

# Atradius Country Report

Thailand – December 2011



## Overview

### General information

Capital:	Bangkok
Government type:	Constitutional monarchy
Currency:	Baht (THB)
Population:	63.9 million
Status:	Lower middle income country (GDP/capita: US\$ 5,043 in 2011)

### Most important sectors (2010)

Services:	46 % (tourism 6 %)
Industry:	44 % (electronics, textile, automotive)
Agriculture:	10 % (rice, rubber)

### Main import sources (2010, % of total)

Japan:	20.8 %
China:	13.3 %
Malaysia:	5.9 %
USA:	5.9 %

### Main export markets (2010, % of total)

China:	11.0 %
Japan:	10.5 %
USA:	10.4 %
Hong Kong:	6.7 %

### Main expenses of foreign exchange

Capital goods (47 %), intermediate goods (27 %), fuel (11 %)

### Main sources of foreign exchange

Exports of manufactures (84 % of exports, of which electronics 28 % and textiles 6 %), agricultural and fishery products (10 %), vehicles (6 %)

## Key indicators

	2008	2009	2010	2011*	2012**
GDP (US\$ million)	272,578	263,711	318,908	343,392	377,867
Real GDP growth (%)	2.5	-2.3	7.8	2.5	3.8
GDP per capita (US\$)	4,110	3,936	4,718	5,043	5,492
Inflation p.a. (%)	5.0	-0.9	3.3	4.2	4.0
Fiscal balance (% of GDP)	-1.1	-4.4	-1.3	-2.9	-3.1
Total foreign debt (US\$ million)	54,858	58,755	74,048	83,499	88,254
Foreign debt/GDP (%)	20	22	23	24	23
Foreign debt/XGS (%)	25	31	32	30	29
Short-term debt/inter. reserves (%)	22	21	20	20	19
Debt service ratio (%)	8	7	4	5	5
Current account balance (US\$ m.)	2,211	21,860	14,751	14,159	11,435
Current account/GDP (%)	0.8	8.3	4.6	4.1	3.0
Nom. exchange rate to US\$ (average)	33.3	34.3	31.7	30.4	30.5
International reserves (US\$ million)	108,661	135,483	167,530	182,085	201,074
In months of merchandise imports	7.3	12.2	11.0	9.9	9.9

\* estimate \*\* forecast Source: Economist Intelligence Unit (EIU), International Monetary Fund (IMF)

## Political situation: New government in place

<b>Head of state:</b>	King Bhumibol Adulyadej
<b>Head of government:</b>	Prime Minister Yingluck Shinawatra (since July 2011)
<b>Form of government:</b>	Coalition government led by the Pheu Thai Party (PTP), controlling a majority of seats in parliament (265 out of 500).

### Pro-Thaksin forces won the July 2011 general election

In the July 2011 general election the Pheu Thai Party (PTP), headed by Yingluck Shinawatra, prevailed over the former government led by the Democrat Party (DP) under Abhisit Vejjajiva. The PTP gained an absolute majority (265 out of 500 seats), but nevertheless formed a coalition with five smaller parties to broaden its majority and popular acceptance.

Yingluck Shinawatra is the younger sister of former prime minister Thaksin, who was ousted by a military coup in September 2006. However, the restoration of democratic rule in December 2007, after more than a year of a military rule, has not brought the hoped-for political stability. Since then, there have been ongoing political tensions caused mainly by the sharp political, economic and cultural divide between the rural and urban poor who supported Thaksin (popularly known as 'red shirts'), and both the Bangkok upper and middle class, represented by the (DP) and the People's Alliance for Democracy (PAD, popularly known as 'yellow shirts'). This urban establishment enjoys the support of the army, the judiciary and no doubt the royal family.

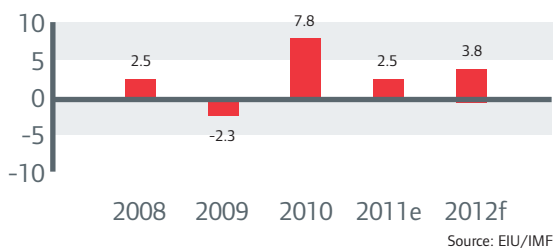
The years from 2008 to 2010 were characterised by growing political tensions between the two camps, with changing governments in 2008 and regular mass protests by either the yellow or red shirt movements since then. The situation deteriorated sharply in March 2010 when the 'red shirts' organised mass protests in Bangkok to force the DP-led government into dissolution and call for early elections. The conflict escalated in the following weeks, when the protestors seized the governmental and business districts, triggering violent clashes with the security forces. Meanwhile, the government declared a state of emergency in Bangkok and several provinces. After negotiations had failed, the army and police finally stormed the red shirts' camp on the 19 May and forced them to surrender. Altogether, about 90 people were killed and 1,400 injured during the protests.

### Ongoing border dispute with Cambodia

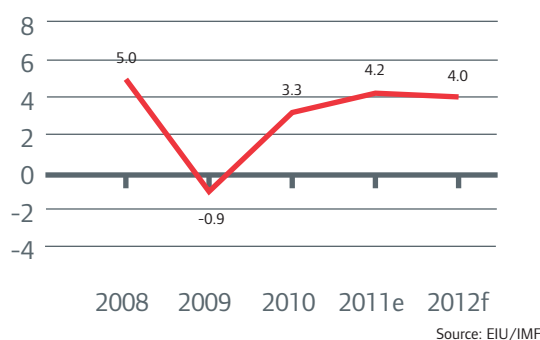
Relations with Cambodia deteriorated in 2008 because of a border dispute over the Preah Vihear Temple, leading to several border skirmishes. The relationship reached an all-time low in early November 2009 when the Cambodian government announced the appointment of former premier Thaksin as a special economic advisor and refused Thailand's requests for an extradition (Thaksin is charged with corruption by the Thai Supreme Court). After several armed clashes in the disputed area last year tensions have eased somewhat in the meantime, but a renewed escalation cannot be ruled out.

## Internal economic situation: Flood damage could push the economy into recession

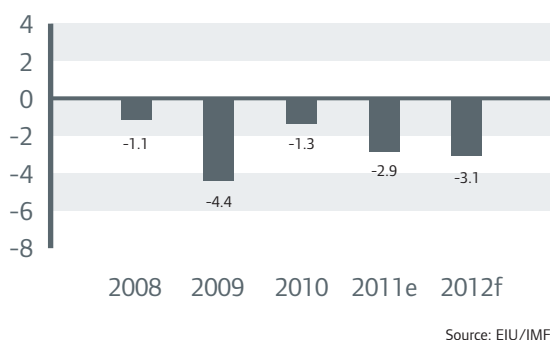
**Real GDP growth (%)**



**Inflation p.a. (%)**



**Fiscal balance (% of GDP)**



### Economy will contract due to the flood disaster

The economy has been badly hit by the worst floods for 50 years, caused by heavy monsoon rain, killing more than 600 people and leading to serious disruptions: among others, in the electronics and textile industries. Many supply lines have been damaged or destroyed, and more than 1000 factories have been flooded and will probably not resume production before April or May 2012. Thailand serves as a production hub for Japanese car and electronics producers, whose supply chains were severely hit (Japanese automotive companies have lost production of about 100,000 cars, with shortages of parts affecting operations). The total damage is estimated at US\$ 17 billion (5 % of GDP). Industrial production decreased 35.8 % in October 2011, and consumer confidence has deteriorated sharply.

Economic growth projections for 2011 have been adjusted from their previous 4.1 % to 2.5 %, and some analysts forecast growth to be even lower: at 1.5 %. After 3.5 % GDP growth in Q2 of 2011 Thailand is expected to record real GDP contraction in Q4 of 2011 (the government expects a 3.7 % contraction) and probably also in Q1 of 2012, which would technically mean a recession.

At the end of November 2011, the Bank of Thailand cut the benchmark interest rate for the first time in more than two years - by 0.25 % to 3.25 % - to prop up the economy and support reconstruction. The government announced spending of 130 billion baht (US\$ 4.2 billion) on reconstruction.

### Economic policy

Beside public investments to speed up reconstruction after the flood disaster, the economic policy of the Yingluck administration will be determined by 'Thaksonomics': the leading school of economic thought during the premiership of Thaksin. This implies populist measures such as a focus on alleviating poverty and investment in infrastructure. After the elections, the new government announced that it would raise the minimum wage, decrease corporate

income tax from 30 % to 20 % and ensure a return to a guaranteed rice price. Together with the reconstruction efforts this is likely to affect the budget such that the budget deficits will increase in 2011 and 2012.

### Structural economic weaknesses

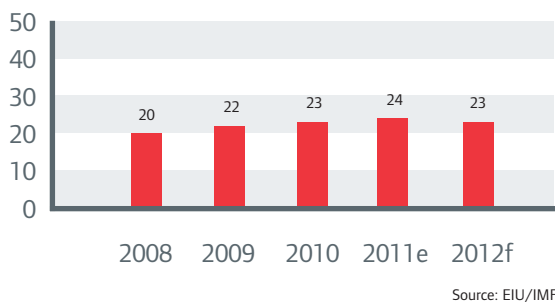
In Thailand, corruption is widespread, but there is little evidence that this prevents businesses making timely payments, and there is less bureaucracy and labour market regulation than in most Southeast Asian countries.

### Energy situation

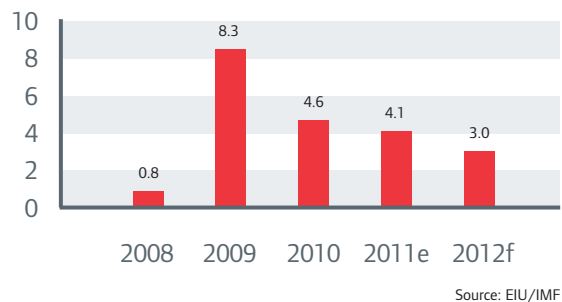
Thailand is a significant net oil importer, although domestic oil (ca. 27 % of consumption) and natural gas production is growing.

## External economic situation: Strong fundamentals

### Foreign debt/GDP (%)



### Current account/GDP (%)



### Foreign debt

Level: Low, 24 % of GDP and 30 % of exports of goods and services (XGS) in 2011  
 Structure: Reasonable, 32 % short-term debt in 2011  
 Debt service ratio: Low (5 %), but higher when short-term debt is included (17 %)

#### Remarks:

Ratings: Standard & Poor's BBB+/negative, Moody's Baa1/negative, Fitch BBB+/negative. All are investment grade ratings. Thailand's liquidity remains good because of its structural low foreign debt and sufficient foreign exchange reserves.

### Balance of payments

Trade balance: Large surplus (10 % of GDP)  
 Current account: Large surplus of 4.1 % of GDP in 2011  
 Capital account: Surplus  
 Total account: Positive

### International reserves

In months of imports (cif): Excellent: 9.9 months of import cover in 2011

## Outlook: Floods and weaker external demand will affect growth prospects

### The government may come under increasing pressure

The crisis management of prime minister Yingluck during the floods has drawn widespread public criticism and could undermine her popularity and that of the ruling Pheu Thai Party. Yingluck seems to be using the current situation to push through an amnesty for her elder brother, former prime minister Thaksin, who still lives in exile (Thaksin was sentenced to jail by the Thai Supreme Court on charges of corruption during his term in office). There are rumours of secret negotiations between the old establishment and Thaksin over the terms of an amnesty. However, such a move could stir up new protests by the yellow shirt movement and lead to more tensions in Thailand's still fragile political setting. At the same time the poor health of the highly popular king Bhumipol, now aged 83, is a cause for concern, as the king's authority is a cornerstone of political stability in Thailand.

### A global downturn could hamper a strong rebound in 2012

The economy is expected to recover in 2012, with GDP forecast to grow 3.8%, helped by reconstruction measures, which will spur domestic demand. At the end of November, the Bank of Thailand forecast that the economy could grow by as much as 4.8%. However, weaker than expected global growth could hamper a strong rebound, as Thailand's economy is export driven (mainly electrical appliances, automotive parts, machinery) and very dependent on demand from its key trading partners: China, Japan and the US. The Bank of Thailand has announced additional interest rate cuts if needed (i.e. in the event of slower paced reconstruction and/or shrinking global demand) as it sees the inflation rate as controllable (forecast to be 4% in 2012).

The health of the banking sector has improved significantly. Non-performing loans are currently estimated to be just 5.7% of total loans.

Overall, Thailand shows very strong macroeconomic fundamentals, which significantly reduce the country risk. Thailand's sovereign payment capacity is underpinned by low external debt ratios, a current account surplus and more than adequate foreign reserves.

Atradius Copyright 2011

This report is provided for information purposes only and is not intended as a recommendation as to particular transactions, investments or strategies in any way to any reader. Readers must make their own independent decisions, commercial or otherwise, regarding the information provided. While we have made every attempt to ensure that the information contained in this report has been obtained from reliable sources, Atradius is not responsible for any errors or omissions, or for the results obtained from the use of this information. All information in this report is provided 'as is', with no guarantee of completeness, accuracy, timeliness or of the results obtained from its use, and without warranty of any kind, express or implied. In no event will Atradius, its related partnerships or corporations, or the partners, agents or employees thereof, be liable to you or anyone else for any decision made or action taken in reliance on the information in this report or for any consequential, special or similar damages, even if advised of the possibility of such damages.