2008-39
December 26, 2008

Thailand (Kingdom of)

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

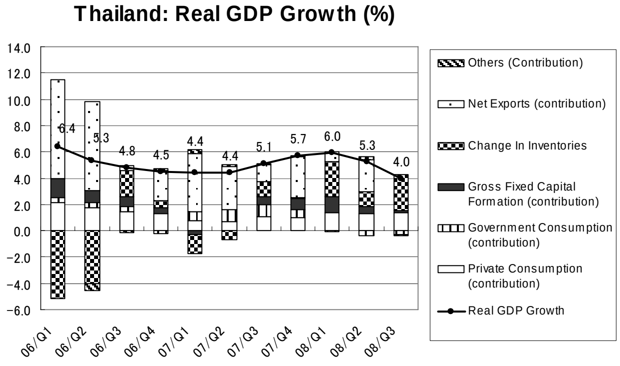
<Rating Perspective>

Positive Factors

- Solid external position
- Gradually declining public debt
- Gradually recovering banking sector

Negative Factors

- Prolonged political turbulence
- Declining international confidence as investment and tourist destination



(Source：CEIC)

<Update: from September to November, 2008>

Positive Factors

- **Subdued inflation.** Reflecting the decline in world oil prices, CPI growth has subsided from the peak of 9.2% (yoy) in July 2008 to 6.4% (Aug), 6.0% (Sep), 3.9% (Oct), and 2.2% (Nov).
- **Ease in monetary policy.** Central bank cut down its policy rate from 3.75% to 2.75% (Dec 3rd) in a bid to underpin economic recovery.

Negative Factors

- **Political turbulence**. Two consecutive prime ministers, Mr. Samak and Mr. Somchai, were sacked by constitutional court rulings in September and November, respectively. In December, Mr. Abhisit, the leader of the second largest Democrat Party, became a new prime minister. As the new government is supported by a fragile coalition, political stability may not come soon. In such circumstances, political turbulence has affected the social and economic dimensions. Among others, a state of emergency was declared in Bangkok in early September, and the capital's two international airports were closed for more than a week due to the seisure by anti-government protestors in late November.
- **Moderating economic growth**. Real GDP growth slowed to 4.0% in Q3 (yoy), down from 6.0% (Q1) and 5.3% (Q2). Although private consumption grew by 2.6% (yoy) in Q3, about the same level as Q2 (2.5%), growth in external demand and investment deccelerated from 18.3% (Q2) to 0.3% (Q3) and from 1.9% (Q2) to 0.6% (Q3), respectively. As evidenced in the negative growth in its exports by -18.6% (yoy) in November 2008, the situation surrounding the Thai economy is getting harsher.

<Outlook and Points to Watch>

Heightened political risks put burden on Thai economy

(1) Political turbulence culminates to affect international confidence in Thailand

Protest campaigns by anti-Thaksin, anti-government groups led by People's Alliance for Democracy (PAD) since 2006 have brought about the establishment of a PAD-supported coalition government led by Prime Minister Abhisit, the leader of the second largest Democrat Party, in December 2008 after a series of developments such as the military coup (Sep 2006), dissolution of the former ruling Thai Rak Thai Party (May 2007), enactment of a new constitution (Aug 2007), general election (Dec 2007) and return to democracy (Feb 2008), forced step-down of PM Samak (Sep 2008), and dissolution of the largest then ruling "People Power Party" and PM Somchai's forced resignation (Dec 2008). During this period, PAD has escalated its protest movements particularly since August 2008, which led to unlawful occupations of the prime minister's office, a

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TV station, and local and international airports as well as crashes with the confronting pro-Thaksin, pro-government groups inflicting casualties. Even a state of emergency was declared, though for a short period, in Bangkok (Sep 2008) and two international airports occupied (Nov 2008).

In late November, amongst others, the Suvarnabhumi International Airport, the capital's international airport that annually handles more than 41 million passengers and 1.2 million tons of freight (N.B. figures are as of 2007), was closed for more than a week due to the seizure by PAD and the inability of the Thai government to take effective actions against it. This not only made the tourist and business passengers visiting or transiting in Thailand stranded but also disrupted the air cargo as well as the maritime cargo (due to the delay in delivery of bills of lading (B/L) that are normally delivered by air). Furthermore, a number of international conferences including the ASEAN summit and the East Asia summit had to be postponed. These incidents undermined the international reputation and confidence in the Thai government for its capability to keep order as well as that in Thailand as an investment and tourist destination.

On December 15, 2008, new prime minister Abhisit was elected in the House of Representative (480 seats), gaining 235 votes out of 437 incumbent MPs, supported by an alliance of the Democrat Party, which PAD supports, and defectors from the former ruling parties, and a new government was formed. Nevertheless, it may not be easy to fix the underlying urban-rural division in Thai society and the confrontation between the pro-Thaksin groups and the traditional anti-Thaksin elite. Therefore, there are possibilities that dissention may be caused on the coalition partners, the pro-Thaksin groups may escalate their street protests, or the coalition government may lose a majority of support in parliament as a result of a possible loss in the upcoming by-elections in January 2009. Thus, it is difficult to project that political stability would come shortly. Despite such circumstances, it is hoped that the new administration would, with a view to maintaining and improving the international confidence in Thailand and its government, restore social order by institutionalizing the rule of political confrontation (e.g., enforcement of the rule of law, democracy, and sovereignty of the people), while tightening the security for basic economic infrastructure including airports and implementing timely and effective economic measures in the short run, and undertaking the measures to serve for more balanced development toward reconciliation of the nation in the long term.

(2) Impact of global economic downturn magnified by political turmoil

Thailand: BOP, Exchange Rate and Stock Market (Unit: USD billion, unless otherwise noted)

	07/Q1	07/Q2	07/Q3	07/Q4	08/Q1	08/Q2	08/Q3
Current Account	4.3	0.8	2.8	6.2	2.7	−1.0	−2.5
Trade Balance (Goods and Services)	4.8	2.3	4.0	6.3	2.5	1.4	−0.6
Trade Balance (Goods)	3.0	1.2	2.8	4.6	−0.1	0.4	−1.3
Exports	33.7	35.7	38.4	42.3	41.4	45.1	48.2
Imports	−30.7	−34.5	−35.6	−37.6	−41.5	−44.6	−49.5
Services (net)	1.8	1.2	1.2	1.7	2.6	0.9	0.7
o/w travel receipt	4.6	3.2	3.8	5.1	5.9	4.0	3.8
Capital and Financial Account	−2.5	0.9	0.5	−1.3	13.4	−2.1	1.1
o/w Direct Investment in Rep. Country	3.7	2.2	2.8	2.5	2.9	2.2	2.5
Portfolio Investment	−0.5	0.3	−1.1	−5.4	3.8	−4.2	−3.6
o/w Liability − Equity	1.2	2.4	0.8	0.0	−0.4	−0.8	−2.6
o/w Liability − Debt	−0.5	−1.1	0.2	0.1	1.8	0.4	−0.1
Other Investment	−5.5	−1.3	−0.8	2.4	7.2	1.1	2.4
o/w Liability − Loans	−0.9	−0.4	0.1	0.3	−0.9	0.5	−0.5
Overall Balance	3.3	2.3	5.1	6.3	18.5	−2.5	0.5
Foreign Reserves (excl. Gold) (end of period)	69.1	71.3	78.7	85.2	107.5	103.2	100.0
Exchange Rate (THB/USD) (period average)	34.17	32.64	31.46	31.09	31.01	32.28	33.88
Stock index (SET) (period average)	669	725	821	855	807	822	674

(Source: CEIC、Bloomberg)

Thailand forms an integral part of the manufacturing industry's production and distribution network in East Asia. Its annual exports total US$1.5 billion (2007), equivalent to approximately 60% of its GDP, and annual foreign direct investment inflows amount to as much as US$100 million (2005-07 average). Around 90% of its exports consist of manufactured goods, and 43% of export items are directed to industrial countries including the U.S. (13% of total exports) and Japan (12%) while 44% are to Asian countries (other than Japan) including China (10%) and Singapore (6%). Furthermore, Thailand is a popular tourist destination in the world, drawing around 14.5 million foreign visitors in 2007, which brought it US$16.7 million of travel receipts in the BOP statistics and THB547.8 billion (6.5% of nominal GDP) of tourism revenue according to the Tourism Authority of Thailand.

In the third quarter of 2008 when the current financial crisis and economic recession started spreading across the world, the Thai economy also experienced a slowdown in real GDP growth, i.e., from 5.3% in Q2 to 4.0% in Q3, largely due to the decelerated external demand (0.3% growth in Q3) that had driven the past economic growth. Besides, US$3.1 billion worth of non-residents' portfolio investment and bank loans were pulled out of the country in Q3, during which period the stock index plummeted by 25%. The latest economic statistics in Q4 also indicate that the situation surrounding the Thai economy is getting harsher as evidenced by the declining volume of its total exports and high-tech exports (that account for two-thirds of the total exports), which registered negative growth rates of 3.1% and 6.3%, respectively, in October 2008, and the negative growth in its exports by -18.6% (yoy) in November 2008. Meanwhile, the number of foreign visitors to Thailand, which had increased by 14% (yoy) in Jan-Jul 2008, declined by 0.2% in August when PAD street protests escalated, by 15.1% in September when the state of emergency was declared, and by 4.4% in October. Consumer confidence index has continued falling month by month since August 2008. As such, it could be stated that the domestic political conflict has put additional burden to bear on the Thai economy that has been already affected by the global economic downturn.

As Thailand's foreign exchange reserves totaling US$104 billion (as of the end of November) by far exceed US$ 65 billion of its total external debt (as of the end of September), it may well be able to absorb a short-term external shock. Nevertheless, should the political turmoil continue and the international confidence deteriorate further, there might be a possibility that economic growth and the balance of payments could be negatively affected especially through a decline in foreign direct investment and tourism revenue, which may erode the strengths that support the creditworthiness of Thailand. Hence, JCR is of the view that future political developments including policy actions of the new government and its impact on the economy need to be monitored carefully. That is the reason JCR has placed its ratings on Thailand under the Credit Monitor (negative).

Main Economic Indicators (Thailand)

		2000	2001	2002	2003	2004	2005	2006	2007	2008f	2009f
Real GDP Growth y/y	(%)	4.7	2.2	5.3	7.1	6.3	4.6	5.2	4.9	4.0	1.9
Unemployment Rate	(%)	3.6	3.6	2.4	2.2	2.0	1.8	1.5	1.4	1.4	2.4
CPI Inflation y/y	(%)	1.6	1.6	0.7	1.8	2.8	4.5	4.7	2.2	3.6	3.0
Lending Rate	(%)	7.8	7.3	6.9	5.9	5.5	5.8	7.4	7.1	7.2	7.2
Central Gov. Balance/GDP (GFS basis)	(%)	▲ 1.9	▲ 2.2	▲ 7.2	1.5	0.6	0.9	1.9	0.6	▲1.4	▲3.2
Interest payment/Revenue	(%)	7.4	7.1	7.6	5.8	6.7	6.3	7.1	5.5	7.0	6.3
Gross Gen. Gov. Debts/GDP (incl: FIDF)	(%)	38.5	38.3	37.3	35.1	34.3	31.9	29.6	26.8	26.1	26.9
Exports of Goods & Services	(US$ bn)	81.8	76.1	81.4	93.9	114.0	129.5	152.8	180.4	192.1	191.0
Imports of Goods & Services	(US$ bn)	71.7	69.1	73.7	85.1	107.3	133.0	147.1	162.9	174.8	171.1
Current Account Balance/GDP	(%)	7.6	4.4	3.7	3.3	1.7	▲ 4.3	1.1	6.4	5.1	5.1
International Reserves (excl: gold)	(US$ bn)	32.0	32.4	38.0	41.1	48.7	50.7	65.3	85.2	103.0	88.8
Import Cover	(month)	5.4	5.6	6.2	5.8	5.4	4.6	5.3	6.3	7.1	6.2
Gross External Debts/GDP	(%)	74.7	65.6	50.7	36.3	31.8	29.8	28.8	25.1	26.0	22.9
Net External Debts/GDP	(%)	34.6	22.4	8.5	▲ 4.2	▲ 8.2	▲ 9.0	▲16.3	▲21.9	▲24.6	▲21.1
Intl. Reserves/S-T External Debts	(x)	2.2	2.5	3.3	3.9	4.1	3.2	3.6	4.0	4.8	4.1
Net External Debts/Exports	(%)	51.9	34.0	13.2	▲ 6.4	▲ 11.6	▲12.3	▲22.1	▲29.9	▲33.2	▲29.4
Debt Service Ratio	(%)	15.8	21.1	20.0	16.3	8.6	10.9	11.4	11.9	7.2	10.1
Exchange Rate (period average)	(US$1=THB)	40.1	44.4	43.0	41.5	40.2	40.2	37.9	34.5	35.3	36.2

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

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