RAM RATINGS

Media Release

RAM Ratings reaffirms Thailand's $_{g}BBB_{1}$(pi)/Stable rating

RAM Ratings has reaffirmed Thailand's respective global- and ASEAN-scale ratings of $_{g}BBB_{1}$(pi)/Stable and $_{sea}AA_{1}$(pi)/Stable. The ratings reflect the country's robust external finances, strong fiscal position and well-diversified economy. These strengths are, however, balanced by sluggish private investments, lingering political uncertainties and structural challenges that constrain growth potential. "Thailand's fiscal position remains intact, notwithstanding accelerated capital expenditure for infrastructure development," says Esther Lai, RAM's Head of Sovereign Ratings.

As the country's 1Q 2017 GDP grew 3.3% y-o-y on the back of ongoing public spending and a pick-up in exports, we forecast full-year growth to be maintained at the current pace. "In an environment where private investment has yet to gain traction, we expect public investments and the tourism sector to lead growth in 2017," adds Lai. Imports are also anticipated to rise as more projects move into the construction phase later this year. Under the Thailand 4.0 policy, the government aspires to drive the country's growth through innovation, technology and R&D, with greater emphasis on the services sector, upgrading skills and human resources as well as the development of a modern logistics system.

Incentives introduced by the Board of Investments for investors in the Eastern Economic Corridor include corporate income tax exemption for up to 15 years and land leases of up to 50 years. While this is hoped to attract greater FDI inflows (2016: 0.6% of GDP), we note that Thai companies have increasingly been investing abroad, especially in the Mekong region. As Thailand's external buffers remain intact, its large accumulation of foreign reserve assets (end-2016: 42% of GDP) and favourable debt profile provide a comfortable cushion against shocks.

Although the current political landscape has been steady – with a smooth transition to the new King, the promulgation of a new Constitution, and elections likely to be held by end-2018 – it is premature to discount risk of a misalignment between the ruling government and the monarchy. Besides political upheavals that may result in massive growth disruption, Thailand's ratings could face downward pressure in the event of significant deterioration in government finances and the country's external position as well as an erosion of official reserves. Conversely, the ratings could be upgraded if we observe a sustained recovery in private investment activity, which leads to faster expansion of GDP at a sustainable level. Structural reforms that improve Thailand's growth potential will also be viewed positively in the longer term.

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