

Five Things to Know About Thailand's Digital Wallet

The Thai government is set to fulfil **election campaign promise** of **THB10k/person (~US\$278) to relief cost of living pressures**. This will be credited to their digital wallets, and user registration starts 1st August. The digital credit though comes with *spending conditions*. Spending may only be; i) *via in-person transactions*; ii) *in (defined) district of residence of recipients*, and; iii) *on specified goods* (not services).

1. Opening Wallets – Why is the size of the fiscal transfer a concern?

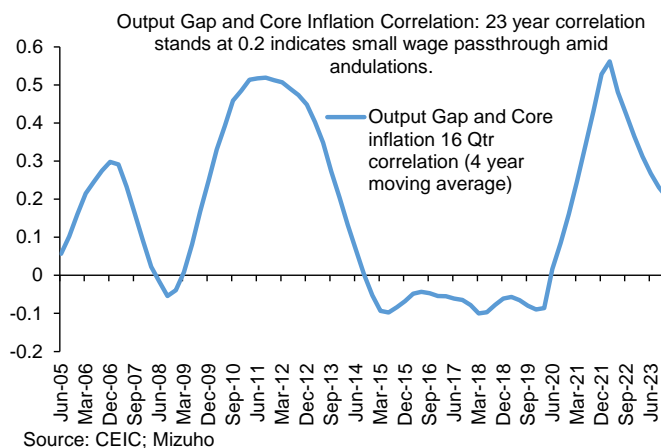
- The **key question of this scheme has undoubtedly been about the source of financing**.
- From 500bn baht, the size of required financing has been reduced to 450bn baht (2.7% of GDP) after tightening income criterion and applying estimates based on the **estimated percentage of total applicants out of the entire eligible pool**. The fiscal concerns have not gone unnoticed with the public debt ceiling at about **64% of GDP** as of May 2024.
- Currently, the funding for the digital wallet top-up initiative is **spread across two fiscal years' budget**: 165bn baht from Budget FY24 and \$284bn baht from Budget FY 2025. In FY 2024, 122bn will come from a supplementary budget bill set to be passed today while the remainder stems from spending cuts in other areas. As for FY 2025, the **planned budget deficit was raised by 153bn** baht with the remainder also being re-allocated from other areas.
- The **current debt issuance plan in 2024 reportedly stands at about 2.4 trillion baht**, the additional borrowing due to the **digital wallet would require a 10% increase in debt supply** (if financed upfront).
- Whether investors will **open their wallet for upsized issuances remains to be seen**. At the very least, it is not inconceivable that higher yields will be demanded to compensate for wider deficits/larger debt.
- Fiscal deterioration may jeopardize **Thailand's credit ratings in 2025**. A **lowering of ratings outlook** could be an initial warning of fiscal risk, even if a breach of the 70% debt ceiling is averted. This may paint an unflattering contrast against the ongoing **fiscal consolidation amongst regional peers**.

2. Unintuitive Impairment – What is the likely economic impact?

- Despite the huge transfer, the **inflation and growth impact may be rather subdued** given the design of this scheme and underlying economic transmission mechanisms.
- **On inflation**, despite the **2.7% of GDP fiscal transfer**, the **impact on headline inflation may peak at just 1% point** over a 12-month period over the 'no digital wallet' baseline.
- Similarly, on **growth**, outcomes may be muted as **multiplier effects remain low, with the GDP impact** likely to range from 1-1.5% points above the 'no digital wallet' baseline.
- First, with households being unable to use the additional cash for services, the multiplier effects are likely to be muted considering that the services sector is more labour intensive compared to the goods retail sector. With most inward looking food and beverage sector in the economy having has a **domestic input share to output of just around 0.7**, the exclusion of services related F&B sub-sectors imply that multipliers ought to be scaled down significantly.
- Second, given exclusion on purchase of fuel, alcohol and tobacco, utilities payments, tuition fees and electronics goods, the **additional spending is estimated to pertain to about 42% of the CPI basket** consisting of **food** and beverages and others such as **apparel** and footwear and household goods.
- In turn, given that the extent of **surge in demand for necessities such as food is unlikely to be outsized**, the **increase in prices may be more restrained and the additional savings may be diverted** to pay down debt instead, rather than generate additional spending. Nonetheless, price

gouging risks remain.

- If savings are not diverted to debt repayments, they may be skewed towards discretionary consumer items.
- Consequently, there is a tendency for these consumer goods to be imported even if they are sold at mom and pop stores. **The import leakage implies scaled down growth and inflation multipliers.**
- Lastly, within general equilibrium framework, **historical passthrough of aggregate demand shocks to inflation have been relatively muted** given a flat Philipps curve (See RHS Chart).
- On balance, despite being muted compared to the size of the transfer, the **inflationary risks remain non-trivial with the potential to cloud BoT policy trajectory by generating uncertainty of second round effects and household debt and public stability.**



3. Checks and Challenges – Delays Not Derailed

- The implementation of the digital wallet has already been **delayed several times over the course of this year amid checks from Council of State and National Anti-Corruption Commission (NACC).**
- Given that **these bodies remain advisory in nature** and the government’s refinements to **confine the source of funding to their annual budgets** rather than enact special borrowing means, it remains technically **permissible** for the **government to proceed with** the digital wallet scheme in Q4.
- Even if legal challenges appear to challenge PM Srettha’s position, the Pheu Thai party will remain in power and as such the digital wallet scheme appears well on course to be implemented, barring technology related **technical obstacles of implementing this nationwide scheme.**

4. Fiscal and Monetary Dissonance – The Broader Concern

- Discussions over the digital wallet implementation has spilled over to **multiple public displays of dissonance between the government and the BoT since last year.**
- At the November 2023 meeting of the Digital Wallet Committee, the **BoT Governor abstained from the decision making** on grounds of **insufficient reasoning.**
- Calls by the government to lower interest rates also conflict with the BoT’s stance to maintain neutral rates given their differing assumptions and motivations. BoT Governor Sethaput has continuously characterised the economy as **being “not in a crisis”** and stated publicly that short term stimulus will not solve structural issues restraining growth.
- Nonetheless, the **BoT also remains an advisory body** to the administration in terms of fiscal policy.

5. THB Pains

- As we have previously alluded to, episodes of **conflicts** between central banks and government are more often than not **detrimental to currency.**
- **THB pains has been especially acute** with a 5.3% YTD depreciation against the USD, underperforming the likes of the INR, MYR and SGD. The depreciation despite a backdrop of tourist arrivals reaching almost 80% of pre-Covid levels is a stark one.
- At this juncture, it is not hard to envisage that **ensuing pain from financial markets as fiscal sustainability risks rises.** FX and fiscal pains conspiring with meagre growth returns imply that the **risk reward ratios are rather unfavourable heading into 2025.**
- **Barring sharp extreme financial market pains,** the entrenched political will to proceed will likely see the digital wallet plan to its implementation. **Perversely, the backdrop of Fed pivot bets may**

instead allow for the scheme to come to fruition with the costs being tabulated only down the road.

	2024		2025			
		Q3	Q4	Q1	Q2	Q3
	BoT Policy Rate	2.50%	2.50%	2.50%	2.25%	2.00%
Thailand	USD/THB	34.3 - 37.2 (35.4)	34.2 - 37.6 (36.2)	34.5 - 37.8 (35.5)	34.2 - 36.6 (35.2)	34.0 - 36.4 (35.0)

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