S&P Global Ratings

RatingsDirect®

Research Update:

Thailand Outlook Revised To Positive; 'BBB+/A-2' Ratings Affirmed

December 11, 2019

Overview

- The return of an elected government that is more responsive to public opinion supports political stability, in our view.
- We are revising our outlook on Thailand to positive from stable. We are affirming our 'BBB+/A-2' foreign currency and 'A-/A-2' local currency sovereign credit ratings on Thailand.
- Thailand's open economy is facing significant headwinds at the moment due to weak external demand and a strong currency. This is offset by Thailand's generally robust external and fiscal metrics, which have led to low government debt.
- The positive outlook also reflects our expectation that economic growth will recover modestly, supported by easing of global trade tensions, and that the fiscal deficit will increase only moderately with higher spending on social transfers and infrastructure.

PRIMARY CREDIT ANALYST

Rain Yin

Singapore

(65) 6239-6342

rain.yin
@spglobal.com

SECONDARY CONTACT

KimEng Tan

Singapore

(65) 6239-6350

kimeng.tan
@spglobal.com

Rating Action

On Dec. 11, 2019, S&P Global Ratings revised its outlook on Thailand's sovereign credit rating to positive from stable. At the same time, we affirmed our 'BBB+' long-term and 'A-2' short-term foreign currency sovereign credit ratings, and our 'A-' long-term and 'A-2' short-term local currency ratings on Thailand. Our transfer and convertibility assessment remains 'A'.

Outlook

The positive outlook reflects our assessment that political uncertainty in Thailand has begun to ease with the return of an elected government. With progress in implementing national reforms and strategy plans, we belive policy continuity and political stability will improve.

We may raise the rating over the next 24 months if there are clearer signs the key political players are committed to the current political framework and that abrupt and unexpected political changes become unlikely. In this scenario, we expect the government will continue to implement key reform and strategies according to national plans, despite the complexities of operating in a multiparty parliamentary democracy.

We could revise the outlook to stable if pressure on the current political process builds substantially, resulting in increasing social tensions and uncertainty that raise the likelihood of abrupt political changes. In addition, if growth is persistently weaker than what we currently forecast, we could also revise the outlook to stable.

Rationale

Our ratings on Thailand reflect its strong credit metrics, including a solid external balance sheet and liquidity, limited net general government debt, and a track record of orthodox monetary and fiscal policies supporting the rating. These strengths are in contrast to the country's low income levels and uncertainty about its political stability and socioeconomic fissures. A lifting of this uncertainty could result in stronger support for the rating.

Institutional and economic profile: While political uncertainty may start to ease, economic headwinds have intensified.

- We believe that Thailand's longstanding political risk may start to ease following the peaceful transition to a civilian government.
- However, this will not provide any immediate boost to Thailand's economy, which is facing a sharp cyclical slowdown.
- We expect per capita income, which is relatively lower than peer nations at this rating level, to grow only moderately over the next one or two years.

The parliamentary elections held in March 2019 and the subsequent peaceful transition to a civilian coalition government may signal a breakthrough to Thailand's cycle of elections, protests, and coups seen over much of the past 15 years, in our view. In addition, the key policy priorities spelled out in the National Strategy Plan anchors policy stability to some extent over the next three to five years. Over time, transitory provisions in the constitution will expire and the political system is expected to evolve. This will likely increase the capacity of political institutions to respond to social changes.

Nevertheless, it is unlikely that a single event will fully resolve longstanding political divisions. Despite some lifting of political uncertainty, we expect class tensions to remain elevated due to deep social fissures and sharp regional inequality. We also expect the legislative process to be challenging, owing to the government's slim majority in parliament and robust challenges from opposition parties. A persistent improvement in Thai political stability will depend on the key political players remaining committed to the current arrangements despite these challenges.

Easing political uncertainty is not reflected in Thailand's economic performance, as the economy is buffeted by external uncertainties stemming from the trade spat between the U.S. and China, and slowing growth in China, one of Thailand's largest export markets. This is exacerbated by a strong baht, which erodes Thailand's export competitiveness. Since the start of 2019, the baht has appreciated by a cumulative 7% against the U.S. dollar and 9% against the renminbi. Meanwhile, the tourism sector is also weighed down by idiosyncratic factors last year, though tourism arrivals started recovering in the second half of 2019.

Political uncertainty has weakened public and private investment over recent years, notwithstanding an uptick in 2018 on the back of rising capacity utilization rates in the industrial sector. Continued underperformance in investment may exacerbate supply-side bottlenecks, including infrastructure deficits in the less-developed parts of the country, constraining growth.

To address this, the government has committed to a multiyear transport infrastructure plan worth about 20% of estimated 2019 GDP. Efforts to enhance public private partnership (PPP) and draw in private investment, particularly in flagship projects such as the Eastern Economic Corridor, an infrastructure development plan, may lift the country's investment rate and raise growth potential.

However, implementation will remain crucial to the success of these planned infrastructure projects. A persistent record of under-execution of public work projects, as evinced by capital disbursements averaging 70% in recent years, could dampen the expected boost to headline GDP, in our view.

We now expect real GDP growth to come in at 2.6% in 2019, compared with 3.8% in our previous review. GDP per capita is expected to reach about US$7,816 in 2019. We have also shaved our estimate of the trend rate of real per capita GDP growth to 2.9%, compared with 3.3% previously. While this is likely below potential for Thailand, it is in line with peers at the same income level.

Flexibility and performance profile: Strong external position and healthy fiscal metrics underpin rating.

- Thailand continues to exhibit strong fiscal, external, and debt metrics, while demonstrating a track record of maintaining price stability.
- Although the government's ambitious infrastructure agenda signals an expansionary fiscal policy, we do not foresee a material deterioration in government indebtedness.
- We forecast Thailand's current account balance will moderate, but expect it to remain solidly in surplus. External liquidity remains sound, while the country's net asset position continues.

Thailand's strong external balance sheet and liquidity underpin the rating. The country is on track to post another sizable, albeit narrowing, current account surplus in 2019, supporting an associated rise in foreign exchange reserves. Easier external financing conditions, and Thailand's strong external position have attracted portfolio inflows, resulting in sustained strength in the Thai baht.

We expect weak external demand and a strong local currency will continue to dampen export performance, leading to a narrowing of the current account surplus. However, we do not believe any deterioration in external conditions will be sufficient to reverse Thailand's trade surplus.

We forecast Thailand's external liquidity indicators to strengthen modestly over the next two to three years. Gross external financing needs are likely to stay around 69% of current account receipts plus usable reserves over 2019-2022. On a narrow net external debt basis, we forecast Thailand to be in a net asset position of about 26% of current account receipts in 2019.

Successive Thai governments have generally been fiscally prudent. This has kept general government debt moderate, despite a costly price-support scheme for rice under previous administrations. We expect the government to gradually absorb the losses stemming from domestic credit extended in the former government's rice price-support scheme by the Bank of Agriculture and Agricultural Cooperatives.

We believe fiscal policy will turn more expansionary over the next three to four years on higher spending on near-term stimulus to support flagging economic growth and infrastructure projects to lift growth potential. However, we expect the bulk of infrastructure investment will be undertaken by the state enterprises, as well as PPPs. This will limit the government's fiscal exposure in line with the Fiscal Responsibility Act, which caps public debt at 60% of GDP, in addition to other constraints.

We estimate the change in net general government debt relative to GDP will average 2.5% in 2019-2022. We project net general government debt will rise steadily but remain muted at an average of 26.6% of GDP over the same period. These estimates also take into account our expectation that public sector debt will rise gradually over the next two years in line with higher infrastructure spending by the government. At an estimated 5.8% of general government revenues in 2019, the general government's interest payments on its debt do not constrain Thailand's fiscal flexibility.

We view the Bank of Thailand's track record of monetary policymaking and maintaining price stability as important strengths supporting Thailand's sovereign credit profile. The country's inflation has been muted, averaging 1.4% over 2009-2018, through periods of political turmoil. The Bank of Thailand utilizes a sizable foreign exchange forward facility to manage liquidity. Because this is a foreign currency asset position for the central bank, we reflect this in our data via a positive adjustment to the central bank's usable reserves position. Credit growth has been moderate over the recent years and the size of total banking sector assets relative to GDP has stabilized since 2014. We view the banking sector's contingent liability to the government as limited.

Related Criteria

- Criteria | Governments | Sovereigns: Sovereign Rating Methodology, Dec. 18, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- General Criteria: Methodology: Criteria For Determining Transfer And Convertibility Assessments, May 18, 2009

Key Statistics

Table 1

Thailand - Selected Indicators

Economic indicators (%)	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Nominal GDP (bil. LC)	12915	13230	13743	14555	15452	16318	16883	17569	18274	19158
Nominal GDP (bil. $)	420	407	401	412	455	505	543	580	606	638
GDP per capita (000s $)	6.2	6.0	5.8	6.0	6.6	7.3	7.8	8.3	8.7	9.1
Real GDP growth	2.7	1.0	3.1	3.4	4.0	4.1	2.6	2.8	3.0	3.4
Real GDP per capita growth	2.2	0.6	2.8	3.0	3.8	3.8	2.3	2.6	2.8	3.2
Real investment growth	(1.0)	(2.2)	4.4	2.9	1.8	3.8	2.6	2.8	3.5	3.6
Investment/GDP	28.6	23.9	20.3	18.5	21.1	24.8	24.9	24.8	24.7	24.7

Table 1

Thailand - Selected Indicators (cont.)

Economic indicators (%)	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Savings/GDP	26.5	26.8	27.3	29.0	30.7	30.4	31.2	29.7	29.4	29.7
Exports/GDP	68.1	69.3	68.7	68.4	68.2	66.8	62.2	61.7	61.4	61.1
Real exports growth	2.8	0.3	1.6	2.9	5.4	4.2	(3.5)	2.6	2.4	3.0
Unemployment rate	0.7	0.8	0.9	1.0	1.2	1.1	1.0	1.0	1.0	0.9
External indicators (%)										
Current account balance/GDP	(2.1)	2.9	6.9	10.5	9.7	5.6	6.3	4.9	4.7	5.0
Current account balance/CARs	(2.9)	3.9	9.7	14.8	13.6	8.2	9.7	7.6	7.3	7.8
CARs/GDP	72.1	73.2	71.5	71.4	71.2	69.1	65.2	64.3	64.2	64.2
Trade balance/GDP	0.0	4.2	6.5	8.7	7.2	4.4	3.8	3.8	3.6	3.7
Net FDI/GDP	0.9	(0.2)	1.0	(2.6)	(2.3)	(1.6)	(1)	(1.0)	(1.0)	(1)
Net portfolio equity inflow/GDP	(1.3)	(2.6)	(3.1)	(0.6)	(1.6)	(1.9)	(1.5)	(1.5)	(1)	(1)
Gross external financing needs/CARs plus usable reserves	75.2	74.2	70.9	68.7	66.9	68.7	67.4	69.1	69.7	69.8
Narrow net external debt/CARs	(17.3)	(14.6)	(20.7)	(25.2)	(26.4)	(24.9)	(26.2)	(26.5)	(26.6)	(26.7)
Narrow net external debt/CAPs	(16.8)	(15.1)	(23.0)	(29.5)	(30.5)	(27.1)	(29.0)	(28.6)	(28.7)	(28.9)
Net external liabilities/CARs	30.8	38.7	19.7	15.6	15.5	7.4	(0.0)	(7.6)	(14.2)	(20.8)
Net external liabilities/CAPs	29.9	40.3	21.8	18.3	17.9	8.1	(0.0)	(8.2)	(15.3)	(22.5)
Short-term external debt by remaining maturity/CARs	23.4	25.5	25.1	22.7	21.1	24.0	22.7	23.3	22.8	22.2
Usable reserves/CAPs (months)	7.9	8.0	8.3	8.0	8.5	9.0	9.0	8.8	8.5	8.3
Usable reserves (mil. $)	190166	180260	168115	197540	239314	239375	251534	255427	261481	269889
Fiscal indicators (general government; %)										
Balance/GDP	1.4	0.0	1.0	1.3	0.8	1.1	(1.0)	(1.6)	(1.8)	(1.5)
Change in net debt/GDP	1.5	0.7	1.5	1.5	2.5	1.6	2.0	2.6	2.8	2.5
Primary balance/GDP	2.5	1.1	2.0	2.1	1.7	2.1	0.2	(0.4)	(0.5)	(0.1)
Revenue/GDP	22.2	21.3	22.2	21.5	20.8	21.2	21.0	21.0	21.0	21.0

Table 1

Thailand - Selected Indicators (cont.)

Economic indicators (%)	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
Expenditures/GDP	20.8	21.3	21.2	20.2	20.0	20.2	22.0	22.6	22.8	22.5
Interest/revenues	5.0	5.2	4.5	3.9	4.5	4.8	5.8	6.0	6.2	6.4
Debt/GDP	29.6	29.9	32.1	30.6	32.5	34.0	35.1	36.6	38.3	39.3
Debt/revenues	133.7	140.2	144.5	142.8	156.3	160.3	167.4	174.4	182.3	187.0
Net debt/GDP	19.9	20.1	20.9	21.2	22.5	22.9	24.1	25.8	27.6	28.8
Liquid assets/GDP	9.7	9.8	11.2	9.4	10.1	11.1	11.0	10.8	10.7	10.4
Monetary indicators (%)										
CPI growth	2.2	1.9	(0.9)	0.2	0.7	1.1	0.8	0.9	1.1	1.3
GDP deflator growth	1.8	1.4	0.7	2.5	2.1	1.4	0.9	1.2	1.0	1.4
Exchange rate, year-end (LC/$)	32.8	33.0	36.1	35.8	32.7	32.4	30.5	30.2	30.1	30.0
Banks' claims on resident non-gov't sector growth	9.0	4.3	5.3	4.2	4.8	5.5	5.0	5.0	5.0	5.0
Banks' claims on resident non-gov't sector/GDP	121.0	123.3	124.9	122.9	121.3	121.2	123.0	124.1	125.2	125.4
Foreign currency share of claims by banks on residents	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Foreign currency share of residents' bank deposits	1.7	2.3	2.8	2.9	2.7	2.8	2.3	2.3	2.3	2.3
Real effective exchange rate growth	6.5	(3.3)	1.3	(3.6)	3.0	3.5	N/A	N/A	N/A	N/A

Sources: Bank of Thailand, International Monetary Fund (Economic Indicators); Bank of Thailand, International Monetary Fund (Monetary Indicators); Ministry of Finance, International Monetary Fund (Fiscal Indicators); Bank of Thailand (External Indicators). Adjustments: Usable reserves adjusted by deducting reserves sold forward, government expenditure adjusted by reducing the amount of depreciation of fixed capital. Definitions: Savings is defined as investment plus the current account surplus (deficit). Investment is defined as expenditure on capital goods, including plant, equipment, and housing, plus the change in inventories. Banks are other depository corporations other than the central bank, whose liabilities are included in the national definition of broad money. Gross external financing needs are defined as current account payments plus short-term external debt at the end of the prior year plus nonresident deposits at the end of the prior year plus long-term external debt maturing within the year. Narrow net external debt is defined as the stock of foreign and local currency public- and private- sector borrowings from nonresidents minus official reserves minus public-sector liquid assets held by nonresidents minus financial-sector loans to, deposits with, or investments in nonresident entities. A negative number indicates net external lending. N/A--Not applicable. LC--Local currency. CARs--Current account receipts. FDI--Foreign direct investment. CAPs--Current account payments. e--Estimate. f--Forecast. The data and ratios above result from S&P Global Ratings' own calculations, drawing on national as well as international sources, reflecting S&P Global Ratings' independent view on the timeliness, coverage, accuracy, credibility, and usability of available information.

Ratings Score Snapshot

Table 2

Thailand - Ratings Score Snapshot	Scores	Explanation
Key rating factors		
Institutional assessment	4	Political uncertainty remains a rating constraint in Thailand's institutional analysis. Checks and balances between institutions are less certain and predictability of future policy responses may be impeded by elevated social tensions.
Economic assessment	4	Based on GDP per capita ($) as per the Selected Indicators table above.
External assessment	1	Based on narrow net external debt and gross external financing needs as per Selected Indicators in Table 1.
Fiscal assessment: flexibility and performance	3	Based on the change in net general government debt (% of GDP) as per Selected Indicators in Table 1.
Fiscal assessment: debt burden	2	Based on net general government debt (% of GDP) and general government interest expenditures (% of general government revenues) as per Selected Indicators in Table 1.
Monetary assessment	2	The exchange rate regime in Thailand is classified as floating.
		The Bank of Thailand has been successful in keeping inflation at low levels. The central bank enjoys operational independence and the monetary policy framework has high level of transparency.
Indicative rating	a-	As per Table 1 of "Sovereign Rating Methodology."
Notches of supplemental adjustments and flexibility	(1)	Political uncertainty in Thailand is elevated compared to peers at a similar rating level due to its history of frequent and at times abrupt and unexpected changes in government.
Final rating		
Foreign currency	BBB+	
Notches of uplift	1	Default risks apply differently to foreign- and local-currency debt. Monetary policy is independent with a floating exchange rate. Further, Thailand's well developed local currency bond market awards the government greater ability to conduct monetary policy and enables it to meet its financing requirements at very low costs. Capitalization of bond market exceeds 10% of GDP.
Local currency	A-	

S&P Global Ratings' analysis of sovereign creditworthiness rests on its assessment and scoring of five key rating factors: (i) institutional assessment; (ii) economic assessment; (iii) external assessment; (iv) the average of fiscal flexibility and performance, and debt burden; and (v) monetary assessment. Each of the factors is assessed on a continuum spanning from 1 (strongest) to 6 (weakest). S&P Global Ratings' "Sovereign Rating Methodology," published on Dec. 18, 2017, details how we derive and combine the scores and then derive the sovereign foreign currency rating. In accordance with S&P Global Ratings' sovereign ratings methodology, a change in score does not in all cases lead to a change in the rating, nor is a change in the rating necessarily predicated on changes in one or more of the scores. In determining the final rating the committee can make use of the flexibility afforded by §15 and §§126-128 of the rating methodology.

Related Research

- "Asia-Pacific Quarterly: The Cost Of Uncertainty," Dec. 3, 2019
- "Thais That Bind: Credit Profile Benefits If Social Cohesiveness Improves," July 15, 2019

In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the appropriate level of knowledge and understanding of the methodology applicable (see 'Related Criteria And Research'). At the onset of the committee, the chair confirmed that the information provided to the Rating Committee by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision.

After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts.

The committee's assessment of the key rating factors is reflected in the Ratings Score Snapshot above.

The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook. The weighting of all rating factors is described in the methodology used in this rating action (see 'Related Criteria And Research').

Ratings List

Ratings Affirmed		
Thailand		
Transfer & Convertibility Assessment		
Local Currency	A	
Thailand		
Senior Unsecured	A-	
Senior Unsecured	BBB+	
Commercial Paper	A-2	
Ratings Affirmed; Outlook Action		
	To	**From**
Thailand		
Sovereign Credit Rating		
Foreign Currency	BBB+/Positive/A-2	BBB+/Stable/A-2
Local Currency	A-/Positive/A-2	A-/Stable/A-2

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.