RSIS S. RAJARATNAM SCHOOL OF INTERNATIONAL STUDIES
Nanyang Technological University, Singapore

RSIS COMMENTARY

www.rsis.edu.sg No. 155 – 15 October 2024

RSIS Commentary is a platform to provide timely and, where appropriate, policy-relevant commentary and analysis of topical and contemporary issues. The authors' views are their own and do not represent the official position of the S. Rajaratnam School of International Studies (RSIS), NTU. These commentaries may be reproduced with prior permission from RSIS and due credit to the author(s) and RSIS. Please email to Editor RSIS Commentary at RSISPublications@ntu.edu.sg.

Thailand's "Digital Wallet" Scheme

By Min Ye Paing Hein

SYNOPSIS

The Thai government recently launched the first phase of its "digital wallet" scheme, an economic stimulus package designed to spark economic growth while addressing widening inequality. Although expected to provide some propitious effects in the short term, it also presents some trade-offs for long-term economic growth.

COMMENTARY

In its original "digital wallet" scheme, a stimulus package to spark economic growth, the Thai government was to make a one-time transfer of 10,000 baht (US$302) – all of it in the form of digital money – to each of 50 million people at and over the age of 16 with an annual income of less than 840,000 baht (US$25,300), and savings of less than 500,000 baht (US$15,000). Although the initial budget for the scheme was set at 500 billion baht (US$15.0 billion), the government later revised it downwards to 450 billion baht (US$13.5 billion), aiming to cover 45 million beneficiaries.

The payments were initially conceived as utility tokens – a stepping stone to the Central Bank Digital Currency – to pave the way for a new digital payment infrastructure and to promote financial inclusion for Thais who were unbanked or underbanked. The initial design of the scheme included restrictions on where the digital currency could be used (within a 4-kilometre radius of the recipient's residence), when it could be used (within six months) and with whom it could be used (local shops and businesses).

To prevent frivolous spending, the initial scheme did not allow its use for the purchase of 18 items and services, including alcohol, tobacco, cannabis, kratom products, cash and souvenir vouchers, diamonds, gems, electrical appliances, electronic equipment, fuel oil, gold, lotteries, natural gas, and online products.

When the digital wallet scheme opened for registration from 1 August to 15 September 2024 via an app developed for the purpose, 36 million eligible beneficiaries signed up, which was short of the target of 45 million registrations.

When the new government headed by Prime Minister Paetongtarn Shinawatra came to power on 6 September 2024, it modified the scheme. In the first implementation phase, 14.55 million citizens, comprising 12.4 million welfare card holders and 2.15 million people with disabilities, would receive 10,000 baht in cash.

The funding for the first phase is drawn from two sources: 122 billion baht (US$3.67 billion) from the 2024 supplementary budget and 23 billion baht (US$691.5 million) from the emergency budget for fiscal year 2024, totaling 145 billion baht (US$4.36 billion), or 0.8 per cent of the nominal GDP. On 1 October, the Ministry of Finance announced that it had secured 180 billion baht (US$5.41 billion) for the scheme's second phase, although there was no information on the funding sources.

The digital wallet scheme is shorn of its digital "gloss", at least in the first phase. Although the implementation encountered minor technical snags, the recipients received a direct deposit of 10,000 baht into their bank accounts.

Under the modified scheme, the beneficiaries can now spend the money as they see fit. According to a report by *Nikkei Asia* on 3 October 2024, many of them have used the cash for big purchases or debt payments. Although private consumption is expected to benefit from this scheme, the effect on private investment is unclear. It is also unclear whether digital currency or tokens will appear in the second phase of the implementation. Therefore, the scheme's contribution to the digital economy agenda and financial inclusion of the people is open to question.

Evaluating the Impact on the Economy

According to T*he Bangkok Post*, the Ministry of Finance estimated a multiplier effect of 2.6 to 2.7 in the best-case scenario. On the other hand, the World Bank's *Thailand Monthly Economic Monitor* presented a more conservative estimate, indicating an expected increase of 0.5 to 1.0 percentage points of GDP in the short term while exacting a fiscal cost of 2.7 per cent of GDP. A research note from the Bank of America provides an even lower estimate of a 0.4 per cent boost in the GDP. Similarly, Pipat Luengnaruemitchai, chief economist at KKP Research, proffers a similarly modest 0.4 to 0.7 per cent boost.

In funding this digital wallet scheme, other crucial public programmes or projects would receive less budgetary support from the government, thus limiting the potential multiplier effect from these public expenditures. Sirikanya Tansakun, an MP of the opposition People's Party, remarked that the budget allocated to the scheme would divert funds away from existing programmes such as crop price guarantee projects and a programme to provide liquidity support through low-interest loans for businesses that suffered from the COVID-19 pandemic.

The Bank of Thailand called for a better-designed and more modest programme focused on 15 million welfare cardholders. Citing the record growth of 7 per cent in private consumption, the governor Sethaput Suthiwartnarueput even questioned the need to stimulate consumption across the board. The World Bank also counselled for a better-designed and better-targeted programme focusing on vulnerable populations.

Moreover, the digital wallet scheme, as it stands, is no longer designed to provide support to small and medium enterprises (SMEs). In 2023, there were 3.1 million SMEs, accounting for 35 per cent of GDP. Therefore, the programme, in its current form, is not positioned to address the liquidity constraints Thai SMEs face in their recovery from the COVID-19 pandemic. There is also a trade-off in public spending between disbursing funds via a cash transfer programme to stimulate growth in the short term and investing in programmes such as public infrastructure and human capital to generate and sustain economic growth in the long term.

Regardless of the magnitude, the scheme's growth spurt is not expected to produce a durable effect on Thailand's economic growth in the long term. The ASEAN+3 Macroeconomic Research Office (AMRO) points to the protracted weakness of Thailand's manufacturing sector, as demonstrated in the contraction of manufacturing production for the past six quarters, as one of the major inhibiting factors in Thai economic growth.

Similarly, according to a report by the Office of the National Economic and Social Development Council (NESDC), both total and private investment are on a downswing, with total investment contracting for the third consecutive quarter by 6.2 per cent and private investment declining by 6.8 per cent in the second quarter of 2024. Without productivity-boosting measures and other measures to address structural issues in the economy, the scheme, at its best, would only present itself as a short-term relief measure.

In addition, although the current version of the scheme has unbundled itself from some of the innovative features of digital currency, some technical hiccups in implementing the most conventional cash transfer arrangement speak to daunting challenges in designing and implementing a more technically and operationally sophisticated programme with digital wallet tokens or with the Central Bank Digital Currency. A pilot programme or a sandbox approach to test both technical and non-technical problems is well-advised in designing and implementing such a programme in the future.

As early as October 2023, ninety-nine economists and professors of economics in the country had collectively issued a statement calling for the cancellation of the digital wallet scheme, citing budget limitations and fiscal deficits, unwarranted optimism about the multiplier effects, increasing public debt, and most importantly the low benefit/cost ratio. According to the World Bank, the fiscal cost of 2.7 per cent of GDP far outweighs the benefit from a growth boost of 0.5 to 1.0 per cent of GDP.

The digital wallet scheme may well be a costly way for the government to demonstrate its attractiveness, for it comes at a considerable cost to the budget.

Min Ye Paing Hein is a foreign expert/lecturer at Thammasat University, Thailand. He has also been a visiting scholar at SMERU Research Institute in Indonesia. He had previously served as the deputy minister in the Ministry of Planning, Finance and Industry (2019-2021) in Myanmar and as the Executive Director of the Myanmar

Development Institute from 2017 to 2019. Before that, he worked as an economist at the World Bank for over three years. He received his PhD from the University of Wisconsin-Madison.

S. Rajaratnam School of International Studies, NTU Singapore
Block S4, Level B3, 50 Nanyang Avenue, Singapore 639798