

## Why are reserves down and deficits up?

The Finance Ministry, as well as the government, still owes the public an answer as to why our treasury reserves have dropped. (Photo by Thanaphonchai Sriudon)

As Prime Minister Prayut Chan-o-cha and other cabinet ministers lined up to fend off criticism of the sharp drop in treasury reserves, none of them have provided an explanation as to why budget deficits have increasing during the past few years.

The low level of treasury reserves has caused concern over the state's fiscal health. It is understandable for them to defend the nation's fiscal management by saying that a high level of treasury reserves comes at the expense of the interest burden, as a part of the treasury reserves is loans. But the government omits the fact that it has quickly spent state budgets and hiked borrowing at the cost of relatively increasing budget deficits which have been especially high in the first quarter of the current fiscal year.

Treasury reserves sank to 74.9 billion baht as of December last year from 386 billion baht at the end of 2015. The budget deficit for the first quarter of the 2017 fiscal year, in contrast, has increased significantly to 418.2 billion baht from an annual average of 395.1 billion baht during the past few years. The current deficit is also much higher than the average level from 2007-2013 when it stood at 289.7 billion.

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Some might say that the current high deficit is normal for the same period of year. But this argument is less convincing because it is much higher than the figure of the same quarter in the previous year.

Finance Minister Apisak Tantivorawong told the media that the low treasury reserves are a result of his ministry's 'management' to slim down interest costs. The minister also cited the need to keep treasury reserves at a proper level within the range of 50-100 billion baht. Reserves of 300-500 billion baht are too much, he said.

I have a few observations over his remarks.

First of all, it surprises me to hear the minister say that his policy is not focused on borrowing. Government financial management records suggest otherwise. In October 2015, the government borrowed 99 billion baht to compensate for a budget deficit even though treasury reserves during that time were high -- 426 billion baht. A month later, it borrowed an additional sum of 109 billion baht. Additionally, in April last year, a sum of 46.4 billion baht was borrowed against a backdrop of treasury reserves at 206.2 billion.

The most recent example of high borrowing against treasury reserves was in October last year when the Prayut administration, with treasury reserves of 441.3 billion baht, managed to go ahead with borrowing 52.7 billion baht.

Based on how the Finance Ministry has managed state budgets, I am not convinced that Mr Apisak has adhered to the principle he wants us to believe in. The information available indicates that this government has not tried to avoid borrowing to slim down interest costs.

If the government really adopts such a financial principle, I still wonder why it has piled up state borrowings during the 2015 fiscal year. Hasn't the government been aware that those borrowings can cost the country a huge interest burden? I don't think the government has answered that question yet.

I still have doubts over the minister's claim that the current reserve level is sensible because it falls under the range of 50-100 billion baht. Setting a ceiling for treasury reserves should instead be based on the government's expenditure plans.

During the rule of the military government, treasury reserves have not been maintained as state savings. Most of the time, they have been used to offset budget deficits.

In the 2016 fiscal year, the average monthly budget deficit was 32.9 billion baht. The current treasury reserves will last for only two months if it is used to offset that deficit. Worse still, it will be running out within 16 days if it is used to cushion the current 139.4-billion-baht deficit.

Do you have any idea what the finance ministry's policy will mean for the country's financial position if the minister wants to keep the treasury reserves ceiling at 100 billion baht while the current deficit is 139.4 billion? I am certain that this government will have to resort to more borrowing measures so that it has sufficient money to offset the ballooning deficits soon. If that happens, it will still be worrying.

Treasury reserves should serve as both the state's savings and the expenditure budget. But this government has mainly spent it and, as a result, has borrowed more to offset ballooning budget deficits.

During the past three fiscal years, the military government has borrowed a total of 744 billion baht just to offset the deficits.

The government may defend itself by saying that previous administrations also ran budget deficits, which is true. But their average annual deficits were much lower, standing at 12.6% of state revenue from 2007-2013, while the current government's current rate stands at 17.1%.

The finance minister has not clarified why the budget deficits have been high. The prime minister meanwhile told reporters that 'there were many who ask for help and the government has responded to their calls'.

This government must set a clear ceiling for deficits. It must not let the ballooning deficits serve its political interests, otherwise it will translate into a financial burden for both the government and the Thai people.

Without stronger control of the budget, the government may be forced to start the first chapter of its 20-year strategy plan with a debt payment scheme.

Decharut Sukkumnoed, *Bangkok Post*, 9 februari 2017