RAM RATINGS

Media Release

RAM Ratings reaffirms Thailand's $_{g}BBB_{1(pi)}$ ratings with a stable outlook

RAM Ratings has reaffirmed Thailand's respective global- and ASEAN-scale ratings of $_{g}BBB_{1(pi)}$ and $_{sea}AA_{1(pi)}$, with a stable outlook. The ratings reflect the country's robust external finances, strong fiscal position and well-diversified economy. These strengths are, however, balanced by risks of political upheavals, sluggish private demand and structural challenges that constrain growth potential. "Public investments and the tourism sector are envisaged to lead growth in 2016 as short-term stimulus measures to boost private consumption taper off," says Esther Lai, RAM's Head of Sovereign Ratings. While we expect GDP growth to clock in at 2.7%, Thailand will need to contend with a fragile global economy that will likely hamper exports, in an environment where private investment has yet to gain traction. In 1Q 2016, GDP grew 3.2% y-o-y, driven by accelerated public investment spending and government stimulus.

Short-term government assistance targeted at households and SMEs, in the form of subsidised loans, credit guarantees and tax breaks, had eased liquidity pressures and aided recovery. Small infrastructure projects at village and sub-district levels, the expedition of water resource management and long-delayed road transport projects contributed significantly towards growth. "Following recent Cabinet approval of plans for a transport development project in the Eastern Economic Corridor, public investments will crowd in private investments which had contracted for 3 consecutive years," Lai highlights.

Thailand's general government debt-to-GDP ratio of 31.0% as at FY 2015 compares well against the peer average, with very little debt short-term and denominated in foreign currencies. Meanwhile, public debt was maintained at 43.1% of GDP. As the bulk of financing for mega-infrastructure projects is undertaken by state-owned enterprises, the government has ample fiscal space to boost capital expenditure before public debt hits the ceiling of 60% of GDP.

On the other hand, political instability caused by the deep divide between rural and urban political orientation is the weakest link in Thailand's fundamentals. Although military intervention has eased the political gridlock, concerns over a smooth royal succession, further delays in elections, and a referendum on Aug 7 to vote on a 2^{nd} draft constitution, could exacerbate political tensions, denting investor confidence.

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Thailand's ratings may be upgraded if we observe a recovery in economic conditions, where GDP expands at a faster, sustainable pace. Structural reforms that lead to improved potential growth are also viewed positively in the longer term. Conversely, the ratings could face downward pressure in the event of a significant deterioration of government finances and the country's external position as well as an erosion of official reserves. Political upheavals that result in large-scale revolts and massive growth disruption would also warrant a downward rating adjustment.

For further information on the sovereign, please refer to the full report here.

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