

2007-60
Mar. 26, 2007

Thailand (Kingdom of)

Foreign LT: **A-/Stable**, Local LT: **A+/Stable** (Affirmed on February 6, 2006)

<Rating Perspective>

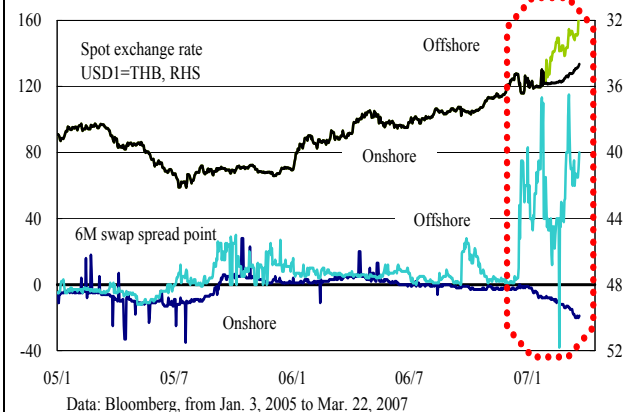
Positive Factors

- Solid external position.
- Gradually recovering corporate and banking sectors.

Negative Factors

- Relatively vulnerable government fiscal position due to significant, albeit gradually decreasing, debt and substantial contingent liabilities.
- Remaining political uncertainty after the military coup

Capital control created two-tier markets



<Update: from December, 2006 to February, 2007>

Positive Factors

- Martial law was lifted in 41 provinces including Bangkok, while it remains in effect in 35 provinces in deep south, north and northeast regions. (Jan. 26)
- Q3 real GDP growth was steady at 4.7% y/y compared with 5.0% in the previous period (Dec. 4)

Negative Factors

- SET index (closing) plunged 15%, recording its steepest daily drop since 1990, prompted by introduction of 30% unremunerated reserve requirement (URR) on foreign investment. (Dec. 19)
- Bomb attacks in Bangkok killed three people and wounded more than forty others (Dec. 31)
- Cabinet approval of Foreign Business Act amendment attracted criticism from foreign investors for insufficient prior consultations and explanations (Jan. 9)
- Dr. Pridiyathorn resigned as Deputy Prime Minister and Minister of Finance (Mar. 1)
- Q4 real GDP growth slowed at 4.2% y/y compared with 4.7% in the previous period (Mar. 6)

<Outlook and Points to Watch>

Solid external balance sheet supports ratings amid political uncertainty

(1) Remaining political uncertainty

While political uncertainty heightened by the military coup on September 19 quickly dissipated afterwards, it has not been totally eliminated yet. The coup leaders succeeded to allay concerns among financial investors by promptly announcing their intention of return to political stability and presenting the timetable, according to which they appointed interim government and organized legislative body subsequently. Notwithstanding, it will take much time to return to political normalcy. It remains to be seen whether a new constitution will be promulgated and general election will be held as scheduled by the end of 2007, without any delay and disruptions, and whether it will lead to restoration of stable democracy. In addition, it is still not clear who was behind the New Year's Eve bombs attacks in Bangkok, and whether they were onset of violent counter-coup movements.

(2) Investors started questioning investment climate

Some investors seemingly started to pose a question about investment climate of the country, which used to be perceived quite favorable. Foreign portfolio and direct investors were unsettled by introduction of draconian controls on foreign exchange transactions in December 2006, and cabinet approval of Foreign Business Act (FBA) revision in January 2007. An abrupt introduction of draconian controls affecting portfolio investments

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(both equity and bond) and loans, and quick reversal of a part of controls seemingly prompted by collapse of equity prices, called into question the capability of the interim government and policy consistency. While the cabinet approval of FBA revision is thought to be a legitimate attempt in views of clarifying foreign investors' investment limit, JCR doubts whether its timing and process, especially consultation with concerned parties, had been appropriate. A growing number of investors started to assess social and political risk of the country more carefully as long-held perception of a sociopolitical stability becoming less convincing after heightening political tension from early 2006, military coup in September 2006 and end-2006 bomb attacks in Bangkok. If its reputation as an investment destination should also be tarnished, it would have negative implications on fixed investment.

(3) Solid external balance sheet

On the other hand, Thailand's solid external balance sheet makes it resilient to external shocks, such as capital outflow induced by sociopolitical instability. Consecutive seven years' current account surplus from 1998 facilitated a rapid repayment of external debts. Net external debts of public and private sector (gross debt minus international reserves and external assets of deposit money banks), which once was comparable to annual goods and service export at end-1997, but was eliminated in the middle of 2003. At end-October 2006, the country holds net external assets amounting to 19.5% of annual export. International reserves net of forward position at end-2006 amounts to USD73.9 billion, which is equivalent of 1.3 times (X) and 4.1X respectively of gross external debts and short term debts at end-November, 2006.

(4) Improving fiscal account of the government

Fiscal account of the government has been improving in recent years, and is expected to remain sound in coming years. Tax revenue is increasing on the backdrop of robust growth in economy and corporate sector profits, and resumed tax payment by corporate and financial sector. The general government fiscal account (GFS 2001 cash basis) has been in moderate surplus since FY2003. Level of government debt is on declining path amid robust economic growth and improved fiscal balance. Debt of the general government including FIDF at end-October 2006 was 29% of GDP, even with FIDF's guarantee related to financial sector restructuring at end-March 2006 added, it was 31% of GDP, much lower than 40% and 51% respectively at end-2002. In addition to robust economic growth, improving financial condition of debtor companies (of which debt was guaranteed by FIDF) and better recovery from collateral properties limited debt to be incurred by FIDF from the guarantee it made, of which maturities concentrated in 2005 and 2006, contributing to a gradual decrease in government debt. Notwithstanding a rapid growth in off-budget spending and lending by state owned policy financial institutions under the previous administration, government liabilities to be incurred from such activities are likely to be limited.

(5) Maintenance of stable outlook hinges on political normalization

Stable outlooks on the ratings reflect JCR's view that political situation is likely to normalize in a gradual manner going forward despite remaining uncertainties. However, in case that there will be indication of a fixed investment slowdown which might affect mid-term growth prospect amid further loss of investors' confidence, possibly induced by economic policy missteps such as one seen in late December, 2006, rating outlook could be changed to negative. Such revision of rating outlook could also be precipitated in case that prospect of political normalization should become more and more clouded amid growing tensions with counter-coup movement, of which possibility remains relatively limited in JCR's view.

Thailand: Main Economic Indicators

		1999	2000	2001	2002	2003	2004	2005	2006f	2007f
Real GDP Growth y/y	(%)	4.4	4.8	2.2	5.3	7.1	6.3	4.5	4.6	4.5
Unemployment Rate	(%)	3.0	2.4	2.6	1.8	1.5	1.5	1.7	1.6	2.1
CPI Inflation y/y	(%)	0.2	1.7	1.6	0.7	1.8	2.7	4.5	5.3	4.5
Lending Rate	(%)	9.0	7.8	7.3	6.9	5.9	5.5	5.8	7.3	6.7
Central Gov. Balance/GDP (GFS basis)	(%)	-9.0	-1.9	-2.2	-7.2	1.5	0.6	0.3	-0.2	-0.1
Gross Gen. Gov. Debts/GDP (incl: FIDF)	(%)	31.9	38.5	38.7	38.4	40.2	35.9	36.5	35.0	36.0
Exports of Goods & Services	(US\$ bn)	71.4	81.8	76.1	81.5	93.9	114.0	129.8	151.0	163.0
Imports of Goods & Services	(US\$ bn)	56.3	71.7	69.1	73.7	85.1	107.3	133.7	145.5	159.0
Current Account Balance/GDP	(%)	10.1	7.6	5.4	5.5	5.6	4.2	-2.1	1.0	1.5
International Reserves(excl: gold)	(US\$ bn)	34.1	32.0	32.4	38.0	41.1	48.7	50.7	53.0	57.0
Import Cover	(month)	7.3	5.4	5.6	6.2	5.8	5.4	4.6	4.4	4.3
Net External Debts/GDP	(%)	36.8	24.8	15.2	4.6	-4.2	-8.2	-9.2	-12.0	-13.5
Intl. Reserves/S-T External Debts	(%)	1.8	2.2	2.5	3.3	3.9	4.1	3.3	4.2	4.4
Net External Debts/Exports	(%)	63.2	37.2	23.0	7.2	-6.4	-11.6	-12.6	-16.2	-18.0
Debt Service Ratio	(%)	21.8	16.3	25.4	23.2	15.6	10.6	9.5	8.6	7.5
Exchange Rate (period average)	(US\$1=)	37.8	40.1	44.4	43.0	41.5	40.2	40.2	38.0	36.0

Source : Bank of Thailand, Ministry of Finance, NESDB, IMF, World Bank, JCR estimates and forecasts