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FITCH AFFIRMS THAILAND'S SOVEREIGN RATING AT 'BBB+'

Fitch Ratings-Hong Kong/Singapore-23 May 2008: Fitch Ratings has today affirmed the Kingdom of Thailand's long-term foreign and local currency Issuer Default Ratings (IDRs) at 'BBB+' and 'A', respectively. At the same time, the agency has affirmed the short-term foreign currency IDR at 'F2' and the Country Ceiling at 'A-' (A minus). The Outlook on the ratings remains Stable.

Thailand's external financial position continues to strengthen and its public finances continue to improve. In addition to these positive factors, a clearer and more stable policy environment, the smooth restoration of democracy and ongoing financial reforms help to support the sovereign ratings. "Although Thailand's rating strengths remained virtually unaffected by heretofore political turmoil, persistent political uncertainty remains a potential rating weakness," says Vincent Ho, Associate Director with Fitch's Asia Sovereign team in Hong Kong. "The three parties in the governing coalition could yet be dissolved by the constitutional court, and it is not clear whether constitutional amendments can resolve the matter prior to the court's decision," adds Mr. Ho.

The country's external financial position remains strong. For the first time since 2001, the current account surplus surged above 5% of GDP (the second widest in the 'BBB' peer group after Russian Federation ('BBB+')) in 2007, despite a sharp appreciation of the Thai baht. In 2008, Fitch expects a favourable policy environment (such as the lifting of the 30% unremunerated reserve requirement for capital inflows) to drive up net capital inflows, which will offset an expected reduction of the current account surplus associated with deteriorating global economic conditions. As a result, the agency expects the country's international reserves (including gold) to accumulate to USD112 billion (equivalent to 6.7 months of current external payments and 42.4% of broad money). These ratios are better than the 'BBB' peer group medians. Given projected declines in gross external debt and public external debt relative to GDP, Fitch expects the country's net external creditor status (one of the best in the 'BBB' peer group) to strengthen in the medium term.

Thailand's general government debt relative to GDP fell to 26.4% (lower than the 'BBB' median) in the fiscal year ended 30 September 2007 (FY07) from 28.6% in FY06, while the general government budget was balanced. Fitch expects a continuing decline in government debt in GDP terms despite the emergence of fiscal deficits (comparable to the 'BBB' medians) on the back of an economic stimulus package and infrastructure investment plan. As the financing of infrastructure investment relies mainly on state-owned enterprises (SOEs), the agency expects a slower pace of SOE debt (10.7% of GDP in FY07) reduction in the medium term. The government's contingent liabilities remained stable at about 9% of GDP in 2007.

Financial reform efforts were stepped up in 2007 as some major laws were enacted, including the Financial Institution Business Act, the Bank of Thailand Act and the Institute of Deposit Protection Act. A more unified set of regulations will be applied to all types of banks and non-bank financial institutions to ensure a level playing field. The Institute of Deposit Protection Act will establish a deposit protection system of limited coverage to replace the current blanket guarantee system provided by the government. Fitch's Banking System Indicator for Thailand improved to 'C' ("adequate" quality or strength in a country's banking system) in April 2008 from 'D'. In addition, Thai banks generally had limited exposure to subprime residential mortgage backed securities or collateralised debt obligations (CDOs) as at end-2007. With the exception of BankThai, banks with investments in CDOs had less than 6% of this exposure in each bank's equity.

Contacts: Vincent Ho, Hong Kong, +852 2263 9921/ vincent.ho@fitchratings.com; James McCormack, +852 2263 9925/ james.mccormack@fitchratings.com.

Media Relations: Shivani Sundralingam, Singapore, Tel: + 65 6796 7215.

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