

2007-60
March 27, 2007

Thailand (Kingdom of)

Foreign LT: **A-/Stable**, Local LT: **A+/Stable**

<Rating Perspective>

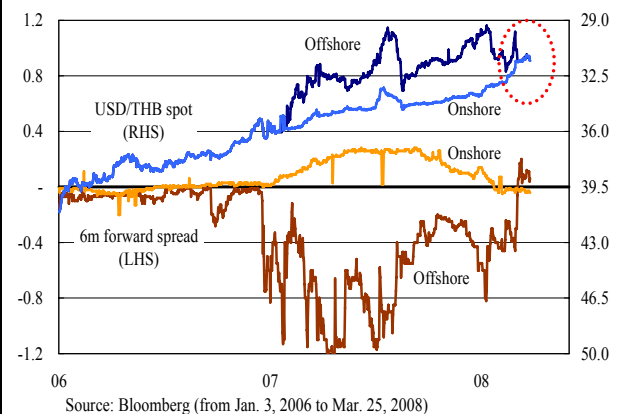
Positive Factors

- 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 and subsequent restoration of democratic rule

Spot rate converged upon URR lifting



<Update: from December, 2007 to February, 2008>

Positive Factors

- Q4 real GDP growth was stronger than expected at 5.7% y/y, compared with 4.8% in Q3, (Feb. 25)
- No serious disruptions seen at homecoming of ex-Premier Dr Thaksin after 17 months of self-imposed exile since the coup (Feb. 28)
- Capital control (30% un-remunerated reserve requirement: URR) was lifted without any disturbances in money and foreign exchange markets. Offshore and onshore spot THB exchange rates immediately converged. (Mar. 3)
- International reserves hit all-time high of USD 108 bn, adding net forward position, it amounted to USD 130 bn at Mar. 14, 2008 (Mar. 21)

Negative Factors

- February CPI inflation was 20-month high at 5.4% y/y, on the back of rising food and energy price (Mar. 3)
- Supreme Court agreed to hear a vote fraud case against Mr Yongyut, the speaker of parliament and a senior member of the ruling PPP (Mar. 20)

<Outlook and Points to Watch>

Could new government revive domestic demand?

(1) Democratic rule restored

On February 6, a new Cabinet, under Prime Minister Samak Sundaravej, was sworn in by King Bhumibol Adulyadej, finally restoring a democratic rule in Thailand.

Despite this encouraging development, JCR thinks that there still remains political risk. Following September 2006 coup, Thai Rak Thai (TRT) party led by former Prime Minister Dr Thaksin was disbanded and its 111 executives including Dr Thaksin have been deprived of the right to seek re-election for five years. Notwithstanding these punishments, TRT were regrouped and successfully returned to power as People's Power Party (PPP). The coup makers and their supporters are thought to be concerned about possibility of retribution. In addition, year-end general election revealed a deep rift between north and northeast who supported former TRT and south and Bangkok who opposed to them and supported Democrat party.

A risk also emanates from an alleged vote-buying case. On March 20, Supreme Court agreed to hear a vote fraud case against Mr Yongyut, the speaker of parliament and a senior member of the ruling PPP. A guilty verdict could lead to dissolution of PPP, which is currently leading a six-party coalition government.

(2) Stimulation of domestic demand

If the government should try to touch sensitive issues such as amnesty for the former TRT executives or constitutional reform, political tension will be heightened. However JCR thinks that these were currently not on the top of their to-do list. The government seems to be fully aware that people want them to stimulate domestic demand, which has been stagnant in the past year amid political uncertainty. If they should succeed in stimulating economy, they could shield themselves from their opponents who are seeking opportunity to attack. The government plans to stimulate the economy through tax cuts, fiscal measures to support rural economy, and large infrastructure (“mega-project”) investments. While these measures will inevitably widen fiscal deficit, they will not immediately jeopardize fiscal sustainability in view of currently moderate debt level. Broad government (general government plus FIDF)’s debt amounted to 26.3% of GDP at the end of 2007, much lower than 39.4% at the end of 2002.

(3) Mild deterioration of current account expected in coming years

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 going forward. 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 32% of annual export at end-2007. Even if the current account will turn to negative from 2009, JCR thinks that the country will maintain sufficient resilience to external shocks.

Current ratings are supported by Thailand’s solid external balance sheet, steadily recovering banking sector and improving fiscal position of the government. Despite remaining political uncertainties, Thailand remains resilient to short-term shocks such as temporal capital outflow because of its solid external position and relatively stabilized government fiscal position.

(4) Capital control (URR) lifted without market disruptions

On March 3, Bank of Thailand (BoT) lifted capital control (30% un-remunerated reserve requirement, or URR) introduced in December, 2006. Offshore and onshore spot USD/THB exchange rates immediately converged at the level closer to the onshore market which has a larger liquidity. Foreign exchange and money market has been relatively stable to date. With URR lifted, non-resident investors now can invest in THB denominated fixed income securities without hedge and without withholding 30% URR, enabling them to bet on USD/THB depreciation, just like late 2006. If investors will start taking such a position in a large scale, it may create downward pressures on USD/THB, complicating monetary policy of BoT. Currently, policy rate (o/n repo) remains at 3.25%, 100 bp above US Federal Fund target rate. There will be a possibility that BoT face tough decision on whether or not to cut policy rate to ease capital inflow amid inflationary pressures.

Main Economic Indicators (Thailand)

		2000	2001	2002	2003	2004	2005	2006	2007	2008f	2009f
Real GDP Growth y/y	(%)	4.8	2.2	5.3	7.1	6.3	4.5	5.1	4.8	4.6	5.2
Unemployment Rate	(%)	3.6	3.3	2.4	2.2	2.1	1.8	1.5	1.3	1.4	1.4
CPI Inflation y/y	(%)	1.6	1.6	0.7	1.8	2.7	4.5	4.7	2.3	3.4	2.8
Lending Rate	(%)	7.8	7.3	6.9	5.9	5.5	5.8	7.4	6.7	6.4	6.3
Central Gov. Balance/GDP (GFS basis)	(%)	-1.9	-2.2	-7.2	1.5	1.1	2.5	1.9	-1.5	-2.0	-2.4
Interest payment/Revenue	(%)	7.4	7.1	7.6	5.8	6.7	6.1	7.1	6.8	6.6	6.2
Gross Gen. Gov. Debts/GDP (incl: FIDF)	(%)	38.1	38.2	39.4	35.1	34.2	31.9	29.7	26.7	27.5	27.0
Exports of Goods & Services	(US\$ bn)	81.8	76.1	81.5	93.9	114.0	129.4	152.3	180.2	195.0	208.0
Imports of Goods & Services	(US\$ bn)	71.7	69.1	73.7	85.1	107.3	133.1	145.4	163.5	184.0	200.0
Current Account Balance/GDP	(%)	7.6	4.4	3.7	3.3	1.7	-4.4	1.6	6.1	2.1	0.9
International Reserves (excl: gold)	(US\$ bn)	32.0	32.4	38.1	41.1	48.7	50.7	65.3	87.6	125.0	124.0
Import Cover	(month)	5.4	5.6	6.2	5.8	5.4	4.6	5.4	6.4	8.2	7.4
Net External Debts/GDP	(%)	24.8	15.2	4.6	-4.2	-8.2	-9.0	-19.1	-22.8	-30.8	-26.9
Intl. Reserves/S-T External Debts	(x)	2.2	2.5	3.3	3.9	4.1	3.3	3.6	4.6	6.3	5.9
Net External Debts/Exports	(%)	37.2	23.0	7.2	-6.4	-11.6	-12.3	-22.2	-31.1	-47.7	-43.8
Debt Service Ratio	(%)	16.3	25.4	23.2	15.6	10.6	9.5	8.6	11.0	10.0	9.0
Exchange Rate (period average)	(US\$1=THB)	40.1	44.4	43.0	41.5	40.2	40.2	37.9	34.0	30.0	29.0

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