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Credit Opinion: Thailand, Government of

Global Credit Research - 15 May 2013

Ratings

Category	Moody's Rating
Outlook	Stable
Government Bonds	Baa1
Commercial Paper	P-2
Thailand	
Outlook	Stable
Country Ceiling: Fgn Currency Debt	A2/P-2
Country Ceiling: Fgn Currency Bank Deposits	Baa1/P-2

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Key Indicators

Thailand

	2009	2010	2011	2012	2013F	2014F
Real GDP (% change)	-2.3	7.8	0.1	6.4	5.0	5.0
Inflation (CPI, % change Dec/Dec)	3.5	3.1	3.5	3.6	3.0	2.4
Gen. Gov. Financial Balance/GDP (%)	-4.4	-2.6	-1.3	-4.1	-3.1	-2.3
Gen. Gov. Debt/GDP (%)	28.6	29.7	29.3	30.9	31.0	30.6
Gen. Gov. Debt/Gen. Gov. Revenue (%)	174.3	171.5	162.4	169.2	169.2	164.7
Gen. Gov. Interest Payments/Gen. Gov. Revenue (%)	7.5	7.1	8.0	6.9	7.6	7.0
Current Account Balance/GDP (%)	9.1	4.5	1.7	0.7	1.4	1.3
External Debt/CA Receipts (%) [1]	38.8	41.9	37.2	44.9	41.6	40.3
External Vulnerability Indicator [2]	42.7	31.8	35.4	35.0	42.0	39.4

[1] Current Account Receipts [2] (Short-Term External Debt + Currently Maturing Long-Term External Debt + Total Nonresident Deposits Over One Year)/ Official Foreign Exchange Reserves

Opinion

Credit Strengths

Support factors for Thailand include:

-Robust external payments position

-Improved growth outlook

-Low government financing costs

Credit Challenges

Areas of concern for Thailand include:

-Political risks from polarization and regional insurrection

-Containing the rise in public debt

-Weaknesses in governance

Rating Rationale

Thailand's Baa1 government ratings reflect moderate economic and institutional strengths, but receive support from a high level of government financial strength resulting from a relatively low stock of debt and easily financed deficits. The vulnerability of the government's balance sheet to external shocks had been lessened by the reduction of foreign currency-denominated debt and accumulation of official foreign exchange reserves following the Asian financial crisis. External indicators are considerably stronger than the median values of not only Baa peers, but also many A-rated countries. The global financial crisis interrupted the steady, downward trend in Thailand's debt trajectory at both the general government and public sector levels, yet Thailand's government debt burden remains well positioned relative to Baa peers.

Susceptibility to event risk is low, despite deep political polarization. The intrinsic strength of the Thai financial system was not destabilized from the global financial crisis and continues to be resilient to stresses from the sovereign debt crisis in the euro area. Thailand's income level is also lower than its peers, but this is offset by economic diversity, a high level of national savings, and favorable economic growth prospects.

Rating Outlook

The rating outlook has been stable since October 2010. The robust economic recovery and fiscal consolidation following the global financial crisis was interrupted by massive flooding in the second half of 2011. Increased expenditure on flood management measures, coupled with sizable fiscal transfers, corporate tax cuts, and other measures promised by the ruling Pheu Thai Party during the 2011 elections, has placed increased pressure on fiscal accounts and is pushing up public debt. Nevertheless, financing risks are mitigated by the large stock of domestic savings, which provide a reliable source of baht-denominated funds at a low cost--reflecting both the continued health of Thailand's external position and well-anchored inflation expectations.

Following the clear-cut electoral victory of the Pheu Thai Party-led coalition in the 2011 parliamentary elections, domestic politics have stabilized. Since then, however, debates over constitutional change and culpability over the violence during the 2010 Bangkok protests have revealed lingering polarization. Stability could be affected by underlying risks related to monarchical succession and continued violence in southern Thailand.

What Could Change the Rating - Up

Maintenance of the strong external payments position. Progress in strengthening public sector finances, which includes reducing the fiscal deficit and off-budget spending, as well as limiting contingent fiscal liabilities from populist measures and social welfare programs. Improvement in the political climate that supports long-term stability and governance effectiveness.

What Could Change the Rating - Down

Political instability that leads to a deep weakening of credit fundamentals and competitiveness. A significant deviation from fiscal rules that results in widening fiscal deficits and a steep buildup of government debt.

Recent Developments

Full-year real GDP growth in 2012 came in strong, reaching 6.4% year-on-year, up from 0.1% growth in 2011. Growth was particularly robust in Q4, at 18.9% the strongest on record. Investment and consumption were the main expenditure-side sources of growth, and manufacturing and services drove the supply side. We expect real GDP growth to average 5% in 2013-14 with investment and consumption as the main drivers as a recovery in exports will remain gradual. Initial disbursements under the government's THB2.2 trillion infrastructure program are expected towards end-2013, and private consumption remains supported by growing incomes and continued high consumer confidence. Unemployment remains very low, at a seasonally-adjusted 0.66% as of February.

Core inflation averaged 2.1% in 2012, well within the central bank's target range of 0.5-3%; headline inflation averaged 3%. Disinflation continued during the first four months of 2013 and April headline inflation was 2.4% year-on-year. Looking forward, inflationary pressures should remain contained, despite recent minimum wage increases and strong credit growth. Following a pilot phase during the second half of 2012, minimum wage was increased on a nationwide basis to THB300 per day with effect from 1 January 2013. Credit to the private sector continued to post robust growth of 13.8% year-on-year on average during Q1 2013, but the monthly increase has come to an halt in March. The strong Thai baht, together with stable commodity prices, will counterbalance domestic inflationary pressure. We expect headline inflation to average 2.6% this year and 2.8% in 2014.

Thailand's overall balance of payments ended 2012 with a surplus of USD5.3 billion. The current account surplus was USD1.3 billion in Q1 2013, slightly lower than the USD1.4 billion surplus a year ago, as the trade balance turned into a USD220 million deficit, compared to a USD1.1 billion surplus in Q1 2012. We expect a current account surplus of around 1-1.5% of GDP for this year and next. Latest figures from BoT show that foreign exchange reserves stood at USD168.9 billion as of end-April, slightly up from USD168.5 billion a year earlier, but below the 2012 year-end close of USD171.1 billion.

The BoT's concerns over financial stability have led it to maintain its policy rate at 2.75% - contrary to the Ministry of Finance's repeated calls for interest rate cuts. Domestic credit-to-GDP ratio has risen to 130% at end-2012 from 109% in 2010 and the central bank warned about rising household debt

In a press release dated 30 April 2013, BoT's Monetary Policy Committee "expressed concern over recent volatility and rapid appreciation of the baht" and called for the implementation of appropriate policy responses, in close coordination with government agencies like the Ministry of Finance. The baht had strengthened to THB28.6 per USD on 19 April but has weakened again since then. Nevertheless, it is still up 3% year-to-date. BoT has submitted a list of potential macroprudential measures to manage speculative foreign portfolio capital inflows to Cabinet, including limits on foreign buyers' purchases of short-term and BoT bonds, introduction of minimum holding periods, and capital gains tax.

Non-resident ownership of local currency government securities continued to increase, rising to THB592.9 billion or 18.9% of total government bonds outstanding in April, from THB495 billion (16.4% of government bonds) as of end-2012. From 2003-2009, non-residents holdings averaged 2.2% of total Thai government bonds. Rising non-resident absorption is broadly in line with trends in other countries in the region and is expected to persist as long as extraordinary monetary accommodation continues in the US, the euro area, and Japan.

Data released at the end of April by BoT show a slightly higher fiscal deficit in 2012, 4.1% of GDP instead of 3.9% of GDP provisionally published earlier this year. The upward revision was due to a larger than previously expected non-budgetary cash deficit.

Bangkok gubernatorial elections took place on 3 March 2013, with incumbent Sukhumband Paribatra of the Democrat Party (DP) winning with 47.75% of the popular vote. By-elections for Bangkok's Don Muang district parliament seat will take place on 16 June, after the Elections Commission disqualified Pheu Thai Party's Karun Hosakul for defaming DP's Tankhun Jittitsara. Mr Thankhun Jittitsara will stand again in the by-election, facing Yuranan Pamornmontri from the Pheu Thai Party.

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