

2007-30
Sep. 27, 2007

Thailand (Kingdom of)

Foreign LT: **A-/Stable**, Local LT: **A+/Stable** (Affirmed on February 6, 2007)

<Rating Perspective>

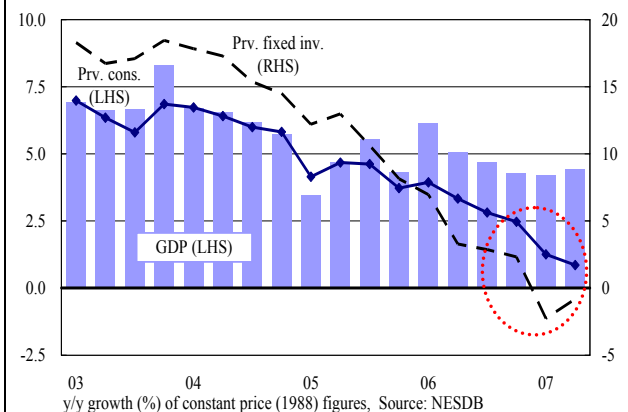
Positive Factors

- 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

Weak domestic demand amid political uncertainty



<Update: from June to August, 2007>

Positive Factors

- Cabinet approved additional spending of THB25 bn. for FY2008, in view of propping up subdued domestic demand (Jun. 5)
- A referendum on a new constitution has passed, paving a way to general election at year end (Aug. 20)
- August CPI inflation was five-year low at 1.1% y/y, core CPI also remained low at 0.7% y/y (Sep. 3)
- August merchandise export (USD) grew 17.9% y/y, leading to trade surplus of USD770 million (Sep. 21)

Negative Factors

- Q2 real GDP growth was soft at 4.4% y/y, compared with 4.2% in the previous quarter (Sep. 3)
Private consumption growth was slowest in eight years at 0.9% y/y, while private fixed investment shrunk by 0.2% y/y, due mainly to lack of consumer and business confidence amid political uncertainty
- Anti-coup demonstrators clashed with police outside Privy Council President Prem's residence, leaving about one hundred wounded (Jul. 22)

<Outlook and Points to Watch>

Long way back to a stable democracy

(1) New constitution endorsed by a narrow margin

On August 20, the Election Commission announced that Thailand's first-ever referendum held on the previous day had endorsed the country's 18th constitution. The endorsement improved a prospect of return to democratic rule following general election to be held at year end, which was pledged by coup leaders.

At the end of May, the Constitutional Court ordered Thai Rak Thai (TRT) party to be dissolved and banned its 111 executives (including former Prime Minister, Mr Thaksin) to contest elections in the coming five years. The ruling provoked street protests by TRT supporters, who demanded immediate resignation of interim government and Council for National Security (CNS). While the protesters amounted to more than ten thousand, there have been no reports of serious violence at the protests. Political tension seems to be easing after being heightened from May to August. However, political uncertainty still remains, and is likely to continue constraining credit standing of the government going forward.

(2) Uncertainty looms despite constitution endorsement

A major source of uncertainty is a possibility of standoff between the coup leaders and ousted ex-Prime Minister, in JCR's view. Unlike any of the former PMs who were ousted by successful coups in the past, Mr Thaksin seems to retain a substantial influence, possibly emanating from his vast sources of financial capital and still

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strong grassroots support from north and northeast provinces. JCR thinks that the northeast province's majority "no" vote in the constitutional referendum could be a sign of the support to the ousted ex-PM.

Notwithstanding the party's dissolution in last May, former TRT members still maintain momentum. More than 200 former TRT parliamentarians joined the little-known People's Power Party (PPP) in July, in view of running for general election from the party. In early September, a newly elected PPP leader even pledged to lift the political ban on 111 former TRT executives (including Mr Thaksin) if he became prime minister.

The Democrats, a leading contender to PPP, has a strong voter base in southern provinces, but seems to lack support in populous north and northeast provinces. While there might be an attempt to block PPP from coming into power by forming a coalition of non-PPP parties, including Democrats and some new parties led by ex-TRT executives who did not join PPP, effectiveness of such strategy remains to be seen.

(3) 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 government 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 are now expressing 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, most of the parties 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.

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

The current 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.

Despite lingering political uncertainty emanating from a possible standoff between coup leaders and ousted ex-PM, Thailand is likely to maintain current level of credit strength in coming years with adequate fiscal and external flexibility. Thus, stable outlook on the ratings is likely to be maintained.

Thailand: Main Economic Indicators

		1999	2000	2001	2002	2003	2004	2005	2006f	2007f	2008f
Real GDP Growth y/y	(%)	4.4	4.8	2.2	5.3	7.1	6.3	4.5	5.0	4.1	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	2.4	2.5
Lending Rate	(%)	9.0	7.8	7.3	6.9	5.9	5.5	5.8	7.4	6.7	7.0
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	4.4	1.9
International Reserves (excl: gold)	(US\$ bn)	34.1	32.0	32.4	38.0	41.1	48.7	50.7	65.3	72.0	78.0
Import Cover	(month)	7.3	5.4	5.6	6.2	5.8	5.4	4.6	5.4	5.6	5.3
Net External Debts/GDP	(%)	36.8	24.8	15.2	4.6	-4.2	-8.2	-9.2	-16.9	-18.0	-19.2
Intl. Reserves/S-T External Debts	(x)	1.8	2.2	2.5	3.3	3.9	4.1	3.3	3.6	3.8	3.9
Net External Debts/Exports	(%)	63.2	37.2	23.0	7.2	-6.4	-11.6	-12.6	-22.9	-26.0	-27.6
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