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OVERVIEW

The Economy

The economy in 2012 rebounded from the effects of the severe flooding in end-2011 but continues to be affected by the slowdown in the global economy. Real GDP in 2012 is estimated to grow by 4.7 percent supported by the rebound in household consumption and greater investments by both the private and public sectors as part of flood rehabilitation and the government's consumption-stimulating measures. Capital inflows especially foreign direct investment (FDI) remained strong. Inflation also remained low at around 3 percent and is expected to be so in 2013. Net exports, on the other hand, contributed negatively to GDP growth as exports were affected by production disruptions in the first half of the year and the sharp slowdown in demand from the EU, China, and ASEAN in the second half.

The economy in 2013 is projected to grow by 5 percent as manufacturing production fully recovers from the floods and the global economy sees a modest recovery. Exports in 2013 are projected to grow by 5.5 percent in US dollar terms compared to only 3.6 percent in 2012. Moreover, domestic demand, particularly investments, will continue its momentum from this year as FDI rises sharply. The Government will also step up its investments particularly in water resource management projects – using around Bt60 billion of the Bt350 billion (USD 11 billion) fund that was approved earlier this year under the Emergency Decree for Water Management[1]. Household consumption growth, on the other hand, may slow down somewhat from that of 2012 as the government's consumption stimulus measures, particularly, the First Car Program[2], ends in end-2012. The main challenge next year for Thailand's growth continues to be the high uncertainty in the global economic prospects, particularly related to the Eurozone crisis. Policies of which impacts are to be closely monitored in 2013 include the paddy pledging scheme and the nation-wide rise in minimum wages. For the longer term, issues of skills development and the need to reduce inequalities in incomes and opportunities will be priorities for Thailand.

Budget deficit will be 2.5 percent of GDP for FY2013 in addition to the off-budget spending for water resource management projects in FY2013. The overall budget for FY2013 is set at Bt2.4 trillion, a 0.8 percent increase from that of last year. Budget deficit is estimated by the Government to be at Bt300 billion in FY2013, compared to Bt400 billion (2.7 percent of GDP) in FY2012. However, the FY2013 budget will be supplemented by the off-budget spending on water resource management projects which is estimated to be around Bt60 billion (under the Emergency Decree for Water Management). Incorporating the off-budget spending in both FY2012[3] and FY2013, the overall spending envelope for FY2013 is 2.2 percent higher than that of FY2012.

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[1] The Emergency Decree on Investment Loan for Water Resource Management and Future Development issued by the Cabinet earlier this year allows the government to borrow at most Bt350 billion by June 2013 to finance infrastructure projects for water resource management. This fund is off-budget similar to the stimulus packages in 2009 (Thai Kemkaeng 1 & 2). It is approved by the Cabinet and its allocation and spending need not go through the budgetary process and Parliamentary scrutiny. Hence, it is not counted in the budget balance, but is counted in public debt.

[2] Under the First Car Program, the Government provides first-time car and pick-up truck buyers no more than Bt100,000 excise tax rebate on the purchase of each locally manufactured car and pick-up truck on which a purchase contract has been made by the end of 2012. Eligible cars are those below Bt1 million and with engine capacity no more than 1500 cc. Pick-up trucks of any engine size below Bt1 million are eligible. Each vehicle is non-transferable for 5 years. The rebate will be given 1 year after the vehicle is registered with the Land Transport Department.

[3] Off-budget spending in FY2012 are from the Thai Kemkaeng 2 stimulus package which was approved in FY2009 in the amount of Bt400 billion for FY2009-2012.

Public debt[4] is estimated to be close to 50 percent of GDP in 2013. Much of the Government's planned borrowing for FY2013 will be used to finance the off-budget water resource management projects under the Emergency Decree on Water Resource Management, as well as the Government's other major policy programs. The former could amount up to Bt330 billion or around 2.8 percent of GDP[5]. Borrowing will also be used to finance the Government's major policy programs which are estimated to cost around 2.4 percent of GDP in 2013, down from 5.5 percent in 2012. Given these commitments, public debt is estimated to rise to close to 50 percent of GDP from around 45 percent in end-2012. While this rise in debt level needs to be managed prudently, it is not excessive. Moreover, the structure of public debt in Thailand is such that over 90 percent comprise domestic and long term debt. However, because many of the programs, such as the paddy pledging scheme, are financed through the government's specialized financial institutions (SFIs), these could weaken their balance sheets in the future and are contingent liabilities to the Government.

Special Topics

The paddy pledging scheme is estimated to cost around 3.5 percent of GDP each year, while the actual losses will be realized once the rice stocks are sold. Since October 2011, Thailand's paddy[6] pledging scheme has been expanded to cover all domestically produced rice for sale. The pledged price is set at around 50 percent or around $200 above international rice prices per metric ton of milled rice. This scheme has cost the government around THB376 billion ($12.5 billion) for the 2011/2012 harvest season (October 2011 to September 2012) or around 3.4 percent of GDP. The pledged amount is expected to rise from 21.7 million metric tons last harvest season to 25 million this season. Thus, the government is expected to spend around THB 450 billion ($15 billion) or around 3.8 percent of GDP for the 2012/2013 harvest season. The government has not sold its rice stock so far. The actual losses from the program and the impact on the fiscal stance will be realized only when the government sells it stocks. Given the trend of international rice prices as projected by the World Bank, the losses are estimated to be in the range of Bt115-150 billion (1.0-1.3 percent of GDP) per harvest season. Section 2.1 discusses the fiscal implications of the paddy pledging scheme as well as implications for the rice sector in Thailand in greater detail.

Minimum wages were raised by 40 percent nation-wide in 2012 and will be raised to a uniform rate of Bt300 per day nationwide starting in 2013. On April 1, 2012, minimum wages were raised to Bt300 per day in Bangkok and five other vicinity provinces of Bangkok, plus Phuket province (a 40 percent increase from the previous minimum wage level in 2012) and by 40 percent in the rest of the country. In January 2013, minimum wages will be raised to Bt300 per day nationwide, raising the national average minimum wage by 22.4 percent from that of 2012. These hikes are significantly larger than the previous minimum wage hikes which averaged around 2.5 percent per annum from 2001-2011. A forthcoming World Bank study on the impact of minimum wage hike shows that previous increases in minimum wages have also led to increases for wages of the higher paying occupations as well. After the 40 percent increase in minimum wage on April 1, 2012, average wages in the country in the second and third quarters of 2012 rose by more than 10 percent year-on-year -- partly from the rise in minimum wages and partly from a tight labor market for skilled and semi-skilled workers. However, despite in the rise in wages, unemployment did not rise, but underemployment (the number of workers who work less than 35

[4] Public debt includes central government debt and debts of non- financial state-owned enterprises that are guaranteed and nonguaranteed by the central government and debts of financial state-owned enterprises that are guaranteed by central government.

[5] Of the Bt350 billion, Bt20 billion were already borrowed in 2012. Under the Emergency Decree on Investment Loan for Water Resource Management and Future Development, borrowing must be completed by June 2013.

[6] Paddy is un-milled rice

hours per week and are seeking to work more) rose by 16.4 percent year-on-year in the third quarter of 2012. This is a reflection of a tight labor market whereby employers adjust to the higher wage and the dampened business activities by not firing workers but by reducing the number of hours demanded from each worker.

Developing higher skills is imperative not only for higher incomes and living standards for Thais, but also for Thailand to grow sustainably and inclusively. International evidence reveals a strong correlation between workplace skills and innovation, productivity, and growth. Moreover, skills are increasingly shown to have a major influence on income distribution and social mobility, not only in Thailand but across East Asia. However, major indicators of education outcomes for Thailand such as the PISA scores[7] have shown that education outcomes for secondary school students have not improved over the last 10 years. Moreover, there is a large disparity between the outcomes in Bangkok and the other regions of Thailand with lower scores in the poorer regions of the country. As a result, several firm surveys in Thailand, including the World Bank's, have reported the shortage of skills[8] is one of the biggest constraints to firm's operations. Improving skills through higher quality of education, especially in regions outside of Bangkok, is therefore critical not only for graduates to be able to access higher paying jobs, but also reduce inequality in incomes across the country[9]. In addition to education via schooling, skills also need to be upgraded while on the job as industries and services change quickly in the current business environment. With higher-skilled individuals in the labor force, Thailand could engage in higher value-added production and remain competitive while growing inclusively. Section 3.1 discusses skills development in Thailand through the lens of the life-cycle or the StEP (Skills toward Employment and Productivity) approach.

Thailand can improve opportunities for poor and vulnerable groups to participate in productive economic activities by pursuing a coordinated approach between universal and targeted social policy. Thailand has successfully provided universal social protection policies in recent years, such as universal health coverage and the universal social pension scheme; however, the most marginalized and groups with greatest need may have difficulty accessing universally provided programs. Thailand's income inequality and regional economic and human development disparities have also been persistently high despite rapid GDP growth over the last 15 years. One possible tool for governments to help improve the lives of poor and vulnerable populations is social targeting coupled with the existing universal programs, such as those approaches implemented in Brazil, Indonesia and the Philippines. In Brazil, for example, a combination of targeted resources allocation to poorest municipalities alongside universal coverage for regular provision of services allowed Brazil to significantly reduce education inequalities between 1988 and 2000 with an enrollment rate of more than 90 percent at primary schools. When authorities noticed that financial constraints affected school participation of many children, Brazil launched cash transfer policies targeted to the poor to enable their children to go to school. Section 3.2 presents examples, experience, and lessons learned from various developing countries that have had successful targeting programs which are relevant and may be applicable to Thailand.

[7] PISA or the Program for International Student Assessment was launched by the OECD with the aim to evaluate education systems worldwide by testing the skills and knowledge of 15-year-old students since the year 2000. To date, more than 70 countries including Thailand have participated in the PISA.

[8] Firms report acute shortages for technical skills especially at the vocational school level as well as language and IT skills and soft skills such as leadership and creativity.

[9] Thailand's income inequality as measured by the GINI coefficient has been around 0.45 for the past two decades.

1. MACROECONOMIC DEVELOPMENTS

1.1 The Economy in 2012: A Year of Recovery

The economy in 2012 rebounded from the effects of the severe flooding in end-2011 but continues to be affected by the slowdown in the global economy. Real GDP in 2012 is estimated to grow by 4.7 percent supported by the rebound in household consumption and greater investments by both the private and public sectors as part of flood rehabilitation and the government's consumption-stimulating measures. Capital inflows especially foreign direct investment (FDI) remained strong (see Table 1). Inflation also remained low at around 3 percent and is expected to be so in 2013. Net exports, on the other hand, contributed negatively to GDP growth as exports were affected by production disruptions in the first half of the year and the sharp slowdown in demand from the EU, China, and ASEAN in the second half.

Table 1. Real Gross Domestic Product Growth
(Percent, year-on-year)

	Share of 2010 GDP	2012					2013p
		Q1	Q2	Q3	Q4	2012e	
Total Consumption	**61.3**	**2.4**	**5.4**	**6.5**	**11.3**	**6.5**	**3.5**
Private consumption	51.4	2.9	5.3	6.0	11.5	6.4	3.6
Government consumption	9.9	-0.2	5.6	9.0	10.0	6.6	3.0
Gross fixed capital formation	**20.8**	**5.2**	**10.2**	**15.5**	**17.4**	**12.0**	**9.4**
Private Investment	15.7	9.2	11.8	16.2	18.0	13.7	8.0
Public Investment	5.1	-9.6	4.0	13.2	15.0	5.7	15.0
Total Domestic Demand	**82.9**	**6.9**	**10.1**	**4.4**	**10.1**	**7.9**	**5.1**
Exports	**69.0**	**-3.2**	**0.9**	**-2.8**	**19.3**	**3.0**	**5.2**
Goods	56.9	-5.0	-1.6	-6.2	18.0	0.6	4.5
Services	12.1	4.2	13.7	14.5	25.0	14.2	8.0
Imports	**52.6**	**4.3**	**8.5**	**-1.8**	**14.2**	**6.0**	**5.3**
Goods	43.5	4.3	8.8	-2.3	15.5	6.2	5.0
Services	9.1	4.3	6.4	1.2	8.0	5.2	7.0
Net Foreign Demand	**16.4**	**-23.4**	**-27.2**	**-7.1**	**46.7**	**-8.4**	**4.7**
GDP	**100.0**	**0.4**	**4.2**	**3.0**	**11.5**	**4.7**	**5.0**

e = World Bank estimate; p = World Bank projection

Exports, the major engine of growth of the Thai economy, will mostly likely grow by less than 4 percent in U.S. dollar terms this year. Export growth this year is dampened by both the incomplete recovery of the manufacturing sector from the floods in the first half of the year and the intensifying impact of the Eurozone crisis in the second half. This situation is particularly true for manufactured exports, which are affected both directly and indirectly by the Eurozone slowdown (see Box 1 on The Global Economy and Impact of Eurozone Slowdown on Thai Exports). Moreover, agricultural products have also declined sharply mainly from the fall in rice exports by almost half of last year's after the introduction of the aggressive paddy pledging program since last October. The program has raised Thai

rice prices to around $200[10] above international market prices. As a result, exporters have so far been unable to export rice, while the government has so far not released the rice stocks on to the global markets (see Table 2).

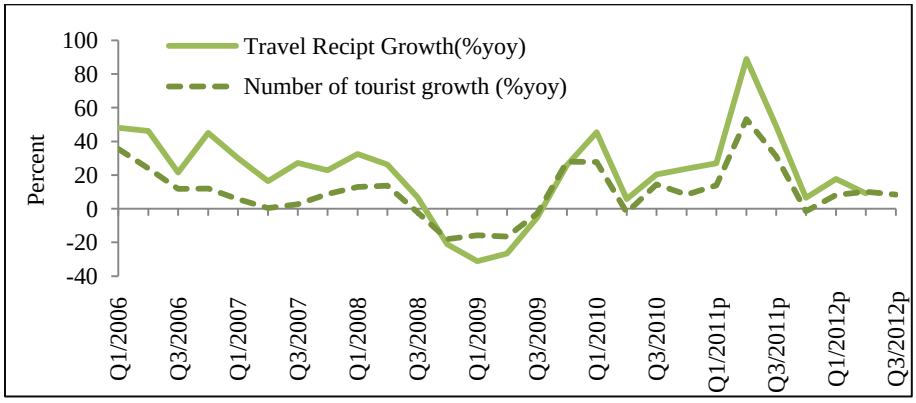
Table 2. Growth Rate for Exports

	Share of exports 2011 (%)	Growth (%YoY)							
		2011	Q1	Q2	Q3	Q4	2012 Q1	Q2	Q3
Agricultural products	**12.9**	37.5	45.2	45.1	45.9	9.8	-20.7	-18.2	-23.1
Agro-industrial products	**7.6**	32.2	14.6	37.0	49.9	27.7	18.5	1.9	-16.1
Manufacturing products	**73.4**	11.9	26.8	11.9	18.7	-14.5	-6.4	1.9	-37.2
Mining and fuel products	**5.8**	32.1	26.7	36.6	43.3	18.7	65.6	14.7	-15.4
Others	**0.2**	33.4	117.7	104.0	-100	-100	-92.4	-94.3	0.0
Total	**100.0**	**17.2**	**28.1**	**18.5**	**24.7**	**-7.5**	**-4.0**	**-0.4**	**-3.8**

Source: Ministry of Commerce

Tourism receipt has recovered almost immediately after the floods, and its growth has remained close to 10 percent since then. Tourism receipts, Thailand's major exports of services, fell during the floods in the last quarter of 2011, but have recovered in January 2012 and have been growing by almost 10 percent in the first half of this year. However, tourist arrivals growth has slowed down in the third quarter European tourists who accounts for more than one-fourth of total foreign tourist arrivals in Thailand each year are fewer in number (see Figure 1).

Figure 1. Growth of Travel Receipts and Number of Tourists



p = projections
Source: Ministry of Tourism and Sports and World Bank Staff Calculations

[10] All dollar amounts are U.S. dollars unless otherwise indicated.

Box 1. Impact of the Global Economic Slowdown and Eurozone Crisis on Thai Exports

The contraction in the Eurozone economies in 2012 and the slow growth thereafter will affect the global economy and the growth of world trade. Economic growth in high income economies has slowed down to 1.3 percent in 2012 and will recover only slightly to 1.5 percent in 2013 as economic uncertainties in the Eurozone and sluggish job creation and slow recovery in the United States have lowered the growth outlook for 2012 (see Table 3). As a result, world trade volume growth will grow at a slower pace compared to the past. This has affected growth in China, which is projected to decline in 2012 and will grow in single digit from then on. Given the depth and severity of the economic problems in the Eurozone, the economic slowdown there is expected to be a prolonged one. As a result, the global economy is expected to grow at a low pace in the foreseeable future. The slowdown in global demand is also reflected in the decline in non-oil commodity prices. On the other hand, oil prices this year increase only slightly from last year and are projected also increase slowly in the foreseeable future.

Table 3. Global Economy (2009-2012)

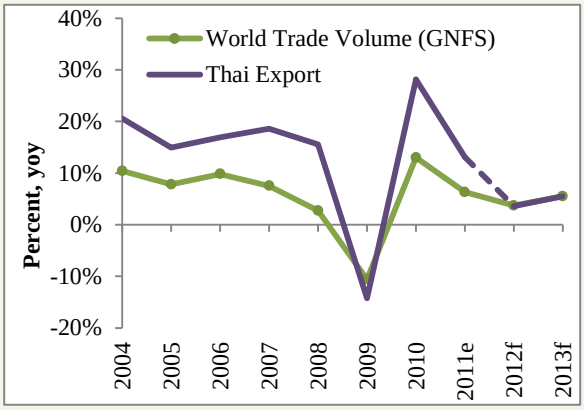
	2009	2010	2011	2012e	2013f
Global Conditions					
World trade Volume (GNFS)	-10.6	13.0	6.3	3.7	5.5
Consumer Prices					
G-7 Countries	-0.2	1.2	2.4	1.9	1.8
United States	-0.3	1.6	3.1	2.6	2.4
Commodity Prices (USD terms)					
Non-oil commodities	-24.1	22.5	20.7	-9.1	-3.1
Oil Price (USD per barrel)	61.8	79.0	104.0	105.7	106.5
Oil Price (percent change)	-36.3	27.8	31.6	1.6	0.8
Real GDP growth					
World	**-2.3**	**4.3**	**2.7**	**2.3**	**2.6**
High income	**-3.7**	**3.3**	**1.6**	**1.3**	**1.5**
OECD Countries	-3.7	2.7	1.5	1.2	1.4
Euro Area	-4.2	1.8	1.5	-0.3	0.4
Japan	-5.5	4.5	-0.7	1.9	1.2
United States	-3.5	3.0	1.8	2.1	1.9
Non-OECD countries	-1.5	7.4	5.0	3.4	4.1
Developing Countries	**2.0**	**7.5**	**5.9**	**5.2**	**5.6**
East Asia and Pacific	7.5	9.7	8.3	7.4	7.9
China	9.2	10.4	9.3	7.9	8.4
India	9.1	9.6	6.9	5.2	6.3
Developing East Asia exc China	…	7.0	4.4	5.6	5.7
Dev. countries excl. China and India	-1.7	5.6	4.4	3.6	4.3

e = estimate; f = forecast
Source: World Bank Global Economic Prospects (GEP) September 2012 and EAP Data Monitor October 2012

The slowdown in the world trade volume has led to a slower growth of Thai exports in 2012, while a slight recovery is expected in 2013. As show in Figure 2, Thai export growth is highly correlated with world trade volume growth. With the world trade volume this year projected to grow by only 3.7 percent in 2012 and 5.5 percent in 2013 (Table 3), compared to over 6 percent last year, Thai export growth (in US dollar value) this year will also decline to around 3.6 percent in 2012 and 5.5 percent in 2013. This is because the top Thai export markets namely the US, EU, Japan, China, and ASEAN are experiencing slow growths.

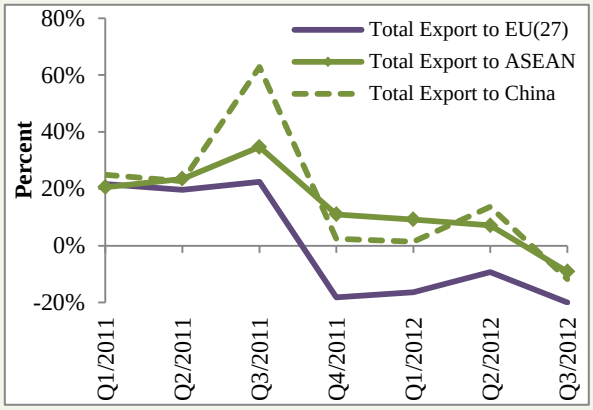
Thai exports have been severely affected both directly and indirectly by the Eurozone crisis. In addition to impact of the severe floods that affected manufacturing of exports in the first half of the year, total exports to the EU contracted by 16.3, 9.3, and 20 percent in first, second, and third quarters of this year, respectively. All of Thailand's top 10 export products to EU (27) including precious stones, rubber products, and air-conditioning, contracted in the third quarter of 2012.

Figure 2. World Trade Volume Growth and Thai Export Growth



Source: MOC, World Bank's Global Economic Prospect September 2012
e = estimate; f = forecast

Figure 3. Thai Exports to EU, ASEAN, and China



Source : Ministry of Commerce

The Eurozone crisis also has an indirect impact on Thai exports through exports to China and ASEAN. As seen in Figure 3, a fall in Thai exports to the EU is also mirrored by the fall of Thai exports to China and ASEAN. The slowdown of EU's imports has negatively affected China's and ASEAN's production, thus, their imports from Thailand which is a part of the East Asia regional supply chain. According to World Bank East Asia and Pacific update 2012 v.1, a 1 percent fall of Thai exports of E&E to China would translate into a 0.75 percent fall in Chinese exports of electronics and electrical appliance (E&E) to Europe. There is a strong linkage between the Thai E&E exports to China and China's exports of E&E to the Eurozone (even if it is not as strong as those for Malaysia, Korea and Japan).

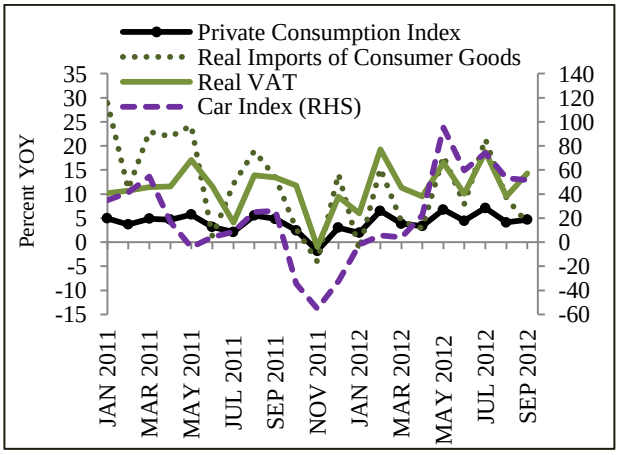
The Government has instructed related ministries to implement policies that would mitigate the impact of the crisis as well as maintain Thai export growth in the longer term. Related line ministries are instructed to support affected industries such as garments, automotive, jewelry and electronics in terms of employment and exports. It also has plans to support affected small and medium enterprises (SMEs) which are a part of the exports supply chain. The export plan has been revised with the aim to maintain market share in high- potential Eurozone countries such as France, Germany and Benelux countries, and at the same time expand exports to emerging markets in the Middle East and ASEAN.

Imports have also risen sharply in the first half of the year in part from the imports of machineries and equipments to replace those damaged by the floods, and have slowed down thereafter. Imports grew by around 10 percent year on year in the first two quarters of this year before slowing down in the third quarter. Imports of raw materials and intermediate goods, which include fuels, have contracted in the third quarter year-on-year as manufacturing production contracted and fuel prices softened. As a result, imports (in U.S. dollar terms) will grow by less than 10 percent this year (see Figure 4).

The trade and current accounts are therefore low in 2012 but continue to be in surplus. Trade surplus is estimated to be US$8.6 billion (2.4 percent of GDP) or half that of 2011. The current account will also remain in a small surplus of US$560 million (0.2 percent of GDP) (see Figure 5).

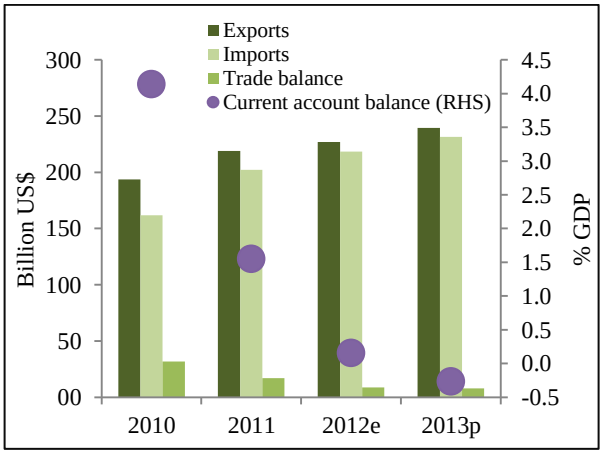
Domestic demand, on the other hand, has expanded continuously in all quarters of this year. Household consumption and private investments have contributed most to the expansion of domestic demand this year. Household consumption in the first half of the year has been expanding rapidly year on year as households rehabilitate from the severe floods in the last quarter of 2011. Household consumption continues to expand sharply in the second half of the year as the impact of the government policies to stimulate consumption is realized, plus the effect of the low base in the final quarter of last year. The First Car Program[11], in particular, has helped boost household purchases of cars in the second half of the year, while commercial banks also aggressively gearing up consumer loans this year (see Box 2 on Financial Sector Development). Moreover, inflation has been low at less than 3.5 percent and real deposit rates have been hovering around zero. Private investments have also expanded as rehabilitation from the floods had started in the first quarter of this year.

Figure 4. Private Consumption Index and Components



Source: BOT and World Bank Staff Calculation

Figure 5. Trade Balance and Current Account Balance



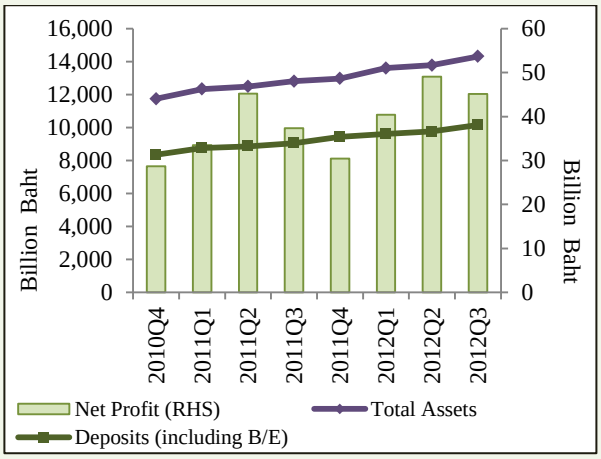
e=estimate; p = projected
Source: BOT and WB estimates

[11] Under the First Car Program, the Government provides first-time car buyers no more than Bt100,000 excise tax rebate on the purchase of each locally manufactured car and pick-up truck on which a purchase contract has been made by the end of 2012. Eligible cars are those below Bt1 million and with engine capacity no more than 1500 cc. Pick-up trucks of any engine size below Bt1 million are eligible. Each vehicle is non-transferable for 5 years. The rebate will be given 1 years after the car is registered with the Land Transport Department. As of the beginning of December, purchase contracts on 800,000 cars have been signed of which 80,000 were signed in December.

Box 2. Financial Sector Development

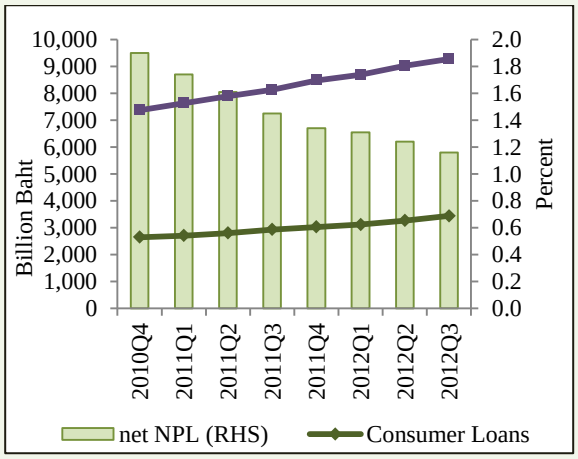
The commercial banking sector remains resilient and sound. Financial institution's key indexes – loan and deposit growth, net profit, return on assets, capital adequacy ratio, and non-performing loans – indicates that the Thai commercial banking sector is robust. Growth in total asset expanded by 10.3 percent from Bt12.9trillion at end-2011 to Bt14.3trillion in September 2012. At the same time, deposit increased by 7.6 percent from Bt9.4 trillion at end-2011 to Bt10.1trillion in September 2012. Moreover, the net profit of banking business was strong at Bt 146 billion in 2011 and increased in 2012 (Figure 6). The increased provision for loan loss in response to the impact of the floods contributed to the increase in the Return on Asset (ROA) of 1.4. Moreover, the capital adequacy ratio (BIS ratio)[12] and Tier-1 ratio were at 15.7 percent and 11.2 percent in September 2012 for Thai banks and the BIS ratio for foreign banks' branches is 17.4 percent. Non-performing loans (NPLs) which has been declining was only 1.2 percent in September 2012 despite the loan expansion by 9.4 percent from last end-2011, especially in the personal consumption loan (Figure 7).

Figure 6. Net Profits, Total Assets, and Deposits of Commercial Banks



Source : BOT and World Bank Staff Calculation

Figure 7. Total Loans, Consumer Loans, and Net NPL of Commercial Banks



Source : BOT and World Bank Staff Calculation

The insurance industry continued to expand. Thai Insurance market continued to grow in 2012 with the expansion in premium collected for both life and non-life products. The total premium earned in the third quarter of 2012 grew by 19.1 percent year-on-year with 16.4 percent growth in life insurance business and 25.3 percent growth in general insurance business.

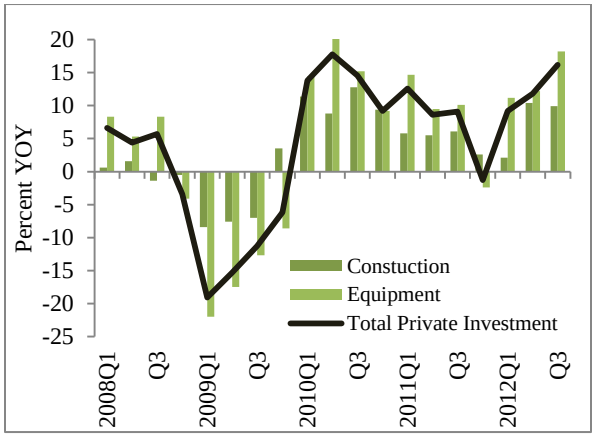
The National Catastrophe Insurance Fund (NCIF) has been established by the Government in response to the major floods. After the floods at the end of 2011, both insurers and reinsurers were reluctant to insure against natural disasters. The NCIF, with the initial capital of Bt50 billion (USD 1.6 billion), acts as reinsurer for three major natural disasters – floods, windstorms and earthquakes – in order to maintain affordable insurance premium and restore insurance companies' confidence. However, participation rate is still low and there remain technical issues to be addressed.

[12] Imposed rules are 8.5 percent for Thai banks and 7.5 percent for foreign banks' branches.

The Thai non-bank financial market has benefitted from the heavy foreign fund flows. Due to global financial crisis, fund managers have shifted investments from the Eurozone to emerging markets, including Thailand, since 2011. As a result, the Thai non-bank financial market has positively benefitted from this large fund flow. The Stock Exchange of Thailand Index has tested its highest level since 1996 at 1,324 in November 2012, and its market capitalization marked the record high of Bt11 trillion. In addition, the trading volume in Thai Future Exchange (TFEX) has doubled in 2011, increased from 4.5 million contracts in 2010 to 10 million contracts in 2011.

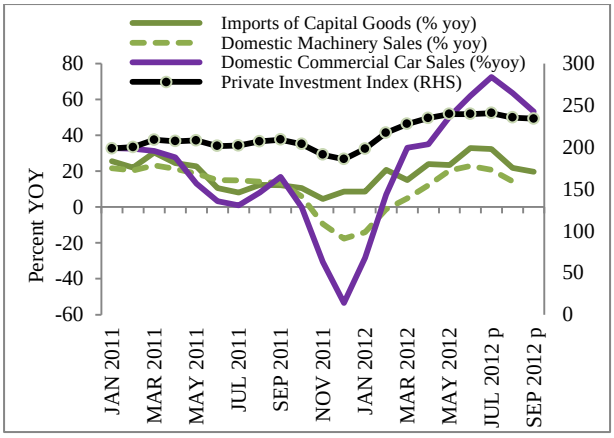
Private investment, which had contracted during the floods, had gained strength since the beginning of this year. Private investment has rebounded with a 9.2, 11.8, and 16.2 percent year on year growth in real terms in the first, second, and third quarters of the year, respectively. This is particularly true for real imports of capital goods, domestic machinery sales, and commercial car sales. Although investments for flood rehabilitation may slow down, but investment approvals of the BOI and foreign direct investments, which have been growing firmly over the past quarters, indicate that future investments will continue to expand.(see Figure 8) In addition, given the low base in 2011Q4, year-on-year growth of private investment in the last quarter of this year should be almost 20 percent. Private investment should be able to expand by almost 14 percent in real terms this year, compared to 7.2 percent last year (see Figure 9).

Figure 8. Total Private Investment



Source: NESDB and World Bank Staff Calculation

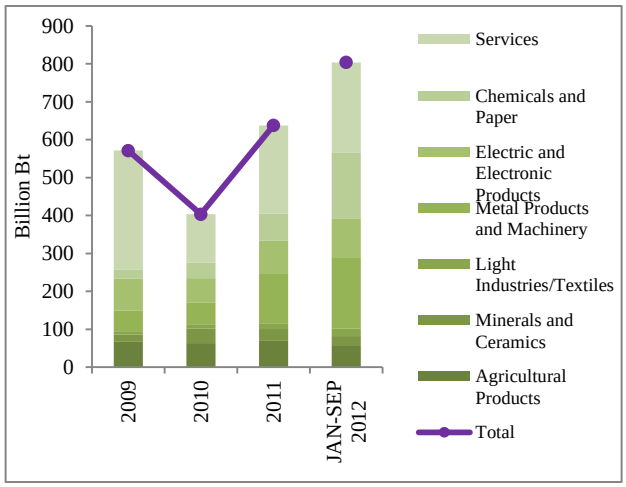
Figure 9. Private Investment Index and Components



p = projections
Source: BOT and World Bank Staff Calculation

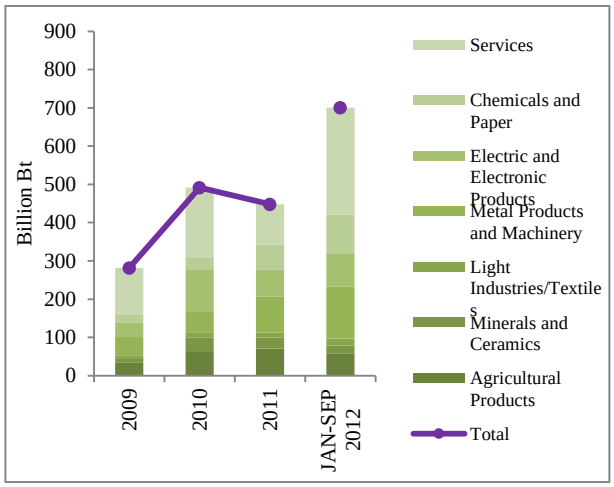
The Board of Investment's (BOI) application and approvals data also show continued strong investment trends in Thailand. Application for BOI incentives, which is an indicator of interest in investments, has been rising since 2010. Investment applications were the highest in the metal products and machineries followed by the electric and electronic products and the services sector. BOI approvals, which usually translate into actual investments over the next 12-18 months, have also been high in those sectors (see Figure 10 and Figure 11).

Figure 10. Foreign Investment Projects Applying for Promotion Classified by Sector



Source: Board of Investment

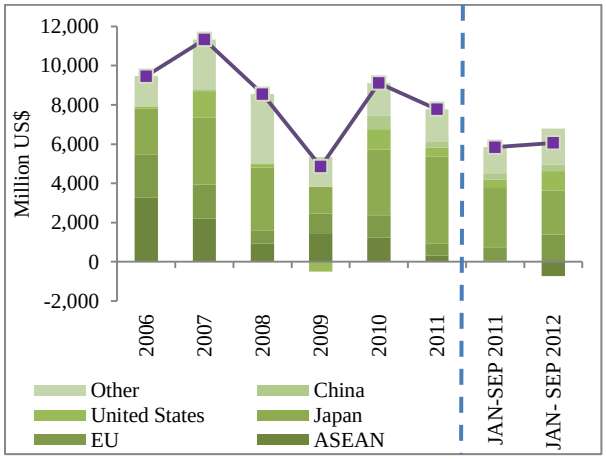
Figure 11. Foreign Investment Projects Approved by BOI Classified by Sector



Source: Board of Investment

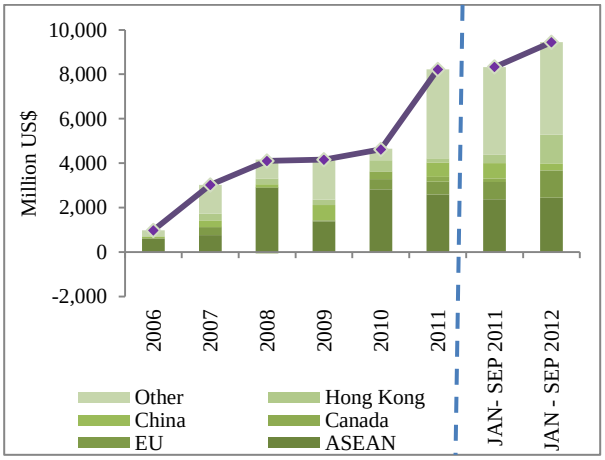
The floods did not deter flows of foreign direct investment (FDI) into Thailand, which continued to be strong into the first nine months of this year. FDI[13] into Thailand peaked in the last quarter of 2011 at almost $3.5 billion as a result of the increase of Japanese investments into Thailand as part of the diversification plan after the Tohoku earthquake earlier last year. FDI continued into Thailand throughout the first eight months of this year in the amount of $6.2 billion, surpassing that in the same period of 2011. Moreover, FDI from the European Union (EU) has been positive since the second quarter of last year, as European firms diversify to East Asia, including Thailand, where markets and prospects are stronger than those in the Eurozone (see Figure 12).

Figure 12. Foreign Direct Investment In Thailand



Source: BOT and World Bank Staff Calculation

Figure 13. Thai Direct Investment Abroad



Source: BOT and World Bank Staff Calculation

[13] FDI comprises of equity, debt, and retained earnings.

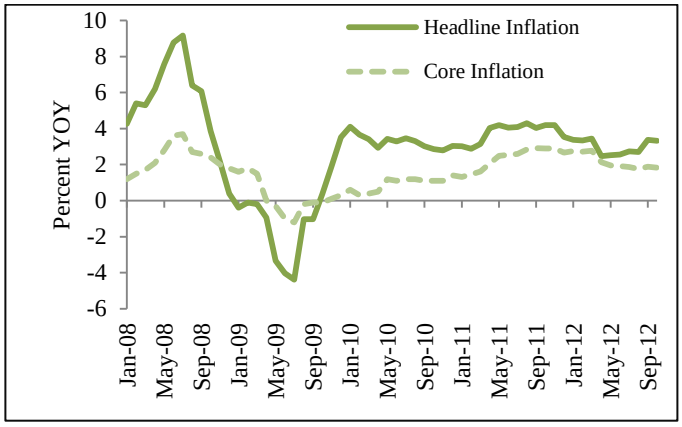
Following the relaxation of the Bank of Thailand's investment rules for Thai investments abroad, Thai direct investments abroad have increased since the last quarter of 2010. Major market for Thai investments remains in ASEAN (see Figure 13). In 2011, major investments abroad by Thai firms included additional stakes of BANPU in Australia's coal market and PTT Exploration and Production purchase of a 40 percent equity stake in a major Norwegian oil firm. Going forward, Thai FDI overseas will likely rise as wages rise in Thailand. In addition, the prospects from the ASEAN Economic Community 2015 prompt firms to increasingly invest abroad in order to maintain their competitiveness.

Public investment, which had contracted last year, should expand this year. Public investment in 2011 contracted by 8.7 percent from the delay in the implementation of the FY 2012 budget (October 2011 to September 2012) after the change in government in July 2011. Moreover, the floods during the last quarter of 2011 have also delayed public investments. Public investment from the second quarter of 2012 onwards expanded as the FY2012 budget was implemented beginning in February. These should help raise public investments in 2012 by almost 6 percent in real terms.

Inflation will average around 3 percent for both 2012 and 2013. Inflation was low at less than 3 percent from April to August before accelerating slightly to 3.38 percent and 3.32 percent in September and October, respectively (see Figure 14). Although a new excise tax rate has been imposed upon tobacco and liquor products in August and electricity (Ft) charge rates have been raised, theses will be outweighed by a slight drop in both crude oil and commodity prices resulting from a slowdown in global economy, thus, demand. Moreover, the government continues to control the food, fuel, and commodity prices, especially the diesel and natural gas vehicles (NGV) retail prices, which will continue to be fixed in order to avoid the higher public transportation cost. Therefore, headline inflation next year should be no more than 3 percent and core inflation at around 2 percent.

Interest rates remain low and accommodative to growth. In November, the Monetary Policy Committee (MPC) has cut the one-day repurchase rate by 25 basis points to 2.75 percent, which is the first rate cut since the cut from 3.25 to 3.00 percent in January. The main reason for the rate cut mainly was to keep the domestic demand growth momentum amidst negative impacts from the sluggish global economy.

Figure 14. Headline and Core Inflation



Source: Ministry of Commerce

There has been pressure on baht to appreciate with the large capital inflows into Thailand. Net capital inflows reached $9.9 billion in the first three quarters of this year compared to $5.2 billion last year. The large inflows so far and expected inflows in the foreseeable future will put pressure on the baht to appreciate. The Bank of Thailand continues to closely monitor and smooth exchange rate volatilities. The baht has appreciated from THB31.2 to the U.S. dollar in December 2011 to THB30.7 in October this year, while the real effective exchange rate (REER) appreciated by 1.4 percent.

1.2 The Economy in 2013: A Year of Rebound and Further Investments

The economy is projected to grow by 5 percent next year as manufacturing production fully recovers from the floods and the global economy sees a modest recovery. Exports in 2013 are therefore expected to grow by 5.5 percent in US dollar terms compared to only 3.6 percent in 2012 (see Table 1). Moreover, domestic demand, particularly investments, will continue its momentum from this year as FDI rises sharply. The Government will also step up its investments particularly in water resource management projects using around Bt60 billion of the Bt350 billion (USD 11 billion) fund that was approved earlier this year under the Emergency Decree for Water Management[14]. Household consumption growth may slow down somewhat from that of 2012 as the government's consumption stimulus measures, particularly, the First Car Program[15], ends in end-2012. The main challenge next year for Thailand's growth continues to be the high uncertainty in the global economic prospects, particularly related to the Eurozone crisis. Policies of which impacts are to be closely monitored in 2013 include the paddy pledging scheme and the nation-wide rise in minimum wages.

Domestic demand, particularly investments, will continue to grow in 2013. Public investments will see a pickup in 2013 as implementation of the water management projects, which was initiated in 2012, begins. This includes Bt60 billion out of the THB350 billion ($11.7 billion) off-budget funds, which was approved under the Emergency Decree on Water Resource Management[16] in early 2012, compared to its disbursement of only Bt10 billion this year. This would raise public investment growth in real terms to 15 percent in 2013 from 6.8 percent in 2012. Private investment growth will remain close to 10 percent as greater foreign direct investments will enter Thailand as seen by the increased Board of Investment applications and approvals over the last two years and the trend of high inflows of FDI funds post Subprime-crisis. These growths will continue to be in a low inflation environment.

[14] The Emergency Decree on Investment Loan for Water Resource Management and Future Development issued by the Cabinet earlier this year allows the government to borrow at most Bt350 billion by June 2013 to finance infrastructure projects for water resource management. This fund is off-budget similar to the stimulus packages in 2009 (Thai Kemkaeng 1 & 2). It is approved by the Cabinet and its allocation and spending need not go through the budgetary process and Parliamentary scrutiny. Hence, it is not counted in the budget balance, but is counted in public debt.

[15] Under the First Car Program, the Government provides first-time car buyers a maximum of Bt100,000 rebate on the purchase of each locally manufactured car on which a purchase contract has been made by the end of 2012. Eligible cars are those below Bt1 million and with engine capacity no more than 1500 cc. The larger the engine capacity, the larger the rebate but no more than Bt100,000 per car. Each car is non-transferable for 5 years.

[16] Its full, official name is Emergency Decree on Investment Loan for Water Resource Management and Future Development issued by the Cabinet in the beginning of 2012 allowed the Government to borrow in an amount of Bt350 billion ($11.7 billion) to finance investments in water management projects to be implemented over the next three to four years. This fund is off-budget similar to the stimulus packages in 2009 (Thai Kemkaeng 1 & 2). It is approved by the Cabinet and its allocation and spending need not go through the budgetary process and Parliamentary scrutiny. Hence, it is not counted in the budget balance, but is counted in public debt.

Government's consumption/income stimulating policies will continue to support household consumption. Income-raising programs such as the paddy pledging program will help support consumption of rice farming households. The First Car Program which expires at the end of 2012 has raised car purchases by households and thus car manufacturing in the first quarter of 2013 as most cars and pick-up trucks that were booked in the last two months of 2012 will be manufactured and delivered in the first quarter of 2013. However, car and pick-up truck purchases will grow much more slowly during the rest of 2013 as car purchases have been brought forward to end-2012 and the first quarter of 2013 to take advantage of the incentives under the First Car Program.

The Government also has plans to step up investments over the next few years. The Government recognizes that public investment[17] has been falling as a share of GDP since 2009 and remains significantly lower than its pre-East Asian crisis share. It is currently less than 5 percent of GDP. Its capital expenditures (from both on-budget and off-budget) have also been falling below its target of 25 percent of budget since FY2007. The Government therefore has plans to increase its investments. In addition to the investments for water management over the next 3-4 years in an amount of Bt350 billion under the issued Emergency Decree for Water Resource Management, the Government is formulating a 7-year infrastructure investment program in the amount of Bt2 trillion. The investments will be mostly for land transport infrastructure. Details regarding the projects and financing sources are expected to be submitted to the Cabinet in January 2013.

Budget deficit will be 2.5 percent of GDP for FY2013 in addition to the off-budget spending for water resource management projects in FY2013. The overall budget for FY2013 is set at Bt2.4 trillion, a 0.8 percent increase from that of last year. Budget deficit is estimated by the Government to be at Bt300 billion in FY2013, compared to Bt400 billion (2.7 percent of GDP) in FY2012. However, the FY2013 budget will be supplemented by the off-budget spending on water resource management projects which is estimated to be around Bt60 billion (under the Emergency Decree for Water Management). Incorporating the off-budget spending in both FY2012[18] and FY2013, the overall spending envelope for FY2013 is 2.2 percent higher than that of FY2012.

Public debt[19] is estimated to be close to 50 percent of GDP in 2013. Much of the Government's planned borrowing for FY2013 will be used to finance the off-budget water resource management projects under the Emergency Decree on Water Resource Management, as well as the Government's other major policy programs. The former could amount up to Bt330 billion or around 2.8 percent of GDP[20]. Borrowing will also be used to finance the Government's major policy programs which are estimated to cost around 2.4 percent of GDP in 2013, down from 5.5 percent in 2012. Given these commitments, public debt is estimated to rise to close to 50 percent of GDP from around 45 percent in end-2012. While this rise in debt level needs to be managed prudently, it is not excessive. Moreover, the structure of public debt in Thailand is such that over 90 percent comprise domestic and long term debt. However, because many of the programs, such as the paddy pledging scheme, are financed through the government's specialized financial institutions (SFIs), these could weaken their balance sheets in the future and are contingent liabilities to the Government (See Box 3 on Financial Sector Issues to Watch Out in the Future).

[17] Includes investment by the Central Government, local administrative units, and state-owned enterprises

[18] Off-budget spending in FY2012 are from the Thai Kemkaeng 2 stimulus package which was approved in FY2009 in the amount of Bt400 billion for FY2009-2012.

[19] Public debt includes central government debt and debts of non- financial state-owned enterprises that are guaranteed and nonguaranteed by the central government and debts of financial state-owned enterprises that are guaranteed by central government.

[20] Of the Bt350 billion, Bt20 billion were already borrowed in 2012. Under the Emergency Decree on Investment Loan for Water Resource Management and Future Development, borrowing must be completed by June 2013.

Table 4. Major Programs by the Current Government (as of December 14, 2012)

Policies	Description	Timing	Cost to Government Budget (Revenue foregone/ budget expenditure)
Measures to stimulate consumption/increase income			
Tax exemption for first house buyers	Personal Income Tax exemption at a maximum of 500,000 baht annually in consecutive five years on condition their house or condominium that costs no more than five million baht.	22 Sep 2011-Dec 2013	Estimated revenue foregone is Bt12 billion
Tax rebate for first car and pick-up truck buyers	Excise tax rebate of no more than Bt100,000 with the following conditions: (i) car & pick-up truck retail price of not more than Bt1 million; (ii) car engine capacity no more than 1,500 CC (no limit for pick-up trucks); (iii) domestically produced vehicle; and (iv) non-transferable for 5 years.	16 Sep 2011-Dec 2012	Estimated revenue foregone is Bt80 billion
Increase income of civil servants and public employees	The civil servants who first enter to the government with Bachelor degree will receive a salary of Bt15,000 per month	Effective 1 Jan 2012	The estimated budget expenditure increases of Bt18 billion in FY2012 and Bt23 billion in FY2013
Debt moratorium program	3-year debt moratorium for eligible customers of 6 SFIs (BAAC, GSB, GHB, SME, Islamic Bank and TCG) with total debt of no more than 500,000 baht per person.	1 Sep 2012-31 Aug 2015	Budget subsidy of Bt15 billion annually
Rice paddy pledging scheme	Eligible farmers who are BAAC customers and received certification from Department of Agriculture Extension can pledge up to Bt500,000 of paddy with rice mills that are registered with the Program. The pledge price ranges from Bt15,000-20,000 per ton of paddy depending on the grade of rice and moisture content.	7 Oct 2011 – 15 Sep 2012 and continue in the subsequent growing seasons	Cost Bt376 billion in 2012; Estimated loss of up to Bt150 billion per year from 2013 onwards
Minimum wage increase	Starting April 1st, 2012, increase in minimum wage to Baht 300 per day in Bangkok and 6 provinces and by 40% in the rest of the country. Increase minimum wage to Bt300 per day nation-wide from Jan 1, 2013.	Effective April 1, 2012 and Jan 1, 2013	--
Measures to stimulate business/lower costs			
Corporate Income Tax cut	CIT rate cut from 30% to 23% in 2012 and further reduction to 20% in 2013	Effective 1 Jan 2012	Estimated revenue foregone of Bt52 billion in FY2012 and Bt 74 billion in FY2013
Excise rate cut on diesel	Reduction on excise rate on diesel from 5.310 to 0.005 baht per liter	April 2011-Jan 2013	Estimated revenue foregone of Bt9 billion per month
Others			
Free tablet computers (One tablet per child)	850,000 tablet computers distributed across countries for Grade 1 students, of which 450,000 is distributed in the first school semester (starting in May 2012); the remaining 400,000 will be distributed in the second school semester (starting in Oct 2012)	Effective May 2012	Bt1.6 billion allocated from FY2012 budget and additional Bt1.2 billion from FY2013 budget
TOTAL			**2012 = 5.5% of GDP; 2013 = 2.5%; 2013 onwards = 2% and below**

Box 3. Financial Sector Issues to Watch Out For

Although banking sector has weathered the global economic crisis and the impacts of the flooding, there may be several risks that the banking industry may face in the future.

Firstly, the ability of the Deposit Protection Agency (DPA) to protect depositors in banking crises is reduced. This is because commercial banks' contribution to the DPA was significantly reduced from 0.4 percent of total deposits to a mere 0.01 earlier this year. This reduction came about when each commercial bank is required to instead contribute 0.46 percent of its total deposits to fund the interest payments for the Financial Institutions Development Fund (FIDF) bonds. As of July 2012, after 4 years of operation, the DPA has accumulated total assets of above THB100 billion.

Secondly, the financial position of Specialized Financial Institutions (SFIs) may become strained in the future should they continue to finance the Government's on-going and new policy programs and schemes. The Government has initiated several policy programs and schemes financed through the Specialized Financial Institutions (SFIs) such as the paddy pledging scheme and the debt moratorium for small scale borrowers. These initiatives put pressure on the SFIs' capital and liquidity positions since the cost and the repayment to them from the Government are uncertain.

Thirdly, transactions costs of doing business in Thailand may be higher as Thailand's standing on the Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) effort was downgraded in 2012[21]. In February 2012, Thailand's status on the Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) was downgraded to First Public Document which is equivalent to blacklist nations who fail to meet international standards in AML/CFT. Financial transaction overseas of corporations and individuals in Thailand will therefore be subjected to stricter monitoring and scrutiny. In order to cope with these issues, Thailand's Anti-Money Laundering Office is now preparing to amend the Thai Anti Money Laundering Act and draft the Combating Financing of Terrorism legislation to be submitted for approval at least in principal by the Parliament; however, the Joint Private Sector Standing Committee has expressed deep concern over the vagueness and weakening of the current draft and its effective enforcement in the future.

Fourthly, the introduction of Basel III in 2013 may result in the recapitalization of some banks, particularly state-owned ones, in the near future. The Bank of Thailand (BOT) will gradually introduce Basel III in 2013 to be fully implemented in 2019. Under Basel III, the minimum Tier 1 Capital Adequacy Ratio (CAR) can range from 6.625- 9.125 in 2016 and 8.5-11.0 in 2019. The minimum CAR can range from 9.125 - 11.625 in 2016 and 11.0 - 13.5 in 2019. The BOT will also require banks to set aside a counter-cyclical buffer of 0 to 2.5, based on regulator discretion, starting 2016. However, Thai banks which current have an average Tier 1 ratio of 10.77 and CAR ratio of 15.08 will be able to comply with this new accord. However, close monitoring will be required in some banks where the Tier 1 capital is relatively low and those that hold significant Hybrid Tier 1 and Tier 2 capital, as they will not qualify under the Basel III accord. Recapitalization may be a solution for these banks, including a state-owned bank; if needed, the later would require substantial allocations from the Government to recapitalize it.

[21] By the Financial Action Task Force on Money Laundering (FATF)

2. POLICY WATCH

2.1 Paddy Pledging Program

The Paddy Pledging Program in 2011/2012 and 2012/2013, while supporting a third of rice farming households in Thailand, is projected to cost the Government losses of around 1 percent of GDP each harvest year. The Pledging Program for 2011/2012 has 1.3 million rice farming household participating out of a total of 3.6 million rice farming households in the country. Of the households that participate in the program, most are small to medium-size farming households. Under the program, the Government has become the largest buyer of rice as the allowed pledging amount is unlimited. The Government bears the costs of pledging, storage, milling, operation costs, and interest. Revenues from the sale of milled rice will fall short of the costs, given that the global rice prices are lower than those under the Pledging Program. The Government is projected to run a loss of around 1 percent of GDP from the 2011/2012 Program and around 1.2 percent of GDP for the 2012/2013 Program. Alternative programs include those that target poor rice farmers – they would cost the Government much less, while also raising the productivity of rice production in Thailand which is currently one of the lowest among major rice producers in the world.

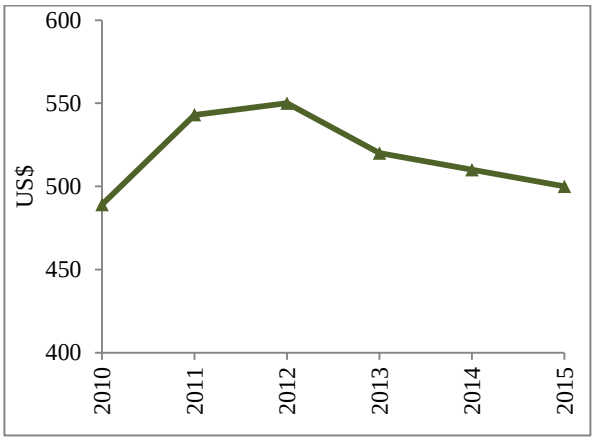
The Paddy Pledging Program was re-established in October 2011. The Paddy Pledging Program offered pledging prices up to Bt15,000 for white rice and up to Bt20,000 per ton for fragrant paddy in 2011/12 crop season. These are around 50 percent above market prices. The 2011/2012 Pledging Program, unlike the previous programs, has no limit on pledging quantities. Under the Program, registered farmers could take paddy to designated millers (around 2,000 of them around the country) and receive a receipt, which farmers take to redeem payment from the Bank for Agriculture and Agricultural Cooperatives (BAAC). The amount farmers receive would depend on the grade and moisture of the paddy as determined by the millers. Millers are hired by the Government to mill the pledged paddy and deliver the milled rice to the Government within 7 days of paddy receipt. However, as the Government's public storage capacity is limited, millers are also hired to store the milled rice for the Government. The Government will later try to sell the rice in lots by opening bids to rice traders or by itself.

The Government is currently the largest rice buyer in the country. At present, the Government is holding a total of more than 20 million tons of rice from the 2011/12 pledging season -- 6.95 million tons of main-crop (October 2011-February 2012) and another 14.8 million tons from the off-season crop (March-September, 2012). This is equivalent to almost all of total paddy traded in the 2011/12 growing season.

Thailand's rice exports have fallen as the Government has not released stocks. Rice exports have fallen by almost 23 percent year on year for the first 10 months of this year, reducing Thailand's market share of rice exports in the global market from 30 percent in 2010/11 to 19 percent in 2011/12 season. The Government is holding the stock so as to benefit from higher price in the future; however, the global price of rice as estimated by the World Bank is around US$500-520 per ton in the next few years (see Figure 15) or currently US$200 below the pledged price of 5% Thai rice[22].

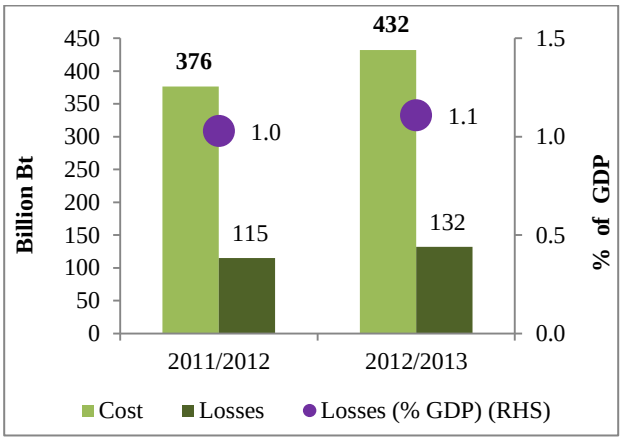
[22] The price for white rice 5% calculated based upon the fact that1.5 tons of paddy can be milled into 1 ton of rice; therefore, the price of rice under the pledging program = 1.5 * paddy's pledging price

Figure 15. World Price of Thai Rice (5%)



Source : World Bank

Figure 16. Cost and losses of Paddy Pledging Scheme per harvest year*



Source : OAE, MOC, BAAC, and World Bank

* Cost does not include interests of BAAC; Assumes all rice pledged each harvest year are sold and at world prices

The losses from the Program for 2011/2012 are projected to be Bt115 billion or 1 percent of GDP. The Program has cost the Government around Bt376 billion (3.4 percent of GDP), while the receipts from the sales of the almost 14.5 million tons of white rice[23] given the world prices this year are estimated to be around Bt261 billion. The cost of the Program consists of the cost of the pledged paddy, operating, storage, milling costs and interest to the BAAC for its loan to the Program. The cost for the 2011/2012 season's main crop (7 million tons) is approximately Bt121 billion[24], while that of the second crop (14.8 million tons) is around Bt223 billion. Adding the operating, storage, milling, and interest costs of around Bt33 billion[25], the total cost of the 2011/2012 Program would be around Bt376 billion or around 3.4 percent of GDP. If the Government is able to sell most of the 14.5 million tons of white rice at the average global price of around US$600 per ton over the course of the next 12 months, it would receive around US$9 billion or Bt261 billion. Hence, the losses from the 2011/2012 Paddy Pledging Program would be around Bt115 billion or 1 percent of GDP (4.8 percent of the FY2012 budget) (see Figure 16).

The Paddy Pledging Program will continue in the 2012/2013 harvesting season and losses are projected to be 1.2 percent of GDP. The Government has recently announced that the Program for 2012/2013 will start in September 2012. It is estimated that paddy production in the coming year could reach 35.5 million tons[26], of which 25 million tons could be pledged. At the average pledging price of Bt15,000 – 20,000 per ton, the cost of the pledging paddy in 2012/13 alone could reach Bt400 billion. Adding the other costs associated with the Program (milling, storage, operating cost, and interests), the total cost could be up to Bt440 billion. Sales of 16.7 million tons of milled rice next year at the estimated global price of around US$600 per ton would bring in a revenue of US$10 billion or Bt300 billion. Hence, the losses from the program next year could reach Bt140 billion or 1.2 percent of GDP (5.8 percent of the FY2013 budget) (see Figure 16).

[23] 21.8 million tons of paddy translates into around 14.5 million tons of rice after milling
[24] Of which Bt 90 billion was loans from the BAAC
[25] Source: National Rice Policy Committee
[26] Due to the large production quantity as paddy production has recovered from the floods, the larger cultivated area and higher yields in the Central Plains as land has become more fertile due the floods. . According to OAE forecast data, the main crop paddy yields approximately 26.19 million tons while the second crop yields will be around 9.2 million tons due to a decrease in the planted area from 17 million rais to 14 million rais after a severe drought.

Table 5. Paddy Pledging: Prices, Amount Pledged and Government Outlay

	2006/07	2007/08	2008/09	2009/10[1/]	2010/11[1/]	2011/12
Intervention Price (Baht/Ton)				**Income Guarantee Program replaced Paddy Pledging Program[6/]**		
Main Crop: Fragrant Rice Paddy	5,700-9,000	9,000-9,300	14,700-15,000	15,300[2/]	15,300[2/]	20,000
: White Rice Paddy	5,900-6,500	6,100-6,700	10,800-12,000	10,000[2/]	11,000[2/]	13,800-15,000
Second crop: White Rice Paddy	6,000-6,600	12,800-14,000	10,800-12,000	10,000[2/]	11,000[2/]	13,800-15,000
Amount of Pledged Paddy (Ton)	**3,445,261**	**4,420,174**	**11,527,260**	**4,300,000**	**5,547,000**	**21,771,194**
Main Crop	1,809,316	243,742	6,059,312	2,370,000	2,700,000	6,950,157
Second crop	1,635,945	4,176,432	5,467,945	1,900,000	2,840,000	14,821,037 [4/]
Government Actual Outlay for Paddy Pledging and Income Guarantee Program (Million Baht)[3/]	**53,699**	**55,179**	**118,491**	**47,762**	**67,288**	**343,548e [5/]**
Main Crop	45,141	41	55,872	28,472	36,004	120,933e
Off-season Crop	8,558	55,138	62,619	19,290	31,284	222,615e

Note:
[1/] The Government replace Paddy Pledging Program with the Price Insurance Program.
[2/] Insured Prices
[3/] This budget outlay covered only the repayment to the Bank of Agriculture and Agricultural Cooperative (BAAC) on the loan used in the Paddy Pledging Program during 2006/07-2008/09. This does not include storage cocst. In 2009/10 and 2010/11, the budget outlay is the payment on compensation to farmers under the Price Insurance program.
[4/] The amount of paddy pledged from the off-season crop based on the government report at the end of the Scheme on November 6, 2012.
[5/] Includes Government's budget, BAAC loans, and other sources of financing. Excludes milling, storage, operations, and interest costs
[6/] The Income Guarantee Program was available to all farmers and paid the difference between the guaranteed price and the market price. This scheme paid famers based on their production, not how much they sold. Hence, subsistence farmers also benefited from the program. This scheme limits participation to 25 tons of paddy per household.

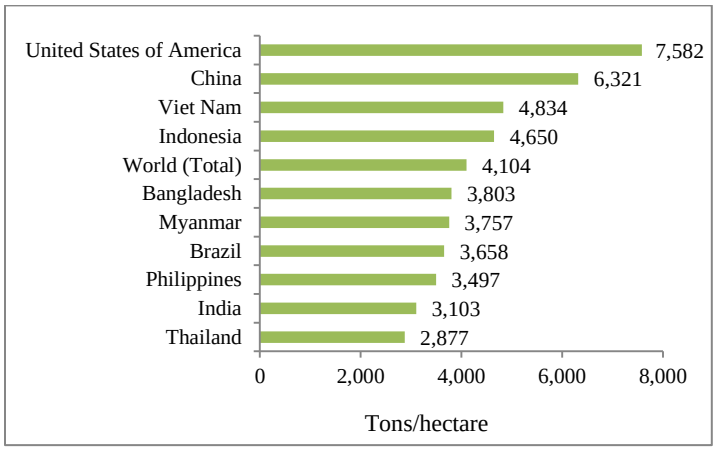
e = Estimate
Source: BAAC, USDA, The Department of Internal Trade, Ministry of Commerce and World Bank staff Calculation

Around a third of farming households have joined the 2011/2012 Pledging Program. Out of the 3.6 million rice farming households in Thailand, data from the BAAC shows that 1.3 million households have joined the 2011/2012 Paddy Pledging Program. Of those who join the Program, the majority are small and medium-size farmers[27]. They have benefitted from the Program as the price that they receive under the Paddy Pledging Program is higher than that of market prices and above their production and transportation cost. However the poorest farmers in Thailand are subsistence farmers who do not have excess rice to sell and therefore do not benefit from this Program.

Continued subsidies to rice production may be slowing a needed transformation of Thai agriculture sector. As a result of the excessive land use, Thailand's rice productivity is currently one of the lowest among major rice producers in the world (see Figure 17). The high paddy prices have incentivized farmers to not only increase cultivation areas, but also to increase the number of crops each year, especially in the Central plains. This is done by producing paddy which is of lower quality and has a shorter harvest time. However, these losses can be limited and the program can be better targeted by subsidizing production rather than the sale and limit amount of pledged paddy by each household.

[27] According to the BAAC's definition, small farming households are those with incomes of no more than Bt100,000 per year. Large farming households are those with incomes of more than Bt500, 000. Of the 1.3 million households that participate in the Program, only a little more than 10,000 household are large households.

Figure 17. Average Paddy Yields of Selected Countries (2000-2010)



Source : FAO and World Bank Staff Calculation

A better program to help raise incomes and productivity of poor farmers would be ones that are targeted. Targeted programs are also useful in addressing specific issues of production and marketing facing poor farmers. This would require data and information to be systematically collected in order to accurately identify farmers, their income, and their production levels. Targeted programs could then be established which would cost less than programs that provide assistance and transfers to all farmers, for example, through cash transfers. Poor farmers could also benefit from social programs that target the poor in general such as the school feeding program, health care, and transfers to the elderly. These programs must make sure that poor farmers have access to them.

Measures should also be put in place to help reduce production costs, raise productivity, and mitigate losses from disasters for farmers. The cost of rice farming mostly comprises labor and land costs (rental fee) since most farmers do not own the land themselves; therefore, a land reform and effective subsidy for high quality seed is needed. The Government's budget for the agricultural sector which is currently around 5-6 percent of annual government budget should be revised and allocated in compliance with the Thai Rice Master Strategy in order to enhance both quantity and quality of Thai Rice. This could be achieved by supporting infrastructure, research and development to increase yield per hectare, natural disaster risk mitigation and prevention, logistics development, and international marketing development. Mechanisms to mitigate the risks that some or all of the outputs are destroyed (by disasters) could include crop insurance for example, to which farmers pay a small premium each year. This will help farmers mitigate the risks from losses due to disasters and also reduce the costs of Government payouts to farmers in times of disasters. For poorer farmer, the Government could partially subsidize the insurance premium, as needed.

2.2 Minimum Wage in Thailand: An Evaluation of the Impacts on Wage Workers

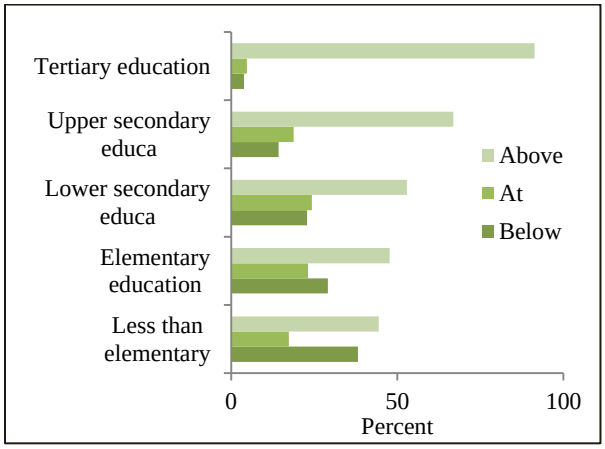
Minimum wages in Thailand were increased by 40 percent across the country on April 1, 2012 and will be raised to Bt300 per day nation-wide on January 1, 2013. As part of the current government policy, starting from April 1, 2012, minimum wage rates across the country have been increased by 40 percent from 2011 levels to a national average of 250 Thai baht – 7 provinces including Bangkok and surrounding provinces as well as Phuket receive a minimum wage of 300 baht, while those of the other provinces were increased by 40 percent. From January 1, 2013, minimum wages will be raised to Bt300 per day nation-wide – an average 22.4 percent increase from 2012 level. The increase will be the largest minimum wage increase in the history of the Thai labor market, which has traditionally increased at an average of 2.5 percent per year.

Minimum wage increases prior to 2012 were small and below inflation rates, which translated into a fall in real minimum wages over time. Figure 18 shows that real minimum wages in all regions of Thailand with an exception of Bangkok have been trending downwards since 1998. The differences in minimum wages among the different provinces in the Central part of Thailand and in the South did not narrow over time, while those in the North and Northeast slightly narrowed. The recent policy to significantly increase minimum wage to a uniform rate of Bt300 per day is intended to address these issues as well as to raise the incomes of minimum wage workers. Currently, around 5.4 million workers (14 percent of labor force), mostly women and those with lower levels of education (see Figure 19), are earning below Bt300 per day.

Figure 18. Evolution of Real Minimum Wage Level by Region

Note: Narrower bands signify that the difference between minimum wage among the provinces have narrowed
Source: Ministry of Labor and WB staff calculations

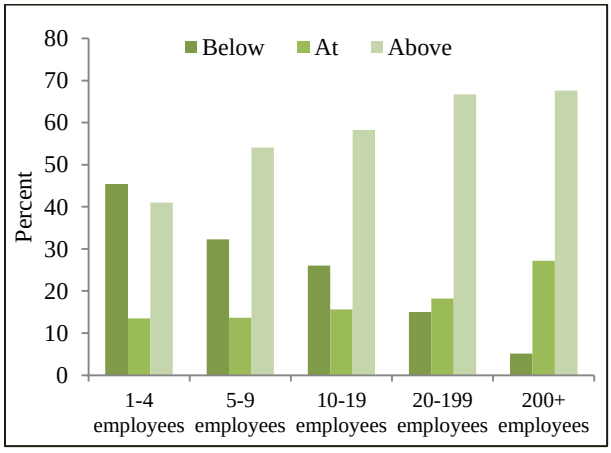
Figure 19. Characteristics of Minimum Wage Workers by Educational Level, Average 2001-2011



Note: "At minimum wage" is defined as those for whom the difference between the actual wage and the minimum wage does not exceed 5 percent

Source: Socio-eocnomic Survey and Labor Force Survey

Figure 20. Characteristics of Minimum Wage Workers by Firm Size, Average 2001-2011



Note: "At minimum wage" is defined as those for whom the difference between the actual wage and the minimum wage does not exceed 5 percent

Source: Socio-eocnomic Survey

Gradual minimum wage increases in the past had positive impacts on wages across all groups of workers and modest impact on poverty alleviation. A forthcoming World Bank study[28] on the impacts of minimum wage increases in Thailand during the period 2001-2011 shows that as real daily minimum wage increased by 1 percent, a worker's real daily wage increased by 0.29 percent on average. Not only did the wages of low skilled workers increased as minimum wages rose, the wages of workers with tertiary education also rose by a similar magnitude. However, the study finds that changes in minimum wages had a limited impact on poverty, but that consumption per capita among the poor increased in provinces where minimum wages grew faster.

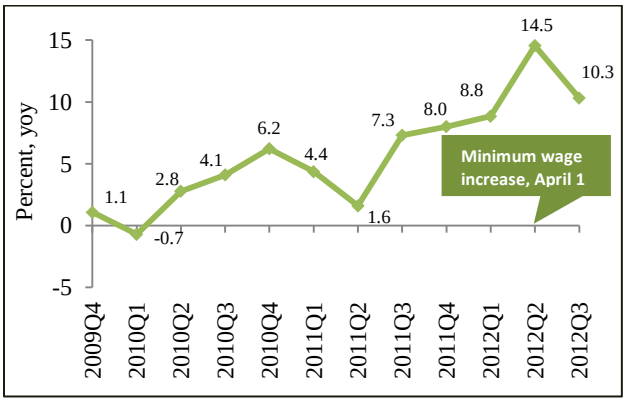
Employers reacted to minimum wage increases in the past by adjusting employment and hours. Analysis of impact of minimum wage increase from 2001-2011 shows that while employment did not change among male prime-aged workers (aged 25-55), employment opportunities for women, elderly men and less educated workers declined in provinces where the minimum wages grew faster. For these groups of workers, a 10 percent increase in the real minimum wage was associated with a fall in the probability of employment of about 1 percentage-point. A 10 percent increase in the minimum wage was associated with some 0.6 additional hours of work per week among men, and this change was specially concentrated among prime-aged men. In summary, employers reacted to minimum wage increases by demanding longer hours of work from their core workers, while shedding some employment within the non-core ranks.

However, impacts of the significantly large increase of the minimum wage to 300 baht nation-wide could differ than those of small increases in the past. During the last decade, an increase in nominal minimum wage was only 2.5 percent per annum on average. On the other hand, the increase to Bt300 per day represents more than a 40 percent hike in each province compared to 2011 levels. Therefore, using

[28] *Thailand: Employment, Wage, and Distributional Impacts*, World Bank (forthcoming)

past data and behavioral changes to estimate the future effect may not provide accurate predictions. Moreover, there could be an increase in the number of informal workers as non-compliance, which has been high especially among smaller firms, (see Figure 20) could further rise. With the 40 percent increase in minimum wage on April 1, 2012 average wages in the country in the second and third quarters of 2012 rose by 14.5 and 10.3 percent year-on-year, respectively; these are the largest increases which have occurred in the recent past (see
Figure 21). While this can be partly attributed to the rise in minimum wages, it also reflects a tight labor market for skilled and semi-skilled workers. However, despite in the rise in wages, unemployment did not rise, but underemployment (number of workers who work less than 35 hours per week and seeking to work more) rose by 16.4 percent year-on-year in the third quarter of 2012. This is a reflection of a tight labor market whereby employers adjust to the higher wage and the dampened business activities by not firing workers but by reducing the number of hours demanded from each worker.

Figure 21. Real Wage Change, 2009-2012



Source : BoT, Ministry of Labor, and World Bank Staff Calculation

The government should be well prepared in order to prevent negative consequences for both firms and workers from this significant change. This can be achieved by identifying vulnerable subsectors and firms, especially SMEs and workers which can be focused on female, elderly and less educated groups. Other policies which could be done in parallel include strengthening unemployment benefit schemes along with Active Labor Market Policies (ALMP) and workers' skill development. By setting up the right objectives with the right tools, the negative impacts of the increase in minimum wages can be alleviated. Finally, the major lessons learnt from other developing countries is that small, regular and predictable increase in minimum wage which directly based upon the economic factors will be less likely to have negative effects on workers and businesses.

3. TOWARDS SUSTAINABLE AND INCLUSIVE GROWTH IN THAILAND

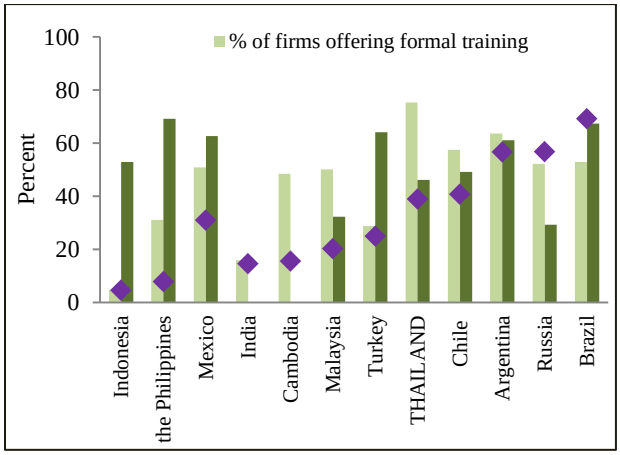
3.1 Skills for Growth and Equity in Thailand[29]

Enhancing workforce skills and increasing innovation is part of Thailand's strategy to move towards a more knowledge-intensive, creative economy, which will serve to increase incomes and reduce poverty and inequality. International evidence points to a strong correlation between workplace skills and innovation, productivity, and growth. Moreover, skills are increasingly shown to have a major influence on income distribution and social mobility, not only in Thailand but across East Asia.

However, Thailand's quest for global competitiveness for its education and training system is an unfinished agenda. While an export-led development strategy will enhance the Thai Economy's value chain, the absence of the large number of skilled workers needed by these industries is a major constraint on growth. As shown in Figure 22, some 38.8 percent of firms cite skills and education of the available workforce as the most serious obstacle to doing business in Thailand. To cope with these constraints, 75 percent of the Thai firms in the survey provide active training to their employees. This includes both in-house training and outside training mostly undertaken by non-academic and government institutions. Together, these observations demonstrate how a lack of skilled workers has raised costs for firms and limited their ability to enhance productivity.

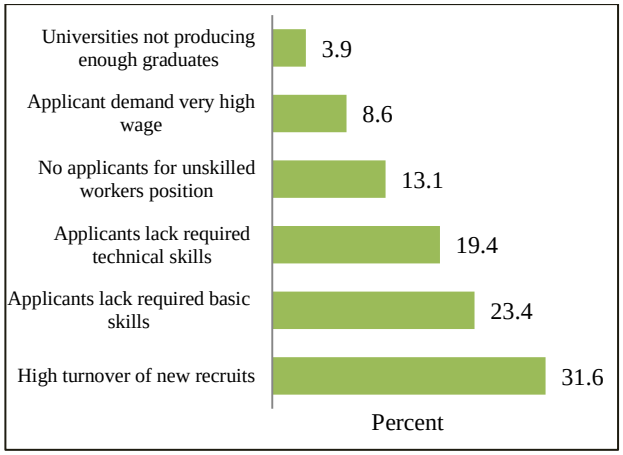
Firms are primarily constrained by the high turnover of newly recruited staff and lack of basic and technical skills, rather than inadequate numbers of university graduates (Figure 23). In particular, weaknesses in information technology, English language, creative thinking and behavioral skills are very severe compared to other basic academic skills. This contributes to the prevalence of job vacancies and the longer periods required to fill these vacancies.

Figure 22. Firms in Thailand perceive skills shortages and engage in training provision



Source: World Bank's Enterprise Surveys 2006 - 2010

Figure 23. Thai Firms Reporting a Given Problem as the Main Cause of Vacancies

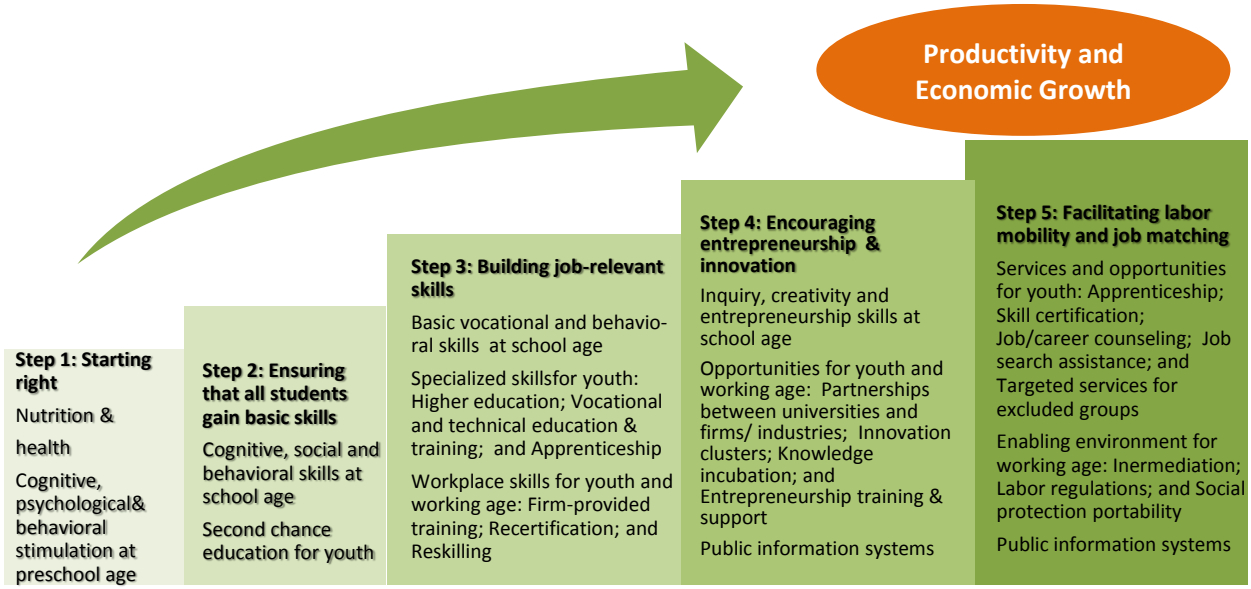


Note: Survey on firms in 9 manufacturing industries
Source: Thailand Productivity and Investment Climate Survey (2007)

[29] This section is adapted from *Leading with Ideas: Skills for Growth and Equity in Thailand*, World Bank (2012)

The StEP (Skill toward Employment and Productivity) approach, which provides a framework for skills development throughout a person's life cycle from early childhood to post schooling, has helped to identify key bottle necks at each stage of skill development in Thailand and possible solutions. The StEP approach is summarized in Figure 24.

Figure 24. StEP: Developing Skills toward Employment and Productivity in the Life Cycle



Source: Adapted from Stepping up for More Jobs and Higher Productivity, World Bank (2010)

Step 1: Recognizing the importance of skills development starting from early childhood and employing active policy interventions can help to address these challenges

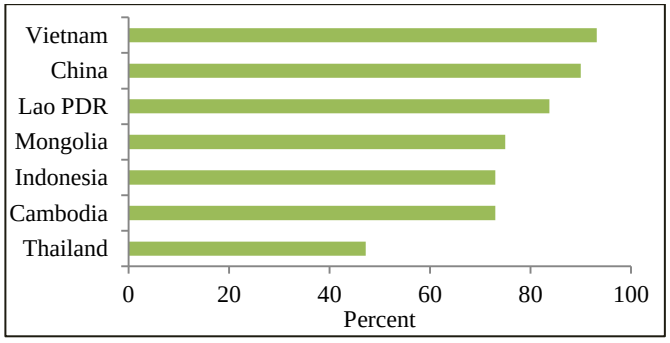
Thailand is comparatively advanced in laying the foundation for skills development from early childhood, not only in reducing malnutrition but also in promoting maternal and child health and pre-primary education. However, Thailand faces a serious problem in the form of iodine deficiency, which erodes the intellectual capacity of children and negatively affects their learning and productivity later in life. Based on the Multiple Indicator Cluster Survey (MICS), only 47.2 percent of Thai households consume salt with adequate levels of Iodine, with a noticeably lower ratio of 23 percent in Thailand's Northeastern region. The severity of this problem is emphasized in Figure 25 which compares iodized salt use in Thailand with other countries within the region.

Iodine deficiency has been reducing the intellectual capacity of children in Thailand and negatively affects their learning ability and productivity later in life. A survey conducted by the Ministry of Public Health in 2009 showed that the average intelligence quotient (IQ) score among Thai children is 91, which is low by international standards.[30] Among children in the poor areas, such as Thailand's North

[30] In 2004, a similar survey in Thailand found child IQ scores even lower than in 2009. Internationally, the average child IQ score is 90-110 (104 in developed countries), correlated with economic development and disease prevention among others.

and Northeast regions, children' average IQ scores are about 85.[31] Recent studies indicate that lower than expected IQ scores among children in Thailand may be associated with iodine deficiency.[32] For instance, the neonatal thyroid stimulating hormones screening program, which covered 94 per cent of live births in Thailand in 2007-2008, found 20 per cent of newborns in Thailand to be iodine deficient and at risk of brain damage and IQ loss. Internationally, the average IQ of an iodine deficient population is estimated to be 10 to 15 points lower than that of a population with adequate iodine.

Figure 25. Percentage of Households Using Iodized Salt



Source: UNICEF 2010 and MICS 2006

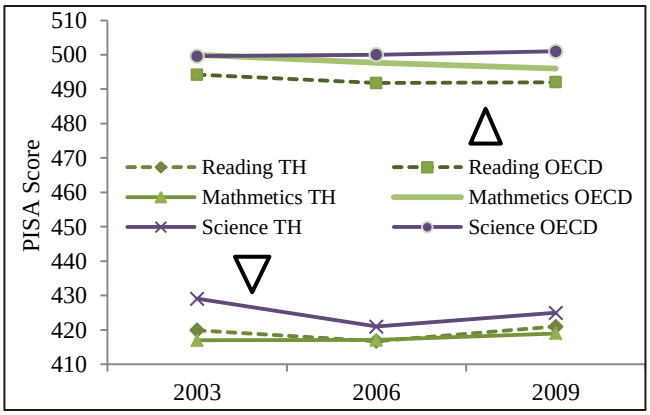
In order to support early childhood development, there must be strict enforcement of salt iodization. International experience suggests that an appropriate legal and regulatory framework, enforcement, and a public awareness campaign are necessary to control iodine deficiency disorders. Universal salt iodization in Thailand has not yet been successful in spite of the National Iodine Committee of Thailand which was founded in 1991, even though the cost of salt iodization is as low as Bt1.3per person per year. However, there are some positive signs, as the Ministry of Public Health has adopted regulations on mandatory iodization since September 2010, following a longstanding ruling enacted in 1994. This regulation was amended to require strict enforcement with heavy fines for non-compliance starting in June 2012.

Step 2: Ensuring that all students gain basic skills

Thailand has achieved nearly universal coverage in basic education with higher rates of lower secondary school admission and a decrease in the school dropout rate. Ensuring that children attain a quality basic education, however, remains a challenge, as illustrated by relatively weak student test performance. Based upon the 2011 O-NET tests, the pass rates for grade 6 students in Thai language and mathematics are 31 and 35 percent respectively. Moreover, Figure 26 shows that the average score for Thai students under the Program for International Student Assessment (PISA) is far lower than OECD countries across all disciplines. This challenge may reflect governance weaknesses and capacity constraints in student support programs and possibly teachers' training constraints despite several attempts and pilot projects established during the National Education Plan (2002-2016).

[31] In 2004, Ramathibodi Hospital conducted nationwide survey involving randomized sampling of 9,488 children aged one to 18 years, using the "Test of Non-Verbal Intelligence, 3rd Edition" methodology.
[32] See, for instance ICCIDD (2009) and UNICEF (2010)

Figure 26. Average OECD and Thailand's PISA scores, 2003-2009



Source: PISA 2003 - 2009 Results (OECD database)

Figure 27. Tertiary Enrollment by Fields of Education, 2007 and 2010

Source: Office of Higher Education, Ministry of Education

The main intervention under Step 2 is supporting children according to their needs, investing in teachers, and raising accountability of schools for their education outcomes. The pedagogy, curriculum, and special support programs may need to be strengthened, whilst reflecting the diversity of students and their needs. For example, children in poor and disadvantaged communities and households, or those in conflict areas may need special support programs such as have been successfully applied in Finland and the Philippines. In addition, the teacher training system and resource provision may need strengthening in order to complement pedagogy and curriculum reforms by first focusing on strengthening teaching in key subjects like math, science, english, and IT. This can be done by reallocating resources from oversubscribed disciplines (social science, business and law) to support pre-service teachers' training, with some incentives to attract top performers to the teaching profession. Analyzing the education outcomes of schools is critical to understanding the bottle necks to quality improvements in the school and to raising the accountability of school management and teachers for those outcomes. Educational outcomes at the school level are now available for several years. These together with the existing data on school personnel, student size, and spending can be used to undertake such an analysis so as to address the bottlenecks. Accountability mechanism and systems also need to be put in place to strengthen the accountability of schools for their outcomes. Together with the understanding of the local context and environment in which each school is in, these could help improve the education outcomes at the school level.

Step 3: Building job-relevant skills is a key challenge for higher education

The coverage of formal education at the upper secondary and tertiary level in Thailand is wide and it is complemented by an extensive non-formal training system for job related skills. However, structural imbalances exist, including low enrollment in science and technology. These imbalances may emerge from the existing labor market information constraints and incentive distortions as higher education enrollment is driven more by social demand than economic demand. Figure 27 shows that the disciplines which are related to innovation and productivity, and yield higher returns (such as science, engineering, and health science) are overlooked by those who enroll in tertiary education. Moreover, tertiary enrollments are strongly influenced by the unequal quality of earlier stages of education, the concentration of higher education institutions in Bangkok, and other socio-economic factors which seem to exacerbate inequality, including parental education background and income and ethnicity.

Overcoming institutional fragmentation, adopting performance-oriented financing, and strengthening accountability are all key factors for the success of Step 3. First, the education system's administration may require a detailed review and subsequent simplification. Currently, there are five independent offices with relatively powerful and overlapping functions in terms of planning, financing, monitoring and evaluation. In the training system, greater coordination may be necessary amongst the diverse community of skills providers. Apart from cooperation between Ministry of Education, Ministry of Labor and other government and private entities, the establishment of national and regional training authorities represents another option which has been successful in many countries. Secondly, Thailand can continue to pilot and evaluate financing mechanisms which support better performance, such as performance-based budgeting, vouchers, and training funds. Thirdly, as in Step 2, strengthening accountability for the quality and relevance of skills provided throughout the education and training systems is important. Quality assessments may need to be used more effectively to create opportunities for performance improvements. For training system, curriculum reforms can also offer greater accountability by the introduction of a modular competency-based training (CBT) curriculum which has proved successful in several countries.

Step 4: Encouraging entrepreneurship and innovation

Another major challenge which Thailand faces is low level of innovation. This is reflected first in the number of patents filed per capita, which is well below the international average for Thailand's income group, as well as in the quality of tertiary education which is also below average. Initiatives to connect teaching and research and to bring higher education institutions closer to employers have been underway, but are not yet delivering desired results. Key disconnects may arise from low information in higher education institutions about the research needs and entrepreneurship opportunities in the market, weak incentives and capacity in firms to invest in research and innovation, and insufficient size and capacity of the faculty to both teach and research.

Linking higher education institutions and training centers with industry can bridge the gap created by these disconnects. These collaborations could take several forms. Higher education institutions can provide for both short-term training of workers and entrepreneurship training. They can support incubators, extension and product development services, technology licensing offices and spin-offs to commercialize research and transfer knowledge and technology. Higher education institutions and training centers can also appoint industrial practitioners as their staff. In Thailand, the Commission for Higher Education has already launched a number of initiatives with similar objectives including the higher education development network and the cooperative research network project. Likewise, links between industry and training centers could be strengthened by having employer advisory bodies guide their training activities or provide assistance to set occupational standards, share technology and expectations for skilled workers. All of these interventions can significantly improve both skilled labors' supply and demand.

Step 5: Facilitating labor mobility and job matching

Market institutions for quality assurance, licensing, regulation, accreditation, employment services, and coordination among skills providers and users are emerging in Thailand. Their current weaknesses may include insufficient information on study and career choices, varying levels of competency, poor mechanisms for job searches, and varying quality of skills and skills providers. These weaknesses may also be caused by limited incentives and the limited capacity of skill providers to share information and coordinate the provision of skills. There may also be inadequate capacity for quality assurance, licensing enforcement, regulation, and accreditation. Moreover, market institutions are perceived as public goods, the government must play a vital role by monitoring the labor market developments and formulating appropriate policies and regulations.

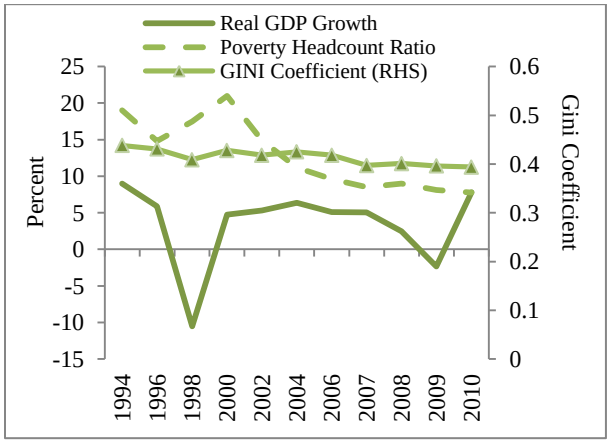
Providing quality assurance is one possible approach to help facilitate labor mobility and job matching. Public investment in labor market information which can be made available to all stakeholders is necessary to improve the link between skills and employment, and job matching**.** National qualification frameworks in Thailand, which can be introduced for higher and vocational education, can further build on the existing testing and certification systems, and connect to a regional framework to promote labor mobility. These national qualification frameworks could be put into practice by coordinating stakeholders and defining qualifications, setting competency standards, testing individuals, and certifying skills. Furthermore, a stronger accreditation system would also help reduce varying quality among skills providers.

By following the five approaches detailed here, Thailand could make significant progress in overcoming the issue of workplace skills shortages. Doing so would leverage the achievement of country's strategy toward sustainable and inclusive growth, competitiveness and equity. It would also allow Thailand to transition from a low wage and low skilled workforce to a better remunerated and higher skilled one.

3.2 Improving Lives of Poor and Vulnerable through Targeting and Universal Approaches

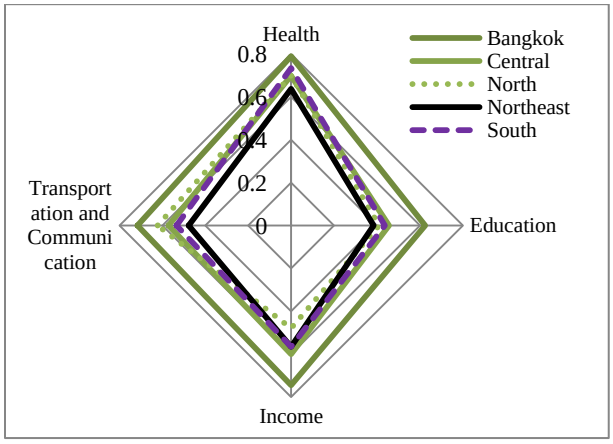
Over the past decade, Thailand has successfully implemented universal social protection policies such as universal healthcare coverage and the universal social pension scheme[33]. However, challenges still remain in providing assistance to the country's poor and vulnerable population. Despite Thailand's average real GDP growth of around 4 percent per annum from 1994-2010, Thailand's persistent high income-inequality and regional economic and human development disparities (partly driven by biases in public resource allocation) have impeded an even distribution of the fruits of growth (see Figure 28 and Figure 29).

Figure 28. Real GDP Growth, Poverty Rate, and GINI Coefficient, 1994-2010



Source: NESDB

Figure 29. Human Opportunities and Development Index, 2009



Note: Higher index values denotes better outcomes
Source: UNDP (2009)

[33]The "Universal tax financed 500 baht scheme" had been rolled out since 2009, with increased benefits by age group since 2012.

One possible tool for governments to help improve the lives of the poor and vulnerable populations is social targeting. There are a variety of rationales for social targeting. While universal policies hold intrinsic appeal based on their simplicity and perceived "fairness", the neediest, discriminated and marginal groups may have difficulty accessing universally provided programs. Additionally, scarce resources may make some policies difficult to apply universally. If the objective is to protect the poor and vulnerable, policymakers may choose to target programs such that they reach those with greatest need, given resource constraints. Concentrating the resources on the low income groups, including the poor, will likely generate a greater return as this group suffers from the largest gap in education, nutrition and health.

Thailand could pursue a coordinated approach between universal and targeted social policy to protect the vulnerable and ensure quality public service delivery. An example of a country that has done this successfully is Brazil. Brazil managed to reduce regional disparities in public spending and in development outcomes through a combination of universal and targeted programs. On education, for example, a combination of targeted resources allocation to poorest municipalities alongside universal coverage for regular provision of services allowed Brazil to significantly reduce education inequalities between 1988 and 2000, and reaching an enrollment rate of more than 90 percent at primary schools. When authorities noticed that financial constraints affected school participation of many children, Brazil launched cash transfer policies targeted to the poor (conditional cash transfers: Bolsa Escola/Bolsa Familia) to close the income gap, and to improve human capital of children.

In East Asia, Indonesia and the Philippines have applied social targeting programs to good effect. In the Philippines, the use of the National Household Targeting System for Poverty Reduction (NHTS-PR) database resulted in a government health insurance subsidy program (PhilHealth - Philippine Health Insurance Corporation coverage was expanded and benefits were provided to the poor)[34] and social pensions to poor people. In addition, this database is helping authorities operate a Conditional Cash Transfer program, the Pantawid Pamilyang Pilipino Program (4Ps) — which aims to keep kids in school, feed families, mitigate poverty and improve human capital in children — which reaches about three million families with 6.5 million children aged 0-14 years old in the country.[35] In Indonesia, the Government is pursuing protection of the most vulnerable population through targeted social assistance, alongside its social insurance framework strategy which envisages universal health insurance, universal worker accident insurance, and universal retirement pension coverage by 2015. Moreover, Indonesia is developing a system to identify the poorest households based on scientific methods and unified technical criteria to improve the accuracy of targeting systems.

While social targeting can be a powerful tool, it is important to recognize that this system is not without its challenges – one such challenge is targeting errors. Errors of targeting can be related to the fact that some eligible population is not selected (errors of exclusion) and some ineligible ones are selected for participation (errors of inclusion). However, these errors need not impair the overall effectiveness of the program. Moreover, good design of the implementation arrangements and control over program costs can minimize errors – for example, using mixed targeting methods are more likely to generate lower inclusion and exclusion errors. In order to maximize inclusion of the poor, implementation coordination across different programs, transparency and consistency must be key design features.

[34] Mexico uses similar approach on the provision of Seguro Popular (health insurance) that provides free insurance to poor families (in Oportunidades database) and subsidize insurance for informal workers.

[35] Over three years, evaluations are showing that CCT program is keeping children in school, increasing school enrollment and health utilization. In addition, food consumption increases, generating economic stimulus in poorest areas, while pushing government to increase supply of services quality.

Targeted delivery of resources to particular groups is fastest and most effective when the correct population is systemically identified through a good registration system. The recent economic crisis demonstrated that it is not easy to rapidly identify and target specific groups that are vulnerable to the crisis. Natural disasters can further complicate identification as families can lose all their belongings. One way to address this challenge is by investing in a coordinated registration system across different programs. The success of unique administrative registry systems in Brazil (through Cadúnico), Colombia (through SISBEN), Georgia (through United database of socially unprotected families), Mexico (through Oportunidades database) and the Philippines (through the National Household Targeting System for Poverty Reduction - NHTS-PR) suggests that such registries can be used to support multiple programs, such as cash transfers, social pensions, social security and health insurance to poor families.

Thailand could build on the success of its universal programs by employing targeted social protection alongside existing programs. This process could be achieved by establishing a national register of households that are at risk from poverty and human capital loss. Currently, several government entities in Thailand have their own database of beneficiaries. The Ministry of Agriculture and Cooperatives has its own registration system for poor farmers, while the Ministry of Social Development and Human Security has its own registration system for the elderly. The National Statistics Office has data on poverty and the poor by province. As such, a unified registration system could be established at low cost by consolidating, coordinating, and building upon existing databases across relevant agencies. To minimize inclusion and exclusion errors, careful consideration should be given to program design and methodology, such that the targeting process is transparent and protected against interference. A unified registration system will allow the Royal Thai Government to enhance the efficacy of the existing and future social protection programs and to develop appropriate targeting methods. In particular, establishing such a system would help prioritize the allocation of public resources across different social protection instruments and help protect those Thai citizens who are at greatest risk of destitution and human capital loss, and who are vulnerable to natural disasters and shocks. Effective targeting is an achievable goal and will help build on the successes of existing universal programs.

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