

Thailand's fiscal position poses a risk to a potential credit rating review and efforts needed to accelerate the reduction in fiscal deficit to below -3.0% within 3–5 years, along with structural economic reforms, says KResearch

KASIKORN RESEARCH CENTER (KResearch) is of the view that the recent revision of Thailand's credit rating outlook by a credit rating agency from "Stable" to "Negative", while affirming the credit rating at BBB+ reflects growing concerns over Thailand's continuously weakening fiscal position following the COVID-19 crisis. This could become a key factor leading to a potential downgrade in Thailand's credit rating within the next 1–2 years. Lessons from other countries suggest that a concrete reduction in the fiscal deficit is necessary.

Ms. Nattaporn Triratanasirikul, KResearch Deputy Managing Director, said that when compared with other countries in the same rating group (BBB+ or Baa1), Thailand's fiscal position is weaker, particularly due to the rapid increase in public debt and the persistently high fiscal deficit. If the Thai economy grows only 2 percent per year going forward, the fiscal deficit may remain above -4.0 percent of GDP, and public debt is likely to approach 70 percent of GDP ceiling by 2027. In light of this, the Thai government is currently reviewing its medium-term fiscal plan, from which clearer details are expected to emerge soon.

Dr. Lalita Thienprasiddhi, Head – Research at KResearch, said that lessons from abroad show that countries able to avoid a sovereign credit downgrade typically implement concrete policies to narrow their fiscal deficits. For example, Italy managed to reduce its deficit from 8.0 percent to below 4.0 percent of GDP within a few years through measures to raise revenue, cut expenditures, and improve the efficiency of public spending. France, by contrast, saw both an outlook revision and a credit downgrade due to its widening fiscal deficit, which led to higher financial costs, while the credit ratings of certain government-related agencies were also lowered accordingly. Nevertheless, a sovereign downgrade does not necessarily imply that private-sector ratings will move in the same direction; this depends on each company's financial position.

Ms. Palitchaya Ritsuk, Researcher at KResearch, stated that Thailand's approach to reducing its fiscal deficit may need to focus on increasing public revenue, as most expenditures are difficult to cut. In the short term, piecemeal revenue-raising measures may help stabilize the situation to some extent. However, in the medium to long term, sustainable fiscal reform may necessitate the development of an effective database to design well-targeted welfare policies, coupled with tax base expansion and structural economic reform.
