency.

Complexity of procurement, changes in project design and estimated cost, and limited capacity of implementing agencies as well as constructors also cause additional delay.

- Complexity of procurement: although CGD has introduced e-GP since FY2013, there is still a lot of misunderstanding among line agencies due to user-unfriendly interface and limited technical support. The e-GP system is also prone to instability and disconnects. All these challenges cause delays in the procurement process.
- Changes in detailed project design: during budget requests, all agencies are required to submit a detailed project design to the BOB as a criteria for investment budget review. However, some projects design were drafted a few

years prior and have not been updated with the current geographical changes of the construction site. Once the projects are allocated, detailed project design is revised for actual implementation at the construction site and changes may need to be made. Those changes may require approval from the Minister, BOB, and the Cabinet depending on the scale of the project. The changes and approval process cause delay in disbursement.

- **Change in project cost estimation:** changes in estimated cost may result from changes in detailed design or fluctuations in construction material price, especially oil price. If the increase in estimated cost of the project is more than 5 percent of the original estimation, those changes will need approval from the Cabinet.
- **Limited capacity of agencies and constructors:** construction delays due to the constructor's limited cash flow, expertise, labor, and machinery. In some cases, constructors cannot access construction site because the agency have not obtained permission to operate at the site. In some agencies, the procurement process is delegated from central to frontline agency unit which lack personnel and expertise to perform procurement.

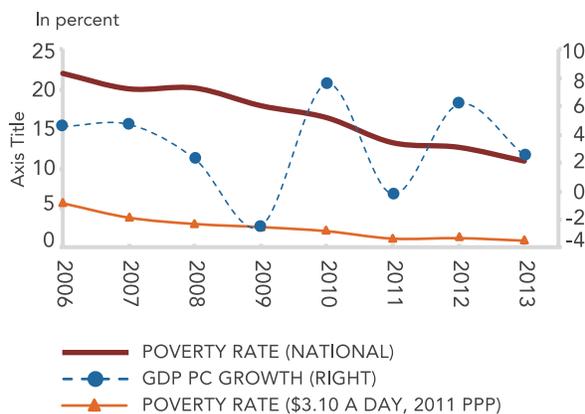
Thailand and many other economies, both emerging and advanced, are increasingly challenged with developing better strategies to improve public investment management for growth and shared prosperity. The recent global financial crisis, diminishing fiscal space, and low commodity prices have heightened concerns around how to increase public investment efficiency. For Thailand, public transportation infrastructure can connect the country with the growing economies of the ASEAN economic community as well as the Greater Mekong sub region. However, public investment in physical assets, including health or education facilities that contribute to improvements in human capital, is often weakened by low efficiency stemming from poor project selection, appraisal and implementation. International experience shows reforming public investment management systems is not easy. Managing increasingly sophisticated investments, including through public-private partnerships, is institutionally complex. Reforming public management systems is politically challenging given strong vested interests and requires buy-in by both cross-cutting and sectoral agencies. With regards to Thailand's large public investment project program it is recommended that the authorities conduct robust cost-benefit analysis, take these projects through an implementation-readiness criteria, secure multiyear budgets, and put in place a monitoring and evaluation system to ensure projects with high economic value are implemented in a timely and cost effective manner.

Recent equity developments

Thailand has made impressive progress in reducing poverty over the past two decades. Extreme poverty as measured by the international extreme poverty line (US\$1.90 per day, 2011 PPP) is no longer a concern for Thailand as a whole, falling from a rate of 14.3 percent in 1988 to 0.04 percent in 2013. Based on the national poverty line (in 2013, approximately US\$6.20 per day 2011 PPP), the poverty rate fell from 67.4 percent in 1986 to 10.9 percent in 2013, with 26.6 million Thai people moving out of poverty (Figure 11).

However, poverty and vulnerability continue to pose significant challenges, with pockets of poverty remain in lagging regions, such as the Northeast, North, and Deep South. As of 2013, 7.3 million Thais were still living in poverty, measured by the national poverty line (at about US\$6.20 in 2011 PPP). Moreover, an additional 6.7 million, or 14 million in total, were living within 20 percent above the national poverty line and remained vulnerable to falling back into poverty. Over 70% of the poor people (or 5.2 million out of the total 7.3 million in Thailand) lived in the Northeast and North regions, which have the highest share of poor relative to the total population living in each region as well as the highest number of poor. The share of Thailand’s poor living in the Northeast and North increased from 61 percent in 1986 to 71 percent in 2013, despite the fact that the total population living in these two regions declined from 55 percent to 45 percent. Among the top 15 provinces with the greatest number of poor, 9

FIGURE 11. POVERTY DEVELOPMENTS



GNI per capita index, Atlas Method (2006 = 100)

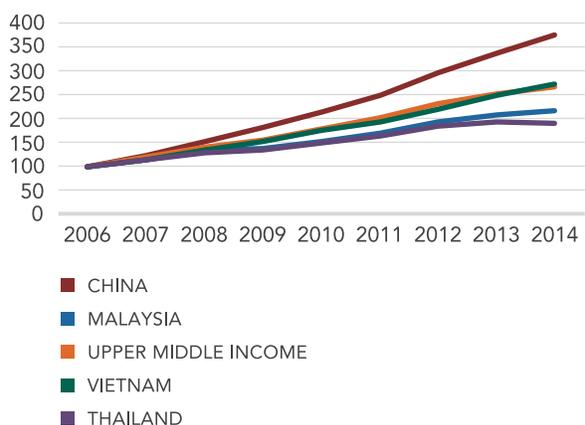


FIGURE 12. POVERTY RATE BY AGE AND GENDER IN 2013

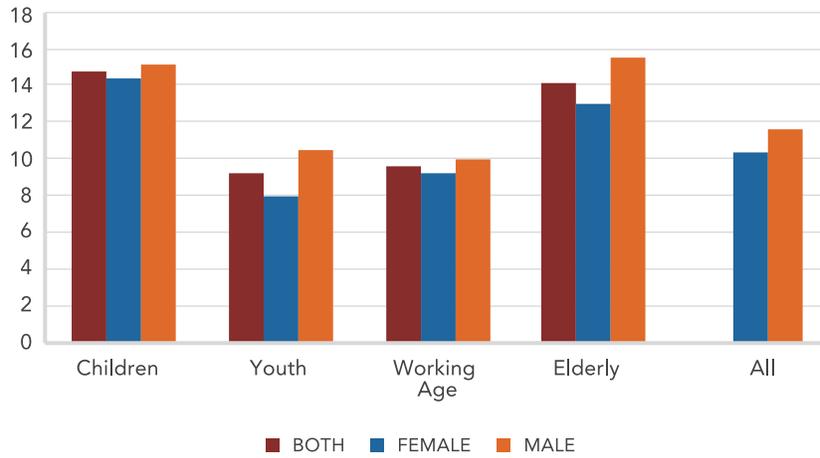
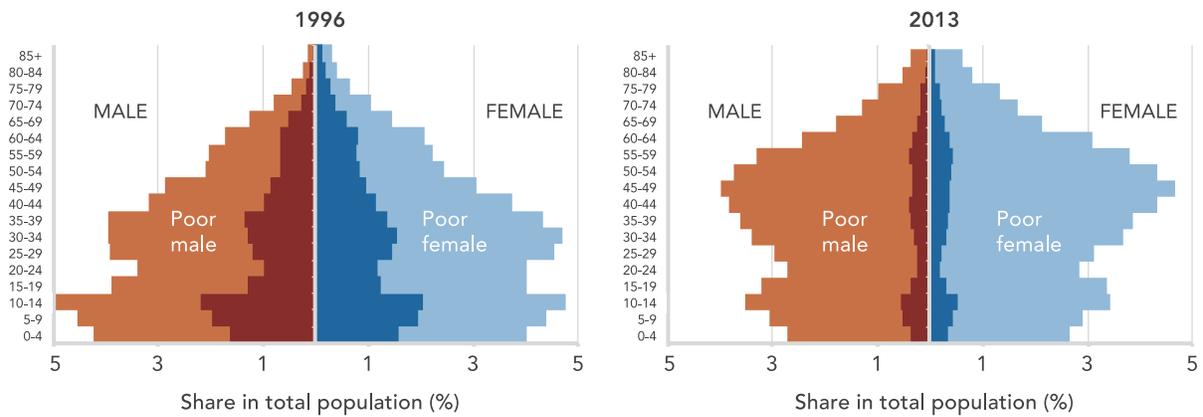


FIGURE 13. POVERTY AGE-GENDER PYRAMIDS



Data Source: Socio-Economic Surveys

TABLE 3. DECOMPOSITION OF POVERTY CHANGES INTO GROWTH AND REDISTRIBUTION COMPONENTS

PERIOD	1986-1996	1996-2000	2000-2013	1986-2013
Change in poverty (%)	-22.54	4.63	-39.38	-57.28
Growth component	-24.09	4.63	-33.17	-50.16
Redistribution component	1.55	0.00	-6.22	-7.12

Note: The measure of poverty is based on real per capita household expenditure, which is normalized to 2011 using national CPI produced by the Bureau of Trade and Economic Indices, Ministry of Commerce. Bourguignon (2005) residual included in the redistribution component. The unique poverty line is set at the unique average real household poverty line in 2011.

of them have been on the lists for both 1996 and 2013, of which 8 are in the Northeast.

Children and elderly are more likely to be poor (Figure 12). In 2013, the poverty rate of children (under 15) and the elderly (above 65) are 14.7% and 14.1% respectively, compared that of the youth (15-25) and prime working age (25-65) 9.2% and 9.6%. This reflects the demographic of the poor has changed along with the changes in the aging structure (Figure 4). Compared with 1996, the share of the elderly as a percent of the total poor people in 2013 increased.

Looking ahead, poverty rates are expected to fall at a slower rate, with poor households concentrated in rural areas affected by falling agricultural prices. The rising agricultural income in the recent years mainly reflected real increase in agricultural prices and not productivity increases in agriculture. As the agricultural prices fall back to more normal levels, growth could become less inclusive, with the rural poor negatively affected.

Economic growth has been the key driver of poverty reduction in Thailand, but redistribution is increasingly playing a bigger role. As shown in table 3, which decomposes changes in poverty over the past three decades into a “growth component” and a “redistribution component,” poverty reduction was driven exclusively by growth during 1986-96: if not for the worsened income distribution, poverty reduction would have been 24 percent instead of 22.5 percent. Poverty then increased 4.6 percent during 1996-2000 due to negative growth. Figure 5 shows the changes in Gini over the past two decades, which peaked in the early 1990s then declined. Since 2000, economic growth has continued to play the dominant role in reducing poverty but, increasingly, redistribution has also helped: nearly 85 percent of poverty reduction was attributable to growth while the remaining 15 percent was attributable to improvements in income distribution. Further analysis suggests that particularly for the 2006-2013 period, growth has been highly pro-poor, likely in part thanks to factors such as government interventions including agricultural

FIGURE 14. GINI COEFFICIENT OF HOUSEHOLD INCOME AND EXPENDITURE

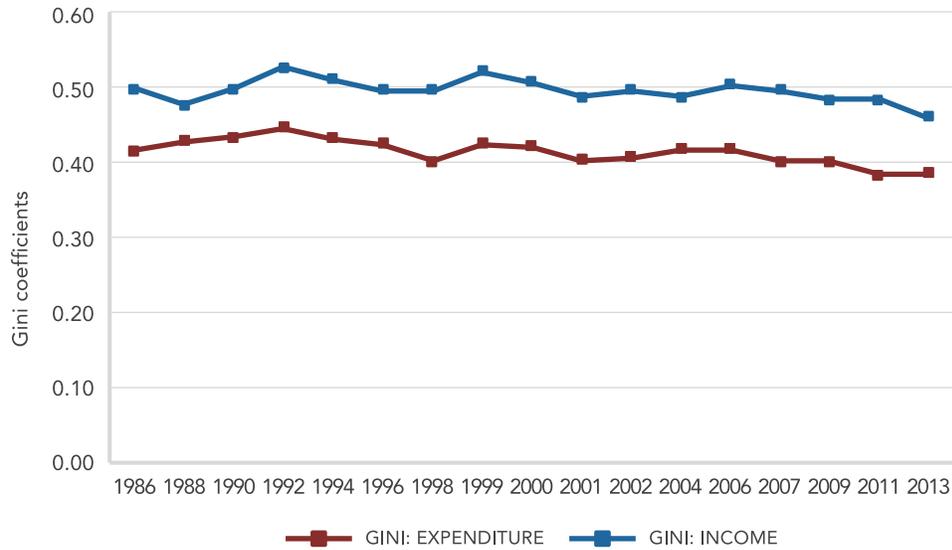
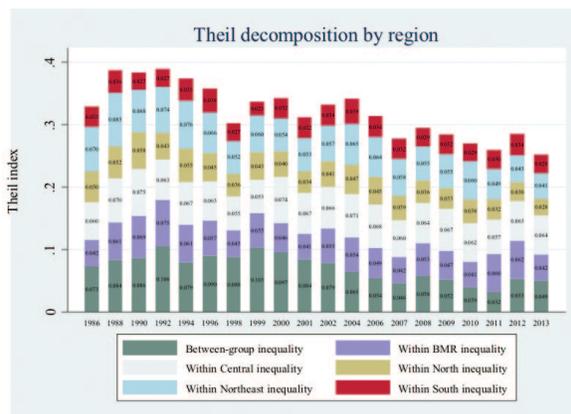
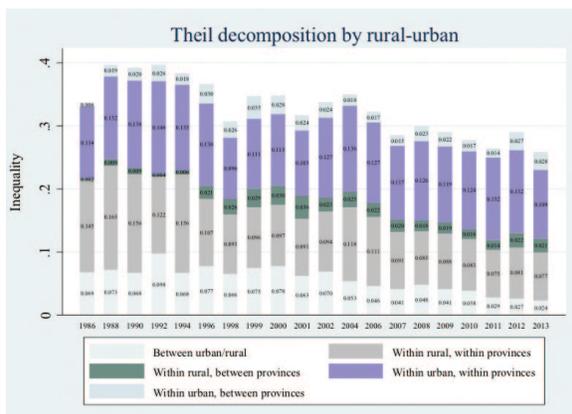


FIGURE 15. THEIL DECOMPOSITION

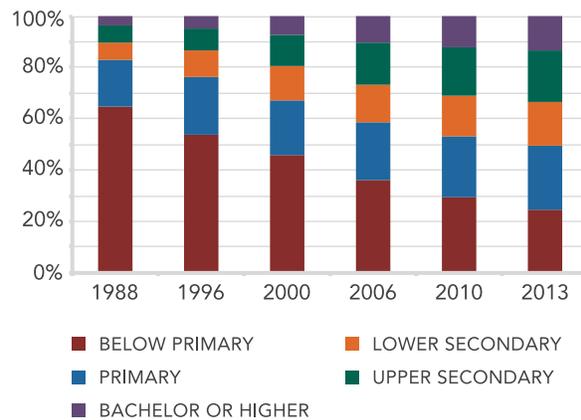


price supports, elderly pensions, and universal health care.

While the inequality have declined at the national level, gaps within the urban areas widened and those within the two leading regions (Bangkok and central) increased in relative terms. The decline of total inequality is mainly due to the decline of inequality within provinces in rural areas and that between urban and rural. Measured by Theil index, the level of inequality within urban area has not changed much over time; its share increased from 35% in 1986 to 53% in 2013. The inequality between urban and rural areas was about 20% of total inequality during the period 1986-2000; then its share decreased to 9% in 2013. Among the five regions, inequality within Central and Northeast is relatively higher; however, that within South and North is relatively lower.

More and gradually better jobs were crucial in translating economic growth into shared prosperity. As the economy modernized, millions of off-farm jobs were created: 6.7 million such jobs were created in during 1987-96, and another 5.7 million during the years 2000-13. These jobs initially required very little education, but they provided a rapidly expanding population (and former farmers) with higher incomes, the possibility of further skills development, and insulation from the whims of nature (droughts, floods and fluctuating commodity prices). The stagnation of manufacturing production is likely to adversely impact poor urban households with low-skilled workers employed in the lower end

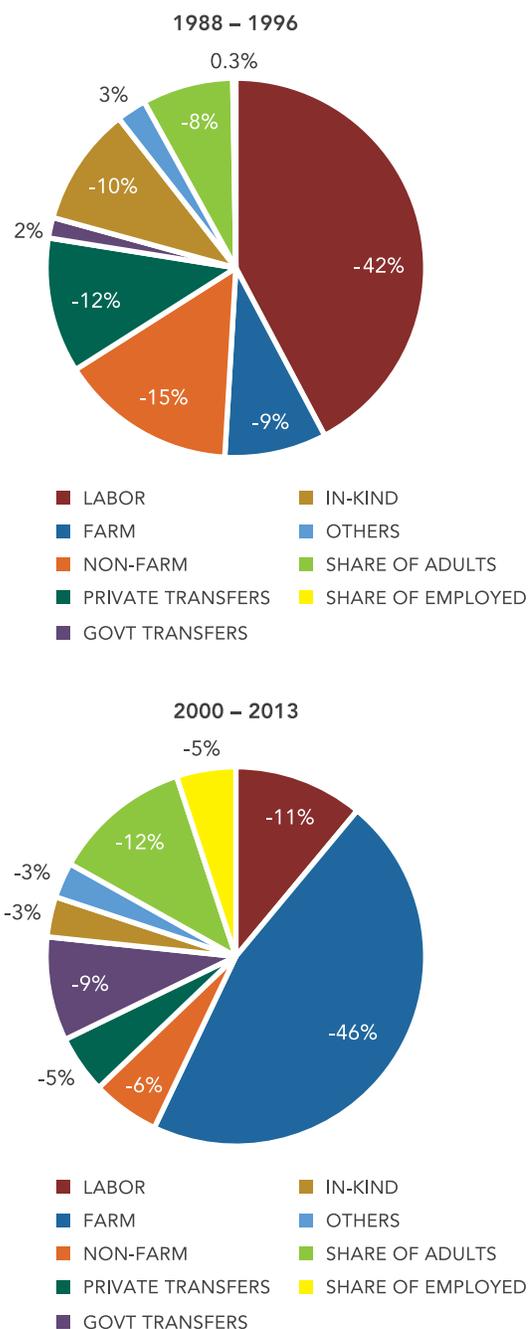
FIGURE 16. SHARES OF THAI LABOR FORCE BY LEVEL OF EDUCATION



of the manufacturing sectors. Constrained by the education and skills levels, a large share of the poor workers might not be able to reap the full benefit of the job opportunities in the high-end services sector.

Education is an important factor that drives the increase of household expenditure. The increase in the number of employed workers in Thailand was accompanied by significant improvements in the educational attainment of the labor force. As shown in the Figure 16, the share of the labor force with primary education or below declined from 84.5 percent in 1986 to 49.2 percent in 2013. Over the same period, the share of workers with secondary education jumped from 10.8 percent to 32.5 percent, while the share of workers with post-secondary education increased from 4.7 percent to 18 percent. However, return to education declined in the recent years, which partially negated the positive effect.

FIGURE 17. THE CONTRIBUTION OF INCOME AND HOUSEHOLD COMPOSITION TO POVERTY REDUCTION



The contribution of income and household composition to poverty reduction varied between the periods of 1986-1996 and 2000-2013 (Figure 17). In the first period, labor income and non-farm income were major contributors to poverty reduction. These contributed 42 percent and 15 percent, respectively, to the total reduction of poverty experienced in Thailand (the population below the poverty line fell from 65 to 35 percent by 1996). Private transfers accounted for 12 percent of the decline in poverty, and government transfers only 2 percent. The demographic composition of the household also seems to have played a role, with greater shares of adults in working-age accounting for 8 percent of the drop in poverty, suggesting that a bigger pool of potential workers and a reduced dependency ratio may have stimulated income generation. In the second period, increasing farm income accounted for 46 percent of the observed decline in poverty, compared to only 9 percent in 1988-1996. This is likely to be related to the sharp increase in agriculture price, which was partly a result of the increase of agricultural price in the global market and partly a result of the government support. The slowdown of structural transformation, or the limited new job creation in non-agriculture sectors, on the other hand, is likely the main factor that led to the declining role of labor income. It is worth noting that the demographic composition of the household

Note: Poverty decomposition (based on Azevedo et al., 2013) is performed with consumption as welfare measure, population weights and ranking for all components.
Source: SES 1988, 1996; 2000, 2013.

played an increasing role in poverty reduction: the share of working-age adults and of employed working-age adults accounted for a total of 17 percent of the poverty reduction in the period of 2000-13. This suggests that demographic dividends have been playing a non-negligible role in poverty reduction.

B. Outlook for 2016

The Thai economy's strong performance in Q1 2016 due to tourism receipts and fiscal stimulus suggests that a recovery, albeit narrowly-based, is underway. The Thai economy expanded by 3.2 percent, higher than 2.8 percent growth in previous quarter and the highest rate in 12 quarters. While fiscal stimulus and tourism receipt have driven demand recovery, there is a risk that spending—either from lower tourist arrivals amid a slowing global economy, or from moderating fiscal stimulus due to implementation fatigue—before the recovery becomes broad-based and self-sustained. Fiscal stimulus in recent quarters has been an impressive pickup in public infrastructure investment, which has risen toward 7 percent of GDP, the highest in almost 15 years. In contrast to past periods of fiscal expansion, however, the effect on overall public debt has so far been minimal.

Real GDP growth is projected to be around 2.5 percent in 2016 primarily due to continued fiscal stimulus and tourism receipts. Consumption would continue to underpin growth, although modestly, in a context of improving consumer confidence, whereas private and foreign direct investment are likely to stay at low levels due to weak external demand

and political uncertainty. Exports of goods will remain flat amid a difficult external environment. Global growth is projected at 2.4 percent due to sluggish growth in advanced economies, slowing growth in major emerging markets, stubbornly low commodity prices, weak global trade, and diminishing capital flows. The current account balance is expected to narrow in the following years as imports recover. Finally, the timely implementation of public infrastructure projects (dual track rail and rail upgrading) in 2016 and 2017 would help contribute to a more positive outlook.

The growth outlook is subject to risks, both external and internal. In the unlikely event of a hard landing for the Chinese economy, accompanied by global financial turbulence, Thailand would be mostly affected through the trade and expectations channel, as China represents 12 percent of total exports and 8 percent of total FDI inflows. Nonetheless, Thai exports are well diversified in terms of products and markets, and authorities still have ample monetary and fiscal buffers. The second risk is that of a return to the administrative gridlock seen in the years prior to the current government's tenure if ongoing reforms, economic and political, do not satisfy civic society at large. In

TABLE 4. THAILAND / SELECTED ECONOMIC AND SOCIAL INDICATORS

	2011	2012	2013	2014	2015c	2016f	2017f
GDP, at market prices (demand)	0.8	7.3	2.8	0.9	2.8	2.5	2.6
Private consumption	1.8	6.3	0.8	0.6	2.2	1.7	1.9
Government consumption	3.4	7.5	4.7	1.7	2.1	3.6	3.2
Gross fixed capital investment	4.9	10.2	-0.8	-2.6	5.7	2.9	4.1
Change in inventories, % contrib	-0.5	0.5	0.8	-2.4	-0.2	0.0	0.0
Statistical discrepancy (% GDP)	2.7	2.8	2.6	2.0	0.5	0.4	0.4
Exports, goods and services	9.2	5.1	2.8	0.1	0.8	1.8	2.0
Imports, goods and services	12.4	6.0	1.4	-5.3	-1.4	1.3	2.2
GDP, at market prices (supply)	0.8	7.3	2.8	0.9	2.8	2.5	2.6
Agriculture	6.3	3.4	0.4	0.3	1.5	2.6	2.7
Industry	-4.1	7.4	1.3	-0.6	4.0	2.2	2.3
Services	5.4	8.0	4.8	2.4	1.9	2.8	2.9
Output gap	-1.3	2.5	2.1	0.1	0.2	-0.1	-0.2
Consumer price index, av.	3.8	3.0	2.2	1.9	-0.9	0.5	2.0
Current account balance, % of GDP	2.4	-0.4	-0.9	3.3	8.9	6.4	4.5
Fiscal balance, % of GDP	-0.6	-1.8	-0.2	-1.8	-1.9	-2.7	-1.9
Poverty rate (national poverty line)	13.22	12.64	10.9				
Poverty rate (US\$3.10 a day, PPP terms)	1.17	1.23	0.92	0.89	0.75	0.64	0.54

Sources: Central Bank of Thailand and World Bank staff estimates. Historical fiscal balance based in IMF Article IV.

Note: Figures for 2015 are tentative, and may present variations respect to official estimates.

Data in annual percentage change, unless otherwise indicated. e = estimate, f = forecast.

TABLE 5. SELECTED EAST ASIA COUNTRY FORECASTS
(Real GDP growth at market prices in percent, unless indicated otherwise)

			Est.				Projections				Percentage point differences from January 2016 projections			
	2015	2016	2015	2016	2017	2018	2015	2016	2017	2018	2015	2016	2017	2018
China	7.7	7.3	6.9	6.7	6.5	6.3	0.0	0.0	0.0	-0.2				
Indonesia	5.6	5.0	4.8	5.1	5.3	5.5	0.1	-0.2	-0.2	0.0				
Malaysia	4.7	6.0	5.0	4.4	4.5	4.7	0.3	-0.1	0.0	-0.3				
Philippines	7.1	6.1	5.8	6.4	6.2	6.2	0.0	0.0	0.0	0.0				
Thailand	2.7	0.8	2.8	2.5	2.6	3.0	0.3	0.5	0.2	0.3				
Vietnam	5.4	6.0	6.7	6.2	6.3	6.3	0.2	-0.4	0.0	0.3				

such a scenario, administrative gridlock may lead to heightened political uncertainties and weigh on consumer and investor confidence. A third risk is that fiscal stimulus runs out of steam as the impact of incentives taper out and large public infrastructure projects are not implemented on time. An upside risk is that public investments are implemented more efficiently than expected.

Weakening global growth prospects among both advanced, emerging and developing markets will weigh on Thai goods exports. Despite the diversity of trading partners, Thai exports face external headwinds across all markets. Global growth for 2016 is projected at 2.5 percent. US growth is expected to stabilize at 2.3 percent in 2016, providing modest support for global growth. The Euro area is recovering at a slow and uneven pace of approximately 1.5 percent over the coming two years. Growth in China may decelerate further due to slowing investment. However, gradual domestic rebalancing is underway, as reflected in expansion in services sector and consumption,

and suggests the downside risk of a hard landing for China accompanied by global financial turmoil is falling.

Tourism receipts is a bright spot and will drive growth. Inbound tourism, particularly from China, Russia, and the United States, will continued to rise. The first quarter saw tourism receipts rise by almost 30 percent. While the potential for more tourism remains, a shortfall in tourists should growth falter in China will hit the Thai economy hard. In the medium term, supply bottlenecks including infrastructure and support service sectors as well as high tourist concentration in certain cities may eventually constrain the growth of tourism.

Rice production is forecasted to expand from the previous year but remains below the harvests of 2011-2013 due to Thailand's worst drought in almost 20 years. Water levels in the main reservoirs remain significantly constrained, following the onset of the El Nino drought and low precipitation in

late 2014. The Thai Meteorological Department forecasts rainfall to improve over much of the country with the beginning of the monsoon season from late May. As the bulk of rainfed crop is normally planted from June onwards, this expected rainfall will benefit planting operations particularly in the rainfed northern and northeastern regions, which account for the bulk of main season output. Although Thailand receives more than enough rainfall to meet its demand each year, drought remains a long-term problem. The impact of drought, as well as floods, can be mitigated with improved water management.

Inflation is projected to remain low at 0.5 percent, but positive, as the economic recovers. The first quarter of the year saw headline inflation at -0.5 percent primarily due to lower energy prices. Food prices rose somewhat. Commodity prices are projected to remain low but are not expected to fall further. While inflation remains below the Bank of Thailand's target range the decline in prices has not been broad-based and inflation should move back closer to the range once supply-side shocks from commodity prices abate and the economy recovers.

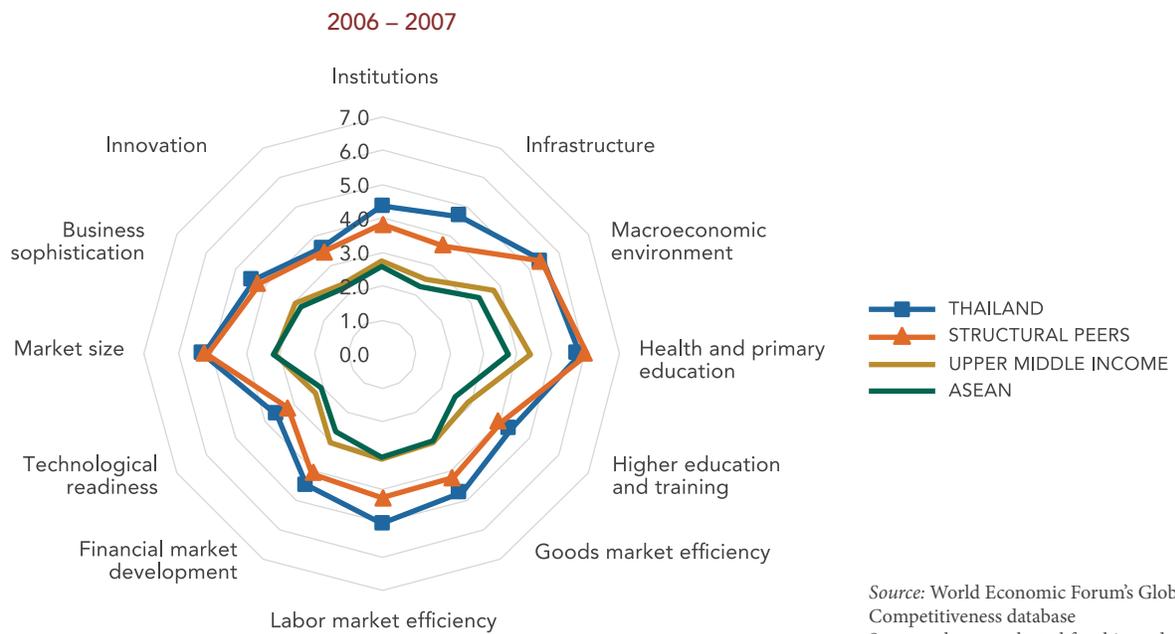
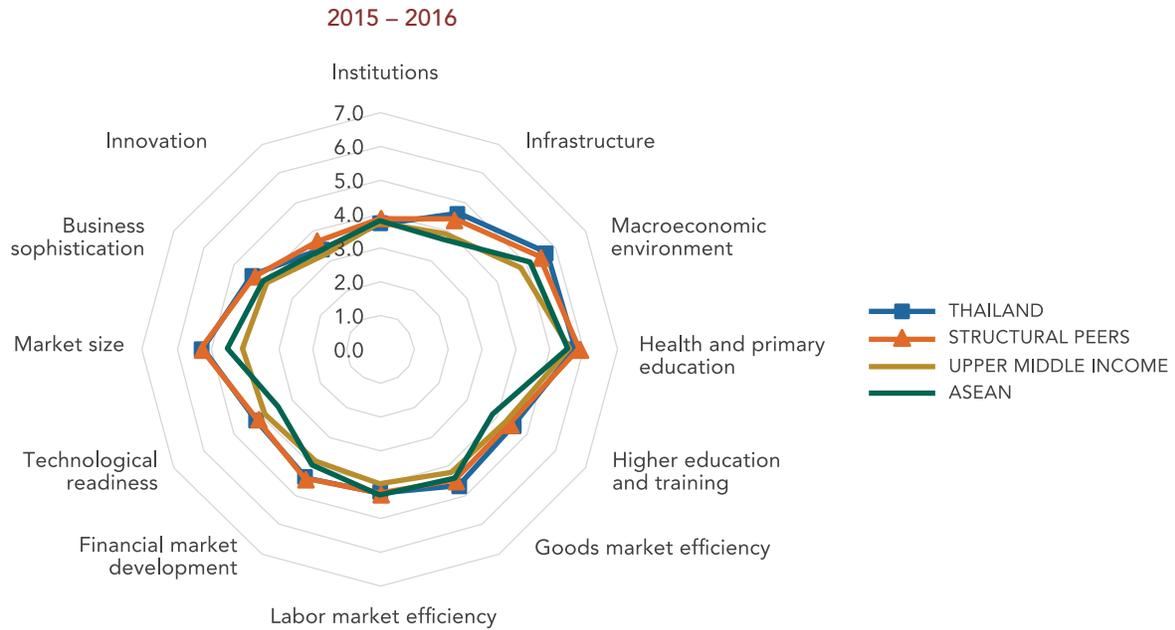
Loss of competitiveness in the export and manufacturing sectors, in addition to a weak global recovery, suggests that export growth will remain negative at 0.5 percent. While FDI continues to grow, lack of investment in new technologies means that Thai exports will lose market share to competitors. The World Economic Forum's

measure of Thailand's competitiveness across broad measures such as innovation, institutions, technological readiness, education, and business sophistication has declined relative to upper-middle income economies and structural peers which include Bulgaria, China, Colombia, Malaysia and Mexico.

The stagnation of manufacturing production is likely to adversely impact poor urban households with low-skilled workers employed in the lower end of the manufacturing sectors. Rising agricultural income in the recent years mainly reflected real increase in agricultural prices and not productivity increases in agriculture. As agricultural prices fall back to more normal levels, growth could become less inclusive, with the rural poor negatively affected. Constrained by education and skills levels, a large share of the poor workers might not be able to reap the full benefit of job opportunities in the high-end services sector. As a consequence, poverty is expected to decline at a slower rate in both urban and rural areas.

The number of poor people remained broadly unchanged in 2014 but will likely increase in 2015 and 2016 due to plummeting agricultural prices. According to latest figures from NESDB, approximately 10.5 percent of the population lived below NESDB's poverty line, approximately the same proportion as in 2013. This corresponds to approximately 7.3 million poor people, out of which 5.2 million lives in the north or north east. For 2015 and 2016, there are reasons to be concerned: the main

FIGURE 18. THAILAND'S COMPETITIVENESS HAS DECLINED RELATIVE TO PEERS



Source: World Economic Forum's Global Competitiveness database
 Structural peers selected for this study:
 Bulgaria, China, Colombia, Malaysia and Mexico

factor explaining the large decreases in poverty during the period 2000-2012 was the rapidly increasing agricultural prices. While overall poverty rates remained roughly constant in 2014, there are clear signs that regional poverty have risen, especially in the areas of Thailand where large proportions of households are farmers. For instance, rates in the South where most of Thailand's rubber is produced rose. Most likely, poverty rates will edge upwards in 2015 and 2016, especially in the South where nearly 60 percent of average household income comes from farming. Moreover, household debt can be expected to increase further as well, as farmers seek to cushion the fall in incomes.

Looking ahead, rubber and rice prices are projected to start increasing in 2017 but only at a very gradual pace. As such, farm incomes is likely to remain subdued for several years to come, and will not be the driving force in reducing poverty further. For poverty to reduce further, more productive and better paying jobs are needed, both within the agricultural sector but especially in the higher productive industrial sector.

C. Policy Watch

The current government has embarked on an ambitious economic reform program for inclusive and sustainable growth by harnessing new engines of growth such as technology, innovation, and services. Long-term reform goals and economic aspirations are laid out in Thailand's first recent 20-year strategic plan for attaining developed country status through economic stability, human capital, equal economic opportunities, environmental sustainability, competitiveness, and effective government bureaucracies. The 20-year plan will serve as an umbrella for other plans such as the 5-year National Economic and Social Development Plan. The ongoing reform program encompasses areas such as competitiveness (5 S-curve innovative sectors, SME promotion, ease of doing business, skills and education, special economic zones), tax (personal, property, inheritance tax; FDI and SME tax incentives), state-owned enterprises (state-owned enterprises and specialized financial institutions), infrastructure (rail, road, and air links; integrated water management) and digital economy (broadband access, e-payments for SMEs and online commerce, start-ups). The government has set up the National Reform Council, the National Reform Steering Assembly,

the National Competitiveness Committee and the People-Public-Private Partnership to propose reforms.

Progress on reforms has already been made. These include the implementation of multi-year large public infrastructure projects, setting up of a State Enterprise Policy Committee and a holding company to improve state-owned enterprise governance, transfer of supervisory oversight of specialized financial institutions to the Bank of Thailand, approval of progressive inheritance and property taxes and the launch of the National Savings Fund, a retirement safety net for informal workers. The government has also ceased the rice-pledging scheme which incurred large losses and contributed to labor market misallocation. Going forward, the sustained pace and quality of reforms as well as sound implementation will be crucial for translating the reform effort into the desired economic outcomes. Continued reforms in additional areas such as education and competition will be particularly important to take Thailand from middle to high income.

1. State-owned enterprises (SOEs) governance. The SOE sector has been plagued by financial weakness, inefficiency,

political interference, and sector interests. The State Enterprise Policy Committee (SEPC) was appointed by the current government to overhaul the structure of state enterprises. The SEPC will set strategy for SOEs and establish a national holding company to hold the assets of SOEs that have clear commercial mandates (i.e. PTT, Thai Airways International, TOT, CAT, Krungthai Bank, MCOT, Transport Co, Airports of Thailand, Thailand Post, Thanaluk Pattana Subsin, Bangkok, and Aeronautical Radio of Thailand). Other international examples of such a state holding structure include France's Agency for State Holdings, Kazakhstan's Samruk Kazyna and Singapore's Temasek. The corporate structure provides a clear and transparent framework for investment, commercially-driven restructuring and streamlining, and divestiture and will allow Thailand to better meet its infrastructure challenges. For example, the long-pending Suvarnabhumi airport phase 2 expansion will be implemented by AOT. In fact, SOEs are responsible for implementing all public infrastructure investment. Legislation for the holding company is expected to be passed soon. One important element of the legislation is the board selection criteria which will be crucial for minimizing political interference and sector interests. The issue of privatization currently remains off the table.

2. Specialized financial institutions (SFIs) supervision. SFIs comprise around 22 per cent of Thai financial institutions' assets.³ The Bank of Thailand, by cabinet decree, is now the sole regulator and supervisor of SFIs last year after several state-backed banks saw rising

bad loans due to imprudent lending. This role is expected to be enshrined in the revised law this year and mitigates the conflict of interest inherent in the previous arrangement in which the Ministry of Finance set strategy for the SFIs while also supervising and regulating the SFIs. This transfer of oversight authority will also improve supervision and transparency by upgrading the supervisory regime to be more in line with that of commercial banks. The new supervisory regime will ensure that the SFI's credit process, corporate governance, and capital and liquidity buffers are in line with Basel II standards. The MOF will continue to set strategy and nominate executives for approval by the BOT while being responsible for losses incurred from policy lending as identified through, for example, Public Service Accounts. An SFI Fund will also be set up through levies on SFI deposits, similar to the Deposit Protection Agency for commercial banks. The SFI Fund will be used to recapitalize SFIs facing financial difficulties.

3. Taxes. Ongoing tax reforms are aimed at addressing wealth inequality, improving the competitiveness of the tax structure, streamlining tax administration and expanding the tax

³ Specialized financial institutions are policy banks owned by the Thai government and comprise the Bank for Agriculture and Agricultural Co-operatives (BAAC), the Government Savings Bank (GSB), the Government Housing Bank (GHB), the Islamic Bank of Thailand, the Small and Medium Enterprise Development Bank of Thailand (SME Bank), the Export-Import Bank of Thailand (EXIM Bank), the Thai Credit Guarantee Corporation (TCG), and the Secondary Mortgage Corporation (SMC).

base. While Thailand's tax revenue-to-GDP ratio of 17 percent is comparable with other East Asian countries and rapidly growing economies, there is still room to expand the tax base particularly in light of Thailand's infrastructure investment plans.

a. Inheritance and gift tax. First introduced this year, the small inheritance tax (5 percent for descendants above a threshold of 100 million baht) will not add significantly to fiscal revenue but is a first step in addressing wealth inequality.

b. SME tax amnesty. Small and medium-sized enterprises (SME) total more than 2.7 million or 96 per cent of Thai enterprises) and account for roughly 80 percent of employment. However, many SMEs keep more than one accounting book to evade taxes thereby depressing tax revenue and increasing the size of the unobserved informal sector. The Cabinet recently approved a tax amnesty to encourage more SMEs to enter the tax system and reduce the vast informal sector. SMEs will be exempted from income tax for one year and subject to a reduced rate of 10 per cent for another year if they agree to pay taxes properly in the future and keep only one accounting book. Possible future integration of financial record-keeping systems between (and within) companies, banks and the authorities can lessen loose accounting.

c. Foreign direct investment tax incentives. To boost private investment, which has been sluggish for several years, there will be new tax incentives for Thai and foreign investors offered by the Board of Investment for ten new special economic zones nationwide. According to the BOI, approval was granted to 2,320 projects worth Baht 875 billion in 2014, with only 38 per cent of these schemes implemented, while new projects approved by BOI totalled 362 worth a combined Baht 48 billion this year. To speed up implementation of approved schemes, the Cabinet has offered more incentives and extended privileges to promoted investors, including those getting approval between January 1, 2014, and June 30, 2016. However, international experience suggests that the role of incentives in attracting new investment is limited. Investors increasingly focus on more fundamental factors, such as skilled labor, infrastructure, or intellectual property protection.

d. The lands and building tax. The revised Lands and Building tax, approved by the Cabinet and currently under consideration by parliament, will allow the government to raise taxes progressively, expand asset-based tax revenue, alleviate wealth inequality, raise land utilization and promote fiscal decentralization through increased local administration tax revenue. Taxes on

assets account for less than 5 percent of tax revenue. The tax sets ceiling rates of 0.2 percent of appraisal value for land used for agricultural purposes, 0.5 percent for residences, 2 percent for commercial use and 5 percent for vacant or undeveloped land. The tax will be levied on first homes and land used for agricultural purposes with appraisal prices starting at 50 million baht, with the rate applied to the amount exceeding 50 million baht. Owners of first homes and farms with an appraisal price below 50 million baht will be free from the tax liability. The tax will also apply to second homes on a progressive basis, with rates of 0.03 percent to 0.30 percent for homes with an appraisal value of less than 5 million baht to more than 100 million baht. The tax also financially penalizes landowners who leave land sites undeveloped. For vacant or undeveloped land, the tax rate will be imposed at 1 percent for land left vacant or unused for 1-3 years, 2 percent for 4-6 years and 3 percent for more than seven years. Earlier versions of the tax drafted under both the current and previous governments faced substantial opposition from landowners and the tax was subsequently watered down. As such, only 10 percent of homeowners who own more than one house or own houses valued above 50 million baht will be taxed.

4. National savings fund. There are an estimated 25 million informal workers most of

whom are not covered by government pension, social security or private provident funds. The government recently implemented the long delayed National Savings Fund, a voluntary matching defined contribution aimed at covering informal workers aged 15-59, under the 2011 National Savings Fund Act. Members contribute a minimum of 50 baht per month, up to a maximum of 1,100 baht per month, and the amount is matched fully or in part by the government. The level of co-contribution by the government increases with the age of the member. When the member becomes 60 years of age, the accumulated amount of money in the individual account will be used for calculating the monthly annuity to be paid until death. However, take-up remains low at approximately 420,000 members—mostly self-employed workers in the agricultural sector and women—probably due to the difficulty of saving amid an economic slowdown. As Thai society ages, the National Savings Fund can grow to become an important part of Thailand's social safety net.

Going forward, the sustained pace and quality of reforms as well as sound implementation will be crucial for translating the reform effort into the desired economic outcomes. The government's 20-year strategic plan is envisaged to help ensure administrative consistency and coordination across agencies as well as continuity across governments. Continued reforms in additional areas such as public investment management, education and competition will be particularly important to take Thailand from middle- to high-income status.



Box 2. How Could Thailand's State-Owned Enterprises be Governed? National Holding Companies and International Experience

Reform of Thailand's state-owned enterprise (SOE) sector is essential to public infrastructure investment and growth. The SOE sector has a long history of financial weakness and inefficiency, but at the same time it is expected to execute a large, 1.7 trillion baht (13.4 percent of GDP) infrastructure program during 2015-2022. Thai SOEs have grown significantly to become an important part of the economy. Total assets are almost at 12 trillion baht or half of state assets, revenue is at 5.1 trillion baht, budget expenditure is at 4.8 trillion baht or twice of the government budget, and employment is at 425,000 persons. Listed SOEs account for 17 percent of the Stock Exchange of Thailand's capitalization. SOEs hold and control the country's strategic assets: airports, expressways, ports, railways and frequency bands. Nevertheless, SOEs face various challenges arising from structural constraints. Political interference, multiple principals, multiple goals, conflict of roles, and lack of competitive pressure. The state often plays multiple roles as policymaker, regulator and owner. This arrangement can give rise to conflict of interest and inefficiency. As a result the State Enterprise Policy Committee (SEPC) was appointed by the current government to overhaul the structure of state enterprises.

The national holding company lies at the heart of the ongoing SOE reforms focused on good governance. This centralized ownership arrangement can provide greater coherence

and more transparency. The national holding company is being set up to hold the assets of 12 corporatized SOEs that have clear commercial mandates (i.e. PTT, Thai Airways International, TOT, CAT Telecom, Krungthai Bank, MCOT, Transport Co, Airports of Thailand, Thailand Post, Thanaluk Pattana Subsin, Bangkok, and Aeronautical Radio of Thailand). The corporate structure provides a clear and transparent framework for investment, commercially-driven restructuring and streamlining, and divestiture and will allow Thailand to better meet its infrastructure challenges. The state enterprise policy office (SEPO) will act as an advisory body for the remaining SOEs. Remaining SOEs can be broadly divided into two groups: SOEs that provide large public sector service delivery and investment agenda as well as SOEs that serve as government agencies.

Ownership arrangements for SOEs across the world have steadily evolved toward greater centralization. Under this model, the specialized entity serves as the shareholder representative with oversight responsibility for SOEs. Line ministries are responsible for policymaking and the regulatory environment in which SOEs operate. Centralization can facilitate monitoring, consolidation, and information disclosure across government shareholdings thereby increasing transparency and accountability. International examples of this approach include France's Agency for State

Holdings and Singapore's Temasek. Within this model, two types of centralized entities are widely used: (1) government ownership agencies that are under the direct authority of the government; and (2) company-type structures, such as holding companies of investment companies, that have separate legal identities and greater independence from the government (see table below). Thailand has chosen the second option to ensure insulation from political interference as well as financial viability.

Creating the right governance framework and ownership arrangement for SOEs is a global challenge. According to a 2009 OECD survey, SOEs accounted for 15 percent of GDP. SOEs remain central economic players in the major emerging markets of China, India and the Russian Federation. While international experience suggests that no one ownership model is universally applicable, it is clear that creating a centralized ownership arrangement alone is not enough to ensure good SOE governance. Attendant risks include continued political interference, lack of power and authority and lack of capacity. Lessons learned for minimizing these risks and making ownership entities more effective include the following.

- *Ensuring high-level political support and public attention.* In Malaysia, the support of the Prime Minister lent credibility to the Khazanah and broader SOE reform program.
- *Providing a clear and focused mandate with a high degree of autonomy.* A clear mandate for the entity that focuses on ownership rights, such as board appointments and oversight, can prevent day-to-day interference and leave decision making to SOE boards. Chile and Estonia have put in mechanisms to ensure autonomy.
- *Appointing highly qualified professionals.* Skilled staff can increase credibility when dealing with SOE boards and management. Singapore and Malaysia have brought in private sector representatives to the board while removing government officials with regulatory roles. Sweden uses specialized consultants.
- *Developing clear ownership policies and guidelines.* An ownership policy that delineates the roles and responsibilities of the entities while separating policy and commercial aspects, as exemplified in New Zealand, can increase accountability.
- *Ensuring dedicated resources and building capacity.* Skilled staff are needed to carry the entity's mandate and increase credibility in dealing with SOE boards and management. Budgetary support or independent financial income retained from dividends can help build capacity.

- *Reaching out to line ministries.* Coordination with line ministries responsible for regulation is essential to avoid overlap of function and potential conflict of interests while ensuring reform consistency. This issue can be particularly important for banks.
- *Building in accountability.* While ownership entity usually have clear reporting lines, public disclosure of annual reviews, parliamentary oversight, and independent audits can increase transparency and accountability.
- *Monitoring performance of the ownership entity itself.* Many countries have implemented performance-monitoring schemes for the ownership entity in addition to SOEs held in the portfolio. India, for example, has a results framework document for the Department of Public Enterprises for measuring performance against key objectives, targets, and performance indicators and required actions in case of shortfalls. The results are published.

TABLE TYPES OF CENTRALIZED OWNERSHIP ARRANGEMENTS

COUNTRY	NAME OF ENTITY	LOCATION OF ENTITY
OWNERSHIP UNDER GOVERNMENT		
<i>Ownership ministries</i>		
Indonesia	Ministry of State Enterprise	Ministry of State Enterprise
<i>Ownership departments in a ministry</i>		
Finland	Ownership Steering Department	Prime Minister's Office
France	Agence des Participations de l'Etat	Ministry of Economy and Finance
Norway	Ownership Department	Ministry of Trade and Industry
Poland	Department of Public Enterprises	Ministry of Treasury
South Africa	Department of Public Enterprises	Ministry of Treasury
United Kingdom	Shareholder Executive	Department for Business
<i>Ownership agencies</i>		
Chile	Sistema de Empresas	Ministry of Economy
China	State-Owned Assets Supervision and Administration Commission	State Council
COMPANY-TYPE STRUCTURE		
Bhutan	Druk Holding and Investments	Ministry of Finance
Hungary	State Holding Company	National State Holding Board
Malaysia	Khazanah Nasional	Ministry of Finance
Mozambique	Institute for the Management of State Holdings	Ministry of Finance
Peru	Fondo Nacional de Financiamiento de la Actividad Empresarial del Estado	Ministry of Finance
Singapore	Temasek Holdings	Wholly owned by Ministry of Finance
Vietnam	State Capital Investment Corporation	Wholly owned by Ministry of Finance



Promoting Healthy and Productive Aging in Thailand⁴

A. The demographic transition

Thailand is aging at an unprecedented pace. As of 2016, around 11 percent of the Thai population, or almost seven and a half million people, are 65 years old or older, up from only 5 percent as recently as 1995. By 2040, there is projected to be 17 million Thais 65 years and older, accounting for more than a quarter of the population.⁵ The speed of aging is among the fastest seen globally to date. Together with China, Thailand already has the highest share of elderly people of any developing country in East Asia and Pacific, and it is expected to have the highest elderly share by 2040. Put another way, the elderly dependency ratio in Thailand (the percentage of people 65+ relative to the working age population) is expected to almost triple from around 15 percent presently to 42 percent by 2040 (Figures 1 (a) and (b)).⁶

The primary driver of rapid aging has been the steep decline in fertility rates, with the total fertility rate per woman falling from around 6.1 in 1965 to only 1.5 in 2015 as a result of rising income and educational levels and the successful National Family Planning Program launched in 1970. In the same period, life expectancy rose from just under 62 years old to almost 74.7 years (World Development Indicators). Both indicators can be considered positive outcomes of development and supportive government policies.

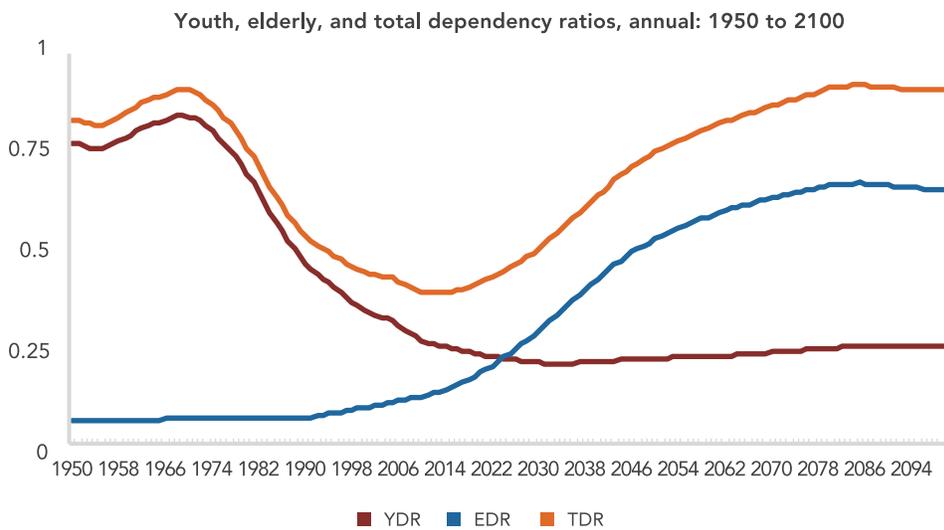
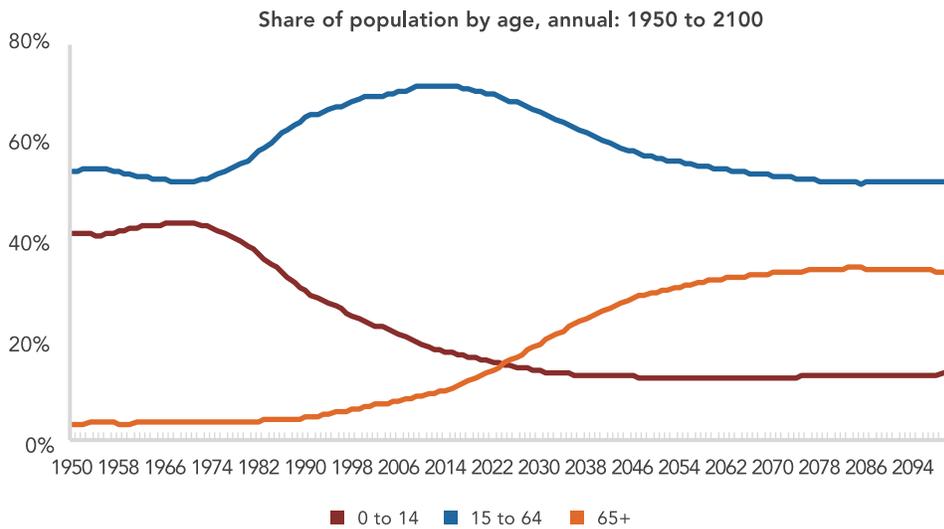
An important consequence of these trends is the expected decline in working age population. Using the standard ILO definition of 15-64 years old, the working age population of Thailand is expected to shrink by around 11

⁴ This section was prepared by Philip O’Keefe (Lead Economist) with inputs from Caglar Ozden (Lead Economist), Mauro Testaverde (Economist), Reena Badiani-Magnusson (Senior Economist), and Sutayut Osornprasop (Senior Health Specialist). It also draws on analysis done for a World Bank regional report: Live Long and Prosper, Aging in East Asia and Pacific (World Bank, 2016), and feedback from Miguel Eduardo Sanchez and Kiatipong Ariyapruhya (Senior Economists), Lars Sondergaard (Program Leader) and John Knodel, Research Professor Emeritus, University of Michigan.

⁵ UN 2015 Population Projections Revision, using the medium fertility rate scenario. Predictions for Thailand in the past have significantly under-estimated the pace of fertility decline (World Bank 2016). NESDB (2013), Population Projections for Thailand, 2010-40 is a useful resource in addition to the UN 2015 revision scenarios which use different fertility rates, migration assumptions, etc.

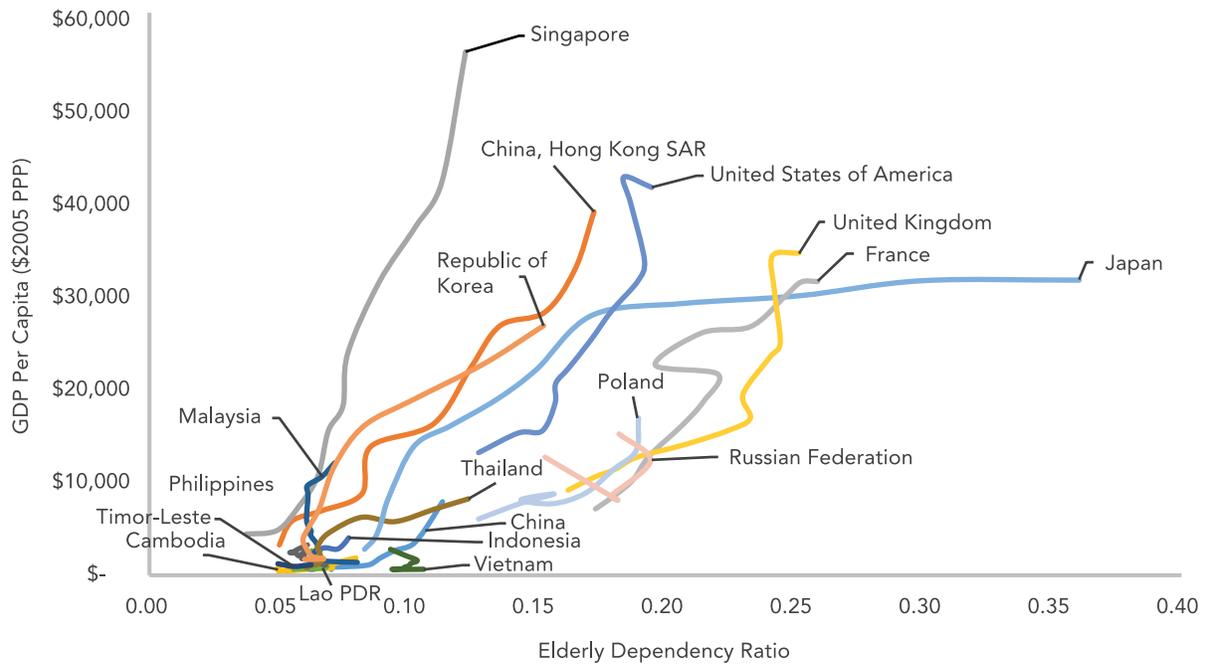
⁶ There have been increasing efforts to refine this traditional measure of the elderly dependency ratio to take better account of increases in life expectancy and healthy years of life expectancy, as well as observed labor force participation rates among the elderly, particularly in developing countries. See World Bank (op. cit.) for details.

FIGURES 1 (a) and (b): THAILAND'S SHARE OF ELDERLY POPULATION IS RISING SHARPLY, RESULTING IN STEEP INCREASE IN ELDERLY DEPENDENCY RATIO (Share of population by age and dependency ratios, 1950-2100)



Sources: UN Population projections, 2015 revision.

FIGURE 2. THAILAND IS AGING AT MUCH LOWER INCOME LEVELS THAN OECD AND ITS OLDER NEIGHBORS (GDP per capita 2005 PPP and elderly dependency ratio)



Source: World Bank (2016)

percent as a share of the total population between now and 2040, with an even sharper decline in terms of absolute numbers from just under 49 million to around 40.5 million people. In terms of population share, the forecasted decline in working age population is higher in Thailand than any developing EAP country in the period (even higher than China).

The other notable feature which Thailand shares with a number of its developing Asian neighbors is that it is aging rapidly at a relatively low level of GDP per capita. While Thailand is a solidly upper middle income country, compared to rich East Asian countries and those of the OECD, it is aging at a much lower income level, suggesting that fiscal and administrative capacity to address aging is likely to be constrained (Figure 2).

The speed of demographic transition in Thailand poses new challenges for policymakers, employers and citizens, but also opportunities. Aging will require policy action and behavioral change in a number of areas. In labor markets, the challenge is to mitigate the structural decline in working age population and to enhance labor productivity of the shrinking labor force. In fiscal terms, the biggest risk will be pension spending, but there are significant challenges also for healthcare and aged/long-term care systems to ensure affordable care for all in a sustainable manner in a context of rapid aging. At the same time, aging offers expanded opportunities for Thailand as a provider of services to the growing elderly population across the region. The following sections first discuss the living situation of older people in Thailand and then the key policy challenges presented by aging, before a short discussion of emerging opportunities.

B. The living situation of elderly Thais

Older Thais are on average significantly more likely to live in poor households than working age individuals.

Individuals over the age of 60 are around 45 percent more likely to live in poverty than individuals aged between 15 and 50, and this rises to around 60 percent more likely for people 75 and over (Figure 3). A second notable feature is higher child poverty rates, which may be driven in part by the prevalence of “missing generation” households where grandparents are the primary carers for grandchildren in the absence of parents.

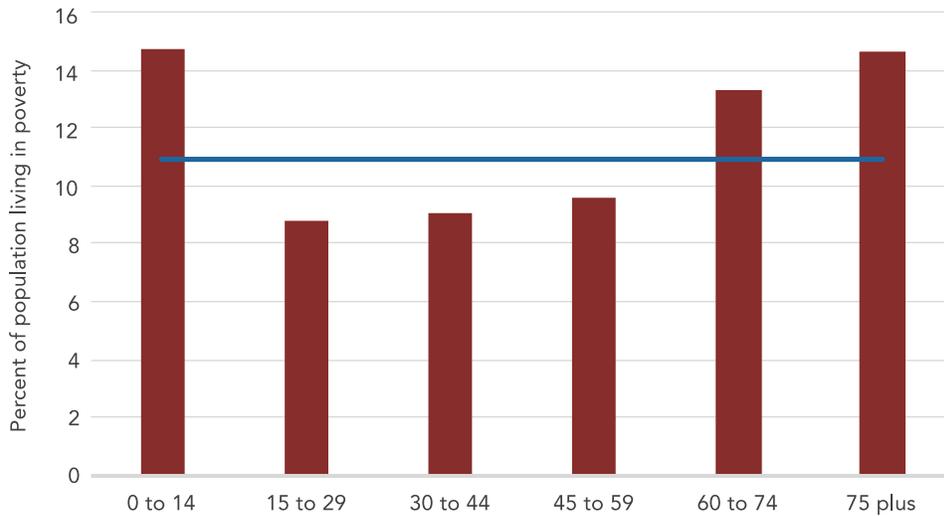
While many older Thai people co-reside with their adult children, the co-residence rate has fallen steadily in recent years, with just under 60 percent co-residence among those 60 and older with at least one adult child as of 2014, down from almost 80 percent in 1986 (Figure 4). Globally, there is a pattern of co-residence rates falling as countries become wealthier, and Thailand is no exception. At the same time, it is important to take account of adult children living nearby, which survey evidence indicates may have quite similar welfare effects for the elderly parents in terms of likelihood of financial support and shared caring roles, both adult children providing care to parents and

elderly parents providing care for grandchildren and older grandparents (Knodel et al, 2015).

Despite their relatively high poverty and co-residence rates, elderly people in Thailand – especially rural elderly – tend to work till advanced ages, but there is significant variation by location and gender (Figure 5). Overall a considerable share of Thai elderly work beyond the global definition of “working age” (up to age 64). But the variations across categories of elderly are notable. At age 65, around three quarters of rural men are still working, often in agricultural activities, while only around one third of urban women are working at the same age. Even more strikingly, around 40 percent of rural men are still working at age 75, suggesting that a significant share of elderly “work till they drop” (Giles and Huang, 2015). Other research which uses the Thai Survey of Older Persons also suggests that the share of those 70-74 years of who are working increased by around 45 percent between 1994 and 2011 (Knodel et al, 2013).

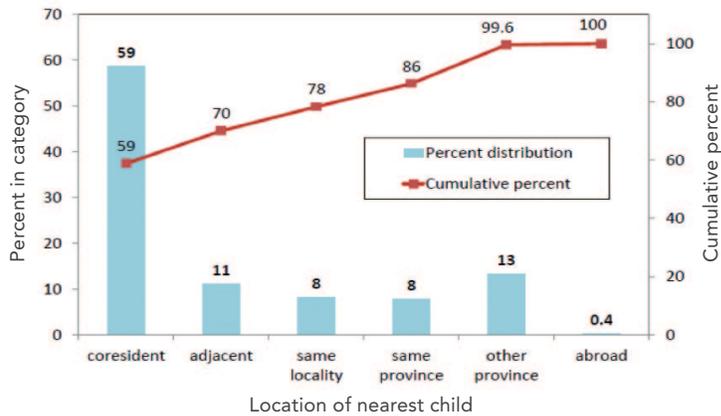
The importance of own labor as the main source of support for elderly Thais is confirmed by comparing the share of people relying on different

FIGURE 3. OLDER PEOPLE HAVE SIGNIFICANTLY HIGHER POVERTY RATES
 Percent of individuals living in poor households in 2013, by age



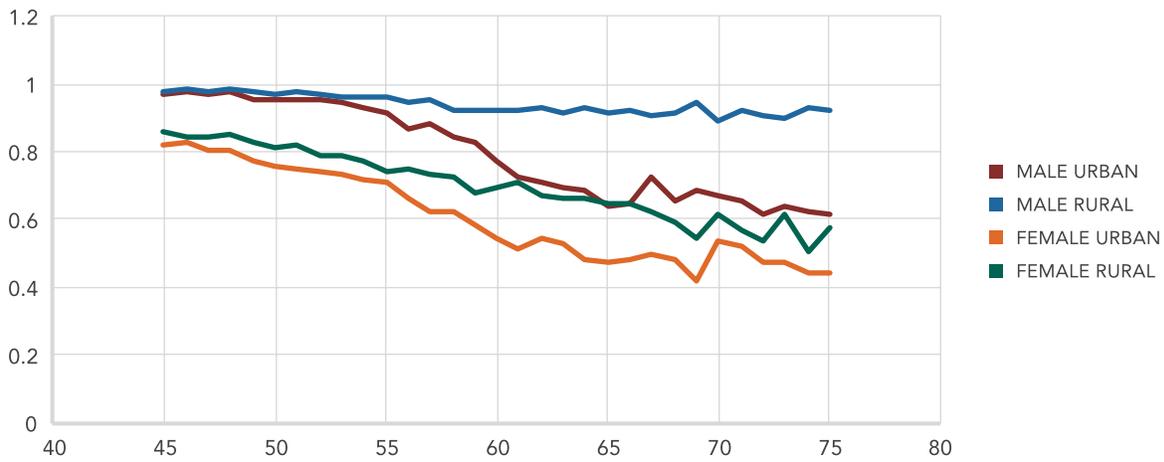
Source: SES, 2013

FIGURE 4. CO-RESIDENCE WITH CHILDREN OF THAIS AGED 60 AND OLDER WITH CHILDREN REMAINS SIGNIFICANT BUT IS FALLING
 Co-residence and location of nearest child, 2014



Source: Knodel et al, 2015, based on Survey of Older Persons in Thailand 2014.

FIGURE 5: MANY THAIS HAVE LONG WORKING LIVES, ESPECIALLY IN RURAL AREAS AND AMONG MEN
(share of people working by age, gender and location, 2011)



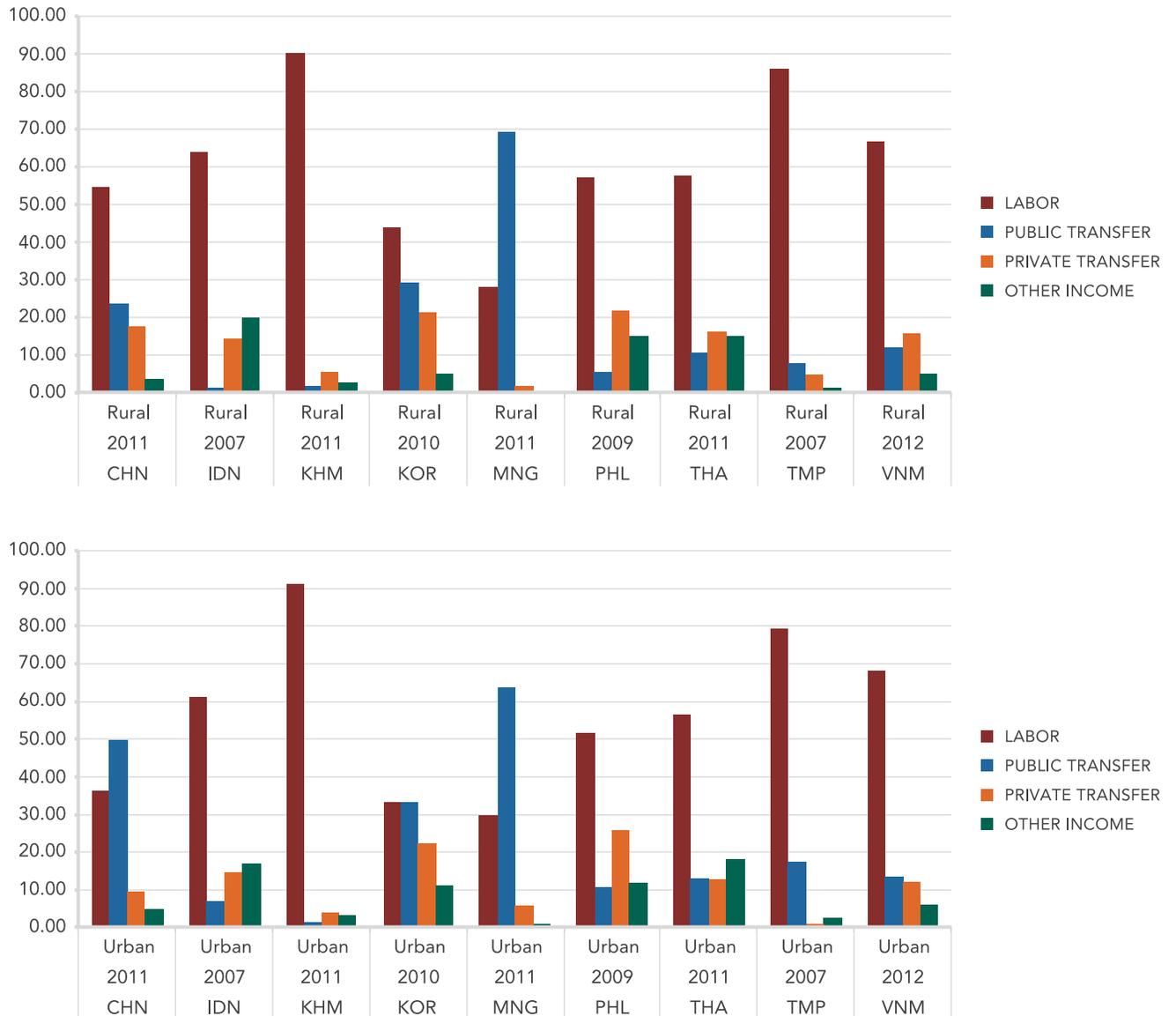
Source: Giles et al for World Bank (2015).

income sources for their primary source of support (Figure 6). Almost 60 percent of people over 60 years old report their own labor as their primary source of support, in both rural and urban areas. In contrast, only around 10 percent of rural people and 12 percent of urban people report public transfers as their primary source of support, despite the existence of an almost-universal social pension from age 60, reflecting the relative modesty of the transfer. Perhaps more surprisingly, the share of elderly reporting private transfers from family and friends as their primary source of financial support is not much higher, though other sources suggest that a high share of Thai elderly receive some financial support from their adult children (between 82 and 86 percent depending on residence location of children, Knodel et al, 2015), and non-financial care support is overwhelmingly provided primarily

by children or other relatives (around 96 percent: Knodel et al 2013; Knodel et al, 2016).

A further important point to note with respect to provision of financial and care support is that elderly people are also a significant source of support and care. In 2014, around 17 percent of people 60 and older reported providing financial support to their co-resident children in the previous year and 11 percent to children not residing with them (Knodel et al, 2015). Furthermore, 15 percent of Thais 60 and over report having a co-resident grandchild with absent parents due to migration or other reasons, and in the large majority of cases are the primary care givers. This is a dynamic which is likely to grow with increased urbanization, though will be counter-balanced by very low fertility rates among reproductive age couples.

FIGURE 6. AS IN MUCH OF DEVELOPING ASIA, MOST OLDER THAIS RELY ON THEIR OWN LABOR AS THEIR PRIMARY SOURCE OF SUPPORT
(Primary source of support for people 60 years+. Rural top panel; urban bottom)



Source: Giles et al, 2015 for World Bank based on Thai SES 2011 for Thailand.

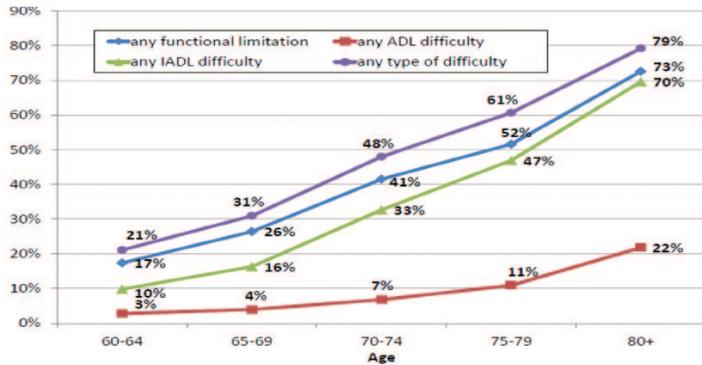
A distinguishing feature of Thailand relative to some other EAP countries (such as China) is the low rate of household savings and significant levels of household debt. A common concern in aging societies is that savings rates may decline as a result of older people dissaving as their labor incomes fall. The evidence on this effect is mixed in EAP, but it is clear that Thais are not currently saving enough to assure a comfortable old age. Thai net household savings rates are low at 4.88 percent of GDP at end-2014, and have fallen from just under 12 percent of GDP in 1980 (Pootrakool et al, 2005). This is reflected in income sources in old age. Figure 6 shows the low level of “other income” (which includes drawing on savings and asset sales) as a primary source of old age support. This is confirmed by the Thai Surveys of Older Persons. In 2014, only 3.8 percent of people 60 and over reported savings, interest, and/or property income as their primary source of support, the share was only 2.6 percent in rural areas (Knodel et al, 2015). In addition, household debt levels are fairly high, at just under 80 percent of GDP outstanding loans to households and a debt service ratio of 26 percent.⁷ Thais clearly do not have significant savings stocks in old age, and the economy-wide household net savings rate suggests that this is unlikely to change quickly (particularly given generally low levels of financial literacy) and demonstrates the need for enhancing savings for old age.

While healthy years of life expectancy have increased for older Thais in recent decades, the burden of non-communicable diseases has increased notably. The impacts can be seen in data on functional limitations of Thai people, which increase sharply with age after 60 (Figure 7). While less than one fifth of Thais have a functional limitation at age 60, this rises to over 40 percent for the 70-74 year old group and almost three quarters of people 80 and over. The steep increase in functional limitations is observed across developing EAP (World Bank, 2016). Such a pattern generates rising needs for care and support as people age. Among those 60 and over, 8.5 percent report needing assistance with activities of daily living, and this raises to almost one quarter of those 80 and older. Among those who report a need for care, around 36 percent of those 60 and over say that they are not receiving assistance, reflecting a significant “care gap” in Thailand that is evident in other parts of developing EAP (Knodel et al, 2015; and Research Base, 2012).

A final important and interesting dimension of aging in Thailand relates to expectations on sources of support in old age. This has two aspects. The first is the apparent difference between what people expect in practice to be their primary source of support and what they ideally would like to see as the

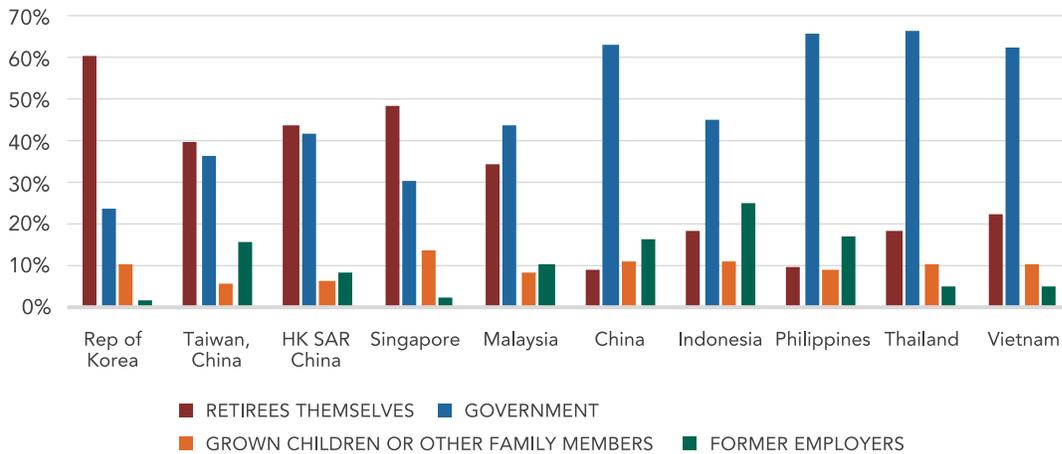
⁷ World Bank staff estimates based on CEIC, NESDB and BOT (2015) for household debt to GDP ratio, and Muthitacharoen (2015) for debt service ratio, defined as household debt payments/household disposable income.

FIGURE 7. FUNCTIONAL LIMITATIONS INCREASE SHARPLY WITH AGE IN THAILAND
(Functional limitations by age, 2014)



Source: Knodel et al (2015) based on Survey of Older Persons in Thailand 2014.

FIGURE 8. THAIS WOULD PREFER THE STATE TO PLAY A BIGGER ROLE IN OLD AGE SUPPORT IN FUTURE
Percentage by source of who should ideally be primary source of old age support



Source: Jackson and Peters, 2015.

future source of support. In this regard, around 77 percent of people expected themselves (own work) or family members to be their main source of support in old age, according to the Thai Survey of Older Persons (Knodel et al, 2013). In contrast, a recent survey that asked who ideally should be the primary source of support on old age, around two thirds of adult Thai answer “government” (Figure 8). The second aspect on expectations is an apparent divide across generations on the expected role of children in supporting the elderly. The second point is that only around a quarter of those 18-39 expect their children to be their primary source of support in old age, while the share rises to 38 percent for those 50-59, suggesting that there are divergent expectations around old age support which could presage a need for greater public policy support in future (Knodel et al, 2013).

C. Some Policy Options for Responding to rapid aging in Thailand

The rapidly changing demographics of Thailand pose a number of challenges for policymakers and society more broadly. At the macro level, there are concerns about possible impact on future economic growth due to impacts in the labor market and other factors such the potential impacts of aging on household savings rates. There are also fiscal risks that accompany rapid aging, with rising pressures on the pension system, impacts on health spending, and emerging needs for a public sector role in aged and long-term care as traditional support networks come under increasing stress.

Thailand has a reasonably well elaborated high-level policy framework on aging, though financing and implementation continues to present significant challenges. National policy is most recently reflected in its Second National Long-term Plan for Older Persons (2002-2021) and the earlier Act on Older Persons 2003. There is also national evaluation and monitoring of the Plan for Older People which includes public and private organizations and the members of the public, and a National Commission on the Elderly.⁸ There is also a wide network of older people's associations (OPAs), with over 23,000 OPAs in Thailand in 2012 organized under the

Senior Citizen's Council of Thailand.⁹

A key insight from countries in Asia and beyond is that the risks to growth and fiscal positions of aging are real, but that policy choices and behavioral responses by employers, households and individuals have very important effects on how the risks from societal aging are navigated. This section discusses the policy options available to Thailand and their potential for helping to mitigate negative economic consequences of rapid aging.

At a macroeconomic level, predicting the impacts of aging on growth with any precision is difficult, as behavior and policies change in aging societies. Previous work by ADB using a growth accounting model predicts that the effects of demographic change in Thailand do not weigh on growth in the current decade, but that aging will have a negative impact on economic growth during the 2020s and beyond.¹⁰ Others using an overlapping

⁸ HelpAge International, Review of national policies and institutions for aging in EAP (2015a).

⁹ HelpAge International, Community-Based Social Care in East and Southeast Asia (2015b).

¹⁰ Park and Shin, ADB, 2011.

generations (OLG) model raise concerns about the impact of aging on Thailand's growth due to the different occupational and productivity profiles of younger and older Thais, with older people being much more likely to be in lower productivity self-employment and thus likely declines in output per capita as the population ages.¹¹

However, much is dependent on assumptions about labor force participation and how savings behavior and total factor productivity (TFP) evolve in response to aging. If, for example, formal sector retirement ages are delayed, the occupational effect may be diluted. Equally, a given level of capital investment in the economy with a smaller workforce should result in higher productivity per worker. Finally, evidence and projections for other parts of Asia suggest that the negative compositional effect on the savings rate from an older population may be more than offset by positive behavioral impacts as people save more during their working lives in anticipation of a longer old age.

Rather than aiming to predict growth impacts precisely, this section focuses on some key areas of policy where action is needed whatever the growth impacts: labor markets; pensions, healthcare, and age/long-term care.

(i) Responding to aging in the labor market:

Looking at the labor market, there are a range of policy measures and behavioral responses which can help to mitigate the pure demographic effects that would otherwise result in a declining labor force over time. These include measures to impact total size of the labor force and the quality of future workers. A key insight from global experience is that labor market policies to address rapid aging are not just about old people, but require policy interventions across the life cycle. More specifically, measures which Thailand could focus on would include the following:

First, the potential for increasing female labor force participation is significant. As in many countries, female labor force participation in Thailand remains significantly below that of males currently. While the gender gap in labor force participation is not as pronounced as some countries in EAP such as the Philippines, women in both rural and urban areas are significantly less likely to be in paid work outside the home (Gender WDR EAP Companion report, 2014). Gradually closing this gap would be the single most effective measure to offset the structural decline in working age population. However, progress is challenging. Apart from direct efforts in the labor market, such as efforts to close the gender pay gap

¹¹ Arayavechkit, Manprasert and Pinthong (2015).

(which is more pronounced in agriculture and industry in Thailand), it will be vital to improve the functioning of childcare and eldercare services, both of which have been demonstrated to have significant effects on female labor force participation in older countries (Thevenon, 2013). With respect to childcare, public investments are likely to be necessary, whether directly into subsidizing childcare services or perhaps through other channels such as providing extended-day kindergarten and primary school services (as for example Vietnam is already doing in extending the kindergarten day).

A second area for potential policy reform and behavioral change by firms is extending productive working lives. Given that many Thais already have long working lives, this may not yield the same level of labor market impacts, but is important also for fiscal reasons and due to the fact that longer working lives appear to delay cognitive decline later in life. The primary focus for extending working lives should be the urban formal sector. A key measure in this regard is gradual increase in official retirement age, which is 55 in the private sector and 60 in the public sector (though planned to be increased to 65 for the latter¹²). This is presently low in Thailand relative to life expectancy at age 55 (which is around 23 years for men and 27 years for women – World Bank 2016). Regression analysis indicates that availability of a formal sector pension is significantly correlated with

withdrawal from the labor force across East Asia (Giles and Huang, 2015). While such reforms are politically challenging, they only become more so if delayed and eventually have to be done less gradually.

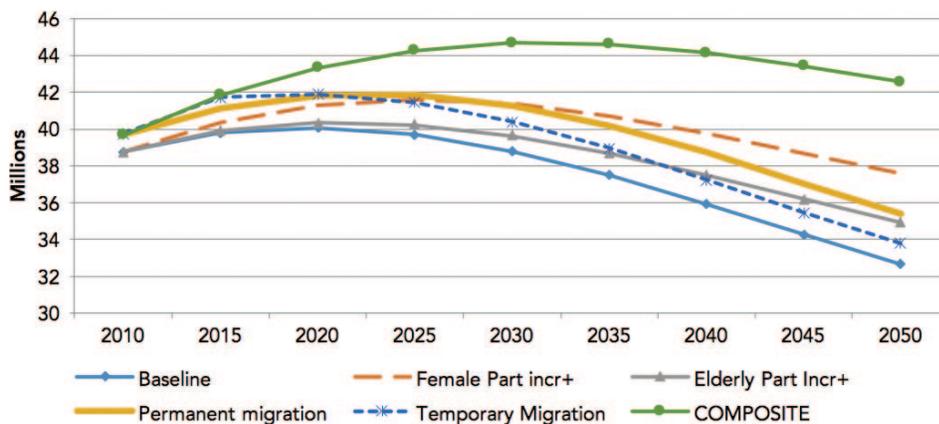
Apart from retirement age, there is a range of measures at firm level that can help to extend productive working lives and make older workers more appealing to employers. One is reduction in seniority-based wage setting mechanisms, which make older workers less attractive and are typically not linked to worker productivity. A second area is promoting flexible work arrangements such as part-time, flexi-work and job-sharing, measures which are attractive to both older workers and employers and promote a “glide” into retirement rather than an abrupt withdrawal. A third, and very cost-effective, intervention is simple adjustments in the workplace to make them more suited to the physical capacity of older workers. Experience in countries such as Germany and Japan suggests that simple workplace modifications such as lowering work benches, improving access and the like pay for themselves quickly.

A third, and inevitably sensitive, area to address structural decline in the labor force is to promote more immigration, an option that seems especially relevant to older EAP countries which have neighbors with

¹² <http://www.bangkokpost.com/news/general/912280/civil-servants-to-retire-at-65> for report of announced increase in civil service retirement age.

FIGURE 8. WITH A SET OF LABOR MARKET REFORMS, THAILAND HAS THE POTENTIAL TO MORE THAN OFFSET THE STRUCTURAL DECLINE IN LABOR FORCE DUE TO DEMOGRAPHIC CHANGE

Simulated labor force size under different policy scenarios, 2010-2050



Source: Bank staff estimates, based on Ozden and Testaverde for World Bank (2015).

Note: (a) LF participation rate from Labor Sta, ILO. Assumptions: (i) female labor force participation rate converges annually at 1/40th of initial gap with male participation rate; (ii) permanent migration assumes immigration of 10% of labor force 25-35 in Thailand who never leave and assume fertility behavior of locals; (iii) temporary migration assumes immigration of 20% of local labor force aged 25-35, that immigrants stay for 10 years and have 100% LF participation; (iv) elderly participation increase assumes convergence of LF participation for 60+ population to Indonesian levels by 2040; and (v) baseline assumes current five year age cohort LF participation rates remain stable and changes the size of cohorts in line with total population projections.

much younger populations. The deepening of economic integration in ASEAN should support such a policy direction, though over time would be expected to focus more on increased immigration of workers beyond the highly skilled. Another distinction in thinking through future migration policies in the context of aging is that temporary and permanent migration have somewhat different effects on labor force size. In the short term, temporary migration would provide a higher increase in labor force size, but within 10-15 years, permanent migration provides a more significant positive impact on the labor force.

Looking at the measures above, Figure 8 provides a simplified simulation of the potential impact on the labor force size in Thailand over a 40 year period from 2010. Each of the measures outlined above has significant potential to mitigate the decline in labor force. In the short run, migration (whether temporary or permanent) has the most immediate positive impact, but by around 2030, increase in female labor force participation becomes the single most significant mitigating measure and easily dominates by the end of the projection period. Over time, extending working lives also has some impact. While no measure on its own

would be a panacea to demographic change, the combination of measures could result in a larger labor force across the entire period than the baseline no-reform scenario. This is not to under-estimate the political and social challenges of the simulated reforms, but demonstrates the potential for sensible policy change to mitigate the labor supply challenges of aging.

A final area where Thailand has significant potential to address a declining working age population is sustaining improvements in human capital acquisition and thus improving labor productivity.

Thailand has already made major strides in improving educational attainment in recent decades, with the share of its population aged 20-64 with secondary education or higher rising from only 21 percent in 1990 to a projected two thirds by 2030 and over three quarters by 2040. While this is a major achievement which should help to enhance productivity and partly offset the quantity decline in labor force size, it will be vital that educational attainment is more fully reflected in improved learning outcomes which more properly reflect human capital acquisition and will drive future labor productivity increases. Recent evidence on learning outcomes in Thailand suggest reason for concern in this regard, with around 32 percent of young people aged 15 functionally illiterate, rising to 47 percent in village schools.¹³ While Thailand would in any event want to improve these outcomes, the reality of rapid aging gives an added note of urgency to improvements in educational quality.

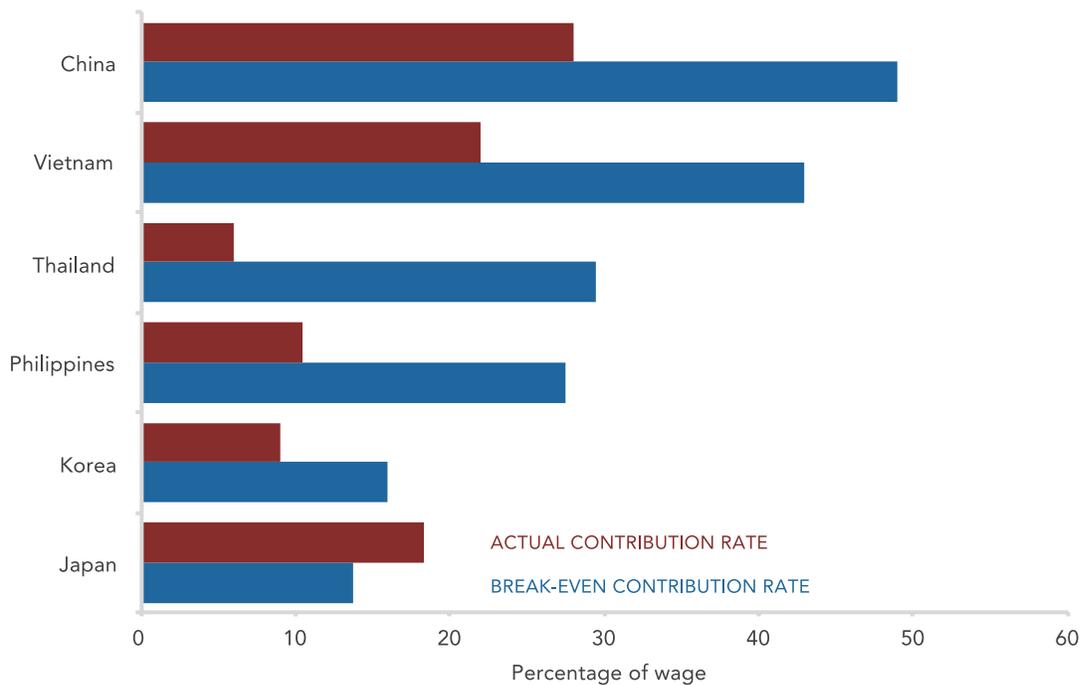
(ii) Pensions:

Rapid aging increases the demand for wider coverage of the pension system in order to provide adequate old age financial support, but also poses challenges of fiscal sustainability. Thailand has made significant progress in coverage of its social pension, but the level of the benefit remains modest. At the same time, the country faces significant financial sustainability challenges in existing contributory schemes and – like many middle income countries - continues to struggle to expand the formal sector schemes.

Thailand’s formal sector pension schemes were introduced fairly late in the demographic transition, but already face a number of challenges. With respect to the formal sector pension schemes, Thailand introduced a national mandate only relatively late in its demographic transition after it had crossed the threshold of 7 percent “aging” society. This was later relative to demographics than any other EAP economy, with the exception of Hong Kong, SAR China. Given the late introduction, the Thai formal pension system remains immature to date, with an average replacement rate in 2013 of just over 30 percent of wages, though this will rise as the scheme matures. However, the contribution rate of only 6 percent of salary places Thailand among the very lowest contribution countries globally, and pension adequacy looks likely to

¹³ World Bank (2015): Thailand: Wanted - A Quality Education for All.

FIGURE 9. THAILAND'S FORMAL SCHEMES WILL FACE SIGNIFICANT SUSTAINABILITY ISSUES AS THEY MATURE
 Actual contribution rate and "break-even" contribution needed to sustain financial balance



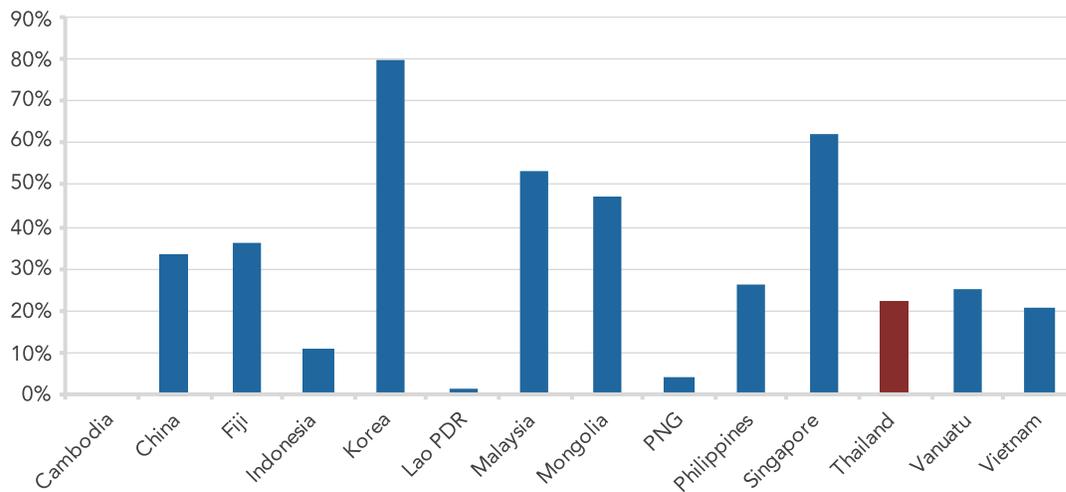
Source: OECD (2013) and Palacios (2015) for breakeven contribution rates. The Japanese contribution rate refers to 2017.

remain a challenge. In addition, civil servants continue to have a separate scheme which is much more generous than the private sector.

As a result of their relatively recent introduction, Thailand's spending on formal pension schemes is well below what might be expected for a country with its elderly share, but the system nonetheless faces significant sustainability risks over time. While Thailand spent only around 1-1.2

percent of GDP on its formal pension schemes in 2010 (the latest year for which data are publicly accessible), the combination of factors noted above suggests either that the scheme will continue to face challenges of adequacy of financial protection for the elderly and/or sustainability challenges. The retirement age of 55 in the private sector is remarkably low for a country with Thailand's life expectancy at retirement, and – together with low contribution rates and a defined benefit design – points to the

FIGURE 10. COVERAGE OF THAILAND'S FORMAL SECTOR PENSION SCHEMES REMAINS LOW
Active contributors to contributory pension schemes as % of labor force, early 2010s



Source: WB pensions database, accessed March 2016. Thailand for 2009.

likelihood of significant sustainability challenges as the scheme matures.¹⁴ This can be seen in Figure 9, which shows the pension contribution rates for various EAP countries which would be needed for the scheme to break even in financial terms, and where the gap for Thailand is largest, pointing to an emerging funding gap if the scheme continues to rely on contribution revenue only. This is not to suggest that Thailand increase its contribution rate significantly, but will require reform either of entitlements and/or of pension financing through some combination

of general budget support and/or higher contributions in future.

While contributory pension schemes face significant adequacy and sustainability challenges, there is also a major challenge of under-coverage (Figure 10). For the most recently available year, coverage of formal sector pension schemes was only 22.5 percent of the labor force (and around 18 percent of working age population).¹⁵ While this is not out of line with other countries at

¹⁴ While previous actuarial analysis suggests that the scheme would not encounter deficits till around 2040 (Yamabana, 2011), this is largely due to its immaturity, and other commentators highlight a range of sustainability challenges, with Allianz Asset Management rating it lowest on its Pension Sustainability Index 2014. <http://www.nationmultimedia.com/business/Thailand-advised-to-raise-retirement-age-30273718.html>. World Bank (2016) also points to significant sustainability challenges in formal schemes as they mature.

¹⁵ The coverage figure is from 2009, which is the latest year for which an official coverage number is available.

Thailand's income level globally, the very rapid pace of aging in Thailand makes the urgency of improving coverage more acute, as the large majority of people have only a modest social pension.

In contrast to formal sector schemes, Thailand is notable for the widespread coverage of its social pension, which is available to anyone without a formal sector pension from age 60 onwards.¹⁶ The pension level is modest at THB 600 per month for those 60-69, but rises with age to THB 700 for those 70-79, THB 800 for those 80-89 and THB 1000 for those 90 and over. When introduced the benefit was poverty targeted, but was made “pension-tested universal” in 2009 (i.e. anyone not receiving a formal sector pension is eligible from age 60 onwards), and coverage is very high as a result (Figure 11). As in most EAP countries outside the Pacific Islands, the basic social pension level remains relatively modest at no more than 5 percent of per capita income. Not unexpectedly, only around 11 percent of elderly report the social pension as their primary source of income (Suwanrada and Wesumperuma, 2013). Also not surprisingly given the modesty of the benefit, the social pension has been shown to have insignificant impacts on the labor force supply of elderly Thais

(Paweenawat and Vechbanyongratana, 2015) and relatively limited impacts on poverty for the majority of beneficiaries (Badiani-Magnusson, forthcoming).

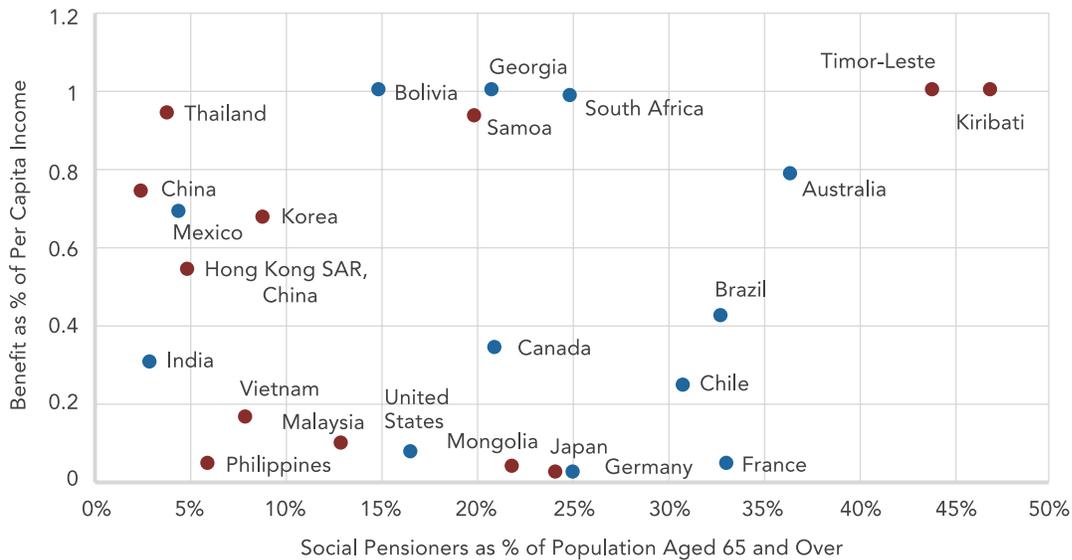
Another feature of Thai pension policy in recent years has been the introduction of matching defined contribution schemes (MDC). MDC schemes provide a public subsidy to people – typically in the informal sector and self-employed workers - to incentivize them to make pension contributions, with matches globally ranging from around 30 percent of the contributed amount to a one to one (100 percent) match. The most recent MDC scheme in Thailand is the National Savings Fund which started operation in 2015, and matches contributions at 50 percent for those 15-30, gradually rising to a 100 percent match for those 50 and above, with annual caps on the match. There have been various efforts of different Thai governments to increase old age savings.¹⁷ It is too early to say what penetration might be achieved over time, as take-up to date has been modest at only around 400,000 out of an estimated 30 million informal sector workers, but the basic model of MDC seems worth pursuing as an element of Thailand's long-term pension system.¹⁸

¹⁶ Though SES analysis suggests that a significant portion of eligible households do not start receiving payment till age 61 or even 62 for reasons that may relate to implementation challenges. See Badiani-Magnusson (forthcoming).

¹⁷ Wiener (2013) in Hinz et al (2013) and World Bank (2012) provide detailed analysis of Thai MDC schemes, including both the NSF and the earlier schemes under Article 40 of the Social Security Act.

¹⁸ <http://www.nsf.or.th/index.php/2016-02-09-14-38-50/2016-02-10-01-11-03/121-more-than-400-000-join-national-savings-fund>

FIGURE 11. WHILE SOCIAL PENSIONS IN THAILAND HAVE VERY WIDE COVERAGE, THEY REMAIN MODEST
 Social pension coverage of 65 and over and benefit as share of pc income, latest available year



Source: World Bank (2016)

Given the challenges posed by rapid aging to Thailand’s pension system, the government may want to consider a linked set of reforms, including:

Adjusting retirement ages to changing life expectancy would be an important measure to continue, especially in the private sector. There will be ongoing needs to reform the formal sector pension schemes to balance a reasonable degree of benefit adequacy (typically considered as being a 40-50 percent replacement rate) while improving financial sustainability. In this light, an increasing number of aged countries have introduced different forms of automatic linkage between increases in life expectancy at retirement and

the official retirement age, and Thailand could consider such an approach (World Bank, 2016).

More broadly, there is a structural question on how to finance Thailand’s formal schemes as they mature. If the preference is to keep the contribution rate low for reasons of labor market competitiveness, there is likely to be an increased need over time for supplementary general revenues financing and/or a need for significant expansion in private voluntary old age savings to ensure adequacy of retirement incomes. On the latter, this will involve questions of tax treatment of savings instruments or other incentives, regulation and management of schemes, and appropriate portfolio rules, though it is also important to

have realistic expectations, as no developing EAP country as yet has significant penetration of voluntary private pensions to date.¹⁹ There is also likely to be a sustained need for awareness raising and financial literacy efforts on the part of government and the private sector to encourage higher savings for old age over time.

The Matching Defined Contribution approach may need from further refinement and improvements in administration. The MDC approach seems worth persisting with, including properly evaluating the impact of the tiered level of matching subsidies on take-up of different groups and on other factors such as incentives to participate in formal pension schemes. Apart from design issues, the biggest challenge of such schemes is administration. Collecting and matching contributions from informal sector or self-employed workers is challenging, and the record keeping and account management challenges are daunting. Experimentation with different channels for aggregating workers and facilitating collections will be necessary, as will developing efficient mechanisms for account management and investment.

The recent MDC experience of China, which has brought over 400 million informal workers into a subsidized scheme since 2010, may be instructive, as

would experience from India's schemes for informal workers, and countries in Latin America such as Mexico, Colombia and Peru. The Chinese scheme for rural and urban informal workers is particularly innovative, combining a low matched contribution to an individual account (at a minimum of around USD 15 equivalent per year, matched at 30 percent) with a “basic pension” which is paid for life from age 60 after 15 years of contributions. In practice, the total public subsidy to the informal worker comes to around 80-85 percent of the benefit stream after retirement, thus combining features of both MDC and social pension. More generally, the global experience suggests that keeping MDC design fairly simple and easy to explain to informal workers is important, with flat or simple tiered contributions, flexible payment periodicity, and simple pension benefit structures preferable to schemes which aim – often fruitlessly – to measure the income of informal workers.²⁰ A focus on simplifying administration has also been key, with potential roles for grassroots aggregators such as unions, microfinance institutions, and self-help groups in mobilizing contributions from members.

Thailand's social pension seems a sensible response to the challenges of expanding contributory schemes, but the social pension alone will not substantially reduce old age poverty at current levels.

¹⁹ The coverage figure is from 2009, which is the latest year for which an official coverage number is available.

²⁰ See Hinz, Holzmann, Tuesta and Takayama (eds), 2013. Matching Contributions for Pensions: A Review of International Experience, World Bank, and Dorfman et al (2013) in that collection for details of the China scheme.

At the same time, given the high coverage, significant increases in the real value of the benefit would need to be carefully assessed over the medium to long term to assess fiscal space. An intermediate approach to consider may be to provide for a supplement to the basic social pension for the elderly poor (i.e., focusing any increased allocation to the scheme on the poor only), or alternatively to consider a more generalized poverty-targeted cash benefit for poor households, irrespective of age. While either of these approaches would help to balance improved old age financial protection with fiscal considerations, the major constraint at this point is that Thailand lacks a robust household level targeting mechanism to identify the poor. This is quite unusual for a country at Thailand's level of development, and most neighboring countries have such mechanisms in place, including Cambodia, China, Philippines, Indonesia and Vietnam. There has also been an active discussion underway in Thailand on whether a negative income tax could be used to support the poor. In economies with large informal sectors and where tax declaration is limited, there is a risk that targeting on the basis of tax filing will miss a substantial portion of poor people who fail to file taxes. Development of a household targeting mechanism in Thailand would be advisable under any circumstances, but may have particular urgency in the context of rapid aging.

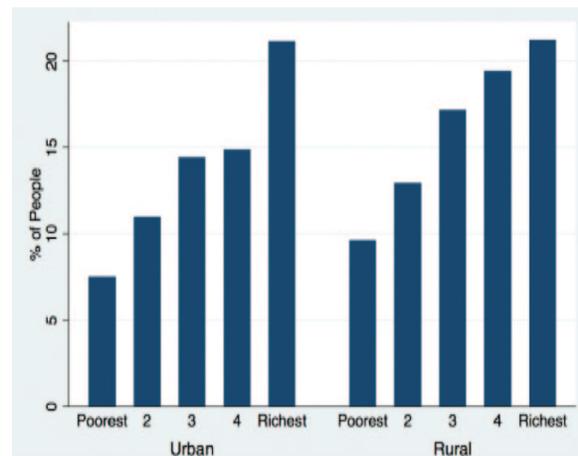
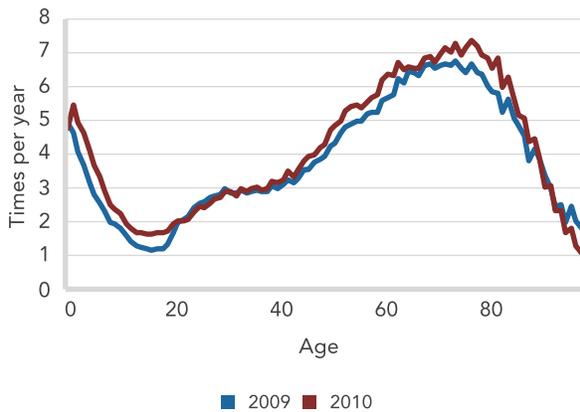
(iii) Health and aged/long-term care:

In the area of healthcare, Thailand's system is in several ways better prepared for an aging population than many of its

developing country neighbors. Thailand has focused on "Healthy Aging" for more than 20 years and includes a number of targets with respect to health in the Second National Long-term Plan for Older Persons (2002-2021). More generally, Thailand has achieved universal coverage under one of its publicly-managed health insurance or benefit schemes. This has broadened access to health services, contributed to higher and more equitable patterns of utilization, and helped reduce the financial burden associated with health care costs. As a result, compared to neighboring countries, the share of Thai elderly who experience catastrophic health spending each year is much lower, at only around 2-4 percent (World Bank, 2016 and World Bank 2015). More specifically, there are features of the Thai system which are particularly well-suited to an aging population, including case-based and capitation-based provider payment mechanisms, and an active purchaser in National Health Security Office (NHSO) which is a regional leader on review and the adoption of new drugs and technologies. This is especially important with aging society, as older people tend to have higher pharmaceutical consumption and the cost-effectiveness of medical technology in late-life care can be a key driver of system spending.

At the same time, there remain challenges of healthcare access and affordability for older Thais. While older Thais are on average in a better position than their peers in neighboring developing countries, evidence suggests that there may be significant unmet demand for healthcare, especially among the very elderly and among poorer elderly

FIGURES 12 and 13. UTILIZATION RATES SUGGEST SIGNIFICANT UNMET DEMAND FOR HEALTH SERVICES AMONG THE OLDER OLD AND POOR ELDERLY PEOPLE
Utilization of OP care by age (LHS) and by income quintile and location (RHS)



Sources: HISRO for Figure 12 and SES 2011 for Figure 13.

people. Figure 12 shows this with respect to age, with a sharp fall-off in utilization of outpatient care around age 80 on average, but where further analysis shows that the drop-off is confined to those in the UC scheme, while those in the civil service scheme increase their utilization as they age (a similar pattern holds for inpatient care). Figure 13 shows that utilization of outpatient care by poor people 60 and over remains well below that of better-off elderly people (World Bank, 2015).

There is a range of non-medical costs associated with seeking care which appear to be limiting affective access to services, especially for the rural elderly. Recent research on healthcare usage finds that the main causes of older Thais not seeking medical care

are: (i) costs of transportation to facilities (both for the patient and for the caregiver they often need to accompany them), especially in rural areas, where average transport costs to health facilities among rural elderly were over THB 6000 per year in a recent study (World Bank, 2015); (ii) food for both patient and caregiver, again higher among rural patients who must often be away from their homes for longer periods; (iii) accommodation costs for rural elderly when seeking care in regional hospitals, which may be up to 7 hours travel from their homes and thus require accommodation even for outpatient visits; and (iv) medicines which are outside the national essential drug list. Survey findings were confirmed by qualitative work, which also stressed the challenges of accessing care for those who did not have family members to accompany

them to health facilities and stay with them in case of inpatient care (World Bank, 2015). Some local administrative organizations (LAOs) in Thailand also provide health emergency vans in their localities free of charge. While some large public hospitals have social welfare schemes that assist with some of these costs, they are institution-specific and awareness among potential users is often low.

A further issue for the Thai health system as society ages is the evolving service needs among the elderly, and the extent to which the universal coverage (UC) basic package is able to afford and/or is likely to prioritize such services. Aging imposes new or increased demand for certain types of services, a number of which are not presently covered in the UC service package. For example, there is no coverage of dementia drugs in Thailand, though 7 percent of those 60-69 years old are affected by dementia and around one third of those 80 and over. There are several other examples of treatments that are disproportionately consumed by the elderly and for which demand is thus likely to rise sharply in coming years, including some medical equipment for knee and hip replacements, hemodialysis, and certain cancer treatments. There will clearly be a need for NHSO to assess the medical priority of such treatments in future, their relative cost-effectiveness, and their affordability given the sometimes high unit costs. This will involve difficult trade-offs given the financing constraints on the UC system. In addition to financing, there is a large gap on the provider side. Thailand has no formal training for clinical specialists in geriatrics beyond short

courses, and significant shortages of nurses aides and related caring professionals.

In contrast to healthcare, which can be considered a strong area of Thai public policy, the policy framework for aged and long-term care remains nascent.

As noted, there is a growing demand for age-related care in Thailand and a significant deficit in care provision, both formal and informal. This impacts not only the welfare of elderly Thais, but also has impacts in the labor market in terms of impacts on working age adults who may have to withdraw from paid work or reduce hours to provide care.

There have been several initiatives for the home- and community-based elderly care, but Thailand to date lacks an elaborated strategy for aged and long-term care. Under the “Friends Help Friends” Initiative, older people’s groups receive public funding to train volunteers to provide support for frail, dependent elderly people, with volunteers often from among the “younger elderly”. Services include health information and basic healthcare support, rehabilitation and social support. The Government has also experimented in recent years with a rural caregivers program, under which community members in rural areas are paid a modest monthly stipend to cover some costs of providing care for frail elderly without support. In addition, Thailand provides tax relief for family caregivers, though this would tend to benefit better-off households already in the tax net.²¹ However, overall there is not a well-elaborated government strategy for aged and

long-term care which spells out the respective roles of the state, non-state providers, the market, communities and households, and outlines a sustainable financing strategy for the sector.

Focus areas for future policy in Thailand with respect to healthcare and aged- and long-term care include the following four sets of policies.²²

First, consider including selected non-medical costs of health treatment in the package of services under the UC package, in particular a transportation allowance for elderly without caregivers in rural areas. Poorer countries in the region already provide some allowance for costs of transportation to health facilities, including Cambodia and Lao PDR under their Health Equity Funds. If costs considerations make inclusion of such support difficult, an option would be to provide non-medical allowances to either the poor elderly only and/or those judged to have a high degree of frailty and need.

Second, promote outreach and home-visit services by community health workers and village health volunteers (VHVs) for the frail and housebound elderly to reduce the need for facility visits. In this area, LAOs may be able to play a more proactive role in promoting access for the rural

elderly. There is also potential for innovations such as “time banks” which are being used in parts of China for example.²³

Carry out an assessment of the costs and benefits of expanding UC-covered services related to conditions of old age, in particular dementia-related treatments, hemodialysis, and some cancer treatments. While there will inevitably be trade-offs with other health sector priorities, it would be important to take into account the costs of care provision by family members and others who might otherwise be in more productive forms of work if elderly health conditions could be more affordably managed. Even if UC coverage is partial, there is scope to expand training of local providers and VHVs in use of home visits materials developed by the government under its Elderly Mental Health Care Systems Project.

Elaborate a national aged and long-term care strategy which is built around home- and community-based care and which has a clear financing strategy mixing public and private resources. Aged and long-term care will most likely be an area where financing is mixed, where provision is often outside the public sector, and where a clear policy is vital to avoid the problem of many older countries of over-reliance on institutional care, which is both costly and generally not preferred

²¹ HelpAge International (2015b).

²² See World Bank (2015) for more detailed discussion of recommendations on healthcare and the elderly.

²³ With a time bank, the younger elderly provide care to older elderly. The time provided is “banked” and they have a credit for future care to be provided when they are older elderly.

by older people themselves. A key decision in the process of strategy formulation will be who is prioritized for public subsidies. While the poor elderly should be a priority, it is important also to prioritize on the basis of degree of disability. This is an area of policy where there is potential for Thailand to benefit from the progress being made by China in policy formulation and to learn from neighbors such as Korea which have more developed long-term care systems.

industries such as tourism and financial services where Thailand has potential with both domestic and global older people to expand its markets and capture their growing share of consumption.

(iv) Opportunities from aging:

Thailand has the opportunity to benefit from rapid aging across Asia and the world, including in rich countries. Older people across the region are a new and expanding class of global consumers, and offer commercial opportunities in areas where Thailand has demonstrated comparative advantage. Medical tourism for example is already a growing sector and there are big opportunities to expand the market in the face of rapid growth in older populations in large neighboring countries, costs pressures on public funding and household budgets in those countries, and the combination of quality and affordability that Thailand offers in health services.²⁴ Similarly, the burgeoning market in Thailand for retirees from abroad to relocate has significant upside potential as the number of retirees around the region explodes. More broadly, there are a range of service

²⁴ Results from the Medical Tourism Patient Surveys (various years) carried out by the Medical Tourism Association indicate that the large majority of patients are already over 50 years of age.
<http://www.medicaltourismassociation.com/en/research-and-surveys.html>

C. Conclusion

While aging poses real challenges for Thailand, it is important to realize that policy and behavioral responses to promote health and productive aging are available. Undoubtedly aging poses new challenges for Thailand in sustaining growth, managing public finances, and supporting living standards. The reform agenda related to aging may seem daunting, but the key elements are ones where there is considerable international and regional experience from which to learn. In terms of prioritizing age-related reforms in Thailand, a few areas stand out:

- the first is the importance of stimulating household savings for old age, both to promote improved elderly and household welfare and as a future source of investment and economic growth.
- a second is encouraging female labor force participation, particularly among urban women, through attitudinal and policy change in the labor market but also increased public support for childcare to help balance work and family life and also help to stem declining fertility rates.

- a third is to continue reforms of formal sector pension schemes to make them more financially sustainable and, in doing so, create fiscal space for deeper policy efforts to expand coverage of the pension system.

- a fourth area is developing a sustainable financing model for aged and long-term care which leverages the strengths of informal care networks and promotes a model of care built around home- and community-based care provision.

None of the priorities above are intended to detract from the need for continued comprehensive efforts, including in areas not covered in this note such as promoting age-friendly cities, more immigration of young people to Thailand, expanded research on the situation and potential of older people, and other measures. Thailand's government, employers and workers, and families have the opportunity to take a comprehensive approach to managing rapid aging and achieve healthy and productive aging. In this way, Thai society as a whole can become the architect of its own destiny.

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