

Thailand (Kingdom of)

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

<Rating Perspective>

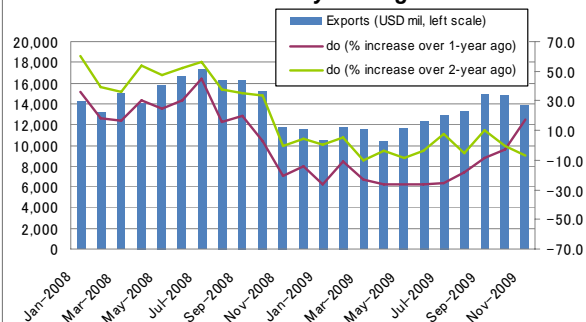
Positive Factors

- 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

Exports from Thailand, hovering around the level of two years ago...



<Update: from September to November 2009>

Positive Factors

- **Sustained economic growth.** Real GDP grew 1.3% in 2009/Q3 (q/q, sa), registering positive growth for two consecutive quarters since 2009/Q2.
- **Declining 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 411 thousand and 1.1% in Oct. 2009.
- **BOP and foreign reserves.** Both the current account and the capital and financial account recorded surplus in 2009/Q3. Gross foreign reserves (excl. gold) have increased further to US\$136.7 billion at the end of November 2009 from US\$108.7 billion at the end of 2008.

Negative Factors

- **Political unrest.** Protest rallies have been held intermittently in Bangkok by both pro-Thaksin anti-government demonstrators (on Sep.19, Oct.11, Oct.17, and Dec.10) and anti-Thaksin demonstrators (on Nov.15). Meanwhile, Cambodian government appointed Thaksin as its economic advisor and refused to extradite him to Thailand upon his visit to Cambodia, exacerbating the diplomatic relations between Cambodia and Thailand.
- **Public finance.** Fiscal deficit in FY2009 (from Oct.2008 to Sep.2009) turned out to be THB -0.50 trillion (-5.7% of GDP), larger than expected in Jan. 2009 when the supplementary budget was formulated (THB -0.35 trillion, -3.7% of GDP). The government extended various support measures for low income people, such as tariff reduction, for another three months till the end of March 2010.
- **Map Ta Phut court decisions.** The Administrative Court issued an injunction on Sep.29 to suspend in total 76 petrochemical and other investment projects around the Map Ta Phut industrial estate in East Thailand on the ground that they are violating the Constitution to take necessary measures for health and environment protection. The Supreme Administrative Court on Dec.2 upheld the suspension of 65 projects while approving 11 projects to proceed.

<Outlook and Points to Watch>

One year after PM Abhisit took office.

(1) Thai politics is driven by economic conditions, constitutional amendment and Thaksin.

One year has passed since the coalition government led by Prime Minister Abhisit was formed on December 22, 2008, following the collapse of the former pro-Thaksin Somchai administration. During the one-year period, anti-government campaigns backed by ousted former PM Thaksin have continued. The pro-Thaksin "National United Front of Democracy Against Dictatorship (UDD)" have intermittently organized anti-government rallies (which in April turned violent). The diplomatic relations with Cambodia has deteriorated as the Government of Cambodia appointed Thaksin as its economic advisor and rejected Thailand's request to extradite him when Thaksin visited Cambodia. In addition, political base of PM Abhisit is far from solid, as appeared in the series

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of rifts among the coalition parties over government procurements and appointment of a new police chief. Nevertheless, the Abhisit administration has survived for one year, possibly due to the following reasons: (1) The Abhisit government was formed as a result of the nomination by the parliament of Mr Abhisit as Prime Minister, a duly process prescribed by the Constitution, even though the leading Democrat party is not the largest party in the parliament [*Legitimacy*]; (2) It has formulated two series of economic stimulus packages, of which the second one is sizable, totaling THB 1.29 trillion equivalent to 14% of GDP in 2008, and covers a three year period until September 2012. Therefore the former pro-Thaksin coalition partners do not see a merit to leave the government at this juncture nor foresee any possible alternative political scenario [*Economic interests of the ruling coalition parties*]; (3) Thailand is moving out of recessions, having not seen sharp deterioration in employment conditions unlike the past crises. Moreover, the government has repeatedly extended the support measures for low income earners such as exemption / reduction of utility and transport tariffs which was initially adopted in August 2008 by the then Samak administration [*Containment of economic dissatisfaction by the low-income layer*]; (4) The government has tightened security against UDD's anti-government demonstrations, frequently invoking the Internal Security Act, after it turned to be riot in April [*Maintenance of law and order*]; and (5) Some steps have been taken for constitutional amendment and general elections [*Efforts for public reconciliation*].

Recently, PM Abhisit commented that he would be willing to dissolve the parliament and call for general elections should "economic recovery, constitutional amendment, and UDD's restraining of violence in demonstrations" be materialized. On the constitutional amendment, the *Parliamentary Committee for Reconciliation, Political Reform and Constitutional Amendment* compiled its report in July 2009, 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. Subsequently in early October, PM, the ruling and opposition parties of the House, and the Senate agreed, in principle, to amend the Constitution on the proposed six issues and conduct a referendum for that. Nevertheless, the prospects of the charter amendment became uncertain when the opposition Pheu Thai Party, possibly based on an instruction from Thaksin, suddenly overturned the agreement, demanding the reinstatement of the 1997 Constitution and opposing the referendum. Prompted by this, the Senate also indicated to withdraw from the amendment process. The term of the current MP will expire in December 2011. Thai politics may unlikely achieve stability for a while, driven by economic conditions, constitutional amendment, and Thaksin and his supporters.

(2) A flaw of environmental legislations weighs on its economic recovery.

Real GDP grew 1.3% (q/q, sa) in 2009/Q3, registering two consecutive positive growth since 2009/Q2, which seems to indicate that the Thai economy is bottoming out of recession. In fact, the capacity utilization rates of vehicles and equipments, electronic products, and electrical appliances, all of which plummeted to around 40% in early 2009, recovered to 72%, 72% and 63%, respectively, in October 2009. The manufacturing industry, accounting for 36% of its GDP in 2008, also sustains positive growth.

Thailand: Real GDP growth								
	2008				2009			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	
	(growth, yoy)							
Real GDP growth	6.4	5.2	2.9	-4.2	-7.1	-4.9	-2.8	
Consumption	3.2	2.3	2.8	3.6	-1.3	-0.8	-0.3	
Private	3.3	2.6	2.7	2.1	-2.5	-2.2	-1.3	
Government	2.8	0.1	3.3	13.5	5.9	7.8	4.7	
Investment	5.9	2.3	1.9	-5.0	-15.9	-10.2	-6.3	
Change in stocks	-570.2	-609.0	-330.2	285.9	-562.2	166.8	-376.8	
Export	9.3	12.0	9.8	-9.3	-16.7	-21.7	-15.0	
Import	9.5	8.4	14.7	1.7	-30.5	-25.6	-23.8	
Statistical Discrepancy	6.1	-34.8	-3.6	-4.0	-16.2	5.5	-1.2	
	(growth, qoq)							
Real GDP growth	1.6	-0.2	-0.6	-4.8	-1.5	2.2	1.3	
Agriculture	2.4	2.6	-3.1	-1.6	4.7	-1.4	-3.9	
Manufacturing	2.9	-1.0	-0.3	-8.0	-5.6	5.5	2.6	
Construction	-4.4	-3.3	-2.5	-3.3	1.4	5.8	-1.7	
Hotel & Restaurant	1.4	-1.9	-3.3	-4.3	2.0	-0.1	-0.3	

(Source: NESDB)

Meanwhile, the Thai Administrative Court issued an injunction in September 2009 to suspend the planned 76 petrochemical and other project plans in the Map Ta Phut industrial estate and its surrounding area in East Thailand on the ground that they are violating the article 67 of the Constitution to take necessary measures for health and environment protection. In response to the government's appealing, the Supreme Administrative Court upheld the suspension of 65 projects while approving 11 projects to proceed. This injunction highlighted the fact that the current environment legislations themselves are not complying with the 2007

Constitution, which means, not only the pinpointed 65 projects but any new investment projects within the country that may pose threat to environment or health are practically suspended until the procedures compliant with the Constitution are set in place. The Ministry of Finance and the Bank of Thailand estimated that real GDP growth next year may be cut by 0.2 ~ 0.5 percentage point next year due to the postponment in investments. Thai government, showing its determination for quick rectification, has indicated to complete within three months the modification and implementation of the relevant legislations such as the operational procedures for the required “environment and health assessment” and “public hearing” and establishment of an “independent committee” to grant approvals for those assessments. In November 2009, a special committee was already set up, comprising the representatives from the government, the industry, the academic and the residents with the former Prime Minister Anand Panyarachun as the chairman. An early solution is critical on this. This flaw in environment legislations, in addition to the uncertain global economic prospects and the domestic political unrest, will weigh on the recovery of the Thai economy. JCR, assigning “negative” outlook on its long-term senior debt ratings on Thailand, will continue to be vigilant on the political and economic development of Thailand.

Main Economic Indicators (Thailand)

	2001	2002	2003	2004	2005	2006	2007	2008	2009f	2010f
Real GDP Growth (%)	2.2	5.3	7.1	6.3	4.6	5.1	4.9	2.5	-3.4	3.3
Unemployment Rate (%)	3.3	2.4	2.2	2.1	1.8	1.5	1.4	1.4	1.5	1.4
CPI inflation (period average) (%)	1.6	0.7	1.8	2.8	4.5	4.6	2.2	5.5	-0.8	1.6
Lending rate (%)	7.0	6.7	6.2	5.6	5.9	7.5	7.2	7.2	5.9	6.6
Central govt. fiscal balance/GDP (%)	-2.5	-2.9	-0.2	-0.2	0.3	-0.7	-1.6	-0.9	-5.7	-4.0
Interest payment/Revenue (%)	10.1	9.6	8.6	8.4	7.0	7.2	8.1	8.0	9.8	11.9
Gross Public Debt/GDP (%)	57.2	54.0	49.5	48.2	46.2	41.2	37.3	37.6	43.9	46.7
Export of Goods & Services (US\$ bn)	76.1	81.5	93.9	114.0	129.5	152.8	180.4	209.1	179.4	199.6
Import of Goods & Services (US\$ bn)	69.1	73.7	85.1	107.2	133.0	147.1	162.9	204.1	154.9	175.5
Current Account Balance/GDP (%)	4.4	3.7	3.4	1.7	-4.3	1.1	5.7	-0.1	7.7	6.7
International Reserves (excl: gold) (US\$ bn)	32.4	38.1	41.1	48.7	50.7	65.3	85.2	108.7	136.5	150.9
Import Cover (month)	5.6	6.2	5.8	5.4	4.6	5.3	6.3	6.4	10.6	10.3
Gross External Debt/GDP (%)	58.4	46.9	36.3	31.8	29.5	28.8	25.0	23.8	25.1	25.1
Net External Debt/GDP (%)	30.4	16.9	7.5	1.6	0.8	-2.7	-9.5	-16.1	-28.8	-30.5
Intl. Reserves/S-T External Debt (x)	2.4	3.2	3.8	4.0	3.1	3.5	3.9	4.4	5.4	5.3
Net External Debt/Export (%)	46.2	26.3	11.4	2.3	1.0	-3.7	-13.0	-21.0	-40.6	-41.4
Debt Service Ratio (%)	21.1	20.0	16.3	8.7	10.9	11.4	11.9	10.7	12.6	11.7
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	33.6

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

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