

# Thailand—Update

## Yield Movements

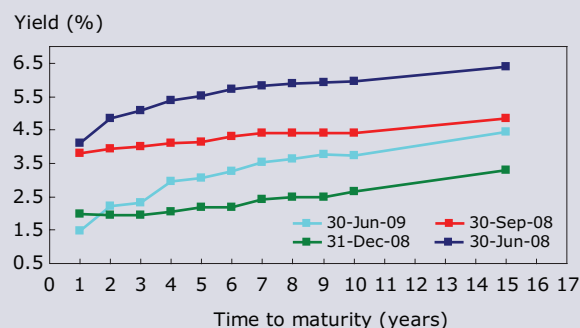
In the first half of 2009, the Bank of Thailand (BOT) conducted an expansionary monetary policy by lowering its policy interest rate—the 1-day repurchase rate—three times. From 2.75% in December 2008, the policy rate was reduced to 2.00% in January, 1.50% in February, and 1.25% in April. This latest cut in the policy rate was meant to stimulate the Thai economy as 1Q09 real gross domestic product (GDP) plunged by 7.1% year-on-year (y-o-y) due to the global economic crisis. In July, BOT maintained the policy rate at 1.25%. The Thai government is also undertaking fiscal expansion measures to support an economic recovery as it unveiled a THB1.43 trillion economic stimulus program, part of which would be financed by bonds, to be implemented over the 2009–2012 period.

Thailand's consumer price inflation eased as it fell to a record low of -4.4% y-o-y in July from -4.0% in June, largely because of lower fuel costs and government subsidies for low income workers. On the back of interest rate cuts, expected inflationary pressures, and bond supply concerns, the Thai government bond yield curve steepened by the end of June 2009 compared to end-2008, with yields falling on the shorter end of the curve, while rising on the longer end (**Figure 1**).

## Size and Composition

As of June 2009, total local currency (LCY) bonds outstanding in Thailand reached THB5.4 trillion for an increase of 7.8% y-o-y, or 3.6% on a quarter-on-quarter (q-o-q) basis (**Table 1**). About 79% of total LCY outstanding bonds are government bonds, comprising treasury bonds, central bank bonds, state enterprises bonds, and other bonds. LCY government bonds outstanding in June were THB4.3 trillion, growing by 5.6% y-o-y and 1.6% q-o-q. Treasury bonds, which accounted for about half of all LCY government bonds, climbed by 13.1% y-o-y and 2.5% q-o-q. State enterprise

**Figure 1: Benchmark Yield Curve—Local Currency Government Bonds**



Source: Bloomberg LP.

and specialized organization bonds also increased by 7.3% y-o-y and 2.9% q-o-q. On the other hand, central bank bonds fell by 4.3% y-o-y. LCY corporate bonds outstanding in June were THB1.1 trillion, higher by 17.1% y-o-y and 11.8% q-o-q.

In mid-July, government savings bonds worth THB80 billion were sold to the elderly and general public. These bonds had a 5-year maturity with offerings of 3% for the first two years, 4% in the third year, and 5% in the fourth and fifth years.

About 36% of total LCY corporate and state-owned enterprise (SOE) bonds were made by the top 10 corporate and SOE issuers, comprising five financial institutions; two energy firms; and one company each from the airline, cement, and telecommunications sectors (**Table 2**).

## Turnover

In June, the trading volume and turnover ratio of Thai government bonds were THB1.4 trillion and 0.32, respectively, both of which were higher than in the previous month (**Figure 2**).

Thai corporate bond turnover rose to THB15.7 billion

**Table 1: Size and Composition of Thailand Bond Market**

|  | Amount (billion) |       |         |       |         |       | Growth Rate (%) |       |        |       |        |       |     |       |       |       |
|--|------------------|-------|---------|-------|---------|-------|-----------------|-------|--------|-------|--------|-------|-----|-------|-------|-------|
|  | Mar-09           |       | Apr-09  |       | May-09  |       | Jun-09          |       | May-09 |       | Jun-09 |       |     |       |       |       |
|  | THB              | USD   | THB     | USD   | THB     | USD   | THB             | USD   | q-o-q  | m-o-m | y-o-y  | m-o-m |     |       |       |       |
| <b>Total</b>                                     | 5,231.0          | 147.4 | 5,317.4 | 150.7 | 5,387.7 | 157.0 | 5,419.4         | 159.0 | 6.5    | 6.8   | 6.8    | 1.7   | 1.3 | 7.8   | 3.6   | 0.6   |
| <b>Government</b>                                | 4,211.8          | 118.7 | 4,263.2 | 120.8 | 4,307.4 | 125.5 | 4,280.0         | 125.6 | 5.6    | 8.1   | 8.1    | 1.2   | 1.0 | 5.6   | 1.6   | (0.6) |
| <b>Treasury Bonds</b>                            | 2,187.2          | 61.6  | 2,263.9 | 64.2  | 2,267.5 | 66.1  | 2,241.9         | 65.8  | 12.7   | 13.2  | 13.2   | 3.5   | 0.2 | 13.1  | 2.5   | (1.1) |
| <b>Central Bank Bonds</b>                        | 1,522.7          | 42.9  | 1,490.5 | 42.2  | 1,529.5 | 44.6  | 1,521.8         | 44.6  | (3.6)  | 3.9   | 3.9    | (2.1) | 2.6 | (4.3) | (0.1) | (0.5) |
| <b>State Enterprises Bonds &amp; Other Bonds</b> | 501.8            | 14.1  | 508.8   | 14.4  | 510.4   | 14.9  | 516.3           | 15.1  | 6.8    | 0.9   | 0.9    | 1.4   | 0.3 | 7.3   | 2.9   | 1.1   |
| <b>Corporate</b>                                 | 1,019.2          | 28.7  | 1,054.2 | 29.9  | 1,080.3 | 31.5  | 1,139.4         | 33.4  | 10.6   | 1.8   | 1.8    | 3.4   | 2.5 | 17.1  | 11.8  | 5.5   |

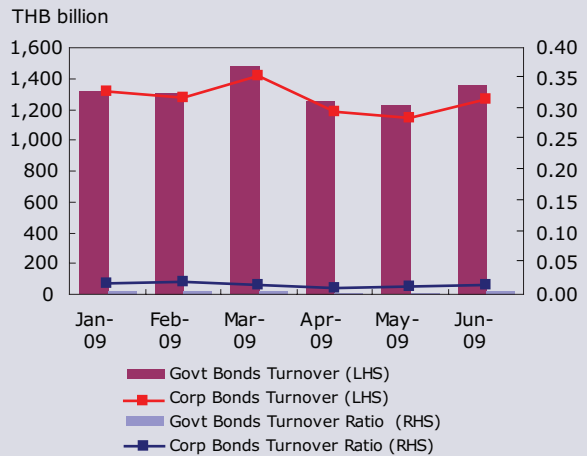
Note:  
 y-o-y = year-on-year, q-o-q = quarter-on-quarter, m-o-m = month-on-month.  
 1. Calculated using data from national sources.  
 2. Bloomberg end-of-period LCY-USD rates are used.  
 3. Growth rates are calculated from LCY base and do not include currency effects.  
 Source: Bank of Thailand (BOT) and Bloomberg LP.

**Table 2: Top 10 Corporate and State-Owned Enterprise Issuers (THB billion)**

| Issuer  | Amount Outstanding (THB billion) |
|---|----------------------------------|
| 1. PTT  | 149.2                            |
| 2. Siam Cement  | 110.0                            |
| 3. Bank of Ayudhya                                    | 79.6                             |
| 4. PTT Exploration & Production                       | 58.5                             |
| 5. Krung Thai Bank                                    | 50.3                             |
| 6. Thai Airways                                       | 47.8                             |
| 7. Toyota Leasing                                     | 29.1                             |
| 8. Kasikorn Bank                                      | 29.0                             |
| 9. Advanced Info Service                              | 24.5                             |
| 10. DAD SPV   | 24.0                             |
| <b>Total</b>  | <b>602.0</b>                     |
| <b>Total corporate and SOE bonds outstanding</b>      | <b>1,655.7</b>                   |
| <b>% of total corporate and SOE bonds outstanding</b> | <b>36.4</b>                      |

SOE = state-owned enterprise.  
 Source: Bloomberg LP.

**Figure 2: Monthly Bond Trading Volume and Turnover Ratio**



Source: Thai Bond Market Association.

in June from THB12.5 billion in May. But the turnover ratio has remained generally unchanged at 0.01 since April. The relatively low trading volume and turnover ratio for corporate bonds may be due to the short supply and minimal trading of corporate bonds in the secondary market.

### Investor Profile

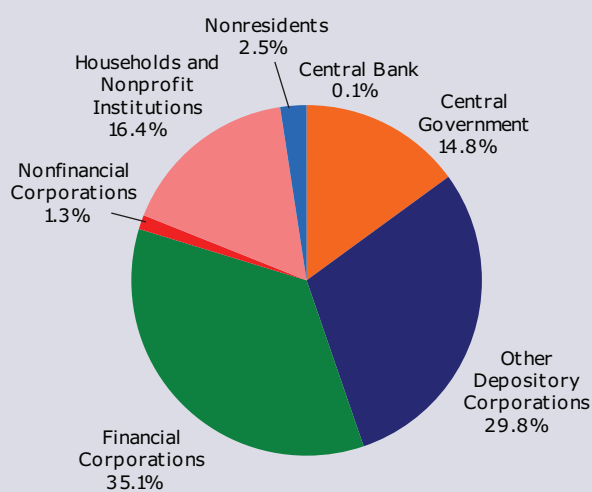
Financial corporations are the largest holders of Thai government bonds, accounting for 35.1% of total government bonds as of June (**Figure 3**). Other depository corporations were the second-largest government bondholders with 29.8%, followed by households and nonprofit institutions (16.4%), the central government (14.8%), nonresidents (2.5%), non-financial corporations (1.3%), and the central bank (0.1%).

The largest corporate bondholders in Thailand are retail investors. As of June, they held 53.4% of total corporate bonds, while institutional investors hold the remaining 33.7% (**Figure 4**). Among retail investors, individuals comprised 45.3% of total corporate bondholders, while corporations owned 8.1% of total. Contractual savings funds—which include the government pension fund—provident fund, and social security fund—are the biggest institutional investors of corporate bonds with an 11.8% share. This is followed by insurance companies (8.9%), mutual funds (8.0%), commercial banks (4.0%), and financial institutions (1.1%), which include the Export-Import Bank of Thailand, Government Housing Bank, and Government Saving Bank.

### Rating Changes

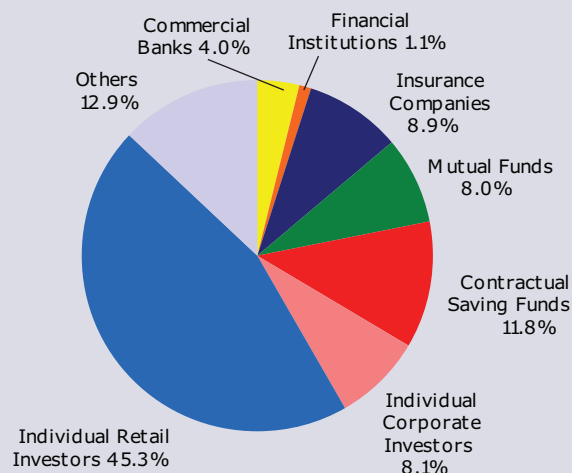
In April, two foreign rating agencies downgraded Thailand's credit ratings largely because of heightened political uncertainties. Fitch Ratings cut Thailand's foreign currency debt rating to BBB from BBB+, and lowered the country's LCY debt rating to A- from A. Similarly, Standard & Poor's downgraded the country's LCY rating from A to A-, and affirmed its negative outlook.

**Figure 3: Local Currency Thai Government Bonds Investor Profile (June 2009)**



Source: Bank of Thailand (BOT).

**Figure 4: Corporate Bonds Investor Profile (June 2009)**



Source: Thai Bond Market Association.

## **Policy, Institutional, and Regulatory Developments**

### **Regulation on Overseas Investments in Securities and Derivatives Transactions Relaxed**

In early August, BOT relaxed regulations on overseas investments in derivatives and securities transactions by institutional investors and “persons in Thailand.” According to BOT, this move was made in order to promote greater flexibility in foreign exchange transactions, further increase alternative investment and risk management channels, raise Thailand’s investments abroad, and bring the country to a net creditor position.

The key issues covered in the relaxation of these regulations include: (i) increasing the type of institutional investors by allowing “juristic persons” registered under Thai law—who have at least THB5 billion in assets and principal businesses in manufacturing, services, or trading—to invest in securities abroad not exceeding USD50 million per entity; (ii) allowing institutional investors to engage in derivatives transactions linked to foreign variables as well to engage in securities borrowing and lending, repurchase agreements, and reverse repurchase agreements; (iii) allowing juristic persons and individuals with assets below THB5 billion, who need BOT approval to invest in securities overseas via private firms and securities firms, to further invest in securities overseas and to engage in certain financial transaction; (iv) allowing persons in Thailand to engage in derivatives transactions for foreign exchange

hedging purposes with domestic commercial banks; and (v) allowing persons in Thailand to engage in transactions involving derivatives, structured deposits, or structured notes that have returns linked to foreign variables and are not related to exchange rates involving the Thai baht.

### **Senate Approves Bill and Executive Decree for THB800 Billion Loan**

In early August, the Senate approved a bill that would allow the Ministry of Finance to borrow THB400 billion in loans in order to finance the Thai government’s economic stimulus program. This bill was approved by the House of Representatives last June.

In June, following approval by both the House of Representatives and the Constitutional Court, the Senate also approved the executive decree allowing the Ministry of Finance to avail of domestic loans worth THB400 billion. This will partially finance the government’s budget deficit, which is expected to run until 2015, and the THB1.43 trillion economic stimulus program for 2009–2012. In addition, the Ministry of Finance announced that it plans to auction THB120 billion of debt starting in 3Q09.

### **Limit on Long-Dated Government Bond Issuances**

In June, the Public Debt Management Office announced that it plans to limit long-dated bond issuances in the near future. The announcement was made in order to manage upward pressures on bond yields.