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Thailand's Policy Improvements Remain Distant While Credit Support Continues To Slide

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SINGAPORE (Standard & Poor's) Oct. 29, 2015--Government policy decisions with long-term implications for Thailand's economic development are unlikely at least until mid-2017, said Standard & Poor's Ratings Services in report published today.

The report, titled "Thailand's Sovereign Credit Support Continues A Gradual Slide As Policy Improvements Remain Distant," said the gradual erosion of credit support for the sovereign, which has become obvious in the past two to three years, is likely to continue at least until the return of an elected government.

"Without a stable elected government, policy decisions important to Thailand's economic and social development have been unaddressed," said Standard & Poor's credit analyst Yee Farn Phua. "Several measures could lift the country's economic potential and reduce the growing income disparity, including the introduction of the land and buildings tax that could ease the government's budget constraints and address income inequality."

Education reforms could also better match the Thai workforce's skills to industrial and business activities that will generate higher-skilled jobs in the economy. It could also improve income prospects for the country's lower-income households.

In our view, only a stable government that is able to focus on a longer-term horizon can reverse some of the damage to Thailand sovereign credit metrics in recent years, in addition to addressing structural concerns. Support for sovereign creditworthiness had been strong until Thailand's political split broke out into the open in 2006. Since then, the political uncertainties have eroded key credit indicators gradually.

The delay in restoring an elected government is a result of the slow progress in rewriting the Kingdom's constitution. In early September, the former National Reform Council rejected a draft proposed by the previous Constitution Drafting Committee that could have paved the way to the return of an elected government.

The coup government subsequently set up another Constitution Drafting Committee to try again. A deputy prime minister suggested that it would take 20 months to complete the task and for new elections to be held. Thailand is therefore unlikely to have a democratic government until at least the middle of 2017.

The impact of the political situation, in combination with a weaker global economic environment, on the Thai economy has become obvious in the past three to four years. The global slowdown appears to have affected Thailand more than others in the region.

"Despite weaker support for the sovereign ratings from the economic, fiscal, and external assessments, we don't believe these conditions have been material enough for us to expect a rating downgrade over the next year or two. However, longer-term stability in the sovereign ratings on Thailand will need an improvement in policy settings," Mr. Phua said.

That is unlikely to happen without a government that is confident of serving out its term and thus can afford to focus beyond the immediate future. Given the current developments, an elected government is unlikely to take office at least for the next one and a half years.

The report is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. If you are not a RatingsDirect subscriber, you may purchase a copy of the report by calling (1) 212-438-7280 or sending an e-mail to research_request@standardandpoors.com. Ratings information can also be found on Standard & Poor's public Web site by using the Ratings search box located in the left column at www.standardandpoors.com. Members of the media may request a copy of this report by contacting the media representative provided.