

## Thailand (Kingdom of)

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

### <Rating Perspective>

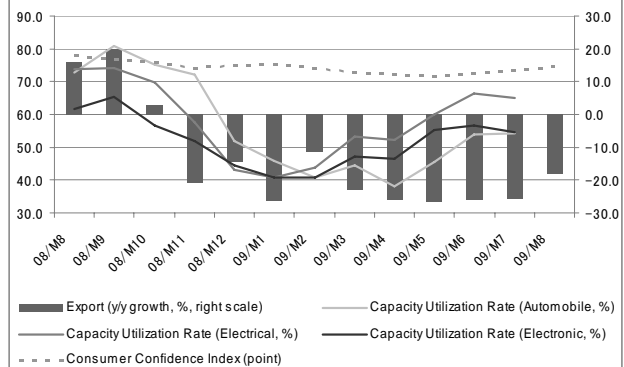
#### Positive Factors

- 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

**Bottoming out, but uncertain outlook**



### <Update: from June to August 2009>

#### Positive Factors

- **Economic growth:** Real GDP grew 2.3% in 2009/Q2 (q/q, sa), first positive growth since 2008/Q3.
- **Fiscal stimulus:** Fiscal 2010 Budget (beginning in Oct 2009) was enacted on September 14, envisaging a fiscal deficit of THB350 billion.

#### Negative Factors

- **Political unrest:** Pro-Thaksin anti-government protestors held a rally in Bangkok on September 19, a third anniversary of the military coup in 2006, which ended peacefully as the government invoked the Internal Security Act.
- **Falling exports:** Monthly exports continued falling 25.9%, 25.7% and 18.4% (y/y) in June, July and August 2009, respectively. Monthly imports also dropped 29.3%, 32.5%, and 32.8% (y/y) during the same period.
- **Swine flu outbreak:** H1N1 death toll surged to 160 in Thailand by September 19.

## <Outlook and Points to Watch>

### Uncertain political and economic prospects

#### (1) Thai politics – muddling through, but no breakthrough foreseen.

In Thailand, political turmoil has been lingering since 2006, stemming from the rivalry between pro-Thaksin and anti-Thaksin groups. The pro-Thaksin “National United Front of Democracy Against Dictatorship (UDD)”, after running riot in Pattaya and Bangkok, held continued anti-government rallies on June 27 and September 29, respectively, in which approximately 28,000 and 20,000 people took part (both ended peacefully). At the two by-elections held in late June, candidates from the pro-Thaksin opposition party, Pheu Thai Party, won successively. An opinion poll conducted by ABAC (Assumption University of Thailand) in August revealed that support rate for Thaksin (43.6%) actually exceeded that for incumbent Prime Minister Abhisit (39.8%). Series of these events seem to have confirmed that former Prime Minister Thaksin still draws certain firm support in Thailand.

Meanwhile, political base of PM Abhisit is far from solid. The Abhisit administration is supported by a coalition of anti-Thaksin Democrat Party (holding 172 seats at the Lower House (total 480 seats) as of August 24) and various former pro-Thaksin parties including Bhumjaithai Party (31 seats) and Pheua Phaendin Party (32 seats). Since May 2009, a rift between the coalition parties has opened up over the government’s procurement of buses and crop stocks. In August, the candidate for a new police chief recommended by Prime Minister Abhisit was

rejected by the coalition partners, which cast doubt over his leadership.

At such juncture, the Parliamentary Committee for Reconciliation, Political Reform and Constitutional Amendment completed its report in July, recommending for the charter revision focusing particularly on six issues such as electoral systems for the House of Representative and the Senate, and the party dissolutions and the political ban on the leader and executives of that party in cases of electoral fraud. Now the government is trying to proceed by setting up a constitution drafting assembly. As the current constitution of Thailand basically requires mere majority voting by the existing members of parliament for its amendment, it may not be hard to accomplish. Nevertheless, the Thai society, underneath the surface, 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 the process of economic development and (c) the dilemma of democracy and populism. Thus, the envisaged constitutional amendment may not make a breakthrough for the current impasse of the Thai politics.

PM Abhisit may possibly muddle through for a while, dealing with the constitutional amendment and extending the fiscal stimulus measures, while exploring an opportunity for a new election. Nevertheless, it may not be easy for the Democrat Party, led by PM Abhisit, to gain wider public support unless the fundamental issues, such as the public divide between the urban and the rural, make certain progress. A dense fog lays in the outlook of the Thai politics, together with the uncertain economic prospects.

## (2) Thai economy – Bottoming out but the outlook remains uncertain.

The Thai economy experienced negative growth (recession) in the fourth quarter of 2008 and the first quarter of 2009, suffering from the global economic crisis and the instable political situation. In the second quarter of 2009, however, real GDP growth (q/q, sa) returned positive, registering 2.3%. Among others, the manufacturing industry, which accounted for 36% of its GDP in 2008, made a strong recovery, achieving 6.2% growth (q/q, sa) in that period. In fact, the capacity utilization rate rose sharply in recent months, particularly in its pivotal electric, electronic and automobile industries. Likewise, the cement consumption, after a long period of contraction, finally recorded positive growth (y/y) in June and July 2009.

Thailand: Real GDP growth						
	2008				2009	
	Q1	Q2	Q3	Q4	Q1	Q2
	(growth, yoy)					
Real GDP growth	6.0	5.3	3.9	-4.2	-7.1	-4.9
Consumption	2.3	1.6	1.7	3.3	-1.6	-1.2
Private	2.7	2.5	2.7	2.1	-2.5	-2.3
Government	-0.4	-3.7	-2.9	11.0	3.6	5.9
Investment	5.4	1.9	0.6	-3.3	-15.8	-10.1
Change in stocks	-377.0	123.0	-241.4	76.8	-488.5	27.3
Export	8.9	11.9	11.2	-8.9	-16.7	-21.8
Import	9.3	6.7	13.1	1.0	-31.6	-25.3
Statistical Discrepancy	-1.7	38.8	-4.0	-5.5	-12.9	-14.6
	(growth, qoq)					
Real GDP growth	1.1	0.1	0.6	-5.9	-1.8	2.3
Agriculture	1.4	5.1	0.5	-5.0	3.2	-1.6
Manufacturing	1.9	-0.7	0.7	-8.3	-6.6	6.2
Construction	-1.7	-3.8	-0.8	-7.0	4.0	6.6
Hotel & Restaurant	0.8	-1.5	-3.3	-3.7	2.2	-0.7

(Source: NESDB)

Nevertheless, monthly goods exports (accounting for 64% of its GDP in 2008) continue declining at a double digit rate (e.g., average -23% contractions (y/y) between June and August 2009). As no strong export recovery is expected to take place in the near future, the recent signs of economic recovery may end up with a temporary upturn following the production adjustment. As such, the outlook of the Thai economy remains uncertain. Its real GDP contraction in 2009 is projected at 3.0-3.5% by the Government of Thailand (NESDB), at 3.0 % by the Thai Ministry of Finance and at 3.0% by the International Monetary Fund.

## (3) Relaxed fiscal disciplinary framework

Faced with the difficult economic situation, the government in March 2009 enacted a supplementary budget for fiscal 2009 (ending in September 2009), calling for THB117 billion worth of additional expenditures (named "Stimulus Package 1 (SP1)"). Furthermore, in July 2009, the government finalized its second economic stimulus package (named "SP2") totaling THB1.43 trillion for implementation in the three years from fiscal 2010 (starting in October 2009). To finance the government expenditure under SP2 amounting THB1.07 trillion (the rest will be financed by public enterprises), the government intends to borrow THB800 billion (equivalent to 8.8% of GDP in 2008). This additional borrowing will be added to the existing public debt amounting to

THB3.8 trillion, equivalent to 43.4% of its GDP, which should, then, make it to exceed the current ceiling of the public debt to GDP ratio at 50% (N.B. It is reported that Finance Minister Korn envisages the public debt to GDP ratio to reach 57% in fiscal 2013). The Thai government imposes itself a fiscal disciplinary framework, in which the annual borrowing ceiling is set by laws and the public debt stock's ceiling is set by a cabinet decision, respectively. The recent government decision to borrow THB800 billion actually means that it would derail from the existing fiscal disciplinary framework to contain the public debt to GDP ratio less than 50% of GDP. The government, amid the instable political environment and the uncertain prospects of economic recovery, was compelled to extend the support measures for low-income people such as free bus service and exemption of electricity and water tariff payment. Thus, JCR will carefully monitor the political and economic situation and the government's policy measures including the treatment of the remaining fiscal disciplinary measures.

### 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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