

2009-51
March 30, 2010

Thailand (Kingdom of)

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

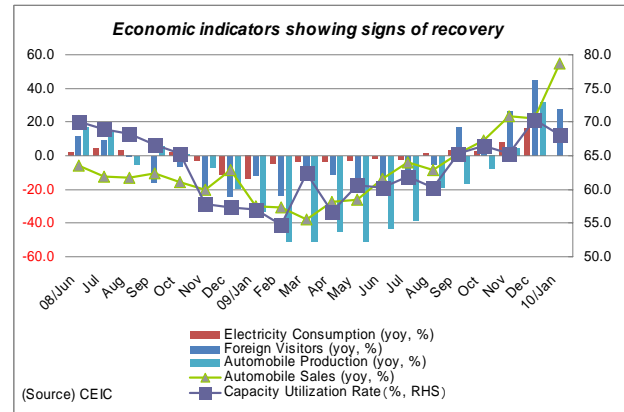
<Rating Perspective>

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 unrest



<Update: from December 2009 to February 2010>

Positive Factors

- **Sustained economic growth.** Real GDP grew 3.6% in 2009Q4 (q/q, sa), registering positive growth for three consecutive quarters since 2009Q2. Real GDP contracted 2.3% in 2009.
- **Reduced unemployment.** The number of jobless workers and the unemployment ratio have gradually declined from the peak at 817 thousand and 2.1% in Apr. 2009 to 350 thousand and 0.9% in Dec. 2009.
- **Buoyant BOP and foreign reserves.** Both current account and financial account recorded surplus in 2009Q4. Gross foreign reserves (excl. gold) increased to US\$135.5 billion at the end of 2009 from US\$108.7 billion at the end of 2008. Facing Thai Baht's appreciation pressure, the central bank announced various deregulation measures on residents' foreign investments.

Negative Factors

- **Political unrest.** Supreme court, on Feb. 26, ruled to seize THB46.4 billion out of THB76.7 billion of former PM Thaksin's domestic assets for abuse of power to enrich himself while in office. From Mar. 12 onwards, anti-government rallies have been held in Bangkok, organized by the pro-Thaksin red-shirted UDD.
- **Public finance.** The government approved the budget plan for FY2011 (from Oct. 2010 to Sep. 2011), assuming THB1.65 trillion for revenues and THB2.07 trillion for expenditures with budget deficit reaching 4.1% of GDP. The government once again extended various support measures for low income people, such as tariff reduction, for another three months till the end of June 2010.
- **Map Ta Phut court decisions.** The Administrative Court approved the resumption of construction and testing for 9 out of 65 projects suspended by the Supreme Court's injunction in Dec. 2009. 55 projects, except for those 9 projects and another project which had obtained the permission prior to the enforcement of the 2007 Constitution, still remain suspended.

<Outlook and Points to Watch>

Resurfaced political instability.

(1) Prolonged political turmoil

One and $\frac{1}{4}$ years have passed since the formation of the current coalition government consisting of the Democrat Party led by Prime Minister Abhisit and various small former pro-Thaksin parties. The rift between the establishment and the anti-government forces, such as former Prime Minister Thaksin and the *National United Front of Democracy Against Dictatorship* (UDD), has shown no sign of subsidence. In February 2010, the Supreme Court of Justice ruled to confiscate 46.4 billion baht of Thaksin's and his family's domestic assets totaling 76.6 billion baht. Some view this judgment, which appeared somewhat compromising against an earlier speculation for total forfeiture, as a message to Thaksin "Here's some money, now go away" (The Economist, March 6th 2010). Thaksin, meanwhile, has already expressed his intention to appeal to the general meeting of

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the Supreme Court of Justice as per Section 278 of the 2007 Constitution. Thus, the ruling has not caused any improvement in the situation, if not worsened sharply. Subsequently, since March 12 onward, UDD has held anti-government rallies and demonstrations in Bangkok, demanding the government to dissolve the parliament and call for a general election. With the number of participants reaching around 100,000 at maximum for the rally on March 14 and 65,000 for the demonstration on March 20, the pro-Thaksin forces displayed their persistent ability to mobilize people. Thanks partly to the Internal Security Act the government invoked, recurrence of the situations like the riot in April 2009 has been staved off thus far. Nevertheless, as the government has not shown any intention to accept the demand by UDD, the prospect of the ongoing anti-government campaigns remains uncertain. Although some sort of temporary compromise may be reached between the government and UDD, the issues behind this unrest are complicated and deep-rooted. Thus, the political turmoil in Thailand may likely continue for a certain period of time.

(2) Economic recovery in place

In spite of the protracted political instability, the Thai economy is making steady steps toward economic recovery. In 2009Q4, real GDP grew 3.6% (q/q, sa), or 5.8% (y/y) registering the first year-on-year positive growth since 2008Q3.

Among others, recovery of private consumption and export is notable among the expenditure items. In fact, quite a few economic indicators have shown signs of

improvement in 2009Q4 such as automobile sales and productions, electricity consumption, manufacturing production index, and capacity utilization rate. Moreover, the value of exports in 2009Q4 nearly recovered to the level in 2007Q4, driven by buoyant exports to China (that was increased by 57% and 16% vis-à-vis 2008Q4 and 2007Q4, respectively). Likewise, the monthly figure of foreign visitors, which had registered negative year-on-year growth since August 2008, has recorded double-digit positive growth since September 2009. Nevertheless, the anti-government campaigns from mid-March seem to have started weighing down this recovery through the impact on tourism and consumer sentiment. Around 40 countries have issued warnings to traveling to Thailand. A newspaper reported that approximately 10% of tourism revenues dropped. The magnitude of such effect may vary depending on whether the anti-government rallies turn violent or not. In looking at the economic outlook of Thailand in 2010, attention will need to be paid on the impact from domestic political turmoil, in addition to uncertain global economic prospects and progress to rectify the flaw of environment legislations as revealed in the Map Ta Phut injunction (see the previous report “2009-38” for details).

(3) Impact of political instability on the fiscal sustainability

The impact of political instability on the public finances may need to be monitored. In January 2010, the cabinet approved the budget plan for fiscal 2011 (from October 2010 to September 2011) assuming the fiscal deficit equivalent to 4.1% of GDP. This, however, basically excluded the expenditures related to the fiscal stimulus package amounting to 1.3 trillion baht for the three years from FY2010 (called “Strong Thailand 2012”). Actual budget deficit may reach as high as 7.2% of GDP. Given such large scale of continuous spending, the government raised the target of ceiling on the ratio of public debt to GDP from 50% to 60% in August 2009, which may require fiscal consolidation measures in the future. Some academic researches indicate that, under coalition governments where pressure groups vary, policy measures to reduce fiscal deficit such as tax increases and reduction in public capital investment and subsidies are hard to implement and therefore the fiscal consolidation may not be easily achieved. In Thailand, the policy measures to support low-income people such as exemption and reduction in electricity and water bills and bus and train tariff, which were introduced by the

Thailand: Real GDP growth

	2008				2009			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	(growth, yoy)							
Real GDP growth	6.4	5.2	2.9	-4.2	-7.1	-4.9	-2.7	5.8
Consumption	3.2	2.3	2.8	3.6	-1.3	-0.8	-0.2	1.9
Private	3.3	2.6	2.7	2.1	-2.5	-2.2	-1.3	1.4
Government	2.8	0.1	3.3	13.5	5.9	7.8	4.8	5.2
Investment	5.9	2.3	1.9	-5.0	-15.9	-10.2	-6.3	-3.4
Change in stocks	-570.2	-609.0	-330.2	285.9	-562.2	166.8	-376.7	-51.8
Export	9.3	12.0	9.8	-9.3	-16.7	-21.7	-14.8	4.1
Import	9.5	8.4	14.7	1.7	-30.5	-25.6	-23.4	-7.6
Statistical Discrepancy	6.1	-34.8	-3.6	-4.0	-16.2	5.5	-8.1	1.0
	(growth, qoq)							
Real GDP growth	1.7	-0.2	-0.5	-5.0	-1.5	2.1	1.7	3.6
Agriculture	2.0	2.7	-3.4	-0.7	4.1	-1.3	-3.3	-1.3
Manufacturing	3.1	-1.1	0.1	-8.6	-5.3	5.3	3.3	6.7
Construction	-4.6	-3.0	-3.0	-2.8	1.0	6.3	-2.3	0.3
Hotel & Restaurant	1.6	-2.0	-2.6	-5.2	2.3	-0.4	1.2	9.9

(Source) NESDB

then pro-Thaksin administration at the height of surging oil prices in the middle of 2008, have been continuously extended (except for a few measures) by the current administration, even after the oil prices came down. JCR will watch how the fiscal disciplines are maintained and necessary actions for fiscal consolidation are taken along with the economic recovery under the instable coalition government.

Main Economic Indicators (Thailand)

		2001	2002	2003	2004	2005	2006	2007	2008	2009e	2010f
Real GDP Growth	(%)	2.2	5.3	7.1	6.3	4.6	5.1	4.9	2.5	-2.3	4.0
Unemployment Rate	(%)	3.3	2.4	2.2	2.1	1.9	1.6	1.4	1.4	1.5	1.4
CPI inflation (period average)	(%)	1.6	0.7	1.8	2.8	4.5	4.7	2.2	5.5	-0.8	2.5
Lending rate	(%)	7.3	6.9	5.9	5.5	5.8	7.4	7.1	7.0	6.0	6.1
Central govt. fiscal balance/GDP	(%)	-2.6	-2.9	-0.2	-0.2	0.3	-0.7	-1.6	-1.0	-5.7	-4.0
Interest payment/Revenue	(%)	10.1	9.6	8.6	8.4	7.0	9.4	7.1	7.0	8.0	7.9
Gross Public Debt/GDP	(%)	57.5	55.1	50.7	49.5	47.3	42.0	38.3	37.3	45.2	47.7
Export of Goods & Services	(US\$ bn)	76.1	81.5	93.9	114.0	129.5	152.8	181.6	208.6	181.1	205.7
Import of Goods & Services	(US\$ bn)	69.1	73.7	85.1	107.2	133.0	147.1	162.9	203.7	156.2	190.4
Current Account Balance/GDP	(%)	4.4	3.7	3.4	1.7	-4.3	1.1	6.3	0.6	7.7	3.3
International Reserves (excl. gold)	(US\$ bn)	32.4	38.1	41.1	48.7	50.7	65.3	85.2	108.7	135.5	152.1
Import Cover	(month)	5.6	6.2	5.8	5.4	4.6	5.3	6.3	6.4	10.4	9.6
Gross External Debt/GDP	(%)	58.4	46.9	36.4	31.9	29.6	28.8	25.0	23.9	26.6	25.9
Net External Debt/GDP	(%)	30.4	16.9	7.6	1.7	0.8	-2.7	-9.4	-15.9	-24.7	-24.6
Intl. Reserves/S-T External Debt	(x)	2.4	3.2	3.8	4.0	3.1	3.5	3.9	4.5	4.8	5.0
Net External Debt/Export	(%)	46.2	26.3	11.5	2.4	1.1	-3.6	-12.9	-20.8	-36.0	-36.0
Debt Service Ratio	(%)	20.8	19.6	16.0	8.5	10.8	11.3	11.7	7.0	6.2	6.5
Exchange Rate (period average)	(US\$1=THB)	44.4	43.0	41.5	40.2	40.2	37.9	34.5	33.3	34.3	32.0

Source : Bank of Thailand, Ministry of Finance, NESDB, CEIC. The figures of 2009 and 2010 include JCR's estimates/forecasts.

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