CareEdge Global assigns Long Term Foreign Currency Rating of A- (Unsolicited) to Kingdom of Thailand

Credit Profile

Thailand's credit profile is supported by its fiscal strength arising from low levels of government debt, low debt servicing costs and favourable government debt structure. Its external position, underpinned by a favourable current account balance and sufficient foreign exchange reserves, further strengthens the credit assessment. Tourism is an important sector for the economy, adding to the strength of the external sector, but that also exposes Thailand to global growth concerns. The monetary policy has been effective as reflected in the low and stable level of inflation.

However, the persistent structural challenges such as the ageing population and low productivity are constraints for its medium-term growth prospects. Recent political disruptions, including a change in leadership in Thailand, have created uncertainty about the continuity of policies announced by the previous government, such as the Digital Wallet program.

Strengths

- Adequate foreign exchange reserves
- Moderate levels of government debt and favourable debt structure
- Monetary policy effectiveness as evidenced by well-anchored inflation

Weaknesses

- Unfavourable demographics and skill gaps
- High income inequality
- Political uncertainty
- Elevated levels of private debt

Key Monitorables

- Recovery in the tourism sector
- Policies of the new government

Key Rating Drivers

Economic Structure & Resilience

Thailand has an economic size of USD 515 billion (2023). The economy faces structural issues such as unfavourable demographics due to rapidly ageing population, low worker productivity and relatively lower rate of investment, which have been weighing on its growth potential. Thailand grew at a much slower pace of 3.4% in the pre-pandemic period (2015-19) compared with its other regional peers such as Vietnam and Indonesia (7.1% and 5%, respectively). The post-pandemic economic recovery lost momentum, with 2.5% growth in 2022, decelerating to 1.9% growth in 2023. This was due to weak external demand, modest investments and incomplete recovery in tourism. However, the economy accelerated from 1.6% growth in Q1 2024 to 2.3% growth in Q2 2024. Going ahead, improvement in external demand and further recovery in tourism are expected to extend some support to growth.

Fiscal Strength

Thailand's fiscal profile benefits from its low gross general government (GG) debt to GDP ratio (pre-pandemic average of ~42% during 2015-19) and low debt servicing cost. Despite a significant uptick during the pandemic, the gross GG debt to GDP ratio stood at 62.4% in 2023. Additionally, the favourable government debt structure in terms of low share of foreign currency denominated debt and longer-maturity profile is a positive. Although the new government's policies remain uncertain, there are some indications of continuity of certain initiatives made by the previous government, such as the Digital Wallet scheme. These policies, if implemented, could strain fiscal balance and pose challenges for fiscal consolidation. Further, high spending requirements of the government on pensions, salaries, subsidies and net social benefits is a constraint on fiscal performance.

External Position & Linkages

Thailand has a healthy current account balance (average surplus of ~8% during pre-pandemic period 2015-19), limited risks from external debt and sufficient foreign exchange reserves. Bouncing back from a pandemic-led deficit in 2021 and 2022, the current account balance is estimated to register a small surplus in 2023 (1.4% of GDP) and further increase going forward as tourist arrivals reach pre-pandemic levels. Foreign direct investment (FDI) inflows in Thailand (average 1.2% of GDP during 2019-23) have been relatively low compared with its regional peers Vietnam and Malaysia (~4.5% and ~2.9% GDP, respectively during 2019-23).

Monetary & Financial Stability

Thailand's exchange rate regime is classified as floating with intermittent foreign exchange intervention to avoid excessive fluctuations in the domestic currency. The Central Bank has been successful in maintaining low and stable inflation averaging ~1.7% during 2019-23. Inflation is expected to remain well within the target range of 1-3% over the medium term. However, excessive private sector leverage as reflected in elevated household debt levels (~91% of GDP) remains a source of financial vulnerability and warrants close monitoring.

Institutions & Quality of Governance

Thailand fares well on regulatory quality and rule of law underlying government's ability to formulate and implement policies effectively. However, restricted freedom of expression and political uncertainty is a constraint. The partial democracy with military-influenced administration and frequent anti-government protests add to the political stress. Moreover, the recent leadership change underscores the political risks in Thailand.

Thailand – Select Indicators									
	Unit	2018	2019	2020	2021	2022	2023	2024 F	2025 F
Economic Indicators									
Nominal GDP	USD Billion	507	544	500	506	496	515	549	573
GDP Per Capita (Constant-PPP)	USD	18102	18432	17274	17503	17910	18218	18688	19213
Real GDP Growth	%	4.2	2.1	-6.1	1.5	2.5	1.9	2.7	2.9
GFCF/GDP	%	22.8	22.6	23.2	23.5	23.4	23.0	-	-
Gross Domestic Savings/GDP	%	34.9	34.1	29.2	29.5	27.7	25.7	-	-
Exports (G&S)/GDP	%	64.8	59.5	51.5	58.6	65.4	65.4	-	-
Working-Age (15-64) Population (% Share in Total)	%	70.8	70.5	70.1	69.7	69.3	68.8	68.3	67.9
Old-Age (65+) Population (% Share in Total)	%	12.6	13.2	13.9	14.5	15.2	16.0	16.7	17.5
Fiscal Indicators – General Government									
Fiscal Balance/GDP	%	0.1	0.4	-4.5	-6.7	-4.5	-3.2	-3.7	-3.4
Revenue/GDP	%	21.5	21.0	20.4	20.0	20.1	20.0	20.1	20.3
Expenditure/GDP	%	21.4	20.6	24.9	26.8	24.5	23.2	23.8	23.6
GG Gross Debt/GDP	%	41.9	41.1	49.4	58.3	60.5	62.4	64.5	65.5
GG External Debt (by Creditor)/GG Gross Debt	%	14.5	15.3	13.7	11.4	11.2	9.2	-	-
Interest/Revenue	%	4.8	4.8	4.7	6.3	6.6	5.6	-	-
External Indicators									
Current Account Balance/GDP	%	5.6	7.0	4.2	-2.0	-3.2	1.3	1.7	2.0
FDI, Net Inflows/GDP	%	2.7	1.0	-1.0	3.0	2.3	0.6	-	-
Outstanding FII Liabilities/GDP	%	30.6	30.6	27.3	30.0	32.2	26.9	-	-
NIIP/GDP	%	-5.2	-4.5	7.6	5.2	-4.5	7.1	-	-
Foreign Exchange Reserves	USD Billions	205.6	224.3	258.1	246.0	216.6	224.5	-	-
Import Cover	Months	8.7	9.9	13.3	10.0	7.8	8.2	-	-
External Debt/GDP	%	32.2	31.6	38.0	38.8	40.4	37.5	-	-
Monetary and Financial Indicators									
CPI Inflation	%	1.1	0.7	-0.8	1.2	6.1	1.2	0.7	1.2
Exchange Rate (Average)	LC per USD	32.3	31.0	31.3	32.0	35.1	34.8	-	-
Non-Performing Loans/Total Gross Loans	%	3.1	3.1	3.2	3.1	2.8	2.8	-	-
Private debt, loans and debt securities/GDP	%	154.3	155.1	176.1	179.7	174.2	-	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - Forecast; PPP – Purchasing Power Parity; GFCF – Gross Fixed Capital Formation; Exports (G&S) – Exports of Goods and Services; GG – General Government; FDI – Foreign Direct Investment; FII – Foreign Institutional Investment; NIIP – Net International Investment Position; Data refers to fiscal/calendar year and actual/estimate as reported by the source; Where general government data is unavailable, central government data is used; Latest available data for 2023

Rating History

Instrument	Type	Rating	Date
Issuer Rating	Long Term Foreign Currency (Unsolicited)	A-	October 3, 2024

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Criteria Applied

CareEdge Sovereign Rating Methodology

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