



# NEWS RELEASE

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Jan 18, 2007

## R&I Affirms BBB+: Thailand FC Issuer Rating

Rating and Investment Information, Inc. (R&I), has affirmed the following ratings:

ISSUER: **The Kingdom of Thailand**  
**Foreign Currency Issuer Rating**

**R&I RATING: BBB+ (Affirmed)**  
**RATING OUTLOOK: Stable**

**Domestic Currency Issuer Rating**

**R&I RATING: A- (Newly Assigned)**  
**RATING OUTLOOK: Stable**

**Foreign Currency Short-term Credit Rating**

**R&I RATING: a-2 (Affirmed)**

### RATIONALE:

Thailand has experienced a series of unsettling events starting with the military coup in September 2006. In R&I's evaluation, however, the situation has not reached a point where the economic and social fundamentals that support the country's rating will be immediately damaged. Foreign reserves have accumulated to a level on a par with Thailand's external debt, and exceed short-term debt by three times. At the end of September 2006, public debt had almost decreased to 40% of the gross domestic product (GDP). Fiscal management is remaining conservative. Taking these factors into consideration, R&I has affirmed Thailand's Foreign Currency Issuer Rating at BBB+, and newly assigned its Domestic Currency Issuer Rating at A-. The Rating Outlook is Stable for both.

The real GDP growth rate for 2006, driven by the recovery in overseas demand, is expected to reach 5%, showing a recovery from 4.5% in 2005. Domestic demand has been sluggish, however, because of uncertainty over the political and economic outlook, and the economy can hardly be said to have proven its endurance. While easing inflation is expected to bring a gradual recovery in domestic demand, the terrorist bombings that occurred in Bangkok at the end of 2006 may act as an additional damper on the consumer and business confidences which showed a modest comeback in late 2006. The central bank's Monetary Policy Committee decided to cut its policy rate in January 2007. Meanwhile, the current account balance, which fell into deficit in 2005, is forecast to turn into the black, though by a slight margin, in 2006-2007.

The military coup that occurred in September 2006 did not result in major disorder in society. A provisional cabinet was formed with General Surayut, former commander in chief of the Thai armed forces, as Prime Minister. The regime, however, does not appear to have won the Thai people's confidence, as it has not succeeded to produce the expected results as the military government, such as restoring civil order in the southern Muslim provinces. The truth of the terrorist bombings in Bangkok still remains a mystery. With a growing sense of frustration among the people, the crucial moment will continue until the implementation of democratic elections expected in late 2007.

On December 18, 2006, the central bank announced a strict short-term capital controls to put a curb on the rapid appreciation of the baht. Although the baht did fall in reaction, the stock plunge the following day forced an easing of the controls, giving reservations about the central

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**Rating and Investment Information, Inc.** Nihonbashi 1-chome Bldg., 1-4-1, Nihonbashi, Chuo-ku, Tokyo 103-0027, Japan  
International Department TEL.03-3276-3426 FAX.03-3276-3427 <http://www.r-i.co.jp>

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bank's competence in making and implementing policy. While R&I has given the capabilities of the central bank a relatively high evaluation, it will carefully follow the situation for signs of the negative impact that this kind of damage to reputation could have on market confidence and ultimately on the effectiveness of monetary policy.

Thailand has become one of the manufacturing centers in the region, as typified by the automobile, the electronic and electrical industries. The existence of supporting industries and more advanced economic infrastructures compared to neighboring countries continue to make Thailand attractive destination for investment. The country has also been rated highly as a potential market, and once the political outlook becomes clear, the investment activity that has been reined in is likely to gradually come back to speed. In January 2007, however, the Cabinet gave an approval for the revisions to the Foreign Business Act, aimed at reinforcing controls on foreign ownership, particularly in the service industries. In conjunction with the central bank's short-term capital controls, this made a negative impression of working against the investment luring race around the world. R&I will closely watch the developments in the flow of capital involving Thailand in the medium term.

The serious income disparity between urban and rural regions is another background factor in the sequence of turbulent political events occurring in the country. Addressing these structural issues will be essential to fundamental improvement of Thailand's creditworthiness.

## R&I RATINGS:

ISSUER: **The Kingdom of Thailand**

**Foreign Currency Issuer Rating: BBB+ (Affirmed)**

**RATING OUTLOOK: Stable**

**Domestic Currency Issuer Rating: A- (Newly Assigned)**

**RATING OUTLOOK: Stable**

**Foreign Currency Short-term Credit Rating: a-2 (Affirmed)**

|        |                             |                        |              |                        |
|--------|-----------------------------|------------------------|--------------|------------------------|
| ISSUE: | Bonds Rated                 | Issue Date             | Redemption   | Issue Amount (mn)      |
|        | Samurai Bonds No. 20 (2001) | Dec 21, 2001           | Dec 19, 2008 | Yen 13,000             |
|        |                             | <b>R&amp;I RATING:</b> |              | <b>BBB+ (Affirmed)</b> |

Issuer Rating is R&I's opinion regarding an issuer's overall capacity to repay its entire financial obligation, and it will be assigned to all issuers. The rating of individual obligations (i.e. bonds and loans etc.) includes the prospect of recovery and reflects the terms and conditions of the agreement and it may be lower or higher than the Issuer Rating.