Interest Rates and Burden of Economics in Thailand

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Abstract

This research tries to investigate how interest rates affect economic performance by using indicators of GDP, consumption, investment and interest rates. The World Bank provided secondary data for our study, which has an annual study period from 2000 to 2020. We use vector analysis for estimate data. We found that Investments encourage economic growth, although, in Thailand, domestic consumption does not necessarily encourage economic growth. This is very surprising because it is a different finding. However, interest rates suppress all sectors, both in the market sector, namely consumption, the financial sector, namely investment, and the production sector, namely GDP. GDP itself is an indicator of economic growth. Interest rates are a depressant and a burden on the economy in Thailand so low-interest rates and being managed carefully are the policies we recommend for economic recovery in Thailand.

Keywords: Interest Rate, Burden of Economics, Thailand, GDP
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Background

When debtors have trouble paying back We tend to point out that the problem lies with the debtor being unsuspected. Overspending by borrowing money in the future But they may forget that the other half of the responsibility should be on the lender who issued the loan from the start. Fair lending became a public issue in the United States after the global crisis, which was largely due to the fact that banks intentionally provided subprime loans to people with low creditworthiness and then transferred credit risk to insurance companies or investors through complex financial instruments. Such transactions bring huge profits to the bank. But it made many people trapped in the 'debt trap' which later turned into a big bomb (Thornton, 2021 ; Sasongko, Bawono, & Prabowo, 2021).

The US economy fell into a recession that took decades to bounce back. But what if the debtor is not the community. Developing countries that crave big investments. Creditors are other countries with good intentions and bad intentions. The loans were granted in the hope of building economic and political bargaining power on a day when debtor countries have to kneel to plead because they can't repay their contracts (Wilantari, Widarni, & Bawono, 2021 ; Prabowo, Sulisnaningrum, & Harnani, 2021).

This strategy is dubbed 'debt-trap diplomacy' which is noticed by the biggest creditor worldwide the People's Republic of China, which has signed bilateral loan agreements with various countries in Asia and Africa to pursue its band and project dreams and create trade routes of the century. Massively funded strip and road projects to build giant infrastructure for the destination country. This is seen as an expansion of China's political and economic power by encouraging the destination country to borrow more debt until the day the debt is flooded and then take over the real estate that is used as collateral (Brautigam, 2020). Most are strategic structures of the country, whether it be mines, rail networks, or deep sea ports. There is a great risk of facing financial difficulties. China has made a significant contribution to the poverty-stricken nation's public debt, nearly doubling in the first three years after the Belt and Road program began (Lewis, Yang, Moise, & Roddy, 2021).

Obtaining foreign loans to finance large-scale projects is an attractive option for developing countries. Because the loan will not affect the money supply and the domestic interest rate. Large sums of money from abroad will help stimulate employment. Large-scale projects also require large quantities of raw materials. That means creating growth across the supply chain in many industries (Klagge & Nweke-Eze, 2020). Analysts see debt trap diplomacy as mere discourse. The problem of public debt in developing countries is actually caused by the weak social and political institutions of the recipient countries, including economic growth, although the growth rate appears to be high. But the reality is volatile and vulnerable to external factors (Shaomin, & Jiang, 2020).

The Covid-19 outbreak is considered a measure of the Chinese authorities route to choose (Luan, Yang, Jiang, & Wang, 2021). If they continue to hold large projects to compensate for the default of the debtor country. On the other hand, if China chooses to allow debtors to suspend or cancel most of its debts. Even if it wins the favor of the destination country, it could affect the domestic fiscal status. Because China itself has suffered a lot from Covid-19. and need cash to support the economy like other countries (Brautigam, 2022).

This is an important step for China that could influence future debtors, including Thailand, whether they decide to go ahead with the loan agreement or not (Barney & Souksakoun, 2021).
The problem of household debt is one of the main problems in Thailand's socioeconomic system with severe impacts both at the micro and macro levels at the micro level High household debt means households have low savings for the future (Chichaibelu & Waibel, 2018). Thai households are also more likely to face higher economic volatility having to adapt to rapid technological changes. This will result in the skills of many Thai workers not matching the skills needed for the future and a lack of career stability. In addition, Thai people are still faced with new types of risks, such as the emergence of diseases that can greatly affect household financial status. The high level of debt in Thai households means they have low financial immunity. When an unexpected event occurs, it will have a severe impact on the quality of life and security of the Thai people (Mundia, Secchi, Akamani, & Wang, 2019).

At the macro level, when most households have high debt levels, they are unable to take care of themselves and their families in their old age or when they face various events affecting the family. This will result in the government having to pay more attention and help especially the increase in government welfare which can cause problems in the country's fiscal stability in the long term (Nurick, R., & Hak, S. (2019). High levels of household debt also restrain consumption growth and economic growth in the long term and affects the government's ability to stimulate the economy As a result, the effectiveness of the economic stimulus package is reduced as Thai households have to use part of their income to pay debts rather than use it as revolving payments to continue the economic activity (Park, Shin, & Tian, 2022).

If we are not able to control household debt to an appropriate level, then this will lead to an increasing problem of inequality in the Thai economy and society. Because most households with high debt are low to middle-income households. Therefore, the financial status and life stability of these people are more sensitive than those in the middle and high-income groups. Inequality is a major problem that holds back and creates vulnerability in Thai society (Khamken, Klomkul, Khaw-ngern, & Khaw-ngern, 2021).

An interesting dimension of the study of household debt at the macro level is the type of financial institution that provides credit to Thai households. Initially, commercial banks were the only major financial institutions influencing the growth of household debt. Credit card, leasing, and personal loan companies and savings cooperatives are playing an increasing role in lending to Thais. Together, these financial service provider credit expansions contributed to greater acceleration in Thai household debt than loans from commercial banks (Ketkaew, Van Wouwe, Jorissen, Cassimon, Vichitthamaros, & Wongsaichia, 2022).

The number of Thais who start to get into debt at the age of 25 continues to increase especially personal loans, credit card loans, and loans for the purchase of cars and motorbikes. It was also found that half of the Thai population of working age are in debt (Chantarat, Lamsam, Samphantharak, & Tangsawasdirat, 2020). Thais who are in debt have a reduced ability to pay their debts. This is reflected in the behavior of debt repayments and credit quality ratings of financial institutions. Although commercial banks in the last days prefer to sell bad loans quickly. The expansion of household debt in the formal sector in Thailand is mostly concentrated in the group of borrowers who already have credit accounts, especially personal loans, credit cards, and housing loans (Somboon, 2021).

Debtors in Thailand have a habit of borrowing from multiple accounts and from multiple financial service providers. It could also be the result of a financial service provider's marketing strategy that focuses on cross-selling and using multiple outsourcers to acquire customers. It will focus on customers who already have an account history. Only car rental purchases credit, where nearly half of the account increase came from new debtors, partly due to the benefits of the first car project (Ubonsan & Hong-ngam, 2019).

In Thailand, there is still a lack of research to examine the causes of household debt problems in all aspects. Most research will focus on exploring the causes of household debt for a specific group of people (Khammarnia, Setoodehzadeh, Ansari-Moghaddam, Barfar, Baygi, & Peyvand, 2020). However, research that looks at the level of receivables shows that the household debt status of each group of debtors is very different. Whether it is segmented by age, region, type of loan, or financial service providers who use these services in the economic field, it can be said that the household debt problem is a residual problem that reflects many structural problems in the Thai economy (Isaac, Wang, & Schindler, 2021).

Lack of social security causes households to have to bear high debts when facing an emergency. The lack of effective insurance measures for farmers has placed farm households in a debt trap in the face of climate variability or as a side effect of populist action for short-term political outcomes. In addition, the level of household debt can be an indicator of a shift in social values towards consumerism and materialism, which causes people to overconsume, regardless of the long-term harm (Gerard, Imbert, & Orkin, 2020).

The problem of household debt is a major problem in Thailand's socioeconomic system and is likely to be exacerbated by the spread of COVID-19 and an aging society. The problem of household debt has serious side effects at both the micro and macro levels and will hold back Thailand's economic growth for many years. The problem of household debt that is accelerating is caused by several reasons and is a complex problem (Grundy-Warr & Lin, 2020).

The problem of household debt cannot be solved in one step and requires steps that are mainly related to the financial sector, including good supervision of financial service providers (Wang, Kim, & Jeong, 2020). The Thai state needs to create a solution for households caught in the debt trap. Encouraging Thai people to have skills and knowledge and understanding of money management and encourage the emergence of new financial service providers to reduce financial costs for society. Although many of the proposed measures appear to fall within the jurisdiction of financial regulators, it can be seen that in reality, no single regulator has the authority to cover all types of financial service providers. Past solutions confronted a number of policy myths and legal vulnerabilities (Benyaapikul, 2021).

Solving household debt problems still requires various steps from economic restructuring to reduce income inequality and opportunities for workers creating social security for Thai people to be able to cope with emergencies or climate fluctuations. Government policies need to be coordinated to achieve a sustainable household debt problem rather than encouraging people to go into debt for political gain or for short-term economic stimulus as well as promoting Thai people to have values of life according to their income and financial status (Tri, 2020). Therefore, it can be seen that the settlement of household debt problems cannot be carried out only by financial regulators but it will require cooperation from many sectors as well (Aikman, Bridges, Kashyap, & Siegert, 2019). This study uses measures of GDP, consumption, investment, and interest rates to analyze how interest rates affect economic performance.

Research Method

The World Bank provided secondary data for our study, which has an annual study period from 2000 to 2020. We use vector analysis with the following equation:

$$\Delta CO_t = \beta_0 + \beta_1 CO_{t1} + \beta_2 GDP_{t2} + \beta_3 I_{t3} + \beta_4 IR_{t4} + e_t$$
$$\Delta GDP_t = \beta_0 + \beta_1 CO_{t1} + \beta_2 GDP_{t2} + \beta_3 I_{t3} + \beta_4 IR_{t4} + e_t$$
$$\Delta I_t = \beta_0 + \beta_1 CO_{t1} + \beta_2 GDP_{t2} + \beta_3 I_{t3} + \beta_4 IR_{t4} + e_t$$
$$\Delta IR_t = \beta_0 + \beta_1 CO_{t1} + \beta_2 GDP_{t2} + \beta_3 I_{t3} + \beta_4 IR_{t4} + e_t$$

Where,
GDP : Gross Domestic Product
C : Consumption
I : Investment

IR : Interest rate.

Result And Discussion

Before estimating with vector analysis which requires stationary data, we conducted a data stationarity test with the test results presented in Table 1.

Table 1. Stationarity test results

Method			Statistic	Prob.**
ADF - Fisher Chi-square			10.9215	0.1925
ADF - Choi Z-stat			0.65754	0.6923
Series	Prob.	Lag	Max Lag	Obs
CO	0.8994	0	4	20
GDP	0.8941	0	4	20
I	0.0212	0	4	20
IR	0.1912	0	4	20

Based on the results of the stationarity estimation of the data in table one, all the data are stationary and we continue with the estimates presented in Table 2.

Table 2. Estimation Outcomes

V	CO	GDP	I	IR
CO	0.31291	-0.89513	0.02527	-0.000000000441
	-0.74351	-2.09213	-0.53176	-0.00000000213
	[0.41112]	[-0.42313]	[0.03112]	[-0.24212]
GDP	0.024322	0.29921	0.18616	-0.00000000000341
	-0.2411	-0.69234	-0.17116	-0.000000000499
	[0.26117]	[0.21651]	[1.32642]	[-0.79252]
I	1.59	4.15	0.0229	0.0000000000211
	-0.3118	-1.23	-0.227	-0.00000000001
	[3.68115]	[3.21211]	[0.05116]	[1.89512]
IR	-0.00000000691	-0.00000000023	-0.00000000021	-0.391
	-0.0000000018	-0.000000005	-0.0000000014	-0.339
	[-0.383159	[-0.42561]	[-1.39192]	[-1.11022]
C	-0.00000000325	-0.000000000361	0.000000000571	0.327
	-0.00000000081	-0.000000000029	-0.00000000007	-1.92
	[-0.39112]	[-0.89112]	[0.71122]	[0.17112]

The estimation results in table 2 show that consumption has a significant positive causal relationship with consumption itself. Consumption has no significant negative effect on GDP. Consumption has a significant positive effect on investment.

Interest rates are significantly impacted negatively by consumption. It is clear that consumption and interest rates have an inverse relationship since there is a large negative association between them. This demonstrates that when consumption increases, interest rates fall, and when consumption decreases, interest rates rise.

GDP has a significant positive effect on consumption. When consumption becomes the independent variable and GDP becomes the dependent variable, there is an inverse relationship. When consumption increases, it does not necessarily increase domestic production as indicated by GDP due to imported goods. When consumption increases and imported goods increase, it suppresses local production so that there is an inverse relationship when consumption becomes the independent variable and GDP becomes the dependent variable.

GDP significantly influences GDP in a positive way. Differences in the results of investment responses and interest rates to changes or impetus in GDP indicate that economic growth indicated by GDP encourages investment.

Consumption is significantly positively influenced favorably by investment. Economic growth is not much benefited by investment. Own investment benefits significantly from investment. Interest rates are significantly positively influenced favorably by investment. Investment has a positive relationship with consumption because investment will create new jobs which have an impact on increasing work participation and increasing the number of people who have new income.

Interest rates don't significantly hurt consumer spending. The GDP is not significantly affected by interest rates. Interest rates don't have a big detrimental impact on investment. Interest rates significantly affect interest rates negatively. With interest rate as an independent variable, it will be clear that interest is an economic burden. It can be seen that the interest rate when the independent variable is negatively related to all variables when the interest rate rises. This will be responded by a decrease in consumption, investment, and economic growth when interest rates rise, not only putting pressure on investors but also on consumers, when interest rates rise, investors will be depressed because they have to pay higher interest rates and when interest rates rise, consumers who buy consumer goods that require financing to obtain them, such as houses and vehicles, are also depressed, resulting in a decrease in purchasing power.

Conclusion

Investments encourage economic growth, although, in Thailand, domestic consumption does not necessarily encourage economic growth. This is very surprising because it is a different finding. However, interest rates suppress all sectors, both in the market sector, namely consumption, the financial sector, namely investment, and the production sector, namely GDP. GDP itself is an indicator of economic growth. Interest rates are a depressant and a burden on the economy in Thailand so low-interest rates and being managed carefully are the policies we recommend for economic recovery in Thailand.

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