BUDGETING IN THAILAND

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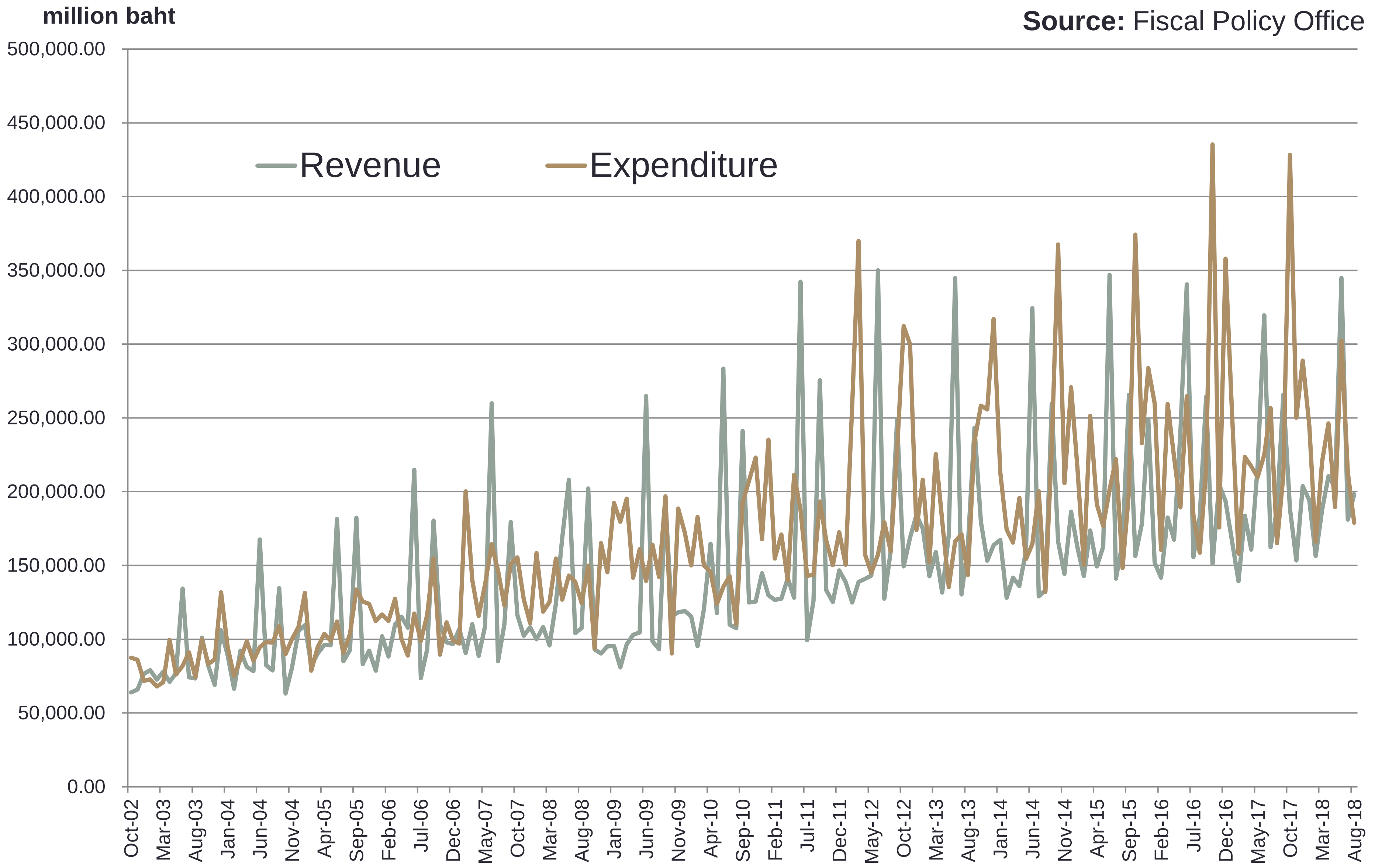
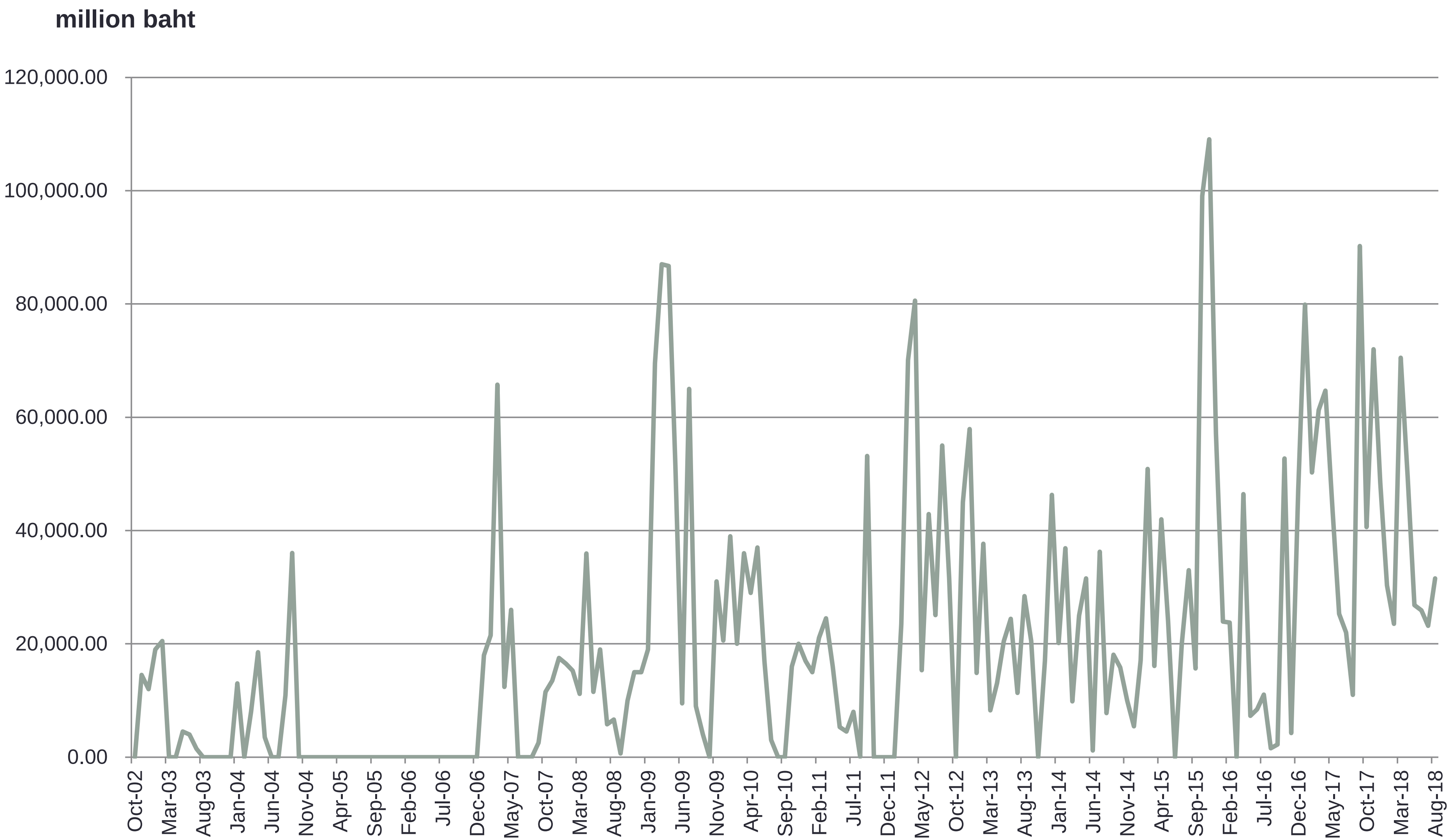
Government's revenue and expenditure

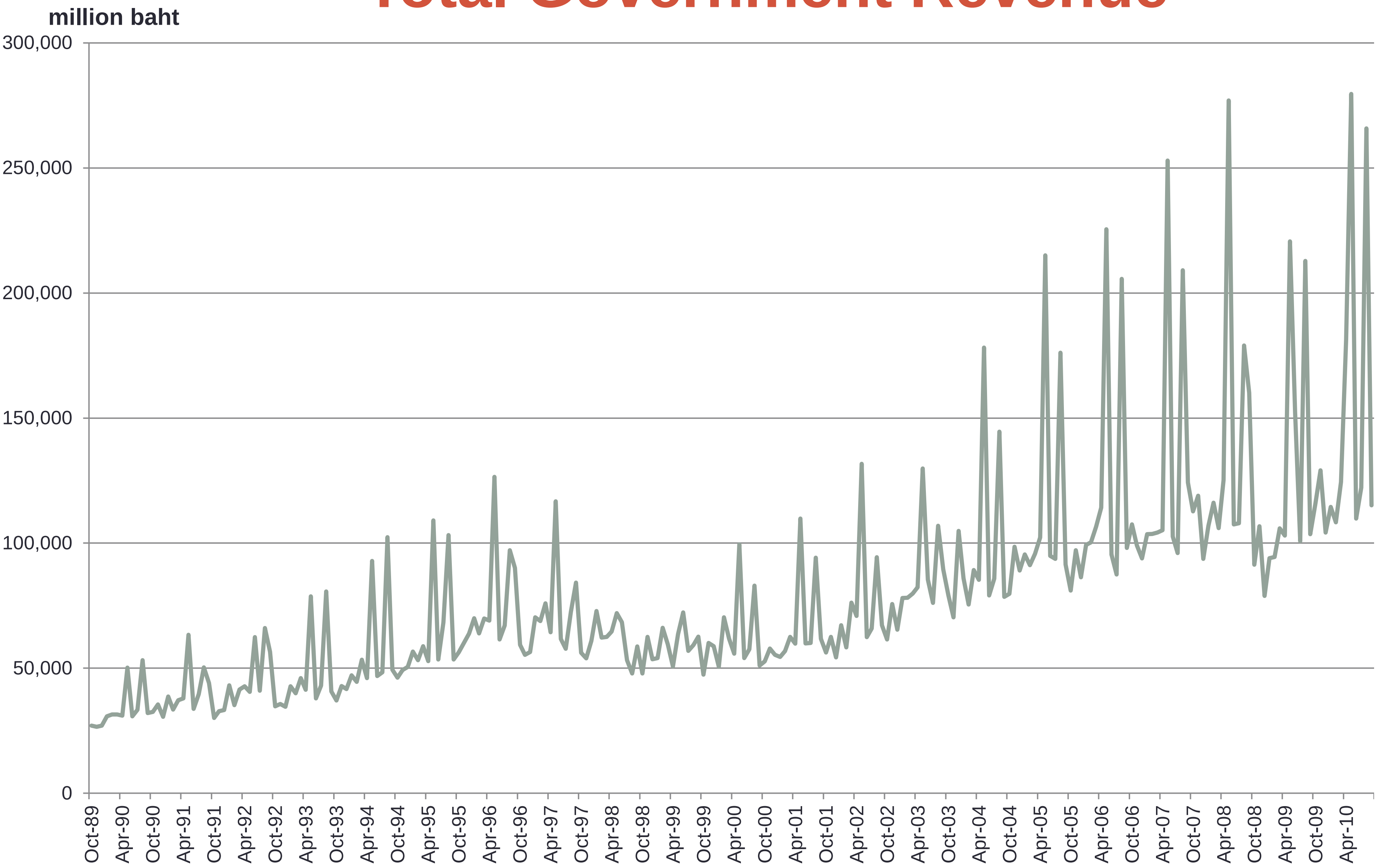


Government's borrowing



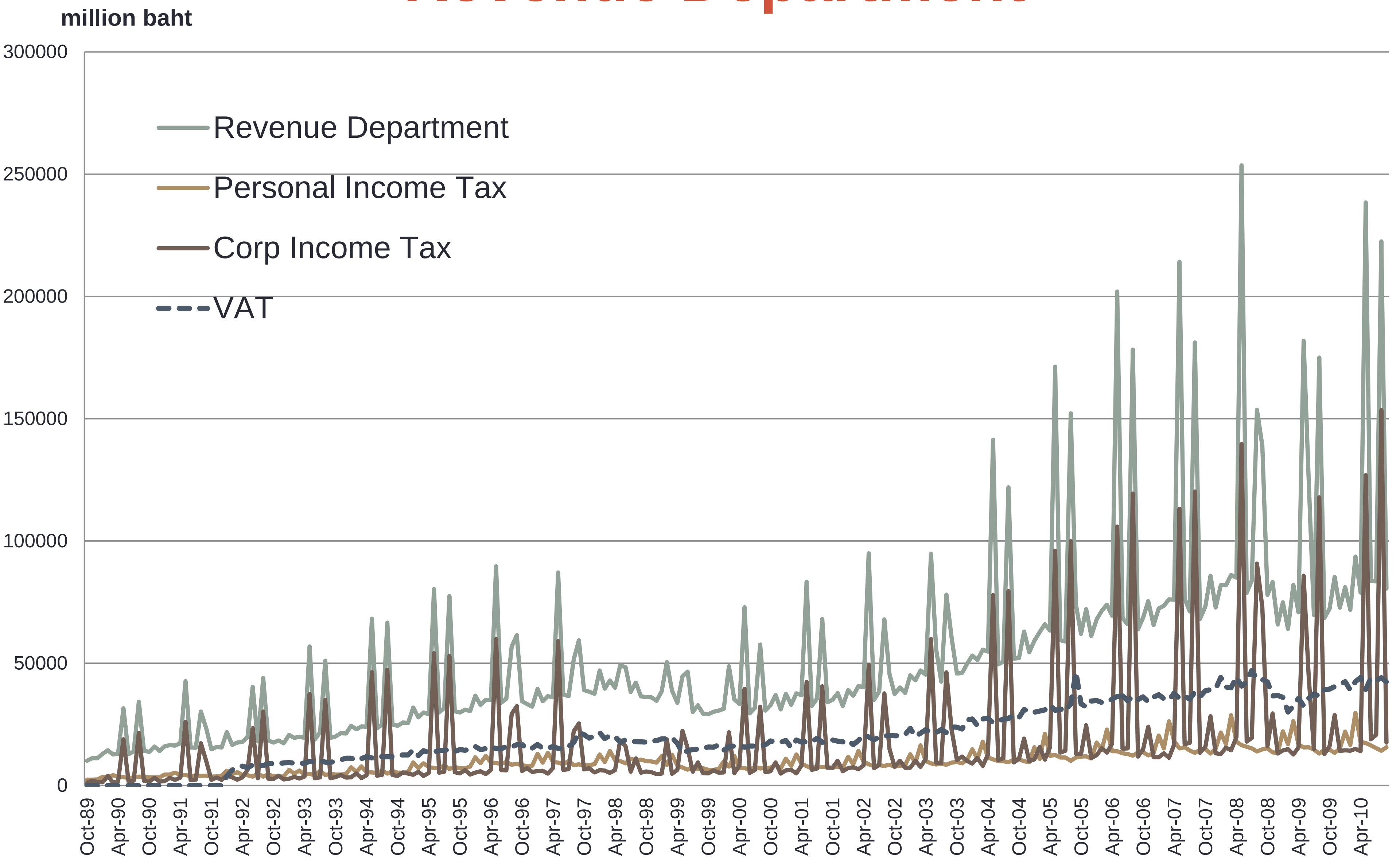
Source: Fiscal Policy Office

Total Government Revenue



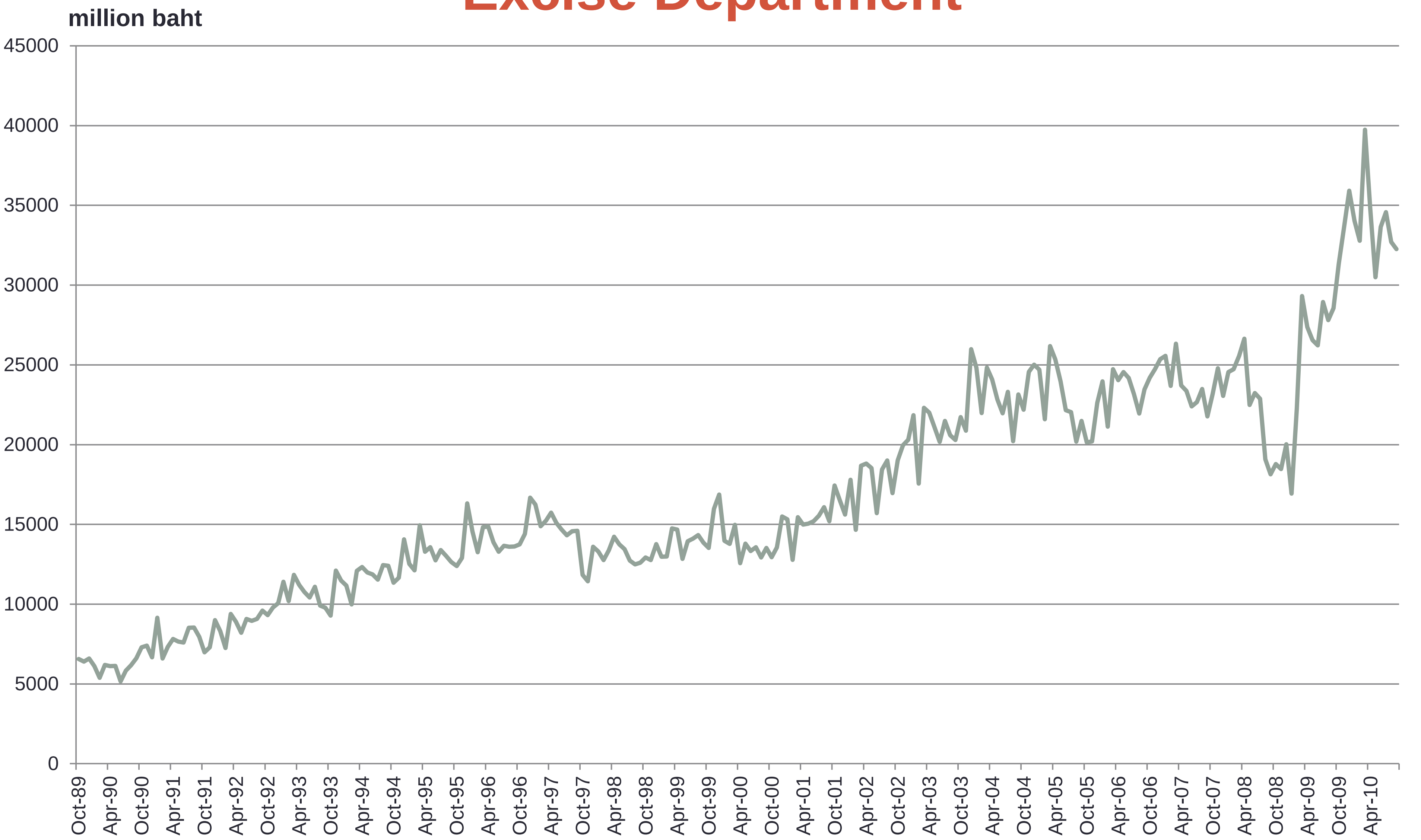
Source: Fiscal Policy Office

Revenue Department

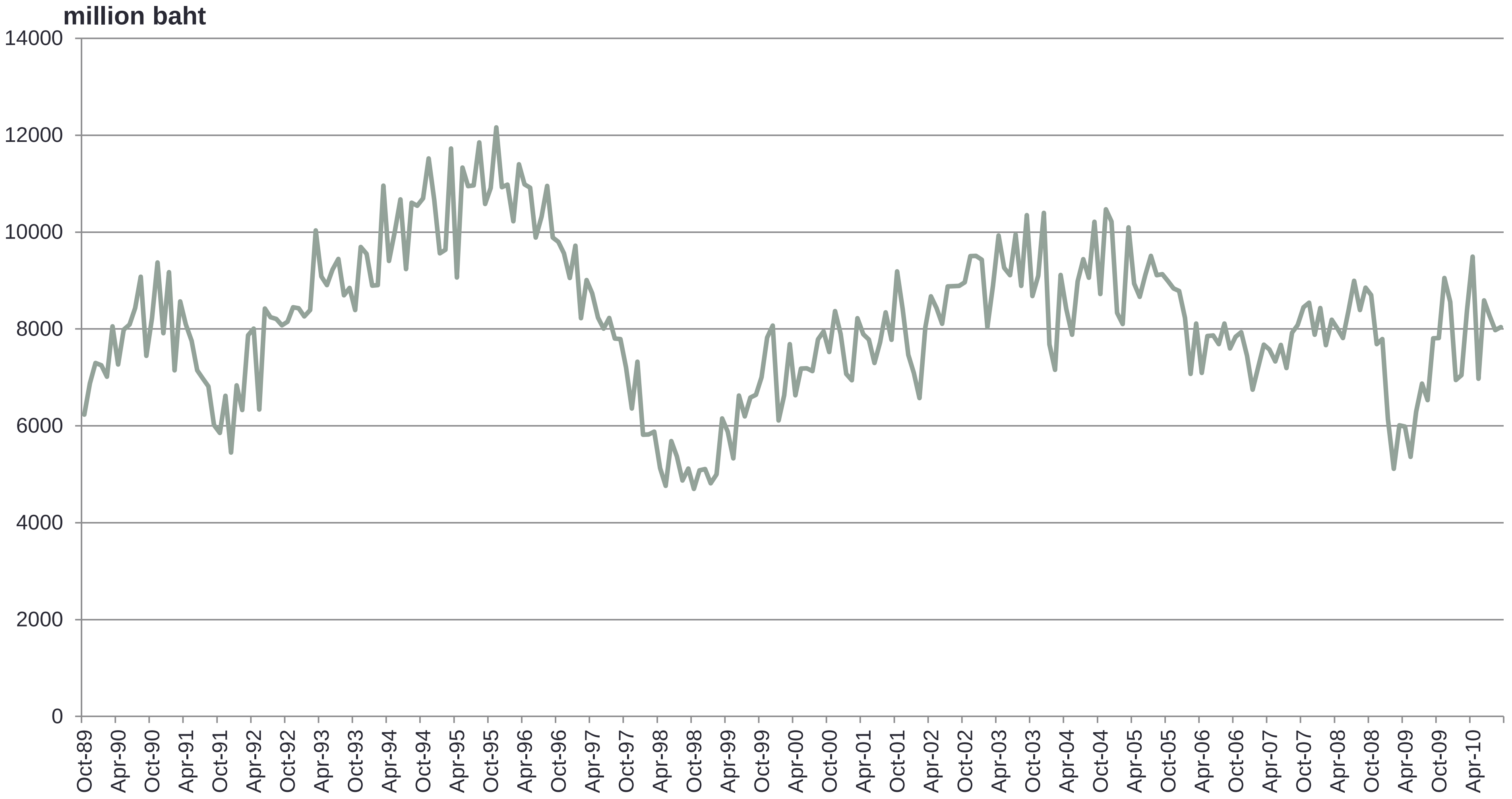


Source: Fiscal Policy Office

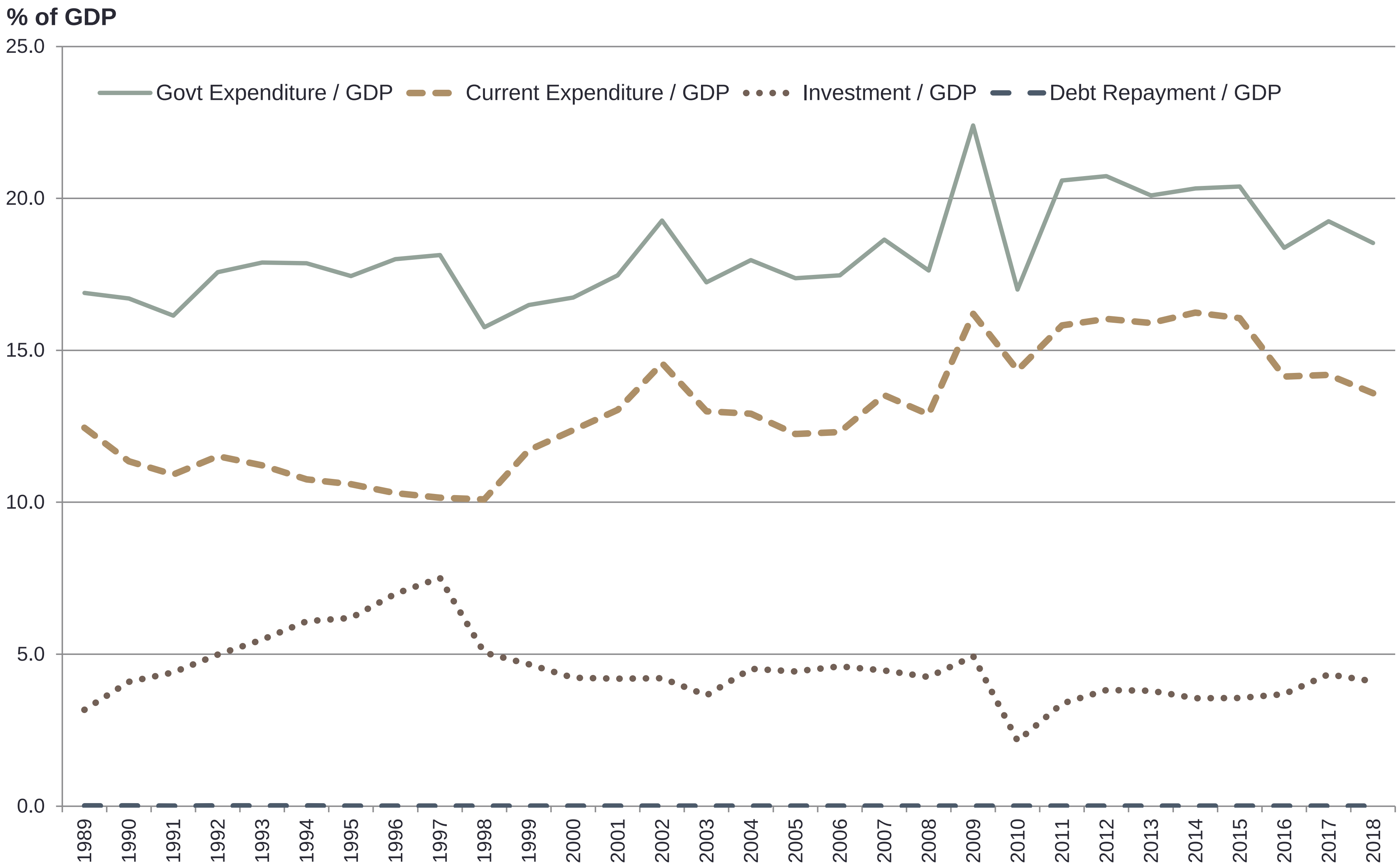
Excise Department



Customs Department

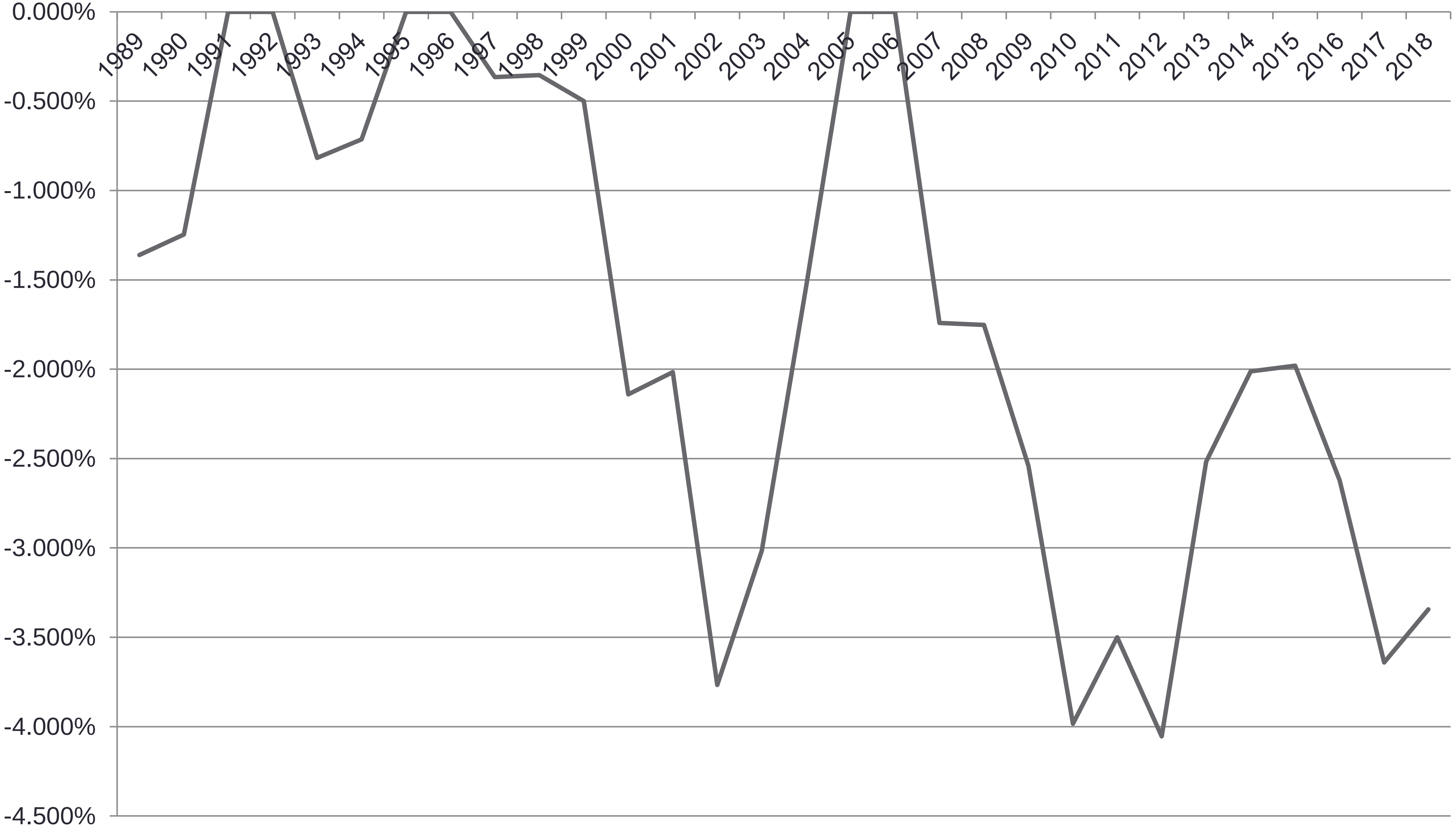


Structure of Govt Expenditure



Source: Fiscal Policy Office

Budget balance (% of GDP)



Source: Fiscal Policy Office

Main Topics

1. Budget formulation

1.1. Strategic performance budgeting

1.2. Central development planning

1.3. Annual budget preparation process

2. Role of Parliament

2.1. Introduction

2.2. The National Assembly

2.3. Parliamentary budget process

3. Budget implementation and management

3.1. Budget appropriations and financial management

Source: Blöndal and Kim (OECD Journal on Budgeting Vol. 5(3))

1. Budget formulation

1. Budget formulation

- Thailand’s excellent record of aggregate expenditure control over the years was facilitated by a centralized budgeting process based on line-item input budgeting.
- Budgets were approved on a very detailed level and preapprovals for individual expenditures were required in-year.

Source: Blöndal and Kim (OECD Journal on Budgeting Vol. 5(3))

1.1. Strategic performance budgeting

- It should be borne in mind that this reform initiative builds on years of preparations. **A special performance off**ice had been established within the Bureau of the Budget with the launch of the original reforms in the mid-1990s.
- It acted as a consultant to ministries and agencies in **how they could best define their outputs** and develop **appropriate performance measures**.
- All ministries and agencies must **submit regular performance reports (key performance indicators)** throughout the year and at the end of the year, showing th**eir progress in achieving the agreed outputs**.
- In addition, the budget office **regularly monitors** individual aspects of the **performance of individual ministries** and **agencies** in a system modeled after the **United States PART initiative** (Program Assessment Rating Tool)

Source: Blöndal and Kim (OECD Journal on Budgeting Vol. 5(3))

1.2. Central development planning

- Thailand has a long history of central development planning.
- The first five-year plan, the National Economic and Social Development Plan, came into effect in 1961. The current five-year plan, the ninth, concludes in 2006.
- The **early plans** were focused **mainly on infrastructure** and other economic development activities, although **later plans** were **broader and encompassed various social aspects** as well.
- These plans were **developed internally by a cadre of elite government officials**, although later plans formally incorporated various public consultation mechanisms.
- These plans were more than indicative; they literally set the agenda – including overall budget priorities – for successive government administrations.

Source: Blöndal and Kim (OECD Journal on Budgeting Vol. 5(3))

1.2. Central development planning

- **A major change** in Thailand's system of central planning occurred in **2005**.
- In fact, **central planning** as practiced up until then was **abolished**.
- Following national elections, the re-elected government decided to adopt a system of **four-year Government Administrative Plans**.
- This document is meant to **translate the political manifesto** upon which the government was **elected into the administrative actions** that must be carried out in order to fulfill the political manifesto.
- The **four-year timeframe coincides with the electoral term** of the government.

Source: Blöndal and Kim (OECD Journal on Budgeting Vol. 5(3))

1.2. Central development planning

- The symbolism of this reform cannot be overstated: **instead of governments** responding to a **five-year plan** drawn up by **technocrats**, the government machinery now has to respond to **the will of the popularly elected government**.
- Interestingly, **the five-year plans are not being discontinued**. However ,their character will necessarily change markedly although no final decisions have been made in that regard.

Source: Blöndal and Kim (OECD Journal on Budgeting Vol. 5(3))

1.2. Central development planning

- The Government Administrative Plan is divided into **nine separate strategies**:
  - Reduction of poverty
  - Quality development of society and human resources
  - Conformation of balanced and competitiveness of economic structure
  - Administration and management of natural resources and environment
  - Maintain foreign affairs policy and international economy
  - Development of nation laws and regulations and promotion of good governance
  - Promotion of democracy and social popularization process
  - Sustain national security
  - Comprehensive national administration and implementation

Source: Blöndal and Kim (OECD Journal on Budgeting Vol. 5(3))

1.2. Central development planning

- As can be seen, the nine strategies are comprehensive and **cover all areas of government.**
- As such, they are necessarily quite general at the top level, but they do **cascade down into more and more detail** and highlight specific priorities.
- The year 2005 was a transition year as the Government Administrative Plan was being introduced. **All government ministries and agencies** had to **prepare annual plans** on **how they would implement the Plan**.
- This was similar to the requirements for the previous five-year plans. As the government's budget is to reflect the Plan, preparing **the annual budget submissions** and **the annual Plan** are generally conducted in unison by ministries and agencies.
- **The Plan and the Budget** – on an **annual basis** – are officially **parallel mechanisms** but in practice **work together** as one.

Source: Blöndal and Kim (OECD Journal on Budgeting Vol. 5(3))

1.2. Central development planning

- The Office of the National Economic and Social Development Board (NESDB) **produces both plans**.
- It prepares the contents of the **five-year plans** whereas it translates the government's manifesto into the **new four-year plans**.
- **The Bureau of the Budget** is **integrally linked** with the **preparations of both**.

Source: Blöndal and Kim (OECD Journal on Budgeting Vol. 5(3))

1.3. Annual budget preparation process

- The **fiscal year** in Thailand **starts on 1 October**.
- The **annual budget preparation** process begins **ten months earlier**, i.e. January.
- The first step is to determine the economic assumptions applicable for the budget.
- As the government is committed to operating a balanced budget (nominal surpluses), the calculations of economic activity and the revenues it will generate will in effect set the overall ceiling for total expenditure during the year.

Source: Blöndal and Kim (OECD Journal on Budgeting Vol. 5(3))

1.3. Annual budget preparation process

- The calculation of the economic assumptions used in the budget is carried out jointly by **four key central economic agencies**, colloquially known as the **“Gang of Four”.**
  - Bank of Thailand (central bank)
  - Ministry of Finance (taxation; cash and debt management)
  - National Economic and Social Development Board (macroeconomic analysis; central planning machinery)
  - Bureau of the Budget

Source: Blöndal and Kim (OECD Journal on Budgeting Vol. 5(3))

Budget preparation timetable

Fiscal year = October-September

Month	Activity
January	• Gang of Four prepares economic assumptions.
February	• Bureau of the Budget updates baseline projections. • Spending ministries prepare and submit their initial budget bids.
March	• Aggregate budget ceilings established for individual ministries.
April	• Spending ministries submit second budget bids, in line with their ceilings.
May	• Budget finalized. • Budget submitted to Parliament.

Source: Blöndal and Kim (OECD Journal on Budgeting Vol. 5(3))

Budget preparation timetable

Month	Activity
End May	• Budget is introduced in the House of Representative by the Prime Minister. • First reading takes place immediately.
July-September	• Scrutiny Committee on the Budget reviews the government's proposal.
September	• Informal negotiations between the government and the opposition on amending the budget. • Second reading: votes on each individual amendment to the budget. • Third reading: up-or-down vote on the budget as a whole.
Late September	• Senate takes one up-or-down vote on the budget as a whole following a two-day debate.

Source: Blöndal and Kim (OECD Journal on Budgeting Vol. 5(3))

1.3. Annual budget preparation process

- Each of the four agencies makes its own estimates of **key macroeconomic variables**, with the **Ministry of Finance** having the principal information on tax revenue.
- The initial estimates of the four agencies generally differ and a two to three-week process of informal dialogue ensues before a **consensus forecast is established**.
- The heads of the four agencies formally endorse the consensus forecast and **submit it to the Prime Minister for final approval**. This would conclude in February.

Source: Blöndal and Kim (OECD Journal on Budgeting Vol. 5(3))

1.3. Annual budget preparation process

- In some years, the forecasts **have underestimated economic** activity, and **revenue collections** have been significantly **higher than expected**.
- This would appear to indicate a c**onservative** bias in the **economic assumptions** used in the budget, revealing a preference for erring on the side of prudence.
- In those years, a **supplementary budget** was presented to Parliament late in the fiscal year for approval.
- At the same time, the Bureau of the Budget will be **updating its baseline estimates** (medium-term expenditure framework) for the continuation of current government policies – including the financial impact of prior decisions whose full expenditure impacts only materialize in subsequent budgets.

Source: Blöndal and Kim (OECD Journal on Budgeting Vol. 5(3))

1.3. Annual budget preparation process

- This will involve a **review of last year's operational** and **financial performance** with frequent yet informal contacts between analysts at the Bureau of the Budget and officials at spending ministries.
- It should be noted that the **baseline forecasts** for out-years are **not published**; they appear in an **internal** Bureau of the Budget **document only**.
- Parallel to this, spending ministries will be working on their budget submissions. The sophistication of the internal budget procedures varies tremendously from ministry to ministry.
- In some cases, they are based on elaborate internal strategic planning exercises. The complete reverse is the case in others.
- Regardless, **ministries submit their initial bids in February**, i.e. at about **the same time** as the **Gang of Four** will have arrived at **their conclusion**.

Source: Blöndal and Kim (OECD Journal on Budgeting Vol. 5(3))

The Bureau of the Budget

- The Bureau of the Budget is a **central agency responsible** for **budgeting.** It **reports directly to the Prime Minister**. Its official primary responsibilities are to:
  - Develop **macro-fiscal projections** and set **medium-term budget ceilings**;
  - **Help** budget-dependent agencies **prepare their annual budget**;
  - **Assist** the executive branch during the **parliamentary budget approval process**;
  - **Execute the annual budget** – with responsibilities shared with the Ministry of Finance;
  - **Monitor and evaluate** government-wide programs.
- The Bureau of the Budget is divided into a number of analytical divisions that **"shadow" spending ministries** as well as various **"whole-of-budget"** divisions, including for **coordinating the budget process** and budget policy, and for following through on the **performance and results** focus.
- The Bureau of the Budget is headed by a director-general, assisted by five deputy directors-general.
- The Bureau has a total staff of 800. .

Source: Blöndal and Kim (OECD Journal on Budgeting Vol. 5(3))

Evaluating new bids from spending ministries

- The Bureau of the Budget **evaluates each bid for new funding** against **three dimensions**:
  - Is it in line with government priorities?
  - Is the agency that makes the bid the correct administrative unit to be carrying it out?
  - How does it contribute to empowering lower levels of government?
- As noted earlier, government priorities are formally enunciated in the four-year Government Administration Plan. This is the first point of reference, and **all bids must demonstrate their alignment with the Plan**.
- As discussed, the Plan however encompasses all activities of government and is therefore, by definition, of a general nature – although specific policies are of course highlighted.

Source: Blöndal and Kim (OECD Journal on Budgeting Vol. 5(3))

Evaluating new bids from spending ministries (cont'd)

- In addition to the four-year Plan, the Cabinet generally designates a number of areas separately as priorities.
- These are referred to as the "**National Agenda**".
- These may be very large activities such as supporting the **reconstruction and development efforts** following the **natural disaster**. Or they can be smaller activities such as campaigns to reduce smoking.
- Parliament also authorizes a comparatively **large discretionary fund** – the **Central Fund** – to the Prime Minister to meet new priorities during the year.
- The use of this fund is prima facie a strong indication of the **government's priorities**.

Source: Blöndal and Kim (OECD Journal on Budgeting Vol. 5(3))

Evaluating new bids from spending ministries (cont'd)

- Aside from the identification of specific activities as **priorities**, the government has set itself a number of **overall benchmarks** for **the allocation of expenditure**.
- For example, it aims for capital expenditure to amount to one-fourth of the total budget each year. Similarly, it aims to significantly reduce **the share of salaries and other employment costs** as a **proportion** of the **total budget** – from 40% to 30%
- As can be seen, there are numerous vehicles for highlighting government priorities. In the end, it is a **political decision** as to which **priorities to fund** and at what level.
- The Bureau of the Budget – reporting directly to the Prime Minister – is **uniquely positioned to play this role**.

Source: Blöndal and Kim (OECD Journal on Budgeting Vol. 5(3))

Evaluating new bids from spending ministries (cont'd)

- The Bureau of the Budget will **propose expenditure ceilings** for **each ministry**.
- These will be **submitted to the Prime Minister** for approval. Each minister is then required to **submit a new spending request** by the end of **April**.

Source: Blöndal and Kim (OECD Journal on Budgeting Vol. 5(3))

The Central Fund

- A special feature of the Thai budgeting system is the existence of the Central Fund, which is organized in accordance with the Budget Procedures Act of 1959.
- This is a **large fund** – amounting to **20% of total government outlays**. About **80% of the Fund is pre-determined** in the budget formulation and approval phases.
- The other **20%** operates as an **in-year discretionary** fund for **specific purposes**, such as "Enhancing the Nation's Competitiveness and Sustainable Development", or for **emergency projects**.
- This serves to create **additional flexibility** in budget implementation.
- The existence of this Fund **does not appear** to have **undermined fiscal discipline**, as the Fund is generally not used to supplement appropriations for government entities.

Source: Blöndal and Kim (OECD Journal on Budgeting Vol. 5(3))

2. Role of Parliament

2.1. Introduction

- The effective role of Parliament in the budget process has been limited throughout Thailand's history, albeit for different reasons at different times.
- During the long periods of military rule, parliamentary oversight – by definition – did not exist.
- During the early periods of civilian rule, Parliament's role was undermined by chronic party infighting, localism and instability which characterized.
- In addition, specific constitutional provisions guarantee the prerogative of the executive in budgetary affairs.
- These provisions came into effect with the 1997 constitution; previously the Thai Parliament had no such constitutional restrictions on its authority.
- Nonetheless, the **Thai Parliament** has an **elaborate process** for **scrutinizing the government's budget proposal** and does in fact succeed in **making amendments** to the budget proposal, albeit **not on a large scale**.

Source: Blöndal and Kim (OECD Journal on Budgeting Vol. 5(3))

2.2. The National Assembly

- Thailand's legislature, the **National Assembly**, is a bicameral institution consisting of the **House of Representatives** and the **Senate**.
- The **Senate** is to be **"above" politics**. The Senate has **limited legislative responsibility** in the area of budgeting. It mainly fulfills a **"watch-dog"** function.
- For example, it is responsible for appointing members to bodies such as the State Audit Commission, the Election Commission and the National Counter-Corruption Commission.
- The Senate **cannot make any amendments** to the budget – it can only **approve** it or **reject** it as a whole.
- This is in line with its constitutional function as a ***"watch dog"*** – *i.e. as senators in their own right and not* beholden to any political party, they should only reject the budget as a check against the propriety of the House's consideration of the budget.

Source: Blöndal and Kim (OECD Journal on Budgeting Vol. 5(3))

2.2. The National Assembly

- Constituency MPs are explicitly tasked to **represent local interests** as they had traditionally done.
- Traditionally, candidates from the same party within a constituency campaigned as much against other fellow party members as they did against other parties.
- **Members of the House of Representatives** are **elected** for **terms of four years**.
- Notwithstanding these provisions, the **National Assembly carefully scrutinizes** the government’s budget proposal and does in fact **manage to amend it**.

Source: Blöndal and Kim (OECD Journal on Budgeting Vol. 5(3))

Key constitutional restrictions

- **No amendments** to the budget may be permitted for a vote in the House of Representatives except with the **prior endorsement** of **the Prime Minister**.
- Members of the House of Representatives may **only consider reductions in expenditure**. They **cannot propose additional expenditures**.
- All proposed amendments must be approved by the individual member's political party.
- The Senate cannot make any changes to the budget. It can only make an up-or-down vote on the budget as a whole.
- If the House and the Senate have not finished their deliberations of the budget within fixed time limits, the proposed budget is deemed to have been approved by them.

Source: Blöndal and Kim (OECD Journal on Budgeting Vol. 5(3))

2.2. The National Assembly

- The constitution imposes **limits on the time** allowed for the House of Representatives and the Senate to consider the budget.
- In the case of the House, it is **105 days**. A general session of the House lasts **120 days** so this essentially means that the House has its entire session to deliberate the budget proposal.
- The Senate has **two days** to finish its **deliberation**s and make an **up-or-down vote** on the budget.
- If either the House or the Senate has not finished the consideration of the budget within these periods, the budget is deemed to have been approved by them.

Source: Blöndal and Kim (OECD Journal on Budgeting Vol. 5(3))

2.3 Parliamentary budget process

- The parliamentary budget process starts with the Prime Minister introducing the government's budget in the House of Representatives.
- This generally **occurs in May** and usually follows the ceremony for the **King's annual convocation** of the **National Assembly**.
- **Following the Prime Minister's budget speech**, the **leaders** of **opposition political parties counter** with their **different economic** and **social outlooks** and how those would be reflected in the budget if they were in power.
- This is a **"macro" debate** where different political philosophies are aired rather than **any specifics of the budget**.

Source: Blöndal and Kim (OECD Journal on Budgeting Vol. 5(3))

2.3 Parliamentary budget process

- Following this debate – which constitutes the **first reading *of the* budget** – a vote is taken.
- This is considered a **vote-of-confidence in the government**.
- If the government were to **lose this vote**, the government **would resign** and **a new election** would be called.
- If the vote is **won** – as is normally the case – a **Scrutiny Committee is selected** to **examine the government's budget proposal**.
- This is an ***ad hoc committee*** *which is* formally **selected anew each year**, although its membership exhibits much continuity from year to year.

Source: Blöndal and Kim (OECD Journal on Budgeting Vol. 5(3))

2.3 Parliamentary budget process

- Following any changes, the budget goes to a plenary session of the House of Representatives for its **second reading.**
- For the budget, this is a **technical session** where all the amendments previously agreed “informally” by the government and the opposition are made official.
- An individual vote is taken on all the separate amendments.
- The second reading normally **occupies several full days**.
- The final and **third reading** is a pro-forma event where an up-or-down vote is taken on the budget as a whole incorporating the amendments made during the second reading.
- Following its approval in the House, the **budget is transmitted to the Senate** which can only make an up-or-down vote on the budget in total.
- Once **the House** and **the Senate** have **approved the budget**, it is submitted to His Majesty the **King for Royal Assent**.

Source: Blöndal and Kim (OECD Journal on Budgeting Vol. 5(3))

3. Budget implementation and management

3.1. Budget appropriations and financial management

There are **five types** of appropriation modes in the Thai budget:

- Personnel expenses;
- Operating expenses;
- Subsidies;
- Investments;
- Other expenses.

Source: Blöndal and Kim (OECD Journal on Budgeting Vol. 5(3))

3.1. Budget appropriations and financial management

- **Personnel expenses** refer to the standard costs of personnel classified as civil servants whose posts are approved by the Civil Service Commission or other equivalent bodies.
- **Operating expenses** refer to day-to-day operating costs and running costs, including special personnel allowances in addition to the standard costs of posts.
- **Subsidies** can either be of a general or specific nature. In all cases, there would be separate laws or regulations in place to govern their use.
- **Investments** refer to either the purchase of equipment or the acquisition or construction of capital projects.
- **Other expenses** are a unique category. Such appropriations can be for personnel expenses, operating expenses, subsidies or investments – i.e. any of the four categories described above.

Source: Blöndal and Kim (OECD Journal on Budgeting Vol. 5(3))

3.1. Budget appropriations and financial management (cont'd)

- The **strong role** of the Bureau of the Budget is also highlighted by the **requirement for each government unit** to **submit a budget implementation plan** to the Bureau of the Budget.
- This goes beyond a cash-flow or apportionment plan to a **detailed action plan** for ***how*** the **budget will be implemented *project by project***.
- Previously, the Bureau of the Budget would approve individual aspects of the plan on a rolling basis throughout the year.
- Following the reforms, it is now common practice for the Bureau of the Budget to **authorise expenditure** for the whole year at the beginning of the year.

Source: Blöndal and Kim (OECD Journal on Budgeting Vol. 5(3))

3.1. Budget appropriations and financial management (cont'd)

- After the Bureau of the Budget's approval of the spending of ministries and agencies, the **budget implementation plan** is forwarded to the **Comptroller-General's Department** of the Ministry of Finance which is responsible for the government's **cash management function**.
- The Comptroller-General maintains accounts for all government ministries, departments and their regional offices in the state-owned **Krung Thai Bank**.
- The central bank account for the government is maintained at the Bank of Thailand.

Source: Blöndal and Kim (OECD Journal on Budgeting Vol. 5(3))