

2009-12  
June 30, 2009

## Thailand (Kingdom of)

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

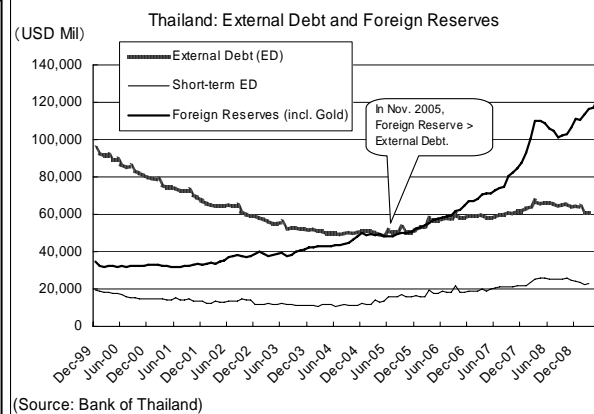
### <Rating Perspective>

#### Positive Factors

- Resilient external position
- Prudent fiscal management and improved public debt position
- Sound banking sector

#### Negative Factors

- Severe impact of global economic crisis
- Prolonged political turmoil



### <Update: from March to May 2009>

#### Positive Factors

- **Fiscal stimulus package:** The Cabinet on May 6 approved the second fiscal stimulus package totaling THB1.43 trillion for implementation in the three years from fiscal 2010 (beginning in Oct. 2009). The House of Representatives in mid-June endorsed an executive decree and a bill on the borrowing of THB800 billion to finance part of the disbursement.

#### Negative Factors

- **Political unrest:** Anti-government protests by pro-Thaksin forces turned violent between April 9 and 14. The ASEAN-related summits were forced to be cancelled after some of the protestors stormed into the conference venue. A state of emergency was declared in Bangkok and vicinity between April 12 and 24.
- **Negative economic growth:** Real GDP contracted 7.1% in 2009/Q1 (year-on-year), posting a negative growth rate for the second consecutive quarters since 2008/Q4.
- **Falling exports:** Monthly exports fell 23.1%, 26.1% and 26.6% year-on-year in March, April and May 2009, respectively, showing no signs of letup in the contraction. Monthly imports also declined 35.1%, 36.3%, and 34.7% during the same period.
- **Flu outbreak:** H1N1 cases in Thailand surged to 1,054 by June 25. The Tourism Authority of Thailand (TAT) revised down its tourist target number to 12 million from 14 million (c.f., 14.5 million in 2008).

## Resurgent political turmoil spurs economic recession

### (1) Resurgence of political turmoil

A series of rollback campaigns launched by the elite establishments against the emerging power led by former Prime Minister Thaksin calmed down with the inauguration in December 2008 of a new administration headed by Prime Minister Abhisit, the leader of the Democrat Party. In turn, however, anti-government rallies by the pro-Thaksin “National United Front of Democracy Against Dictatorship (UDD)” started in 2009, which turned violent in April 2009. The ASEAN-related summits in Pattaya were forced to be cancelled just before they were to be convened as some of the protesters stormed into the conference venue. In Bangkok, they blockaded major streets, hurled petrol bombs and explosives, and broke into the Interior Ministry, leaving two persons dead and more than 130 others injured. The government declared a state of emergency in Pattaya, and Bangkok and vicinity, respectively, and expressed its determination to forcefully displace the protestors who had been engaged in unlawful activities. This made them surrender and dismiss, and the riot was peacefully quelled.

The latest outbursts were a resurfacing of the deep-rooted political feud in Thailand. The Thai society faces profound, intricate and intertwined issues such as (a) the power struggle between the old establishments and the emerging power, (b) economic disparity between the rich urban and the poor rural that has been magnified in

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the process of economic development and (c) the dilemma of democracy and populism. The Abhisit government has addressed the issues by (1) repeatedly announcing that any anti-government rallies and demonstrations will be allowed as long as they remain lawful (enforcement of the rule of law), (2) establishing a special commission in parliament to discuss reconciliation, political reforms and constitutional amendment, (3) forming an independent Political Reform Committee to discuss political reforms including constitutional amendment and (4) rendering continued support for low-income people through fiscal measures. Despite such efforts, their solution appears far from easy. There remains a risk that the Thai economy may fall into a vicious circle where economic deterioration and rising unemployment will spur political unrest, which in turn will further exacerbate the economy through a fall in the number of tourists and reduced foreign direct investment. Thus, how Thai politics will evolve and how that will affect the economy will need to be closely watched.

## (2) Thai economy in serious recession

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% of the total exports were manufacturing goods. Reflecting such structure, the country's monthly exports have been declining by an average 21% (year-on-year) since November 2008 amid the deepening global economic downturn.

The falling external demand, combined with the political unrest, has dampened the domestic demand, which led to two consecutive quarters of negative real GDP growth since the fourth quarter of 2008 (See the chart). In the first quarter of 2009, private consumption registered the first negative growth since the first quarter of 1999 while investment (gross

fixed capital formation) fell as much as 15.8% (y-o-y). Various indicators such as the capacity utilization rate, automobile production and sales, electricity consumption, the number of foreign visitors and the consumer confidence index have remained by and large stagnant since April. No signs of economic recovery have been in sight yet. In this situation, the Thai economy is likely to go through a harsh period for a while. Its real GDP contraction in 2009 is projected at 2.5-3.5% by the Government of Thailand (NESDB), at 1.5-3.5 % by the Bank of Thailand and at 3% by the International Monetary Fund.

Faced with the dire economic outlook, the government in March 2009 enacted a supplementary budget for fiscal 2009 (ending in September 2009), calling for THB117 billion worth of additional expenditures (of which THB47.7 billion had been disbursed by the end of April) and announced in May its second economic stimulus package totaling THB1.43 trillion for implementation in the three years from fiscal 2010 (starting in October 2009). The central bank intermittently lowered its policy interest rate by a total 250bp between December 2008 and April 2009 while keeping it unchanged in May in order to carefully assess the impact of the past rate cuts.

## (3) Solid shock-absorbing capacity

Thailand had foreign exchange reserves totaling US\$121.5 billion as of the end of May, nearly twice as much as

**Thailand: Real GDP growth**

|                         | 2008          |       |        |      | 2009   |
|-------------------------|---------------|-------|--------|------|--------|
|                         | Q1            | Q2    | Q3     | Q4   | Q1     |
|                         | (growth, yoy) |       |        |      |        |
| Real GDP growth         | 6.0           | 5.3   | 3.9    | -4.2 | -7.1   |
| Consumption             | 2.3           | 1.6   | 1.7    | 3.3  | -1.8   |
| Private                 | 2.7           | 2.5   | 2.7    | 2.1  | -2.6   |
| Government              | -0.4          | -3.7  | -2.9   | 11.0 | 2.8    |
| Investment              | 5.4           | 1.9   | 0.6    | -3.3 | -15.8  |
| Change in stocks        | -377.0        | 123.0 | -241.4 | 76.8 | -487.8 |
| Export                  | 8.9           | 11.9  | 11.2   | -8.9 | -16.4  |
| Import                  | 9.3           | 6.7   | 13.1   | 1.0  | -31.4  |
| Statistical Discrepancy | -1.7          | 38.8  | -4.0   | -5.5 | -12.8  |
|                         | (growth, qoq) |       |        |      |        |
| Real GDP growth         | 1.1           | 0.3   | 0.5    | -6.1 | -1.9   |

(Source: CEIC)

|                                   | 2008  |       |       |       |       | 2009  |       |       |       |       |
|-----------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
|                                   | Aug   | Sep   | Oct   | Nov   | Dec   | Jan   | Feb   | Mar   | Apr   | May   |
| Capacity Utilization Rate (%)     | 68.1  | 66.6  | 65.4  | 57.8  | 57.3  | 57.0  | 54.8  | 62.4  | 56.6  | -     |
| (Vehicles and Equipments)         | 72.7  | 80.9  | 75.3  | 72.2  | 52.0  | 46.0  | 40.6  | 44.4  | 38.1  | -     |
| (Electronic Products)             | 73.8  | 74.3  | 69.9  | 57.7  | 43.2  | 40.8  | 43.7  | 53.1  | 52.3  | -     |
| (Electrical Appliance)            | 61.7  | 65.3  | 56.5  | 52.1  | 44.4  | 40.8  | 40.7  | 47.0  | 46.4  | -     |
| Motor Vehicle Sales (% yoy)       | -13.0 | -10.5 | -15.4 | -20.2 | -8.3  | -29.8 | -30.7 | -37.8 | -27.4 | -26.2 |
| (Passenger car)                   | 20.3  | 19.1  | 20.4  | 33.2  | 98.2  | -10.0 | -16.6 | -23.4 | 4.2   | -18.3 |
| (Commercial vehicle)              | -25.7 | -22.8 | -28.3 | -36.7 | -32.8 | -39.5 | -38.1 | -44.5 | -39.7 | -31.1 |
| Motor Vehicle Production (% yoy)  | -5.3  | 5.7   | 0.7   | -7.2  | -19.4 | -33.0 | -50.6 | -51.1 | -45.0 | -50.8 |
| Motorcycle Production (% yoy)     | 15.7  | 38.1  | 29.5  | 21.0  | 2.1   | 0.6   | -12.6 | -19.9 | -     | -     |
| Electricity Consumption (% yoy)   | 3.0   | 0.1   | 2.3   | -2.4  | -11.4 | -13.5 | -4.3  | -3.4  | -3.5  | -     |
| Cement Consumption (% yoy)        | -17.1 | -17.3 | -16.0 | -22.4 | -2.1  | -11.9 | -13.8 | -11.7 | -11.0 | -     |
| Consumer Confidence Index (Point) | 77.7  | 76.8  | 75.8  | 74.2  | 74.8  | 75.2  | 74.0  | 72.8  | 72.1  | 71.5  |
| Foreign Visitors (yoy, %)         | -4.8  | -16.0 | -6.5  | -21.2 | -24.0 | -11.9 | -23.2 | -12.1 | -11.6 | -     |
| Hotel Occupancy Rate (%)          | 57.6  | 45.5  | 51.3  | 54.5  | 42.4  | 51.4  | 56.8  | 52.9  | 43.3  | -     |

(Source: CEIC)

its external debt amounting to US\$61.1 billion as of the end of March. Its total public debt remained at a level equivalent to 41% of GDP as of the end of March. As such, 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 14.9% and the nonperforming loan (NPL) ratio at 5.5% (gross) and 3.1% (net) at the end of March. However, should the economic recession stay prolonged, should the fiscal disciplinary framework be excessively relaxed, should fiscal expenditures continue expanding, or should foreign direct investment (FDI) and tourism revenues decline, the country's long-term fiscal sustainability, economic growth and balance of payments could come under negative structural pressures, which in turn might erode the strengths that support its creditworthiness. JCR will carefully monitor, among others, the policies the current administration will employ to ensure stability of politics and society (including the enforcement of the rule of law and the directions of economic policies and political reforms), impact of the global recession on the Thai economy and the government's policy responses (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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