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ECONOMIC IMPACT OF HIGH HOUSEHOLD DEBT IN THAILAND

Proudfong Chamornchan
Chatra Kamsaeng *

1. INTRODUCTION

Concern over household debt in Thailand has been mounting significantly after its level reached 80 percent of GDP at the beginning of 2015. Such a high level of household debt could harm the Thai economy in several ways. Both consumption and debt-default are the main channels through which risk from high household debt can be transmited to the economy.

With regard to the consumption channel, high household debt implies that households have to pay heavy principal and interest payments every month. Hence, the spending of such households becomes more constrained, which leads to a decrease in household consumption. In particular, consumption of non-durable goods is adversely affected by a higher household debt burden.[1]

Another means through which high household debt can pose risks for the economy and the financial market is the debt-default channel. Households with a high debt level are more vulnerable to both in-

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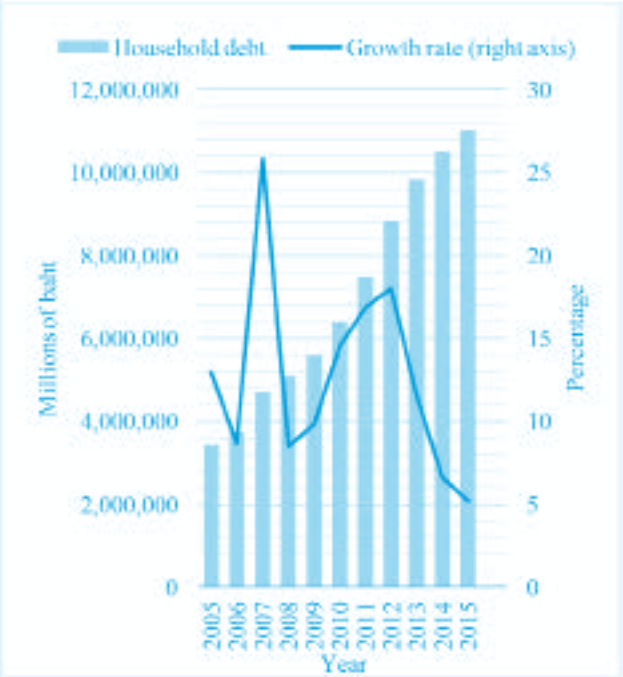
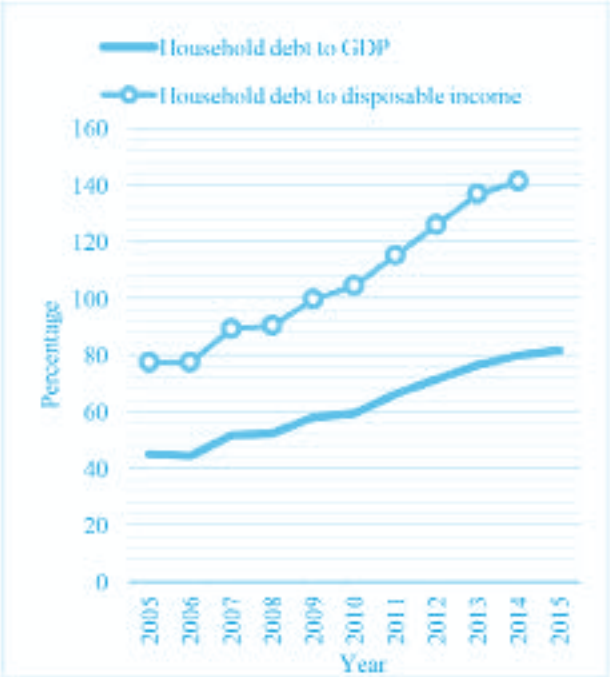
[1] *Muthitacharoen, Athipat, Phacharaphot Nuntramas and Pasit Chotewattanakul. 2014. Rising household debt: implications for economic stability. Bank of Thailand Symposium 2014.*

Figure 1: Amount of Thailand's household debt



Source: Bank of Thailand data.

Figure 2: Household debt to GDP and disposable income



Source: Bank of Thailand and Office of the National Economic and Social Development Board's data and authors' calculation.

come and interest rate shocks.[2] If household income happens to decrease dramatically, the households concerned may find themselves unable to repay their debts. In addition, a slight increase in interest rates may significantly increase the total amount of the debt payment for each period. In a situation where many households are highly indebted, debt default might be so pervasive that it could trigger financial tumult.

For this paper, the authors studied the effect of household debt on the consumption of various products and the implications for the Thai economy. Following the introduction, the household debt situation in Thailand is explained in the second section. In the third part, the impact of household debt burdens on each type of household consumption is studied based on a model used by Muthitacharoen,Nuntramas and Chotewattanakul.[3] The fourth section contains an assessment of the impacts of household debt on financial stability, and the conclusion of the study is presented in the last section.

2. OVERVIEW OF HOUSEHOLD DEBT SITUATION IN THAILAND

Thai household debt has grown rapidly from about 3.5 trillion baht in 2005 to 11 trillion baht in 2015 (Figure 1). During the same period, the ratio of household debt to GDP, which is one of the indicators of financial soundness used by the International Monetary Fund (IMF), surged from 45 percent to more than 80 percent; in addition, the ratio of household debt to disposable income also rose dramatically, from 77 to 141 percent (Figure 2), which indicates that the growth of loans continually exceeded that of income.

Improved financial access in Thailand, the low borrowing-interest-rate environment, the government's stimulus programs and such events as extensive flooding in 2011 played a major role in the country's debt accumulation situation. Automotive

[2] *Schembri, Lawrence. 2016. Connecting the Dots: Elevated Household Debt and the Risk to Financial Stability. Speech at Guelph Chamber of Commerce, February 24.*

[3] *Muthitacharoen, Nuntramas and Chotewattanakul, op. cit.*

loans and personal loans accelerated at a much faster rate than that of other types of loans during the period 2011-2012 (see Figure 3), because people were spending money to repair the damage caused by the devastating floods at that time, and many people bought cars in response to the government's "first-car" tax subsidy scheme.

Even though auto loans and personal loans gained share in household debt during the past five years, mortgage loans still constitute the largest proportion of household debt. Their share in household debt in the Thai commercial banking system hovers around 40-50 percent; next in importance are automotive loans at 25 percent and personal loans at 20 percent of the total. The remainder of loans have been used for private business. The share of mortgages in the entire financial system is lower (about 35-40 percent) as non-banks in Thailand mainly provide funding for automotive leasing, hire purchase and personal loans.

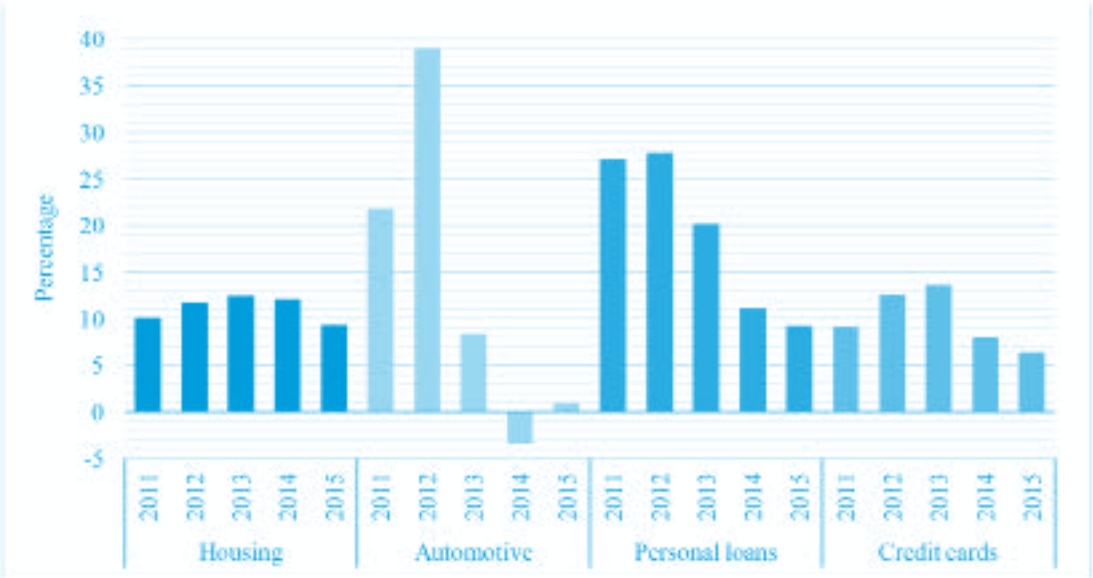
The persistently increasing trend in debt creates financial constraints on households in all economic classes,[4] according to the household survey undertaken by the National Statistical Office (NSO). The debt-service ratio (DSR), which measures the share of income that is used for repayment of loan principal and payment of interest, is a widely used metric for determining the difficulty of repayment. DSR is measured as follows:

$$DSR = \frac{Principal\ payment + debt\ payment}{Income}$$

If DSR is high, the spending of the households may be constrained due to the fact that they have to expend a large portion of their income to pay their debts. Empirical evidence suggests that, if a household's DSR reaches 40 percent, that

[4] *In this study, households are divided into five groups equally according to their expenditure per capita. The first economic quintile refers to the 20 percent of households with the lowest level of annual consumption, and the fifth economic quintile refers to households with the highest level of spending on consumption annually.*

Figure 3: Year-on-year growth of household debt in commercial banks' portfolio



Source: Bank of Thailand data.

household will have difficulty in paying its debts.[5] Commercial banks also set the critical rate of DSR at 40 percent. Credit approval for households with a DSR exceeding that threshold would be unlikely.

As of 2015, average DSR of each economic quintile stood at around 12-16 percent, which was well below the 40-percent threshold. This number indicates that Thai households in general still have the ability to cope with the repayment burden, and that debt accumulation in the past should be inconsequential. However, the average DSR presented above might be misleading because households without any debt would also be included. DSR is therefore inclined to understate the actual risk of household debt.

Distribution of DSR in each economic quintile as shown in Figure 4 illustrates that about half of Thai households are in debt to varying degrees. Moreover, vulnerable households with DSR exceeding 40 percent constitute about a tenth of the total number of households. Although the share of indebted households exhibits a decreasing trend over time across all groups, the total level of debt is still on the rise. This means that households which are already indebted accumulated more debt recently, and thus, they need to be closely monitored.

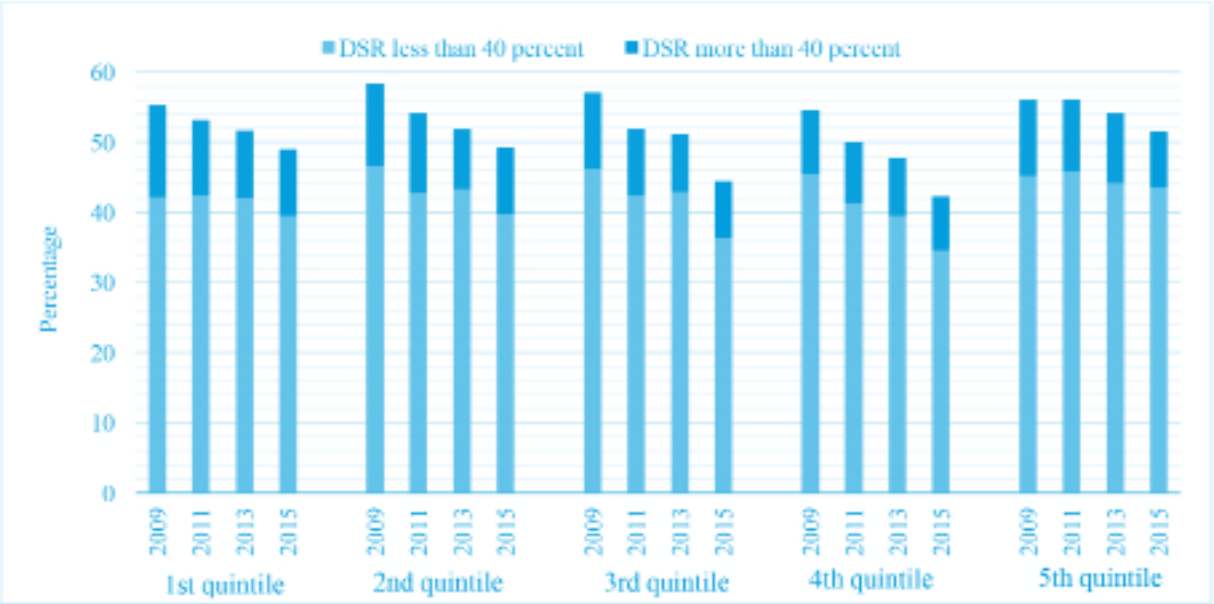
In terms of geographical distribution, about half of the vulnerable group is concentrated in the northeastern region of Thailand, followed by the northern and central regions. Not only do their DSRs exceed the threshold of 40 percent, but they also have a smaller "cushion" as they own less liquid assets and have an uncertain income stream.[6] If a negative shock were to happen, they would be among the first to show signs of financial distress, which could spark a debt-default chain reaction in the extreme case.

Debt creation in the future may not be as rapid as had been the case previously due to several factors. First, many households are approaching their debt limit. Because financial institutions widely use the 40-percent DSR threshold as one of the factors in loan approval, households with a DSR approaching or exceeding this rate may find it difficult to acquire further loans.

[5] *Muthitacharoen, Nuntramas and Chotewattanakul, op. cit.*

[6] *Ibid.*

Figure 4: Distribution of debt-service ratio (DSR), by expenditure quintile



Source: National Statistical Office's Socio-economic Survey, with authors' calculations.

Second, negative income prospects worry financial institutions concerned about the possibility of default. In response, credit conditions are tightened for the approval of new loans. As the domestic economy is sluggish and international trade is projected to be poor for a prolonged period, credit conditions tend to remain strict unless the situation improves. Data from the Senior Loan Officer Survey, which quarterly surveyed commercial banks, credit cards and personal loan companies under the supervision of the Bank of Thailand, showed that financial institutions have been more cautious about loan approvals over the past three years, and will continue using the strict standard into the foreseeable future.

Finally, as the prices of commodities remain low and inflation is weak, there is naturally less demand for loans both for consumption and for operating self-employed businesses. As for the future, IMF has projected that credit expansion might grow roughly at the same rate as nominal GDP growth.[7]

[7] *International Monetary Fund. 2016. IMF Country Report No. 16/139.*

3. EFFECT OF HOUSEHOLD DEBT ON CONSUMPTION

Although new debt creation may not increase rapidly, high levels of debt overhang may adversely affect households' purchasing power after its stimulus impacts wear off. A considerable amount of debt does not generate higher income or more assets for borrowers. This is the case when people borrow money to purchase consumption goods instead of investing in valuable assets. They end up therefore with a higher debt repayment burden but not higher debt serviceability.

Moreover, not all assets increase the wealth of borrowers; for instance, the value of such underlying assets as automobiles depreciates quickly. Unlike real estate, the value of which usually increases over time, automobiles do not have the same impact on the net worth of buyers as do houses and land. Consequently, acquiring these kinds of assets using a financial lease or hire purchase arrangement does not necessarily raise the buyer's purchasing power via the wealth channel.

Higher debt burdens are also exacerbated by income volatility. Because more than 30 percent of

the Thai labor force is in the agricultural sector,[8] the income of many households hinges on the movement of agricultural prices, which is especially important currently as agricultural prices tend to be subdued at a time when the global economy is not exhibiting a strong recovery following the so-called Great Recession which started in 2008. If they postpone repayment of debt until their income becomes adequate, the amount of debt will rise further in the form of higher interest. Since these households have to repay both principal and interest to creditors, their purchasing power becomes even more constrained. Under this gloomy circumstance, the consumption of these households is unlikely to be unaffected.

The effect of household debt on consumption through an increase in DSR is explored in this section. The empirical model follows that of Muthitacharoen, Nuntramas, and Chotewattanakul using data from the Socio-economic Survey (SES) conducted by the National Statistical Office from 2009 to 2013. The model used in this study is as follows:

$$\Delta \log C_{t,a} = \beta_{0,a} + \beta_1 \Delta DSR_{t-1} + \beta_{2,a} \Delta logY_t + \beta_3 Central + \beta_4 North + \beta_5 Northeast + \beta_6 South$$

where "*t*" means the period of time, and "*a*" denotes each type of goods. $\Delta \log C_{t,a}$ is the change in the logarithmic value of expenditures on product *a* from time *t–1* to time *t*. ΔDSR_{t-1} is the change in DSR from time *t–2* to *t–1*. $\Delta logY_t$ is the change in the logarithmic value of income from time *t–1* to time *t*. The variables Central, North, Northeast and South are dummy variables to control regions compared to Bangkok. Each β refers to the coefficient of each variable from the regression analysis.

In this study, the model is used to evaluate the effect of increased DSR in the past on the change in current expenditures for each product. Data from the 2011 and 2013 SES are used to construct the change in current expenditures and incomes; the 2009 and 2011 SES are used to construct the change in the DSR in the past period. In other words, this model evaluates how the change in DSR in the last two years affects each type of household consumption item. In addition to total expenditures, the types of items of consumption studied in this model are:

- Food
- Personal care items
- Clothes and shoes
- Health care
- Transportation
- Communication
- Furniture and household appliances
- Electrical appliances
- Household utilities
- Automobiles
- Motorcycles
- Travel

The pseudo-panel data have been constructed by summing households into district level. A regression method corrects for heteroskedasticity using a robust standard error.

The outcome of the model is shown in Table 1. The average effect of the increase in DSR to total expenditure is about 0.35 percent. In other words, when DSR increases by 1 percent the total spending of a household will decrease by 0.35 percent. Five expenditure types are, relatively, more sensitive to an increase in DSR, i.e. expenditures that exhibit a statistically significant decrease of more than 0.35. Other types of expenditure that are more resilient to an increase in DSR comprise food, health care, clothes and shoes, furniture and household appliances, electrical appliances, and motorcycles.

Expenditures impervious to an increase in DSR are necessary goods and services, such as food and health care, for which households cannot curb their expenditures. Other expenditures might be, to various degrees, essential for daily life from the consumers' aspect. For instance, personal care items and clothes and shoes are affected less than average. This might be because there is modest room to

[8] *Data are from the Thai Labor Force Survey, 2015.*

Table 1: Effect of 1 percent increase in debt service ratio (DSR) on consumption

	Effect of 1 percent increase in DSR		Effect of 1 percent increase in DSR
Total expenditure* **	- 0.3550		
Food	- 0.1624	Furniture and household appliances	0.1868
Personal care items***	- 0.3124	Electrical appliances	0.1848
Clothes and shoes	- 0.3337	Housing utilities***	- 0.3591
Health care	- 0.4038	Motorcycles	- 0.3221
Transportation***	- 0.4175	Automobiles***	- 1.2130
Communication***	- 0.4117	Travel*	- 0.6666

Note: The effects are given as percentage increase/decrease in spending on each consumption type.
, ** and * denote statistical significance at 90, 95 and 99 percent, respectively.*
Source: Socio-economic Survey, with authors' calculations.

decrease the amount consumed and a wide range of less expensive substitutes of lower quality or a less desirable brand. Households may also consider switching from purchasing an automobile to buying a motorcycle as that would be cheaper and suitable to their tighter financial conditions.

On the other hand, communication, transportation, travel and automobiles are relatively more sensitive to changes in DSR, which reveals that households decrease their spending on these kinds of goods when they have a high debt burden. For instance, households may take transport less frequently and to nearer places as well as carry out more transactions per trip. They may also cut their vacation budget when their DSR is on the rise.

The model shows that an increase in DSR leads to a very sharp drop in automobile purchases when the coefficient exceeds 1 percent, implying that households with high debt burdens may not be able to afford to buy a new car. This result is rather intuitive as purchasing a new car would significantly increase a household's debt burden over the medium term. Moreover, households that recently purchased a car may not buy new ones within a two-year period.

To summarize this section, the result supports the view that high debt burdens affect the purchasing power of households as they decrease overall consumption. Increases in households' DSR affect each type of expenditure differently. Necessary expenditures, such as on food and health care, tend to be less affected by increases in DSR, while households tend to save money by cutting expenditures on less necessary items, such as on travel and cars.

4. IMPACTS ON FINANCIAL STABILITY

Thailand experienced a severe financial crisis in 1997. One of the major causes of that crisis was a surge in capital inflows to finance investment in real estate as well as other sectors, massive external debt accumulation and the subsequent inability to repay international debts following the collapse of the Baht starting in July that year.[9] As has been seen in the previous section, current debt burdens

[9] *For additional information, see Santiprabhob, Veerathai. 2003. Lessons Learned from Thailand's Experience with Financial-Sector Restructuring. Thailand Development Research Institute.*

Table 2: Credit quality, by type of loan

Loan type	Delinquency	Percentage of credit outstanding		
		2013	2014	2015
Housing	Special mention loans	1.8	2.1	2.2
	Non-performing loans	6.0	5.1	3.4
Auto lease/ hire purchase	Special mention loans	6.3	6.8	6.6
	Non-performing loans	4.4	5.5	6.1
Credit card	Special mention loans	1.8	1.9	1.8
	Non-performing loans	25.7	14.7	12.7
Personal loans	Special mention loans	1.8	2.8	5.0
	Non-performing loans	7.7	6.9	7.0
Commercial loans (self-employment)	Special mention loans	2.3	3.5	3.2
	Non-performing loans	9.8	7.3	7.5
Total household debt	Special mention loans	3.2	3.6	4.1
	Non-performing loans	7.2	6.2	5.7

Source: National Credit Bureau data.

limit purchasing power and consumption in various categories; there are growing concerns that rising household debt might end up triggering a vicious cycle of debt default and pave the way for a new financial crisis.

According to National Credit Bureau data, some loan types face relatively higher default risk than others. Issuers of credit cards experience the highest risk, as non-performing loans[10] (NPLs) stand at almost 13 percent of total debt, although that figure has come down from the high of 26 percent in 2013 (Table 2). For personal loans, NPLs are 7 percent of the portfolio, with special mention loans[11] (SMs) having increased markedly from a mere 1.8 percent in 2013 to 5 percent in 2015, a situation which indicates that the credit quality of loans with less or no-collateral assets deteriorate rapidly.

Although some loan types are at higher risk of default, the risk that a financial crisis might soon occur through the debt-default channel is still containable, according to statistics. NPLs as a proportion of overall household debt in Thailand's entire financial system have improved gradually, from 7.2 percent of total credit outstanding in 2013 to 5.7 percent in 2015. Moreover, SMs were still at the manageable level of 4 percent in 2015. NPLs net of provisions-to-capital ratio of commercial banks stood at 8 percent at the end of 2015, which indicates that banks still have ample capital to withstand debt defaults.

One explanation of low systemic risk of debt default is that financial institutions under the supervision of the Bank of Thailand must comply with regulations to ensure financial soundness. BASEL III, which was adopted by the Bank of Thailand, is aimed at reducing systemic risk by strengthening each financial institution's capability to tolerate an economic downturn. This includes provision for loss due to delinquencies, minimum tier-I and tier-II capital reserves, and regular publication of financial statements for all commercial banks and depository specialized financial institutions. If the credit quality of such institutions begins to deteriorate, they would have to bear higher costs for capital. Therefore, lending standards are adjusted to be stricter to better

[10] *Non-performing loans (NPLs) are loans with delinquency exceeding 90 days.*

[11] *Special-mentioned (SMs) loans are loans with delinquency over 31 days but not exceeding 90 days.*

reflect their risk management costs.

Although credit quality currently is not in bad shape, the high level of debt overhang exposes Thailand to the risk of economic recession. Our empirical evidence suggests that high level of debt relative to income results in a reduction of overall consumption. One research asserts that an increase in the household-debt-to-GDP ratio leads to lower GDP growth.[12] Another research indicates that a household-debt-to-GDP ratio exceeding 85 percent may lead to economic contraction.[13]

Therefore, deleveraging is required for Thailand to mitigate the risk of a recession. One measure that can be taken is to curb the granting of new loans by imposing stricter conditions and lowering the approval ratio. Senior Loan Officer Survey data indicate that financial institutions have tightened credit standards continually since 2013. This trend in stricter lending approval correlates with the loan quality that financial institutions have experienced. In looking forward, financial institutions will likely tighten their lending conditions further as their concerns have not eased. Although preliminary data for household debt outstanding as of the first quarter of 2016 increased by about 0.35 percent from the end of last year, the household debt-to-GDP ratio fell slightly, from 81.6 percent to 81.1 percent during the same period.

A theoretical simulation by Eggertson and Krugman,[14] however, showed that deleveraging may precipitate an economic crisis if not done properly. If highly indebted households were to be deleveraged swiftly and sharply, the spending of debtors would drop significantly, and this would harm overall consumption in the economy. Such a situation would then be followed by deflation, which would aggravate the already-severe repayment burden of households in the real term. Consequently, the economy would suffer from less spending, which in turn would reduce overall income and debt serviceability in other sectors.

[12] *Mian, Atif, Amir Sufi and Emil Verner. 2015. Household Debt and Business Cycles Worldwide. National Bureau of Economic Research.*
[13] *Cecchetti, Stephen, Madhusudan Mohanty and Fabrizio Zampolli. 2011. The Real Effects of Debt. BIS Working Papers No. 352.*

[14] *Eggertson, Gauti and Paul Krugman. 2012. "Debt, Deleveraging, and the Liquidity Trap: a Fisher-Minsky-Koo Approach." The Quarterly Journal of Economics, 1469-1513.*

Eggertson and Krugman argued against the proposition that a high debt situation could not be corrected by generating more debt, because only a portion of the population is highly indebted. Therefore, other agents still in good financial condition may spend enough money to offset the reduction in consumption by those with a high level of debt. Eggertson and Krugman are for the proposition that the governmental sector should increase public spending during a period of deleveraging in order to counter a drop in private consumption while households pay off their debts. As a result, an economic crisis may be avoided, while those households with excess debts gradually improve their financial position.

Therefore, if the Thai economy undergoes a period of deleveraging, steady economic growth as well as stable and modest inflation are required in order to alleviate the ensuing economic crisis. While indebted households are not able to increase consumption during such periods, the other portion of households currently without debt or with low debt might be the key to stabilize domestic consumption. However, this scenario is unlikely to happen on its own as such households are more patient and tend to save rather than to spend.

Unless an unnaturally low interest scheme aimed at boosting consumption is acceptable, government spending would be needed to fill the spending gap. However, caution must be exercised while allocating public spending in order to ensure those expenses are translated into something beneficial to the economy in the medium to long term. IMF also encourages expansionary fiscal budgets granted for investment in infrastructure and social safety nets in order to better prepare Thailand for structural challenges, such as an aging society.

5. CONCLUSION

Thailand's household debt situation has been explored in many aspects in this article. The growth in household debt has been rapid and has exceeded the growth of income. Automotive loans and personal loans are the type of loans that accelerated the most compared with other types of loans. Even if the average DSR is low across every economic class, that is, not exceeding the critical rate of 40 percent, about half of Thai households are in debt, and the number of households with DSR exceeding 40 percent are persistent at about 10 percent in every quintile.

Empirical evidence has revealed that increases in the debt burden, as reflected by DSR, affect each type of expenditure differently. Households with a high debt burden tend to cut or decrease the amount of unnecessary expenditures, such as for cars and transportation and communication expenses, before decreasing important expenditures, on such essential items as food and healthcare spending.

Debt quality is still quite solid due to strong prudential regulations. Nevertheless, Thailand may be at risk of a recession as many empirical studies point out that high household debt tends to have adverse impacts on economic growth. Deleveraging to mitigate economic risk should be done very carefully because deleveraging too rapidly could plunge the country into crisis as well. In practice, sectors with the ability to pay, such as the public sector, should play a key role in stabilizing domestic spending through fruitful investment while highly indebted households strengthen their financial position.

GOVERNMENT ADVERTISING AND MEDIA INTERVENTION*

*Natchapol Praditpetchara***

Free and autonomous media form an integral part of a robust democracy. Colloquially called by many the "Fourth Estate," the media (particularly print journalism) play a critical role in holding the state and its officials accountable by seeking the truth about people, activities, events and issues, and investigating state agencies and politicians in the process. The media, therefore, represent the de facto fourth branch of modern democracies: the Fourth Estate.

To function as a potent check-and-balance force vis-a-vis the government, the media should be independent, but this has not always been the case in Thailand. The country's media remain heavily monopolized by a few large institutions with consi derable state intervention in various forms. One form of media intervention that has recently emerged is the procurement by the state of advertising space in the media. Such advertising is commonly used to disseminate important information to the public but often is also used for self-promotion by politicians and government bureaucrats. Such a situation may threaten the integrity of the media by adversely affecting its ability to act as a check-and-balance force with regard to the government. This

** This article is based on Deunden Nikomborirak and Tippatrai Saelawong. 2015. The State and Media Intervention (รัฐและการแทรกแซงสื่อ). Thailand Development Research Institute.*

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form of media intervention remains insufficiently regulated and constitutes the central focus of this article.

The article is presented in four parts. In the first part, the different channels for media intervention by governments of modern democracies are explored. The second part contains an overview of the current regulations of government public relations (PR) campaigns in foreign countries and in Thailand. In the third part, journalism ethics and standards are examined in foreign countries and in Thailand. The article concludes with a set of policy recommendations on how the government could better manage state PR campaigns so that they would be more cost-effective and beneficial to the country.

1. CHANNELS FOR GOVERNMENT INTERVENTION IN THE MEDIA

There are three common channels for the state to intervene in the media of a democratic country, namely by regulating media content, through ownership of media institutions and by procuring advertising space in the media. The first two channels constitute a direct form of media intervention while the third channel is an indirect form that is effected through financial incentives. In general, although state regulation of media content has increased in recent years, its level of ownership of media institutions and the procurement of advertising space in the media has decreased considerably in the last few years.

1.1 Regulation of media content

The history of media content regulation in Thailand is far from linear. Initially, in the years after the Siamese Revolution of 1932, the country's first few constitutions offered very little in terms of providing for and protecting a free and autonomous media. Through the Press Act B.E. 2484 (1941), the government gained a tight grip over the media. The Act gave the government and the police broad powers to regulate the media, including the right to inspect any media content before it was published and to close down any publishing house if the government deemed the content of its publications to be "contrary to public order or good morals."[1]

[1] *Section 9 of the Press Act B.E. 2484 (1941).*

The Act became a potent tool for the government to control the media, and it remained largely in effect until the passing of the 1997 Constitution, which was a landmark constitution with regard to media freedom.

With the 1997 Constitution and even more significantly the 2007 Constitution, Thailand ushered in a relatively progressive and free era for the media. Both constitutions protected the right of expression and the independence of the media to a degree that was unprecedented and also terminated the state's powers to close publishing houses and to investigate and approve media content before it was published. Shortly after the 2007 Constitution came into force, lawmakers passed the Printing Recordation Act B.E. 2550 (2007) to replace the Press Act 2484 (1941). The new Act significantly relaxed state control over the media, essentially reducing the state's role to that of only issuing professional licenses and monitoring content for possible lèse-majesté concerns. The 2007 Constitution also specifically barred politicians from owning or holding shares in media companies, which had become a source of controversy during the preceding Thaksin Shinawatra government.

Nevertheless, since the coup d'état in May 2014 and the ensuing ascension to power of the National Council for Peace and Order (NCPO), the progress made in media freedom has significantly been reversed. Under the current military regime, the government has stepped up its efforts to regulate content in the media, particularly online. Prime examples of such efforts are the recently proposed "Single Gateway" internet traffic control and surveillance system and the proposed "Computer Act B.E. 2559 (2016)," which would give the Minister of Information and Communication Technology broad powers to regulate online content. In July 2016, Prime Minister General Prayut Chan-o-cha issued NCPO Order 41/2559, which gave the National Broadcasting and Telecommunications Commission (NBTC) the power to shut down media outlets with full immunity if it deems the outlets to be disseminating information that is threatening to public order and good morals.[2]

1.2 Ownership of media institutions

The state is quite involved in the ownership and operation of media institutions in Thailand. Government ownership of radio stations is especially prominent. Thailand currently has more than 500 radio stations, about 300 of which are FM radio stations, with the remaining 200 being AM radio stations. All of the FM and AM radio stations are owned by various agencies of the government. Of the more than 300 FM radio stations, the Public Relations Department owns the most, at almost 90 stations, followed by the Mass Communication Organization of Thailand (MCOT) and the Royal Thai Army. A few radio stations are owned by universities, such as Chulalongkorn University and Rajamangala University of Technology.

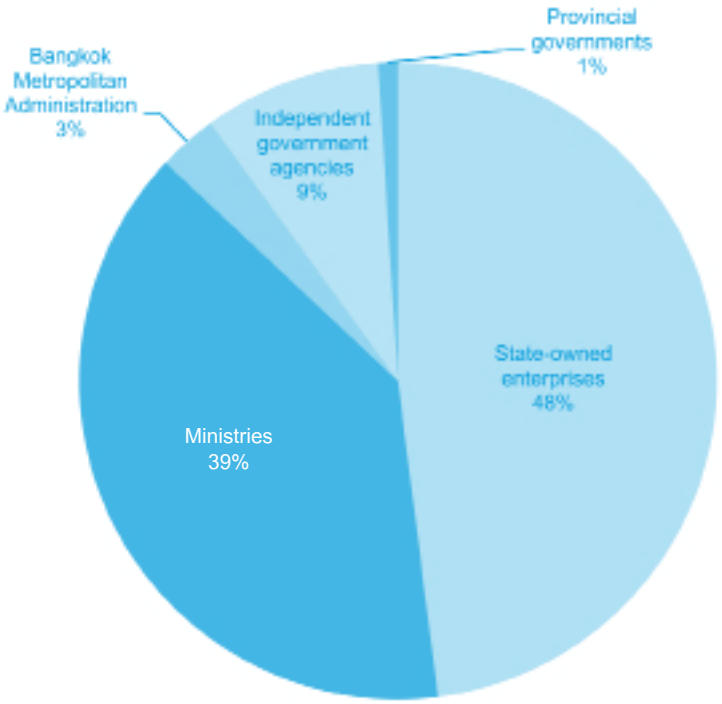
The government also has a significant presence in the terrestrial television industry where the state owns five of the six terrestrial television stations, while the state budget is used to finance the other station (ThaiPBS).[3] Of the five channels that the state owns outright, two are operated by private companies under concession agreements while the other three are operated by state agencies.

Nevertheless, with the introduction of digital television in 2014, the government's role in the television industry became much less significant. Digital television in Thailand currently consists of 48 channels, 24 of which were auctioned off by NBTC to private companies in December 2013; NBTC thus serves only as the regulator rather than the content creator of those channels. Many other digital channels have since been licensed to other non-state organizations. Therefore, digital television forms a new media platform operated

[2] *Royal Gazette. NCPO Order 41/2559 (http://library2.parliament.go.th/giventake/content_ncpo/ncpo-head-order41-2559.pdf).*

[3] *Under the Thai Public Broadcasting Service Act B.E. 2551 (2008), ThaiPBS is financed by a tax of 1.5 percent on the purchase of liquor and tobacco. This means that the station's source of funding is fixed and allows the station to operate without advertising.*

Figure 1: Advertising Expenditure, by Type of Government Agency, 2013



Source: Calculated from data provided by the Nielsen Company.

primarily by private companies, thus diluting the government's presence in the television industry and in media ownership in general.[4]

1.3 Procurement of advertising space in the media

Advertising revenues represent a substantial bulk of total revenue for many media outlets today, particularly newspapers, for which an estimated 75-80 percent of their total revenues come from advertisements. Therefore, advertising represents an indirect channel for the state to influence the media through the purchase of advertising space.

According to the Nielsen Company (Thailand), in 2013 government agencies spent almost 8 billion baht on advertisements in the media. Of this amount, 1.245 billion baht, or 16 percent of the total expenditure on advertising, was used for placing newspaper advertisements. Figure 1 shows those state agencies with the highest advertising expenditures in 2013.

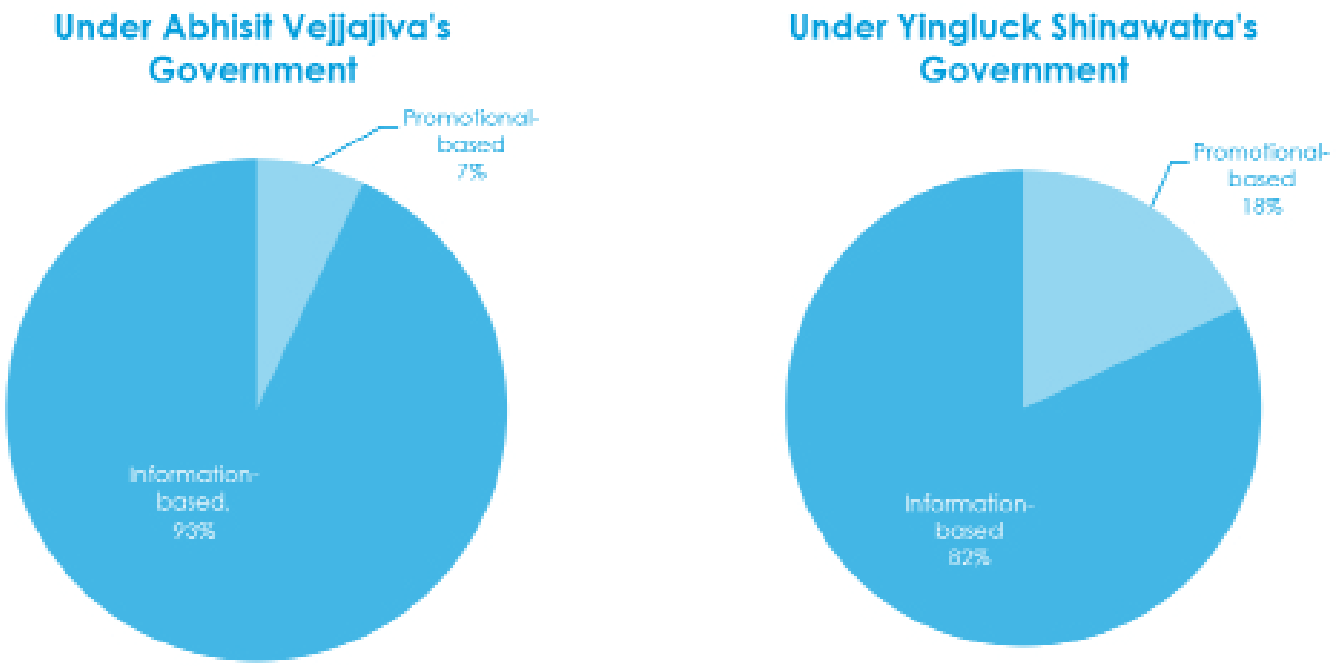
Government agencies usually engage in advertising to disseminate important information to the public, but a substantial portion of advertisements have been used for self-promotion. During the Abhisit Vejjajiva government in 2009 (July 1-15), 7 percent of all state advertising in four of Thailand's leading newspapers[5] was based on the self-promotion of politicians and government bureaucrats. In the same period in 2012 under the Yingluck Shinawatra government, the figure stood at 18 percent, as shown in Figure 2.

Figure 2 therefore shows that advertisements for promotional purposes are a bipartisan issue. In recent years, however, efforts to tackle inappropriate advertisements have begun to take shape. In April 2015, Prime Minister General Prayut Chan-o-cha issued an order requiring that state agencies

[4] *ThaiPublica, "ประมูลทีวีดิจิตอล ทุนสื่อหน้าเดิมและใหม่ เคาะราคาสุดฤทธิ์" (http://thaipublica.org/2013/12/digital-tv/, retrieved on July 31, 2016).*

[5] *The newspapers concerned were Thai Rath, Daily News, Matichon and Kom Chad Luek.*

Figure 2: Types of Newspaper Advertisements Assessed under Two Government Administrations



Notes: The advertisements were classified into two types: information-based: state advertisements devoted to providing information without pictures of politicians or government bureaucrats; and promotion-based: state advertisements with some portions featuring pictures of politicians or government officials. The newspapers assessed were Thai Rath, Daily News, Matichon and Kom Chad Luek in the periods July 1-15, 2009 (Abhisit Vejjajiva's Government) and July 1-15, 2012 (Yingluck Shinawatra's Government). Identical periods were chosen to control for extraneous factors and also because these two periods were relatively free from political turmoil.
Source: Deunden Nikomborirak et al. 2016. The State and Media Intervention. (In Thai).

procuring advertising services worth at least 5 million baht must first before moving forward gain approval from the Committee to Track and Monitor the Spending of Government Budgets and the Cabinet.[6] Nevertheless, a more holistic effort is needed to address this issue.

Media influence by the state through the procurement of advertising serves as the primary focus of this article because it is a form of media intervention that remains under-regulated in Thailand but which warrants critical scrutiny. Unscrupulous advertisements are an unwise use of taxpayers' money and are also a possible channel for politicians and government bureaucrats to influence public opinion in the guise of being independent information, thus damaging the autonomy of the media.

2. REGULATION OF GOVERNMENT PR CAMPAIGNS

Many countries, including Thailand, have existing regulations regarding government PR campaigns. TDRI researchers examined such policies in Australia, Canada, France, the United Kingdom, and the United States of America and discovered several common themes. In fact, as will hopefully become clear, Thailand's regulations are actually comparable with those of many other countries but unfortunately are not as effectively enforced.

There are two common objectives to these regulations: to promote the efficiency of government PR campaigns and to prohibit self-promotion.

[6] *Thai Publica, "เปิดหนังสือ "บิ๊กตู่" สั่งทุก "กระทรวง-กรม-รัฐวิสาหกิจ" รายงานโครงการพีอาร์ งบ 5 ล้านบาทขึ้นไปให้ คตร.ทราบ ก่อนจัดจ้าง" (http://thaipublica.org/2015/05/government-advertising-11/, retrieved on August 1, 2016).*

2.1 Regulation of government PR campaigns in foreign countries

Coordination of PR campaigns (efficiency)

In countries such as Australia, Canada, and the United Kingdom, a centralized approval process exists for the allocation of state funds for PR purposes. In these countries, the central government would confer with representatives of the different state agencies that wish to spend on public relations before deciding whether to approve each request and how much money to allocate to each requesting agency. This is usually done at the beginning of each fiscal year. Such a process ensures that the messages from each state agency are coordinated. It also helps the state manage overall expenditure on such endeavors and prevents overlaps in procurement.

Transparency of PR campaigns (efficiency)

The process of undertaking PR campaigns is highly transparent in many of the countries assessed, with information related to both the budget and the content of the campaigns readily available to the public. For instance, in Australia and Canada, state agencies must make public the details of all PR campaigns, including budgetary information. In addition, the use of a centralized approval process for PR campaigns also means that data regarding PR campaigns are stored in one accessible location, which enables regulators to ensure standard pricing for PR campaigns.

Specific and justifiable purpose for PR campaigns (self-promotion prohibition)

Many countries have laws both at the national and state levels mandating that PR campaigns may be carried out only for certain purposes. Such purposes are by and large in the public interest, such as to disseminate important information and notices, such as about rights and safety, and to promote investment among the public. Australia, which has more ambiguous specifications than some other countries, designates the Cabinet and the national Independent Communications Committee (ICC) to oversee the budgeting and approval of PR campaigns.[7,8]

Policies banning self-promotion (self-promotion prohibition)

Australia and Canada have clear laws banning advertisements placed by public agencies that are political in nature or depict visual and/or audible portrayals of politicians and/or political parties. ICC is responsible for regulating such content in Australia, while the Auditor-General is responsible for the same task in Canada.

2.2 Regulation of government PR campaigns in Thailand

Coordination of PR campaigns (efficiency)

In Thailand, the state body responsible for implementing policies regarding state PR campaigns and formulating the state's PR strategy is the National Public Relations Committee (NPRC). The Committee, formed in 1984 and chaired by the Prime Minister, serves the primary purpose of coordinating the state's PR campaigns toward a common direction. In practice, however, NPRC faces many issues. First, its policymaking process still lacks sufficient involvement and input from other state agencies and from representatives of the private sector and the general public. As a result, NPRC policies often fail to tackle the real issues at hand and the recommendations of the Committee may not be practical, leading to state agencies ignoring them. Second, there is also no proper monitoring system for testing the effectiveness of the policies implemented. Lastly, NPRC policies are heavily influenced by politics, and they lack continuity in

[7] *Department of the Premier and Cabinet, "Government Advertising and Communications Policy" (https://www.dpc.wa.gov.au/GuidelinesAndPolicies/Documents/govt-advertising-communications-policy-20160111.pdf, retrieved on July 21, 2016).*

[8] *Department of Finance, "Compliance Advice by the Independent Communications Committee on Government Advertising Campaigns" (http://www.finance.gov.au/advertising/reports-by-independent-communications-committee/, retrieved on July 21, 2016).*

view of Thailand's short-lived governments.

Transparency of PR campaigns (efficiency)

The investigation of state funds used for PR campaigns—after they have been undertaken— is the responsibility of the Office of the Auditor-General (OAG). All state agencies are required to submit details of their procurement plans to that office. Although OAG is an independent body with legal powers to implement administrative sanctions or forward cases to the National Anti-Corruption Commission (NACC) to pursue criminal charges,[9] it primarily performs only *ex post* investigations rather than *ex ante* investigations, which is still lacking in the entire process. Canada is one of the countries where OAG conducts *ex ante* investigations before PR campaigns are approved.[10] Critically, OAG does not have the power to halt the transfer of funds for a campaign even if it finds the project to involve an unsatisfactory use of funds. Therefore, its power comes into effect only after a campaign has ended. Moreover, OAG audits are still primarily compliance audits, which are audits investigating compliance with the law rather than performance audits, which investigate the effectiveness of PR campaigns. Performance audits tend to be much more complex and detailed, and often require input from experts in the field.

Specific and justifiable purpose for PR campaigns (self-promotion prohibition)

There are specific and detailed guidelines for both central government agencies and local government agencies to follow before they embark on a PR campaign. Central government agencies follow the guidelines specified by the Bureau of the Budget, while local government agencies follow guidelines specified by the Ministry of Interior.

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[9] *Office of the Auditor-General of Thailand, "History of the Office of the Auditor-General of Thailand" (http://www.oag.go.th/th/ประวัติการตรวจเงินแผ่นดินไทย, retrieved on July 21, 2016).*

[10] *Thai Publica, "ธิปไตร แสละวงศ์ ซุก-ซ่อน-ซื้อ ปัญหาใช้งบพีอาร์รัฐ และกลไกปิดฉากการใช้เงินหลวงโฆษณาตัวเอง" (http://thaipublica.org/2015/08/government-advertising-19/, retrieved on August 1, 2016).*

Guidelines in general mandate that the agencies engage in campaigns only as necessary with specific purposes and through the most cost-effective channels. The guidelines also bar self-promotion without clear public benefits. Nevertheless, although the guidelines are robust and similar to those observed in other countries, there are no legal mechanisms to enforce compliance with the guidelines, which means they are vulnerable to violation.

Policies banning self-promotion (self-promotion prohibition)

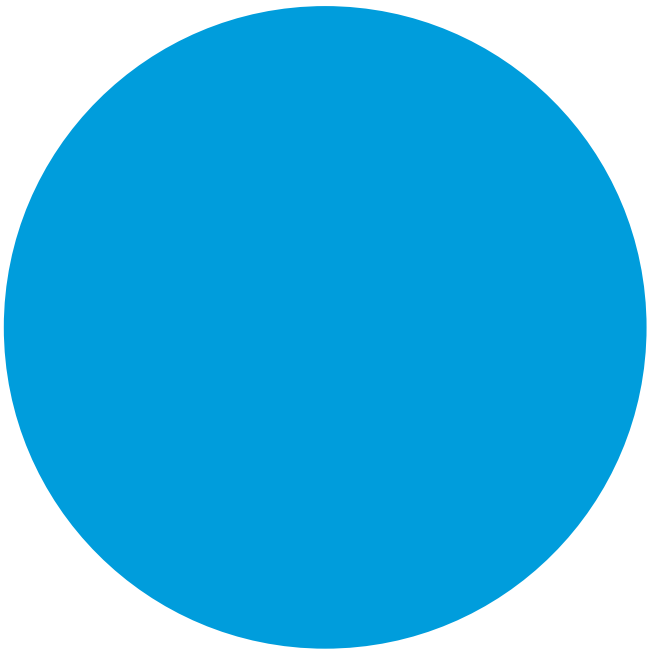
As mentioned previously, the Prime Minister's order in 2015 to require prior approval of state procurement of advertisements worth at least 5 million baht is a positive step toward banning self-promoting state advertisements. Guidelines also exist that bar self-promoting advertisements. However, these measures are insufficient as smaller-scale advertisements remain unregulated and the guidelines are still not legally enforceable.

3. JOURNALISM ETHICS AND STANDARDS

Although regulating state agencies is important as they are "buyers" of advertisements, the media, the "sellers" of advertising space, are also an important part of the picture that needs to be addressed as they are also a party in the transaction. The following section contains an exploration of current journalism ethics and standards; this is done in the media of Thailand and countries that have high levels of media freedom, according to the Press Freedom Index report.[11]

3.1 Journalism ethics and standards in foreign countries

Several means of maintaining high ethical standards in the realm of journalism are practiced in different countries. In countries such as Finland, Germany, Luxembourg, the Netherlands, and the



United Kingdom, the media regulates itself without state intervention, often through the national press councils of each country. The national press council generally issues a code of ethics that members are expected to follow. Although there are no legal means to sanction violators of the code, the national press council can threaten wrongdoers with expulsion, which may adversely affect their reputation and bargaining power. This form of regulation has positives in that it reduces the risk of excessive state intervention and is more cost-effective for the state. Nevertheless, it relies heavily on the ability of the national council to develop robust internal oversight mechanisms to effectively promote high ethical standards among members. To holistically reflect the interests of the public, the boards of national press councils are often composed of officials both from within and outside the media industry. Officials from outside the media may represent those vulnerable to media content, such as children.

In other countries, such as Denmark and Finland, the promotion of journalism ethics and standards is a joint exercise (co-regulation) between the state and the media. In such countries, the national press council and the relevant state agencies jointly issue and enforce a code of ethics for journalists. This model ensures greater compliance but may risk

[11] *Reporters Without Borders, "2016 World Press Freedom Report" (https://rsf.org/en/ranking, retrieved on July 25, 2016).*

excessive state intervention if not handled properly. It is important to note that none of the countries assessed allow the state solely to regulate and enforce journalism ethics and standards; this is done in order to maintain the independence and integrity of the media. Observations on journalism ethics and standards in foreign countries are summarized in the Table below.

In terms of the content of the codes of ethics, three common aspects are particularly emphasized across the countries observed. First, particular importance is given to the accuracy of the information presented. Second, the distinction between fact and opinion should be clear. Lastly, content that may lead to hate and discrimination should be avoided. With regard to enforcing the codes of ethics, countries where the media practices self-regulation generally require only that an apology be extended to those offended by the content, and that the offensive content be modified or deleted. There are no legal mechanisms to prosecute wrongdoers, aside from cases of serious infringements for which the country's judiciary may decide to prosecute. This is not the case for countries where the state

Table: Issuance and Enforcement of the Journalism Code of Ethics in 7 European Countries

Country	Issuer of Journalism Code of Ethics		Enforcer of Journalism Code of Ethics	
	Name	Status	Name	Status
Germany	German Press Council (*Presserat*)	Professional council*	Same as issuer	
United Kingdom	Independent Press Standards Organisation	Public council	Same as issuer	
Netherlands	Netherlands Press Council (*Raad voor de journalistiek*)	Public council	Same as issuer	
Finland	Council for Mass Media (*Julkisen sanan neuvosto*)	Public council	Same as issuer	
Luxembourg	National Press Council (*Conseil de Presse*)	Professional council	Same as issuer	
Sweden	Various professional press councils	Professional council	Press Ombudsman (*Pressombudsman*)	State
			National Press Council (*Pressens Opinionsnämnd*)	Quasi-state
Denmark	Danish Press Council (*Pressenaevnet*)	Public council (State appoints board members)**	Same as issuer	

**Professional councils are those that comprise only representatives from the press. Public councils are those that comprise representatives from both the press and society at large.*

*** The Danish Press Council's board is composed of representatives from both the press and society at large. Although every board member is appointed by the state, this structure ensures that the state is not solely responsible for issuing and enforcing the country's journalism code of ethics, therefore maintaining the structure of co-regulation. (In Section 41 (1) of the Danish Media Liability Act 1991, it is stated that: "A Press Council shall be established comprising a chairman and a vice-chairman and six other members to be appointed by the Minister of Justice. The appointment of the chairman and the vice-chairman, who must be members of the legal profession, shall be made upon recommendation by the President of the Danish Supreme Court. Two members shall be appointed upon recommendation by Dansk Journalistforbund (the Danish Journalists' Union), two members shall be appointed to represent the editorial managements of the printed press and radio and television upon recommendation by these media, and two members shall be appointed as public representatives upon recommendation by Dansk Folkeoplysnings Samråd (the Danish Council for Adult Education).")*

plays a role in enforcing the code of ethics. In such countries, such as Denmark and Sweden, there are legal means to prosecute violators.

3.2 Journalism ethics and standards in Thailand

The two most influential press councils in Thailand are the National Press Council of Thailand (NPCT) and the Thai Journalists Association (TJA).

NPCT was established in 1997 with the intention of promoting independence of the media from the state through self-regulation among media institutions without the need for state intervention. Today, NPCT can count as its members more than 50 newspapers nationwide. NPCT also has a code of ethics, the Code of Conduct for Journalists, B.E. 2541 (1998),[12] which is relatively strong and thorough. Despite having a code of ethics the content of which compares well with that of other countries, NPCT has been criticized by many as weak when it comes to enforcement. In July 2016, *Neaw Na* newspaper withdrew its membership from NPCT, citing ineffectiveness in ensuring journalism ethics among its members.[13] Additionally, the NPCT code of ethics applies only to members, and the Council has no legal power to prosecute. Since membership in NPCT is voluntary, this means that those that may have violated NPCT rules may simply leave the Council without repercussions.

TJA was established in 2000 as a result of a merger between the Reporters' Association of Thailand and Thailand's Newspapers Association. The aim of TJA is to foster unity among journalists and promote good journalism ethics and standards. TJA members are composed not only of newspapers, but also magazines, television channels and radio stations. TJA's board of directors is composed of 15 members, all of whom are journalists from media companies associated with TJA.[14] Membership in TJA is on a voluntary basis. TJA provides many benefits for members and their families, including education and healthcare costs. Furthermore, the Association also has a code of ethics with which it expects its members to comply. The Association has a five-person panel to monitor and investigate possible cases of journalistic malpractice among members.[15] Those found guilty may be expelled from the Association and thus lose access to the benefits that the Association provides.[16]

Using the examples of the above-mentioned associations, it can be seen that Thailand still relies primarily on self-regulation within the media when it comes to upholding and promoting decent journalistic ethics and standards. Existing professional councils/associations do not have the legal power to make membership compulsory and implement sanctions on violators except in cases of serious violations, such as defamation, where the state may decide to prosecute the violator.

4. POLICY RECOMMENDATIONS

As mentioned previously, the problem of state intervention through the procurement of advertising space in the media involves both state agencies, i.e. the "buyers," and the media, i.e. the "sellers." As both are parties in the transaction, therefore, two recommendations will be presented in this section: a new law to regulate PR campaigns by state agencies, and strengthening of the enforcement mechanism of journalism ethics and standards.

4.1 Pass a new law to regulate PR campaigns by state agencies

A new law devoted specifically to the regu-

[12] *The National Press Council of Thailand, "Code of Ethics for Members of the Press Council of Thailand" (http://www.presscouncil.or.th/code-of-ethics-for-members-of-the-press-council-of-thailand/, retrieved on July 23, 2016).*

[13] *Bangkok Post, "Media ethics in question as Naewna quits Press Council" (http://www.bangkokpost.com/news/general/1040885/naewna-resigns-from-national-press-council, retrieved on July 22, 2016).*

[14] *Thai Journalists Association, "Thai Journalists Association–TJA" (http://tja.or.th/index.php?option=com_content&view=article&id=2568:thai-journalists-association-tja&catid=133:2011-03-25-09-28-42&Itemid=76, retrieved on July 23, 2016).*

[15] *Ibid.*

[16] *Section 12 of the Code of the Thailand Journalists Association B.E. 2543 (revised in B.E. 2557 (2014)).*

lation of the procurement of advertising spaces by state agencies in Thailand should be passed. Such a law should address the content of state PR campaigns/advertisements, budgetary procedures for such campaigns, and the law's enforcement mechanism.

Content of PR campaigns/advertisements

The law must explicitly prohibit the use of public funds for PR campaigns that contain the name, picture or voice of the "buyer," namely politicians and government bureaucrats. The content must also be aligned with the roles and obligations of those particular agencies and the advertisements must also state that they are funded through the use of public money.

Budgetary procedures

The law should lay out a budgetary procedure for the funding of PR campaigns by state agencies. There should be a plan at the beginning of each fiscal year which establishes the theme and the budget for state PR campaigns. This process should be completed before the allocation of any PR funds in that fiscal year. Furthermore, information about all procurement items by all state agencies related to PR purposes should be made readily available to the public in an easily accessible format.

Enforcement mechanism

It is no secret that far too many laws in Thailand are very loosely enforced, often due to a lack of a clear enforcement mechanism. For this proposed law, the Auditor-General should be in charge of enforcement. The Auditor-General should investigate and determine the appropriateness of PR campaigns, particularly with regard to whether they are informational or promotional in nature. The law should also establish an independent committee responsible for *ex ante* investigations of PR campaigns before they are released, a process which is already practiced in many countries.

4.2 Enforcing journalism ethics and standards

The government should mandate that all media institutions join a press council, such as the National Press Council of Thailand. Making membership mandatory is critical in enforcing council guidelines as leaving the council would no longer be an option. Compulsory membership would add significant leverage for the press councils, many of which already have decent guidelines for their members but lack enforcement capabilities. Press councils should also be actively monitoring media content for possible malpractice, and punishments must be sufficiently harsh. The United Kingdom's Independent Press Standards Organisation (IPSO), for instance, fines members up to £1 million in cases of serious violation.[17]

In addition, the board of the press councils should be composed of roughly an equal number of representatives from within the media and from other groups in society. Such a structure would ensure that the voices of both parties are heard and are heard equally when it comes to voting power on the board. For instance, the board of the Netherlands Press Council *(Raad voor de Journalistiek)* is composed of 10 journalists and 10 non-journalists, such as journalism/communication arts professors, which can aid in ensuring that council policies and decisions are fair and appropriately targeted. It also gives prestige and credibility to the councils and negates possible accusations of bias.

Foreign examples have shown rather unambiguously that government intervention is not necessary for enforcing and maintaining high journalism ethics and standards. Self-regulation within the media is possible if the press councils are given sufficient power and are constantly proactive, although they also need to prove their credibility and neutrality on a consistent basis. Nevertheless, for serious infringements, such as defamation, there should still be legal repercussions which could lead to administrative or criminal charges.

[17] *Independent Press Standards Organisation, "About IPSO" (https://www.ipso.co.uk/about-ipso/, retrieved on July 24, 2016).*