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## Global Economic and Sovereign Credit Overview

### Thailand's Upgrade in Perspective

Andrew Colquhoun, Head of Asia-Pacific  
Sovereigns

18 March 2013

## Agenda

Thailand's Upgrade in Global Perspective  
Eurozone, US Outlook  
China: Rebalancing Imperative  
Japan's Reflation Experiment

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## Agenda

Thailand's Upgrade in Global Perspective

Eurozone, US Outlook

China: Rebalancing Imperative

Japan's Reflation Experiment

**Fitch**Ratings

### Fitch Website Screenshot...

11-Mar-2013	<a href="#">Fitch Publishes The Weekly Wire Compendium of Commentary</a>	Non-Rating Action Commentary
11-Mar-2013	<a href="#">GCC Sovereign Credit Overview</a>	Special Report
11-Mar-2013	<a href="#">Fitch: High Oil Revenues to Underpin Robust GCC Economic Performance in 2013</a>	Non-Rating Action Commentary
08-Mar-2013	<a href="#">Fitch Upgrades Thailand to 'BBB+'; Outlook Stable</a>	Rating Action Commentary
08-Mar-2013	<a href="#">Fitch Downgrades Italy to 'BBB+'; Outlook Negative</a>	Rating Action Commentary
08-Mar-2013	<a href="#">Fitch: Fiscal, FX Obstacles Loom for Next Venezuelan Government</a>	Non-Rating Action Commentary
07-Mar-2013	<a href="#">Fitch Upgrades Uruguay's IDR to 'BBB-'; Outlook Revised to Stable</a>	Rating Action Commentary
07-Mar-2013	<a href="#">Russia's Public Finances and Oil Prices</a>	Special Report

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# Thailand: FC 'BBB+' / Stable; LC 'A-' / Stable

- Upgrade 8 March 2013:
  - Macro resilience underpinned by strong policy framework
  - Greater confidence on political stability
- Strong external finances
- Moderate gross government debt, low net general government debt / high deposits
- What could trigger an upgrade?
  - More public debt ratio stabilisation
  - Long-term: sustained growth without imbalances *- increase average income*
- What could trigger negative action?
  - Overheating without prompt corrective policy action
  - Renewed serious political instability that impacted economy / financial system

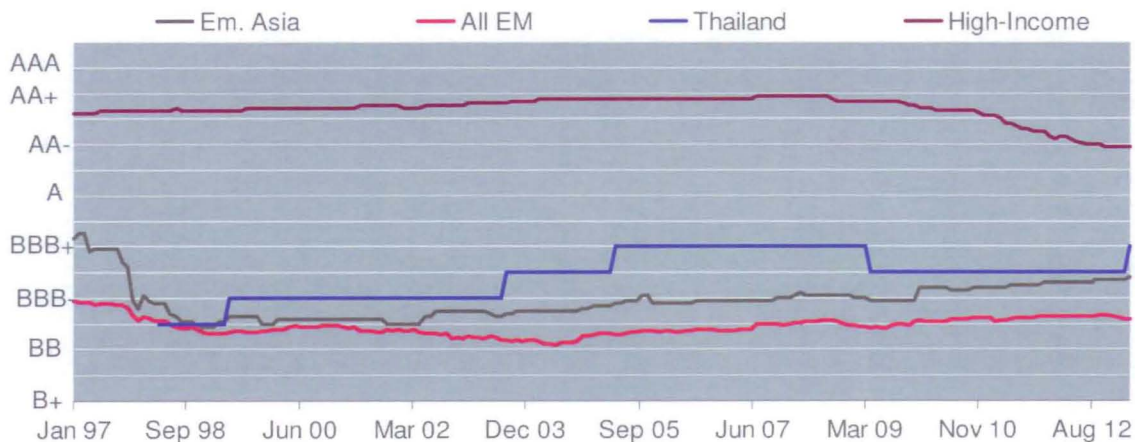
## Summary: Strengths and Weaknesses

Rating Factors <sup>a</sup>	Status	Trend
Public finances	Neutral	Stable
Macroeconomics	Strength	Stable
Structural issues	Weakness	Stable
External finances	Strength	Stable

<sup>a</sup> Relative to 'BBB' category  
Source: Fitch

## Rating Performance

Long-Term Foreign Currency Issuer Default Ratings



Source: Fitch

# Fitch Sovereign Ratings vs. Market Indicators

Sovereign	Fitch Long-term FC IDR	CDS Market-Implied Rating	Notch Difference (Fitch Minus Market)
Australia	AAA	AA	+2
China	A+	A+	0
India*	BBB-/Neg	BB+	+1
Indonesia	BBB-	BBB	-1
Japan	A+/Neg	AAA	-4
Korea	AA-	A	+2
Malaysia	A-	A	-1
Philippines	BB+	BBB+	-3
Thailand	BBB+	A-	-1
Vietnam	B+	BB+	-3
Memo: Colombia	BBB-	BBB+	-2
Turkey	BBB-	BBB	-1

\* Uses State Bank of India as proxy  
Source: Fitch

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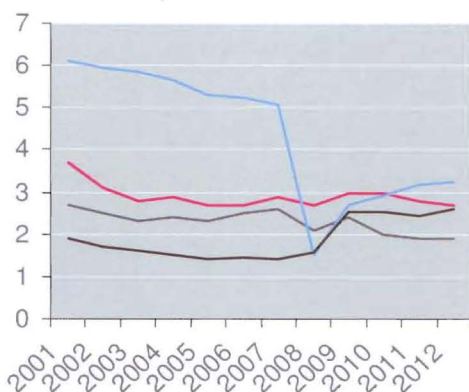
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## Improved Macro Stability Has Underpinned Emerging Asia, Thailand Ratings Upgrades

### Growth Volatility

— EM Asia      — All EM  
— Thailand      — High-Income

(Standard Deviations)

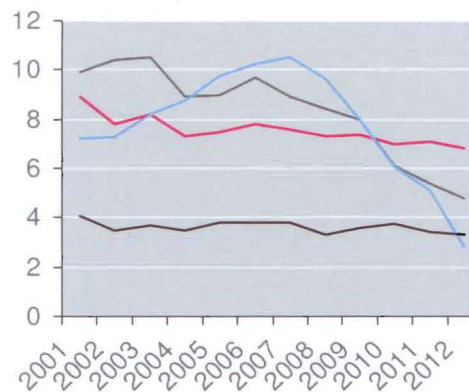


Source: Fitch Sovereign Comparator

### Revenue Volatility

— EM Asia      — All EM  
— Thailand      — High Income

(Standard Deviations)



Source: Fitch Sovereign Comparator

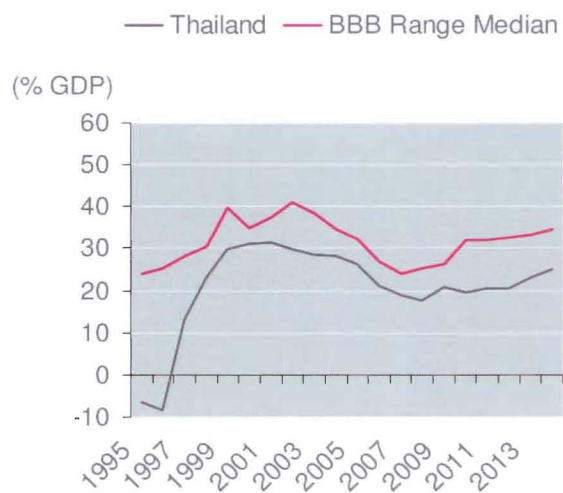
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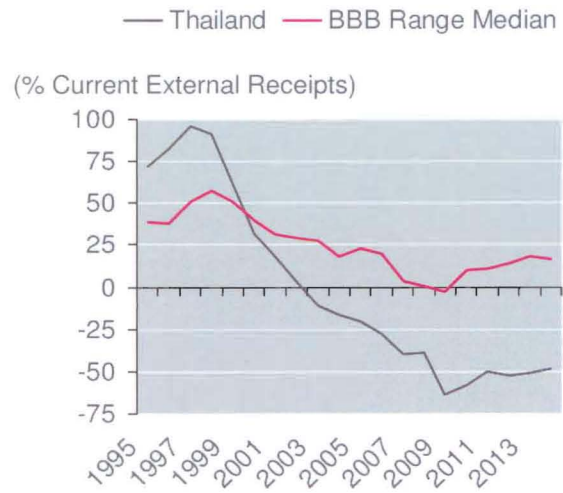
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# Thailand: Key Sovereign Credit Metrics

## Net General Government Debt

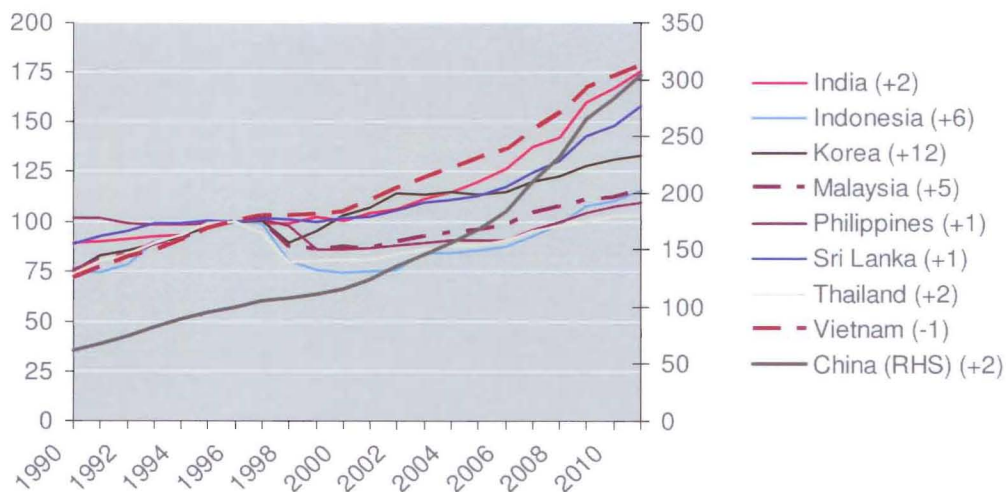


## Net External Debt



# Who Is Catching Up?

## Gross National Income, PPP Basis, % US; Rebased 1996=100



Numbers in brackets are trough-to-peak change in rating over period since 1997

## Agenda

Thailand's Upgrade in Global Perspective

Eurozone, US Outlook

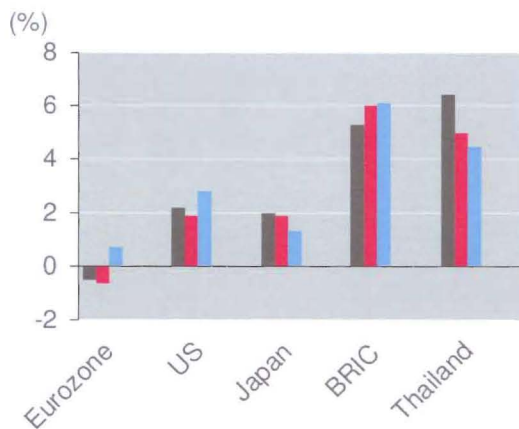
China: Rebalancing Imperative

Japan's Reflation Experiment

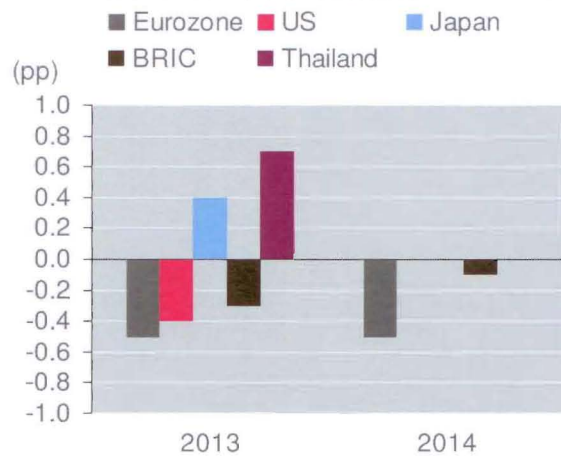
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## Global Recovery Remains Weak

Growth Outlook *for 2012, 13, 14*



Growth Revision Since December 2012



Source: Fitch GEO, March 2013

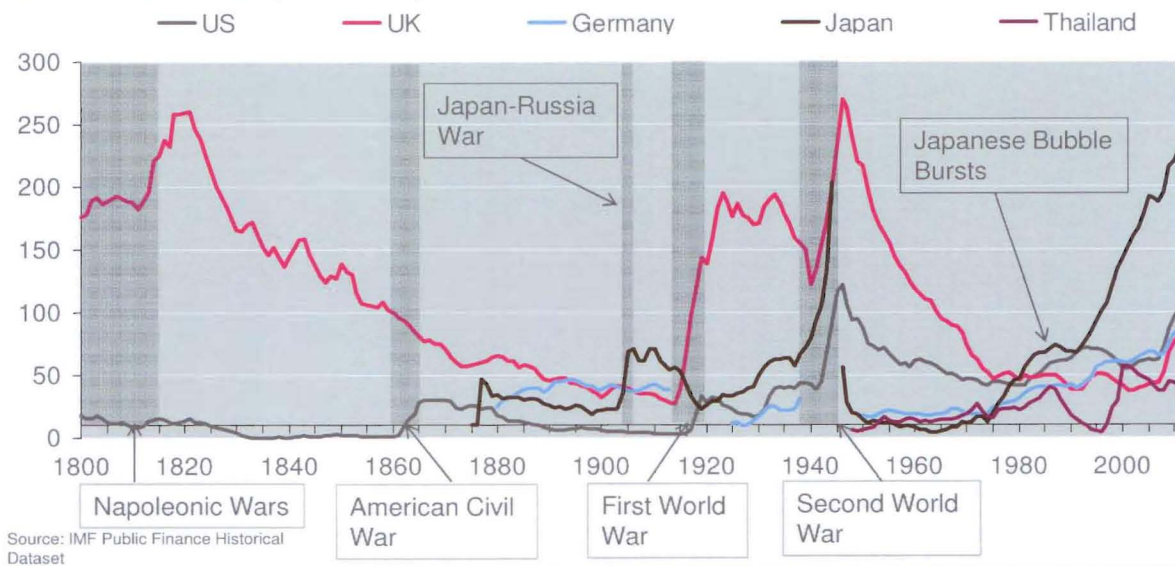
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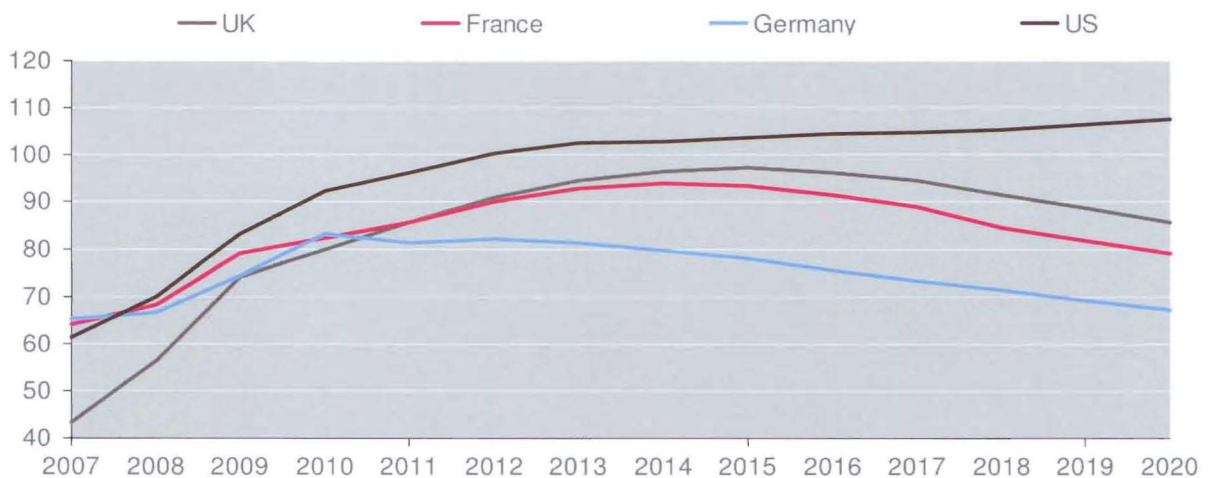
# Run-Up in Advanced Economies' Public Debt Is Unprecedented For Peacetime

Gross Public Debt (% of GDP)



# Public Debt to Fall Over Medium Term (Except the US!)

General Government Debt (% of GDP)



# Eurozone: Muddling Through to Resolution

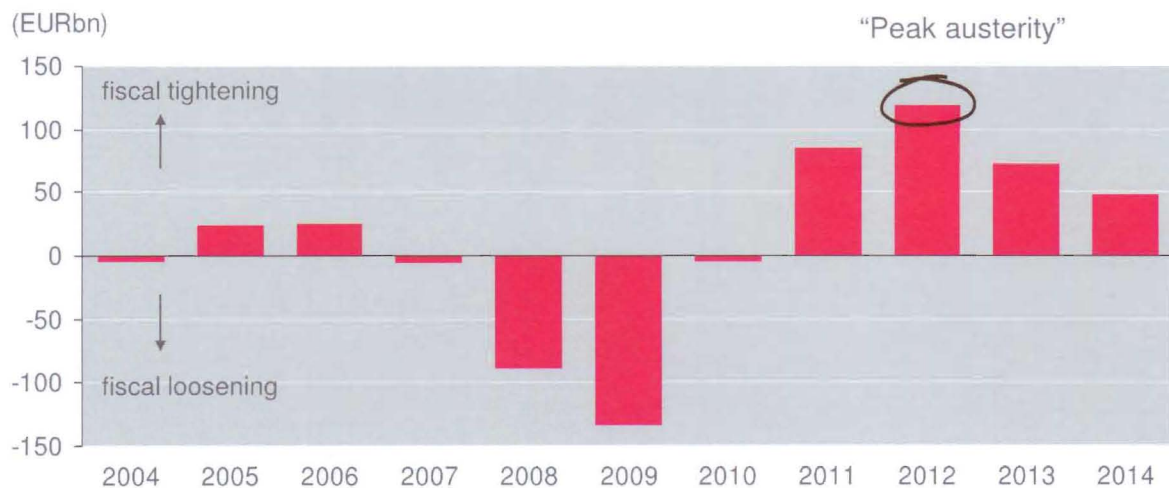
## Our Base Case

- Break-up very unlikely
- Eurozone reform continues (slowly)
- Economic imbalances unwind (slowly)
- Prolonged negotiation of mutualisation terms



## Austerity: Over the Worst, But More to Come

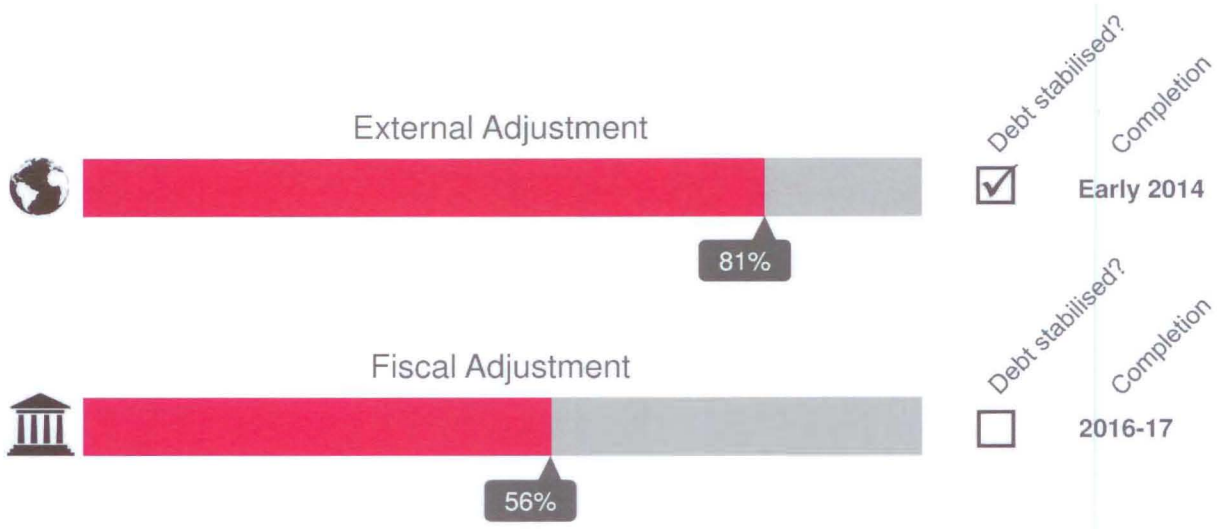
### Eurozone Fiscal Impulse



Note: Fiscal impulse defined as change in structural general government balance, excluding one-off costs of bank recapitalization  
 Source: Eurostat, Fitch forecasts

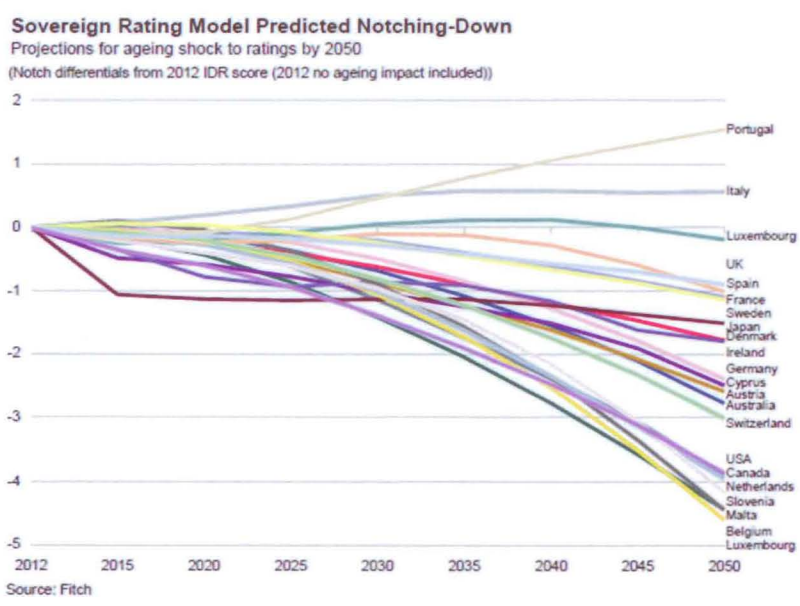
# Periphery Rebalancing...

(Please be patient)



Notes: progress along bar represents improvement in external/fiscal position from peak deficit to sustainable balance.  
 External adjustment refers to current account plus capital transfers; completion (100% on bar) implies net external debt would fall to 50% of GDP by 2020.  
 Fiscal adjustment refers to cyclically-adjusted primary balance; completion (100% on bar) implies debt would fall in line with the 1/20 rule of Fiscal Compact.  
 Source: Ameco database, Fitch calculations and forecasts

## Ageing: The Next Fiscal Crisis?



Source: "Ageing Costs: The Second Fiscal Crisis", Fitch, January 2013

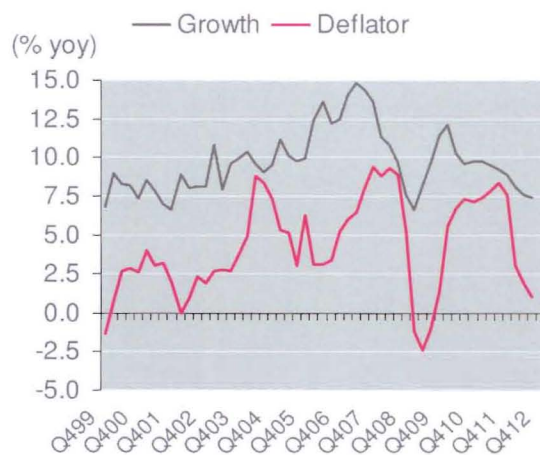
# Agenda

- Thailand's Upgrade in Global Perspective
- Eurozone, US Outlook
- China: Rebalancing Imperative
- Japan's Reflation Experiment

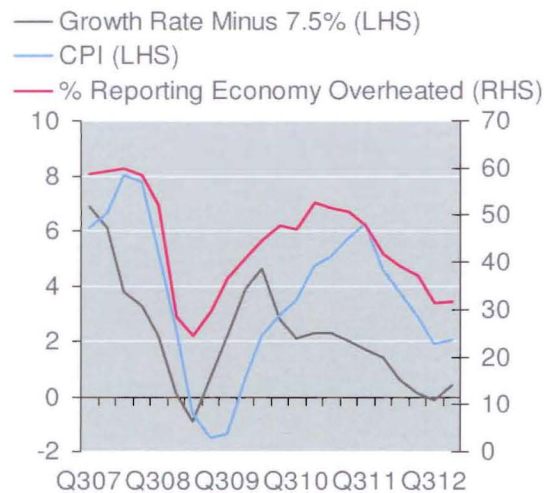


## Fitch Expects 8% Growth 2013

### Growth Around 7%-8% May Be Sustainable Rate



Source: CEIC, Fitch

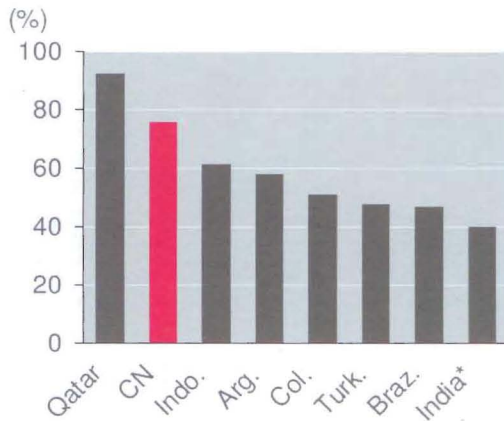


Source: CEIC, Fitch



# China's Leverage Problem

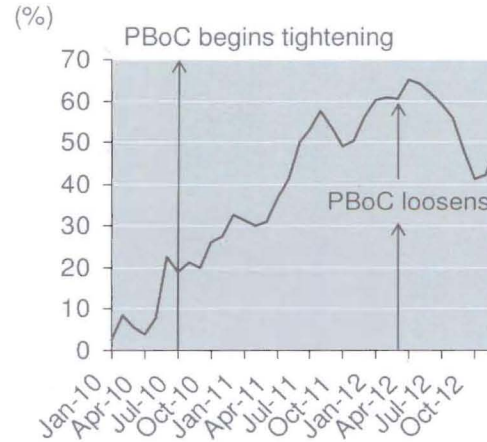
## Real Loan Growth 2009-H112



\* India: June 2009-June 2012  
Nominal loan growth adjusted for inflation  
Source: Fitch EM Banking System Datawatch, November 2012

## More Shorter-Term Financing

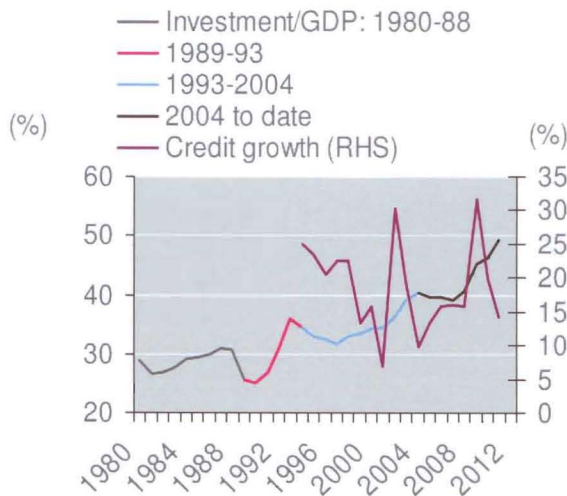
Short-term as % of new increased lending



12-month rolling aggregates  
Source: CEIC

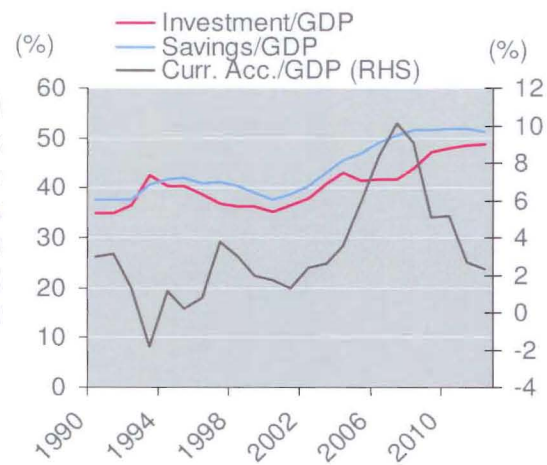
# Rebalancing Imperative: Investment-Led Model Is Increasingly Unsustainable

## Investment and Credit Are Linked



Source: CEIC, Fitch

## More Investment Threatens Structural Balance of Payments Deficit



Source: CEIC, Fitch

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## Stimulus Has Market Credibility, So Far

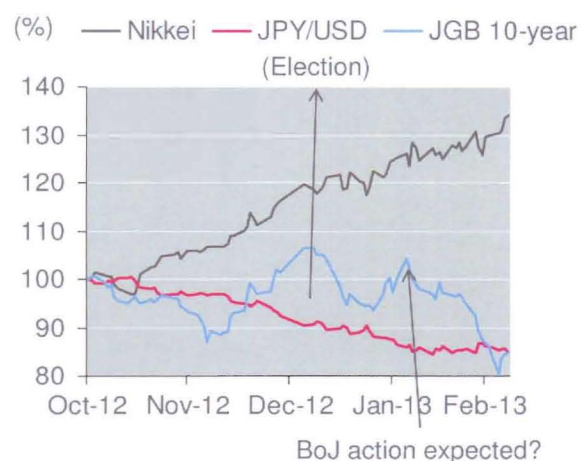
### Fiscal

- Supplementary budget FY12 for JPY13.1trn
- Tax reform FY13
  - Tax breaks for R&D, capex, employment
  - Hikes on high earners

### Monetary

- Encourage BoJ to adopt 2% inflation target
- 15% JPY depreciation against USD since November 2012

### Market Reaction



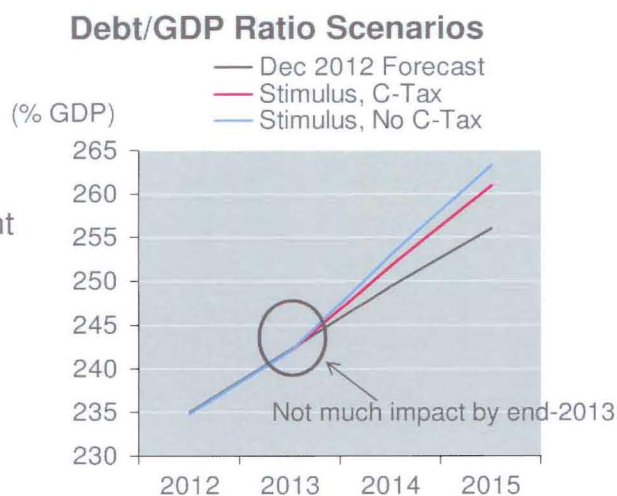
Rebased to 31 Oct 2012 = 100  
Source: CEIC, Fitch

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## Longer-Term Fiscal Stabilisation Plan, Structural Reform Key For Credit-Worthiness

- In 2013, higher deficit balanced by higher growth (1.9% expected)
- Greater long-term impact if:
  - Measures are more permanent
  - Growth doesn't pick up
- Structural reforms to raise trend growth more credit-positive than one-off stimulus



Indicative scenario; not base case Fitch forecast  
Source: Fitch

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## Some Relevant Fitch Research

- Global Economic Outlook (March 2013)
- Sovereign Comparator (March 2013) (forthcoming)
- Ageing Costs: The Second Fiscal Crisis (January 2013)
- Macro-Prudential Risk Report (January 2013)
- Emerging Asia Sovereign Outlook (December 2012)
- Asia-Pacific Sovereign Overview (December 2012)
- Global Sovereign Review (December 2012)
- China's New Leadership Faces Rebalancing Challenge (December 2012)

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## Appendix - Sovereign Ratings Overview Emerging Asia

Sovereign	Foreign Currency (FC)		Local Currency (LC)	
	Long-Term IDR	Outlook	Long-Term IDR	Outlook
China	A+	Stable	AA-	Negative
India	BBB-	Negative	BBB-	Negative
Indonesia	BBB-	Stable	BBB-	Stable
Malaysia	A-	Stable	A	Stable
Mongolia	B+	Stable	B+	Stable
Philippines	BB+	Stable	BBB-	Stable
Sri Lanka	BB-	Stable	BB-	Stable
Thailand	BBB+	Stable	A-	Stable
Vietnam	B+	Stable	B+	Stable

Source: Fitch

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## Higher-Income Asia

Sovereign	Foreign Currency (FC)		Local Currency (LC)	
	Long-Term IDR	Outlook	Long-Term IDR	Outlook
Australia	AAA	Stable	AAA	Stable
Hong Kong	AA+	Stable	AA+	Stable
Japan	A+	Negative	A+	Negative
Korea	AA-	Stable	AA	Stable
New Zealand	AA	Stable	AA+	Stable
Singapore	AAA	Stable	AAA	Stable
Taiwan	A+	Stable	AA-	Stable

Source: Fitch

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## Thailand Coverage

February 2013

	Fitch Ratings		Fitch Ratings		Fitch Analyst
	International Long-term (FC)/ Short-term Rating	International Outlook/ Watch	National Long-term/ Short-term Rating	National Outlook/ Watch	
<b>Sovereign</b>	BBB+ (FC) A- (LC)	Stable Stable	-	-	AC
<b>Corporates</b>					
Advanced Info Service Public Company Limited	BBB+	Stable	AA(tha)/F1+(tha)	Positive	OT/PP
Asian Property Development Pcl.	-	-	BBB+(tha)/F2(tha)	Stable	PP/SC
Bangkok Aviation Fuel Services Pcl.	-	-	A+(tha)/F1(tha)	Stable	SC/OT
Ek-Chai Distribution System Company Limited (Guaranteed)	-	-	AAA(tha)	Negative	SC/PP
(Issue Rating)	-	-	F1(tha)		EP/LK
Esso (Thailand) Public Company Limited	-	-			
Gulf Cogeneration Company Limited (Guaranteed) (Issue Rating)	-	-	AA(tha)/-	Negative	OT/LK
Holcim Capital (Thailand) Limited (Guaranteed) (Issue Rating)	-	-	AA-(tha)/-	Stable	OT/PP
IRPC Public Company Limited	-	-	A-(tha)/F2(tha)	Stable	LK/EP
Krungthep Land Pcl. (Guaranteed)	-	-	AA+(tha)/-	Stable	PP/SC
(Issue Rating)	-	-	BBB+(tha)/F2(tha)	Stable	PP/SC
Land and Houses Public Company Limited	-	-	AAA(tha)/-	Stable	EP/LK
Mercedes-Benz (Thailand) Limited (Guaranteed)	-	-	AA-(tha)/F1+(tha)	Stable	EP/LK
(Issue Rating)	-	-	AAA(tha)/F1+(tha)	Stable	LK/EP
PTT Global Chemical Public Company Limited	BBB+/F2 (FC)	Stable	AAA(tha)/F1+(tha)	Stable	LK/EP
PTT Public Company Limited	A- (LC)	Stable	-	-	LK/EP
Siam Cement Public Company Limited	-	-	A(tha)/F1(tha)	Stable	PP/SC
Siam City Cement Public Company Limited	-	-	A(tha)/F1(tha)	Stable	PP/SC
Siam Future Development Public Company Limited	-	-	BBB(tha)/F3(tha)	Stable	SC/PP
SVI Public Company Limited	-	-	BBB+(tha)/F2(tha)	Stable	OT/PP
Thai Oil Public Company Limited	-	-	AA-(tha)/F1+(tha)	Stable	LK/EP
Thoresen Thai Agencies Public Company Limited	-	-	BBB(tha)/-	Stable	SC/LK
Total Access Communication Pcl.	BBB-	Positive	A+(tha)/F1(tha)	Positive	OT/PP
<b>Commercial Banks</b>					
Bangkok Bank Public Company Limited	BBB+/F2	Stable	AA(tha)/F1+(tha)	Stable	PC/PS
Bank of Ayudhya Public Company Limited	BBB/F3	Stable	AA-(tha)/F1+(tha)	Stable	PC/PS
CIMB Thai Bank Public Company Limited	BBB/F3	Stable	AA-(tha)/F1+(tha)	Stable	PS/PC
Industrial and Commercial Bank of China (Thai) Pcl.	-	-	AAA(tha)/F1+(tha)	Stable	PS/PC
Kasikornbank Public Company Limited	BBB+/F2	Stable	AA(tha)/F1+(tha)	Stable	PS/PC
Krung Thai Bank Public Company Limited	BBB/F3	Stable	AA+(tha)/F1+(tha)	Stable	PS/PC
Siam Commercial Bank Public Company Limited	BBB+/F2	Stable	AA(tha)/F1+(tha)	Stable	PC/PS
Standard Chartered Bank (Thai) Pcl.	BBB+/F2 (FC) A+/F1 (LC)	Stable	AAA(tha)/F1+(tha)	Stable	PC/PS
Thanachart Bank Public Company Limited	BBB-/F3	Negative	A+(tha)/F1+(tha)	Negative	PS/PC
Thanachart Capital Public Company Limited	-	-	A(tha)/F1(tha)	Negative	PS/PC
TMB Bank Public Company Limited	BBB-/F3	Stable	A+(tha)/F1(tha)	Stable	PS/PC
United Overseas Bank (Thai) Pcl.	BBB+/F2	Stable	AAA(tha)/F1+(tha)	Stable	PC/PS
<b>Consumer Finance &amp; Leasing</b>					
AEON Thana Sinsap (Thailand) Pcl.	-	-	BBB+(tha)/F2(tha)	Stable	PS/PC
ICBC (Thai) Leasing Company Limited	-	-	AAA(tha)/F1+(tha)	Stable	PC/PS
KTBL Leasing Company Limited	-	-	AA-(tha)/F1+(tha)	Stable	CS/PC
<b>Securities &amp; Investment Banking</b>					
Asia Plus Securities Public Company Limited	-	-	A-(tha)/F2(tha)	Stable	PS/PC
Finansa Public Company Limited	-	-	BBB-(tha)/F3(tha)	RWN	PS/PC
Kasikorn Securities Public Company Limited	-	-	AA-(tha)/F1+(tha)	Stable	PS/PC
Maybank Kim Eng Securities (Thailand) Pcl.	-	-	AA(tha)/F1+(tha)	Stable	PC/PS
Phatra Securities Public Company Limited	-	-	A-(tha)/F2(tha)	Stable	PS/PC
SCB Securities Company Limited	-	-	AA-(tha)/F1+(tha)	Stable	PS/PC
<b>Policy Banks</b>					
Bank for Agriculture and Agricultural Cooperatives	-	-	-	-	PS/PC
Export Import Bank of Thailand	BBB/F3	Stable	AAA(tha)/ F1+(tha)	Stable	PC/PS
Government Housing Bank	-	-	AAA(tha)/ F1+(tha)	Stable	PC/PS
Government Savings Bank	-	-	-	-	PS/PC
Islamic Bank of Thailand	BBB-/F3	Stable	AA(tha)/F1+(tha)	Stable	CS/PC
SME Development Bank of Thailand	-	-	AA+(tha)/F1+(tha)	Stable	PC/PS

	Fitch Ratings		Fitch Ratings		Fitch Analyst
	International Long-term (FC)/ Short-term Rating	International Outlook/ Watch	National Long-term/ Short-term Rating	National Outlook/ Watch	
<b>Foreign Banks</b>					
Central American Bank for Economic Integration (Issue Rating)	-	-	AAA(tha)/-	-	PS/PC
Credit Agricole Corporate and Investment Bank (Issue Rating)	-	-	AAA(tha)/-	-	PS/PC
Industrial Bank of Korea (Issue Rating)	-	-	AAA(tha)/-	-	PS/PC
ING Bank N.V. (Issue Rating)	-	-	AAA(tha)/-	-	PS/PC
Woori Bank (Issue Rating)	-	-	AAA(tha)/-	-	PC/PS
<b>Insurance</b>					
	<b>Strength Rating</b>		<b>Strength Rating</b>		
American International Assurance Company Limited (Thailand Branch)	-	-	AAA(tha)	Stable	SW/JL
Muang Thai Life Assurance Company Limited	BBB+	Stable	AA+(tha)	Stable	SW/JL
<b>Structured Finance</b>					
DAD SPV Company Limited 15NA	-	-	AAAsf(tha)/-	Stable	OK
DAD SPV Company Limited 20NA	-	-	AAAsf(tha)/-	Stable	OK
DAD SPV Company Limited 25NA	-	-	AAAsf(tha)/-	Stable	OK
DAD SPV Company Limited 20NB	-	-	AAAsf(tha)/-	Stable	OK
DAD SPV Company Limited 25NB	-	-	AAAsf(tha)/-	Stable	OK
DAD SPV Company Limited 25NC	-	-	AAAsf(tha)/-	Stable	OK
Eternal 5 SPV Company Limited	A-sf (LC)	Stable	-	-	KL/OK
<b>Bond Funds</b>					
			<b>National Bond Fund Rating</b>		
Krungsri Cash management Fund	-	-	AAAmf(tha)	-	LK/OK
TMB Treasury Money Fund	-	-	AAAmf(tha)	-	LK/OK
TMB Money Fund	-	-	AAAmf(tha)	-	LK/OK

	Fitch Ratings		Fitch Ratings		Fitch Analyst
	International Long-term (FC)/ Short-term Rating	International Outlook/ Watch	National Long-term/ Short-term Rating	National Outlook/ Watch	
<b>Asset Managers</b>					
SCB Asset Management Company Limited	-	-	M2+(tha)	-	OK/LK
<b>Servicers</b>					
Capital Advisory Services (Thailand) Limited	-	-	RSS2(tha)/-	-	OK/PS

**Note:**  
Fitch's National ratings provide a relative measure of creditworthiness for rated entities in countries with relatively low international sovereign ratings and where there is demand for such ratings. The best risk within a country is rated 'AAA' and other credits are rated only relative to this risk. National ratings are designed for use mainly by local investors in local markets and are signified by the addition of an identifier for the country concerned, such as 'AAA(tha)' for National ratings in Thailand. Specific letter grades are not therefore internationally comparable.

#### Contact List

##### Fitch Ratings Thailand

		Telephone	Email	
VM	Managing Director	Vincent Milton	(66) 2108 0169	vincent.milton@fitchratings.com
AT	Business Relationship	Apinya Tantimedh	(66) 2108 0165	apinya.tantimedh@fitchratings.com
OK	Structured Finance/ Financial Institutions	Orawan Karoonkornsakul	(66) 2108 0151	orawan.karoonkornsakul@fitchratings.com
CS	Financial Institutions/ Insurance	Chutimas Sivamard	(66) 2108 0152	chutimas.sivamard@fitchratings.com
PS	Financial Institutions	Patchara Sarayudh	(66) 2108 0153	patchara.sarayudh@fitchratings.com
PC	Financial Institutions	Piyamas Chaihetphon	(66) 2108 0154	piyamas.chaihetphon@fitchratings.com
LK	Corporates/Funds	Lertchai Kochareonrattanakul	(66) 2108 0158	lertchai.kochareonrattanakul@fitchratings.com
OT	Corporates	Obboon Thirachit	(66) 2108 0159	obboon.thirachit@fitchratings.com
SC	Corporates	Somruedee Chaiworarat	(66) 2108 0160	somruedee.chaiworarat@fitchratings.com
PP	Corporates	Pimrumpai Panyarachun	(66) 2108 0161	pimrumpai.panyarachun@fitchratings.com
EP	Corporates	Ekapan Prompraphant	(66) 2108 0162	ekapan.prompraphant@fitchratings.com

##### Fitch Ratings Hong Kong

AC	Sovereigns	Andrew Colquhoun	(852) 2263 9938	andrew.colquhoun@fitchratings.com
JL	Insurance	Jeffrey Liew	(852) 2263 9939	jeffrey.liew@fitchratings.com
KL	Structured Finance	Kate Lin	(852) 2263 9912	kate.lin@fitchratings.com

##### Fitch Ratings Singapore

SW	Insurance	Siew Wai Wan	(65) 6796 7217	siewwai.wan@fitchratings.com
BP	Corporates	Buddhika Piyasena	(65) 6796 7223	buddhika.piyasena@fitchratings.com

##### Fitch Ratings Korea

HC	Financial Institutions	Heakyu Chang	(82 2) 3278 8363	heakyu.chang@fitchratings.com

##### Business & Relationship Management, Asia-Pacific

Group Head	Vivek Goyal	(65) 6796 7203	vivek.goyal@fitchratings.com

##### Fitch Solutions, Asia Pacific

OP	Oliver Putz	(65) 6796 7211	oliver.putz@fitchsolutions.com

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**FitchRatings**

**New York**

One State Street Plaza  
New York, NY 10004

**London**

30 North Colonnade  
Canary Wharf  
London E14 5GN