

2008-56  
 March 31, 2009

## Thailand (Kingdom of)

Foreign LT: #A-/Negative, Local LT: #A+/Negative

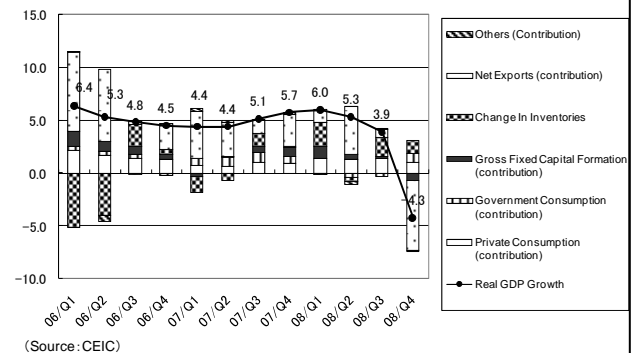
### <Rating Perspective>

#### Positive Factors

- Solid external position
- Gradually declining public debt
- Relatively sound banking sector

#### Negative Factors

- Uncertain political outlook
- Heavy impact of global economic crisis

**Thailand: Real GDP Growth (% yoy)**


### <Update: from December 2008 to February 2009>

#### Positive Factors

- **Survival of new administration.** A new coalition government led by PM Abhisit was formed in December 2008 by the second largest Democrat Party and some of the former ruling parties. It survived the by-elections in January 2009 and the censure motion in March 2009. Political turbulence has subsided for now, yet uncertain prospects remain.
- **Economic stimulus package.** A supplementary budget for fiscal 2009 including THB117 billion in additional expenditures was approved by parliament on February 12. The central bank has cut its policy interest rate for three consecutive months since December 2008, bringing it from 3.75% to 1.50%.

#### Negative Factors

- **Negative economic growth.** Real GDP contracted 4.3% in 2008/Q4 (yoy), first negative quarterly growth since 1999/Q1 (cf. -6.1% in 2008/Q4 (qoq, sa)). Accordingly, real GDP growth in 2008 slowed to 2.6%.
- **Plummeting exports.** Monthly exports have been recording double-digit year-on-year falls since November 2008 (-27% in January and -11% in February 2009). Imports also declined 38% in January and 40% in February 2009, partly on lower oil prices.

## <Outlook and Points to Watch>

**Thai economy hard hit by global economic crisis. Careful political handling needed.**

### (1) Political turbulence has subsided for the time being

After the inauguration in December 2008 of a new administration headed by Prime Minister Abhisit, the leader of the Democrat Party, a series of rollback campaigns that had been undertaken by the elite establishments against the emerging power led by the former PM Thaksin has calmed down for now. In the by-elections held on January 11, the ruling coalition parties won 20 out of 29 seats, securing a majority in the House of Representatives (N.B. Term of the current MPs is due to expire in December 2011). On March 21, the vote of no-confidence against six ministers including PM Abhisit was rejected.

**Thailand: House of Representatives – Political Parties**

Democrat	172	Puea Thai	183
Bhum Jai Thai	32	Pracharj Party	9
Puea Pandin	31		
Chart Thai Pattana	23		
Ruam Jai Thai Chart Pattana	9		
Social Action party	5		
People Party	3		
<b>Ruling parties</b>	<b>275</b>	<b>Opposition parties</b>	<b>192</b>
<b>Total</b>	<b>467</b>		

(Sources: Various news and reports, compiled by JCR)

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The Abhisit government has been paying attention to the urban-rural division in the Thai society that came to the fore during the political unrest. In January, the government compiled a supplementary budget for fiscal 2009 which contained various support measures for low-income people, such as handout of special allowances and continuation of the partial exemption of public transport fares and utility tariffs temporarily implemented by the former pro-Thaksin Samak administration. In February, the government approved a salary increase for local government officials. In March, PM Abhisit allocated a few local provinces to each of his cabinet members to pay a visit and look at the people's living situation. Now, the government is preparing to set up an independent "Political Reform Committee" to discuss political reforms including a constitutional amendment. Meanwhile, the pro-Thaksin "National United Front of Democracy Against Dictatorship (UDD)" staged two antigovernment rallies in January and February. But more than 10,000 people who took part in each of the gatherings stopped short of resorting to illegal actions such as occupation of the prime minister's office or international airports. Thus, the political and social tension in Thailand that culminated in December 2008 has apparently subsided for now.

Nevertheless, the structural factors that brought about the turmoil do remain unsolved. In order to achieve political stability amid the increasingly gloomier economic outlook, the Abhisit government is required to take not only measures to cope with the deteriorating economic situation (particularly unemployment problems) but also a well-balanced approach acceptable to both the urban and the rural and both the elite establishments and the general public in carrying out economic policies and political reforms. Should the government collapse, a new election be held and a pro-Thaksin group win again, there could be a recurrence of what happened in 2008. How the Abhisit government will manage the situation needs to be closely watched.

## (2) Global economic downturn takes heavy toll on Thai economy

Thailand forms an integral part of the manufacturing industry's production and distribution networks in East Asia. In 2008, goods exports accounted for 64% of its GDP while 88% and 63% of the total goods exports were manufacturing goods and high-tech products, respectively. In the fourth quarter of 2008 when the global economic downturn deteriorated significantly, exports from Thailand fell sharply, by 19% (yoy) in November 2008, 13% in December, 27% in January 2009 and 11% in February.

	2008			
	Q1	Q2	Q3	Q4
	(growth, yoy)			
Real GDP growth	6.0	5.3	3.9	-4.3
Consumption	2.3	1.6	1.7	3.2
Private	2.7	2.5	2.7	2.2
Government	-0.4	-3.7	-2.9	10.4
Investment	5.4	1.9	0.6	-3.3
Change in stocks	-377.0	123.0	-241.4	65.4
Export	8.9	11.9	11.2	-8.6
Import	9.3	6.7	13.1	1.0
Statistical Discrepancy	-1.7	38.8	-4.0	-4.3
	(growth, qoq)			
Real GDP growth	0.9	0.6	0.4	-6.1

(Source: CEIC)

The falling external demand, combined with the political unrest and the closure of international airports, brought about a 4.3% year-on-year contraction of real GDP in the fourth quarter of 2008, the first negative growth since the first quarter of 1999. While private consumption grew 2.2% (1.1% of positive contribution to economic growth), exports and investments declined 8.6% and 3.3% (6.1% and 0.7% of negative contribution, respectively). This sudden economic downturn is clear from the drops in capacity utilization ratio, car production, electricity consumption and the number of foreign visitors. The consumer confidence index also declined below 75 points in November 2008 for the first time since 2002.

	2008					2009
	8月	9月	10月	11月	12月	1月
Capacity Utilization Rate (%)	68.2	66.7	65.4	57.9	57.3	57.1
Automobile Production (yoy, %)	-5.3	5.7	0.7	-7.2	-19.4	-33.0
Electricity Consumption (yoy, %)	3.0	0.1	2.3	-2.4	-11.4	-13.5
Consumer Confidence Index (Point)	77.7	76.8	75.8	74.2	74.8	75.2
Foreign Visitors (yoy, %)	-0.2	-15.1	-4.4	-22.6	-26.2	-9.7
Hotel Occupancy Rate (%)	57.6	45.5	51.6	54.4	43.2	51.8

(Source: CEIC)

Looking ahead, various statistics released so far in 2009 generally indicate that the Thai economy is in a harsh condition. There is the great possibility of a negative economic growth in 2009 (cf. a 2.5% contraction was projected by the Thai Ministry of Finance on March 23, 2009). Some analysts say that the 4.3% GDP contraction in 2008/Q4 may not be simply extrapolated in gauging the magnitude of negative growth in 2009. They note that the Q4 figure did not reflect the impact of reduced imports caused by a fall in exports due to the

time-lag effect. In fact, imports plunged 37.6% in January 2009 after gaining 6.1% in 2008/Q4. On the other hand, given the 6.1% negative growth (qoq, sa) in 2008/Q4, GDP would contract 4.3% in 2009 even assuming that the level of the Q4 GDP is maintained (i.e., 0% growth for 2009/Q1-Q4 from 2008/Q4) (though there was an usual event of airport closure in 2008/Q4).

Base effect of 2008Q4 growth on 2009 real GDP growth							
(Assumption) Quarterly growth in 2009/Q1-Q4	3%	2%	1%	0%	-1%	-2%	-3%
(Result) Annual growth in 2009	3.1%	0.6%	-1.9%	-4.3%	-6.7%	-9.0%	-11.3%

(Source: Calculated by JCR)

### (3) Strict fiscal disciplinary framework and solid shock-absorbing capacity

Faced with the harsh economic condition, the government compiled a supplementary budget in January, calling for THB117 billion (approximately US\$3.3 billion) in additional expenditures, which was approved by the National Assembly in February. The central bank has cut the policy interest rate for three consecutive months since December. However, as the global economy undergoes an unprecedented demand contraction amid uncertain prospects, room for fiscal stimulus is restricted in Thailand by the budget deficit ceiling under its Budget Procedures Act, BE2502 (Section 9-2) and the Public Debt Management Act, BE 2548 (Section 22), which effectively limits an annual budget deficit at 5.5% of GDP. Under this circumstance, it is hard to predict to what extent the economic stimulus measures could support the flagging economy. The Thai economy may stay in a harsh situation for a while.

As Thailand's foreign exchange reserves totaling US\$109 billion (excluding gold) far exceed its total external debt totaling US\$65 billion as of the end of 2008 and the total public debt remained at 37% of GDP as of the end of September 2008, the country may well be able to absorb a short-term liquidity shock. Moreover, the country's banking sector is relatively sound, with the BIS capital adequacy ratio (CAR) standing at 14.2% and the nonperforming loan (NPL) ratio at 5.3% (gross) and 2.9% (net) at the end of 2008. Nevertheless, should the economic recession be prolonged, should the fiscal disciplinary framework be over-relaxed, should fiscal expenditures continue expanding, and should foreign direct investment (FDI) and tourism revenues decline, the long-term fiscal sustainability, the economic growth and the balance of payments could come under negative structural pressures, which in turn might erode the strengths that support the country's creditworthiness. JCR will carefully monitor, among others, the policies the current administration will employ to ensure structural stability of politics and society (including the enforcement of the rule of law and the directions of economic policies and political reforms), the impact of the global recession on the Thai economy, and the government's policy response (including possible changes to the fiscal disciplinary framework and content of fiscal policies to promote long-term economic growth).

#### Main Economic Indicators (Thailand)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009f
Real GDP Growth y/y (%)	4.8	2.2	5.3	7.1	6.3	4.6	5.2	4.9	2.6	▲3.4
Unemployment Rate (%)	3.6	3.3	2.4	2.2	2.1	1.8	1.5	1.4	1.4	4.0
CPI inflation y/y (%)	1.6	1.7	0.6	1.8	2.8	4.5	4.6	2.2	5.5	0.1
Lending Rate (%)	8.1	7.0	6.7	6.2	5.6	5.9	7.5	7.2	7.2	4.1
Central Gov. Balance/GDP (%)	▲2.1	▲2.5	▲2.9	▲0.2	▲0.2	0.3	▲0.7	▲1.6	▲0.9	▲5.0
Interest payment/Revenue (%)	8.4	10.1	9.6	8.6	8.4	7.0	7.2	8.1	8.0	8.4
Gross Public Debt/GDP (%)	57.0	57.2	54.0	49.5	48.2	46.2	41.2	37.5	37.4	42.5
Export of Goods & Services (US\$ bn)	81.8	76.1	81.5	93.9	114.0	129.5	152.8	180.4	209.1	168.8
Import of Goods & Services (US\$ bn)	71.6	69.1	73.7	85.1	107.2	133.0	147.1	162.9	204.1	149.4
Current Account Balance/GDP (%)	7.6	4.4	3.7	3.4	1.7	▲4.3	1.1	5.7	▲0.1	5.9
International Reserves (excl: gold) (US\$ bn)	32.0	32.4	38.1	41.1	48.7	50.7	65.3	85.2	108.7	119.5
Import Cover (month)	5.4	5.6	6.2	5.8	5.4	4.6	5.3	6.3	6.4	9.6
Gross External Debt/GDP (%)	65.0	58.4	46.9	36.3	31.8	29.5	28.8	25.1	23.7	26.1
Net External Debt/GDP (%)	38.9	30.4	16.9	7.5	1.6	0.8	▲2.7	▲9.5	▲16.1	▲22.8
Intl. Reserves/S-T External Debt (x)	2.2	2.4	3.2	3.8	4.0	3.1	3.5	3.9	4.4	4.7
Net External Debt/Export (%)	58.3	46.2	26.3	11.4	2.3	1.0	▲3.7	▲	▲21.0	▲33.0
Debt Service Ratio (%)	15.8	21.1	20.0	16.3	8.7	10.9	11.4	11.9	10.7	13.4
Exchange Rate (period average) (US\$1=THB)	40.1	44.4	43.0	41.5	40.2	40.2	37.9	34.5	33.3	36.0

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

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