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JCR Affirms A-/A+ (FC/LC) on Thailand; Outlook Stable

Issuer: Thailand (the Kingdom of)

FC (Foreign Currency Long-Term Senior Debts): A- (Stable)
LC (Local Currency Long-Term Senior Debts): A+ (Stable)

Issues	Amount (bn)	Issue Date	Due Date	Coupon	Rating
Japanese Yen Bonds-20th Series	JPY16	Dec. 21, 2001	Dec. 19, 2008	1.70% p.a.	A-

JCR has affirmed A- foreign currency long-term senior debts rating and A+ local currency long-term senior debts rating on the Kingdom of Thailand. Outlook of the both ratings is stable. JCR simultaneously affirmed A- rating on the aforementioned bonds.

The ratings are supported by Thailand's strong external balance sheet and stabilized fiscal position. Because of its external and fiscal strength, Thailand's credit fundamentals are unlikely to be undermined by remaining political uncertainties after the restoration of democratic rule. In the coming years, government's fiscal account will remain in deficit on the back of fiscal measures aiming at reviving domestic demand, and current account will gradually deteriorate as import rapidly growing with large infrastructure investment and reviving private investment. Notwithstanding these developments, the government is likely to maintain current level of credit standing.

Stable outlook on the ratings reflects JCR's expectation that in the medium term, the government will maintain its fiscal and external flexibilities with strong external balance sheet and stabilized debt positions.

(1) Although political uncertainties have not been entirely eliminated even after a restoration of a democratic rule, they are unlikely to undermine current strong credit fundamentals of the government. In February 2008, a democratic rule was restored with a new Cabinet backed by a coalition government being sworn in following a general election in late December 2007, leading to a substantial reduction in sociopolitical risk. Despite this encouraging development, there still remain some political uncertainties. As far as JCR is aware, this is the first time to see a party closely linked to the Prime Minister who was ousted by a successful coup get back to power through a subsequent general election. In the short to medium term, there is an uncertainty emanating from a possible dissolution of political parties in the coalition government because of party executives' alleged election fraud cases. However, Thailand's credit standing remained intact even under the heightened political risk right after the military coup in September 2006. A strong external balance sheet and stabilized fiscal position will continue to help the sovereign absorb shock that could be derived in the future from political developments.

(2) The new government is expected to prioritize restoring foreign investors' confidence and reviving domestic demand. The post-coup interim government has severely undermined investors' confidence by abrupt policy changes from late 2006. Both private consumption and investment have been stagnant for past two years amid political uncertainties. Being fully aware that electorate is longing for economic recovery, the new government seems to prioritize restoring foreign investors' confidence and reviving domestic demand. Within a month from formation of the government, unremunerated reserve requirement (URR) on some types of capital inflows, which was introduced in December 2006 under the interim

government, was abolished. The government started to unveil various fiscal measures such as tax cuts, measures to support rural economy and large infrastructure investments (“Mega-projects”). If the government will successfully revive domestic demand through these measures amid deteriorating external environment, it could gain political popularity, somewhat mitigating political uncertainties.

(3) Fiscal account of the government has been improving in recent years, and likely to absorb most of negative effects from fiscal deficits expected in the medium term. Debt of the general government including FIDF at the end of 2007 was 26% of GDP, much lower than 40% at end the end of 2002. In addition to robust economic growth, improving financial condition of debtor companies (of which debt was guaranteed by FIDF) and better recovery from collateral properties limited debt to be incurred by FIDF from the guarantee it made, of which maturities concentrated in 2005 and 2006, contributing to a gradual decrease in government debt. As the new government tries to revive domestic demand through various fiscal measures, fiscal balance will continue to record deficit in coming years. Nevertheless, these deficits are unlikely to undermine fiscal stability on the back of government’s stabilized debt position. However, in view of their substantial size, JCR will closely monitor large infrastructure investments, especially about profitability of major projects and guarantee extended by the government or government related entities.

(4) Thailand’s solid external balance sheet makes it resilient to external shocks. Consecutive nine years’ current account surplus (except for 2005) from 1998 facilitated a rapid repayment of external debts. Net external debts of public and private sector (gross debt minus international reserves and external assets of deposit money banks), which once was comparable to annual goods and service export at end-1997, was eliminated in the middle of 2003. At the end of 2007, the country holds net external assets amounting to 29.9% of annual export. International reserves net of forward position at March 21, 2008 amounts to USD130.3 billion, which is equivalent of 2.1 times (x) and 6.0x respectively of gross external debts and short term debts at the end of 2007. Current account will deteriorate gradually going forward with growing capital goods import on the back of large infrastructure investment and reviving private investment. However, the country is likely to maintain its resilience to external shock in the medium term with its strong external balance sheet.

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