



Media Release

Thailand's $\text{gBBB}_1(\text{pi})$ rating reaffirmed following political transition

RAM Ratings has reaffirmed Thailand's respective $\text{gBBB}_1(\text{pi})/\text{Stable}$ and $\text{seaAA}_1(\text{pi})/\text{Stable}$ ratings on the global and ASEAN scales, premised on the country's prudent fiscal track record and robust external position. New laws introduced under the previous military-led administration (the National Council of Peace and Order or NCPO) will anchor the long-term policy direction and improve fiscal discipline. However, Thailand's ratings remained constrained by its susceptibility to adverse political events and the weak execution of large development projects.

Thailand's conservative fiscal performance, its key rating strength, is evident in its narrow budgetary gap (2012-2018 average: -1.2% of GDP) and small government debt burden (as at end-2018: 33.8% of GDP) relative to rating peers. Although the Kingdom's prudent fiscal track record can be attributed to weak project implementation, administrative teething issues related to the Budgetary Procurement Act 2017 have been resolved and execution issues should diminish over time. Other fiscal laws introduced in 2018, which will commit future governments to conservative fiscal standards and limits, would reinforce this already-commendable credit characteristic.

Similarly, Thailand's external position remains robust, with a sizeable current account surplus of 6.9% of GDP in 2018 and a sizeable store of reserves equivalent to 3.3 times its short-term external debt and 7.7 times the country's current account purchases. This strength, stemming from its competitive external sector, allows the country to be better positioned against external shocks vis-à-vis most of its regional peers. Although ongoing US-China trade tensions and a likely slowdown in China represent a near-term key risk in this regard, the risk is partially mitigated by tentative signs of trade-diversion activity in recent months. Over the long term, Thailand's current account surplus is expected to narrow in line with a likely acceleration in the progress of large development projects.

Thailand's long-term growth path will be reliant on its ability to effect meaningful structural change, given the large proportion of labour employed in the agriculture sector, aging demographics and a sizeable informal sector. The recently unveiled National Strategy Act, commits future Governments to certain policy objectives aimed at attaining developed nation status within 20 years. The Eastern Economic Corridor Act 2018, which would encourage key investments in an economic region, are key measures towards this end. The unveiling of these laws is significant, as

Thailand's reform momentum had been seen to have stalled amid periods of protracted political turmoil and under the NCPO's administration.

The conclusion of recent elections in March 2019 marked a political transition from a government absolutely under military control, which had been in power since 2014. While the military-aligned political coalition has retained control of the Government and ensured policy continuity, a sizeable opposition representation in the lower house of parliament suggests that policy implementation risk remains elevated. The deep rift between key political parties continues to pose an ongoing risk to Thailand's ratings, considering its history of civil unrest, which can have a material impact on the country's growth and external indicators. This risk is, however, low in the near term in view of the successful coronation of the king (the monarchy is seen as a pre-eminent stabilising force in Thailand) and the military's track record of maintaining stability.

Thailand's ratings could be upgraded if current domestic and foreign private investment activity growth trends are sustained, leading to broad-based economic growth. Structural reforms and full execution of key development projects that improve the country's growth potential will also be viewed positively in the longer term. Conversely, political upheavals and a material erosion of external indicators would weigh on the ratings.

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