

## Thailand (Kingdom of)

Foreign LT: **A-/Stable**, Local LT: **A+/Stable**

### <Rating Perspective>

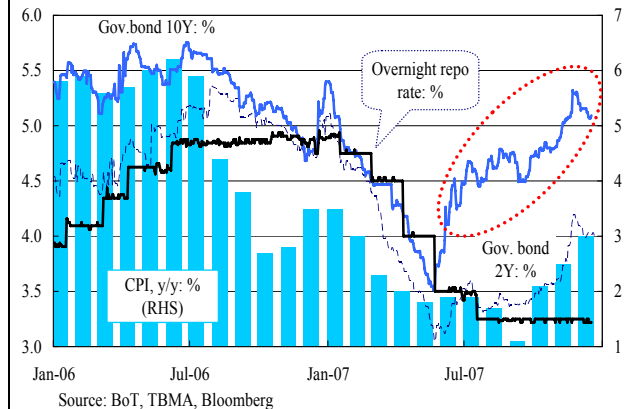
#### Positive Factors

- Solid external position
- Gradually recovering corporate and banking sectors

#### Negative Factors

- Relatively vulnerable government fiscal position due to substantial, albeit decreasing, debt and contingent liabilities
- Remaining political uncertainty following the military coup in Sep., 2006

### LT bond yield remaining high



### <Update: from September to November, 2007>

#### Positive Factors

- Q3 real GDP growth was stronger than expected at 4.9% y/y, compared with 4.3% in Q2, (Dec. 3) Growth in private consumption and fixed investment rebounded
- November consumer confidence index rebounded for the first time in fifteen months (Dec. 13)
- General election held in a peaceful manner, raising hope for a reversion of political normalcy (Dec. 23) However, the victory of People's Power Party (PPP), which is closely linked with ousted former prime minister Thaksin, may add to political uncertainty going forward

#### Negative Factors

- A bomb blast near the Army headquarters in Bangkok injured police officers (Sep. 30)
- November CPI inflation was high at 3.0% y/y, on the back of rising energy price at 14.1% y/y (Dec. 3)

## <Outlook and Points to Watch>

### *Political uncertainty remains after general election*

#### (1) PPP has won slightly-less-than outright majority seats

On December 23, General election was held in a peaceful manner, raising hope for a reversion of political normalcy after fifteen months of rule under the interim government appointed by the coup leaders. People's Power Party (PPP) has won slightly-less-than outright majority seats, leading the Democrat Party (which won around 35% of total seats) by a wide margin. However, the victory of PPP, which is closely linked with ousted ex-Prime Minister Thaksin, may add to political uncertainty going forward. PPP is now negotiating with potential partners to form a coalition in views of securing a majority in a 480-seat Parliament. If they will succeed to form the next coalition government, tension might emerge between the government and the military. In early September, the PPP leader pledged to lift the political ban on 111 former TRT executives (including the ousted ex-PM) if he became prime minister. In case PPP would fail to form an effective coalition or lose substantial number of seats because of election irregularities (though not very likely in our view), there could be a chance for the Democrat Party to form a coalition with almost all of other parties except for PPP, which would form a majority with a narrow margin. However, such a coalition government, with a very large party (i.e. PPP) in opposition would be unstable.

**(2) Economic policies of the new government may have limited implications**

While the political uncertainty likely remain a major constraining factor of ratings going forward, economic policies to be adopted by a incoming coalition government (whether it would be PPP-led or Democrat-led) will only have limited implications. JCR expects that whatever government to be sworn in is likely to respect market economy and free trade like governments in the past. Interestingly, almost all of major parties expressed in their election campaign their eagerness to adopt various fiscal measures to reinvigorate rural areas, which were “invented” by TRT, and became a prerequisite to win a reasonable number of seats in an election in the country. In addition, both PPP and Democrat seem to recognize the need of investments in infrastructures. JCR thinks that how to finance those measures and investments has stronger implications on ratings than what these measures will be like. While adopting many innovative policy measures, TRT government managed to limit adverse impact of those possibly costly measures on government finance. Relatively prudent management of government finance could be more difficult to be emulated by other parties than the populist fiscal measures themselves.

**(3) Small fiscal deficit and mild deterioration of current account expected**

The interim government has accelerated budget disbursement from last February, partially offsetting weakness in private consumption and fixed investment. In view of need for continuous fiscal stimulus in the near future and prospect for large scale infrastructure investments, fiscal balance is likely to remain in small deficit (e.g. within 2% of GDP) in coming years. However, consecutive deficit will not immediately jeopardize fiscal sustainability in view of currently moderate debt level. On the external front, infrastructure investments will increase capital goods imports. In addition, with current capacity utilization being at historic high, private investment would regain momentum, should political uncertainty ease following the election at the year end. Consequent rise in capital goods import will inevitably worsen current account balance in coming years. However, Thailand’s external balance sheet is strong with net external assets amounting to 26% of annual export at end-2007 (forecasted by JCR). Even if the current account will turn to negative from 2009, JCR thinks that the country will maintain sufficient resilience to external shocks.

**(4) Solid external balance sheet supports current ratings**

Current ratings are supported by Thailand’s solid external balance sheet, steadily recovering banking sector and improving fiscal position of the government. Despite political uncertainties remaining after the general election, which could lead to cause some disruptions, Thailand remains resilient to short-term shocks such as temporal capital outflow because of its solid external position and relatively stabilized government fiscal position.

**Thailand: Main Economic Indicators**

		1999	2000	2001	2002	2003	2004	2005	2006	2007f	2008f
Real GDP Growth y/y	(%)	4.4	4.8	2.2	5.3	7.1	6.3	4.5	5.0	4.4	4.9
Unemployment Rate	(%)	4.2	3.6	3.3	2.4	2.2	2.1	1.8	1.5	1.6	1.5
CPI Inflation y/y	(%)	0.2	1.7	1.6	0.6	1.8	2.8	4.5	4.6	2.2	2.8
Lending Rate	(%)	9.0	7.8	7.3	6.9	5.9	5.5	5.8	7.4	6.7	7.1
Central Gov. Balance/GDP (GFS basis)	(%)	-9.0	-1.9	-2.2	-7.2	1.5	0.6	0.9	2.2	-1.5	-1.7
Gross Gen. Gov. Debts/GDP (incl: FIDF)	(%)	38.5	38.7	38.4	40.2	35.9	35.1	32.7	28.9	27.0	27.5
Exports of Goods & Services	(US\$ bn)	71.4	81.8	76.1	81.5	93.9	114.0	129.4	152.3	169.5	185.0
Imports of Goods & Services	(US\$ bn)	56.3	71.7	69.1	73.7	85.1	107.3	133.1	145.4	155.0	176.0
Current Account Balance/GDP	(%)	10.1	7.6	4.4	3.7	3.3	1.7	-4.4	1.6	4.5	1.9
International Reserves (excl: gold)	(US\$ bn)	34.1	32.0	32.4	38.0	41.1	48.7	50.7	65.3	77.0	81.0
Import Cover	(month)	7.3	5.4	5.6	6.2	5.8	5.4	4.6	5.4	6.0	5.5
Net External Debts/GDP	(%)	36.8	24.8	15.2	4.6	-4.2	-8.2	-9.2	-16.9	-20.0	-20.3
Intl. Reserves/S-T External Debts	(x)	1.8	2.2	2.5	3.3	3.9	4.1	3.3	3.6	4.1	4.1
Net External Debts/Exports	(%)	63.2	37.2	23.0	7.2	-6.4	-11.6	-12.6	-22.9	-28.9	-29.2
Debt Service Ratio	(%)	21.8	16.3	25.4	23.2	15.6	10.6	9.5	8.6	7.5	7.0
Exchange Rate (period average)	(US\$1=THB)	37.8	40.1	44.4	43.0	41.5	40.2	40.2	37.9	34.0	33.8

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