

# BANGKOK METROPOLITAN ADMINISTRATION

No. 186/2018  
29 November 2018

## LOCAL GOVERNMENT

**Issuer Rating:** AA+

**Outlook:** Stable

### Last Review Date :

Date	Rating	Outlook/Alert
23/11/17	AA+	Stable

### Issuer Rating History:

Date	Rating	Outlook/Alert
10/11/06	AA+	Stable

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## RATIONALE

TRIS Rating affirms the issuer rating on Bangkok Metropolitan Administration (BMA) at "AA+". The rating is based on the importance of the Bangkok metropolis as the capital city and economic center of Thailand. TRIS Rating expects BMA to receive support from the central government at all times. The rating also reflects BMA's reliable tax revenue, its balanced budget policy, and the large amount of cash on hand. The rating, has however, taken into consideration BMA's budgetary constraint in relation to the huge capital investments needed for public transportation and infrastructure projects.

## KEY RATING CONSIDERATIONS

### Strategic importance as Thailand's administrative and economic center

Bangkok is the capital city of Thailand and contributes more to the nation's economic output than any other cities in the nation. According to the Office of the National Economic and Social Development Board (NESDB), the gross provincial product (GPP) of Bangkok in 2016, at current market prices, was Bt4.73 trillion, equal to 32.5% of the nation's gross domestic product (GDP).

From 2013 to 2016, the GPP of Bangkok grew faster than the GDP of the country. The economy of Bangkok grew by 3.8% in real terms in 2016, higher than the nation's economic growth rate of 3.3%. The Thai economy is forecast to grow by 4.5% in 2018, after rising by 4.8% in the first half of the year. TRIS Rating believes the achieving of the forecast growth rate in 2018 hinges on strong growth in exports, continued growth in the tourism industry, a rise in household expenditures, and a recovery in private investment. TRIS Rating expects Bangkok's economy will grow along with the economy of the nation.

The economy of Bangkok has always been less volatile than the economies of other provinces, owing to the diverse nature of economic activities in Bangkok. The major economic sectors are the commerce, manufacturing, financial services and insurance, accommodation and food service, and real estate sectors. These five sectors account for about 58% of Bangkok's economy, according to the NESDB.

### Reliable tax revenue

Over 90% of BMA's total revenue is from taxes, which are considered to be reliable sources of income. Tax revenue can be classified into two types: local taxes and allocated taxes. Local taxes are collected by BMA while allocated taxes are taxes collected by other government agencies and distributed to BMA. Typically, local taxes account for 18% of BMA's total revenue. Allocated taxes have made up the main portion (77%) of BMA's revenue. During fiscal year (FY) 2013-FY2017, total tax revenue increased by 5.9% per annum.

Four key taxes comprised about 83% of BMA's total revenue during the past three years: property taxes, value added tax, land transfer fees, and automobile tax. The amounts collected under these four taxes hinge on the country's economic condition. The government occasionally reduces one or more of these taxes to stimulate consumption. For example, in FY2016, land transfer fees declined by 23.6% because the government reduced the tax rate in order to stimulate the property sector. Therefore, although tax collections are projected to increase moderately year by year, collections could be negatively affected by economic fluctuations and changes in government policy.

### Balanced budget policy

BMA has exhibited sound budgetary performance, in accordance with its balanced budget policy. According to the BMA Budgetary Law B.E. 2529, BMA will plan its expenditures in accordance with the projected revenues. A conservative revenue projection will then cap planned expenditures at an appropriate level. In a fiscal year when revenue receipts are less than the budgeted amount, BMA has the flexibility to adjust the capital investment budget, especially for new projects. However, additional expenditures, if necessary, can be approved once auxiliary sources of revenue are verified. The auxiliary revenue could be in the form of cash on hand or actual revenue collected in excess of the budget.

### Sufficient revenues to cover operating expenditures

BMA continued to post good financial performance. In FY2017, total revenue was Bt79,271 million, a 10.5% increase from the previous year. BMA reported total expenditures of Bt75,577 million in FY2017, compared with Bt69,038 million in FY2016. As a result, BMA recorded a net surplus of Bt3,694 million. The ratio of the balance after capital expenditures to revenue increased to 4.66% in FY2017 from 3.80% in FY2016.

In FY2018, BMA expects revenue will be around Bt86,000 million, while the budget calls for Bt78,500 million in expenditures. As a result, BMA will likely incur a surplus of around Bt7,500 million. For FY2019, BMA plans a balanced budget: revenue and expenditures each equal Bt80,000 million. Over the projected period of FY2020 and FY2021, TRIS Rating forecasts BMA's revenue will grow moderately in tandem with the rise of the economy.

### High operating expenditures limit investment

A high level of operating expenditures will constrain BMA's budget for other infrastructure projects. BMA's expenditures can be classified into two categories: operating expenditures and capital expenditures. Operating expenditures comprised around 75% of total expenditures annually during the past five years. In FY2017, operating expenditures amounted to Bt56,622 million, increasing by 8.8% from the previous year. Personnel expenditures are one of the key components of operating expenditures, accounting for 32% of total expenditures in FY2017.

During FY2013-FY2017, BMA spent around Bt15,000-Bt19,000 million in capital expenditures per year. As Bangkok is the center of the nation's economic activities and has the highest population density, there is high demand for public services. BMA needs to develop continuously the infrastructure in order to serve the growth in business activity and residents. Subsidies from the central government are an alternative source of funds. However, the subsidies depend on approvals from the government, and approvals require lengthy, time-consuming processes. BMA has, in many instances, operated through Krungthep Thanakom Co., Ltd. (KT), its subsidiary, as a conduit in contracting and obtaining financing for some key infrastructure undertaking in Bangkok.

### BMA's debt includes obligations from KT

At the end of September 2017, BMA's total debt was Bt13,426 million. TRIS Rating considers BMA's debt to include (i) KT's loans, (ii) the net present value of the electric train procurement expenditures, in accordance with the operation and maintenance (O&M) agreement, (iii) an outstanding supplier credit from BTS Group Holdings PLC (BTS) as the electrical and mechanical (E&M) contract for two Green Line extension projects, and (iv) the net present value of hire purchase contracts for fleets of cars and garbage trucks which have tenors of five to seven years, respectively.

### Potential rise in debt unless an operating concession is agreed

TRIS Rating projects BMA's total debt will increase substantially in FY2019 as BMA has to acquire two BTS mass transit rail extension projects from the Mass Rapid Transit Authority of Thailand (MRTA) at a cost of around Bt51,000 million. BMA is also responsible for investing the E&M systems for both extension projects. The cost of the two E&M systems is around Bt20,000 million. TRIS Rating believes BMA will be able to secure financing for the investments. Currently, BMA is considering financing alternatives for the investments, including granting operating concession rights to a concessionaire to operate these mass transit projects in exchange for taking up the debts of the projects.

### Strong liquidity profile

BMA's liquidity position is strong. In FY2017, BMA had a budget surplus of Bt3,694 million. Thus, cash on hand rose to Bt22,532 million at the end of FY2017, from Bt18,839 million at the end of FY2016.

TRIS Rating expects BMA will maintain a high level of cash on hand to support its liquidity position, as a cushion against any shortfall in revenue collection. Under current regulations, BMA is required to maintain a minimum of Bt1,000 million in cash on hand. However, BMA is in the process of lifting the minimum amount to Bt5,000 million.

### Financial reports are behind schedule

BMA's financial reports are audited by the Office of the Auditor General of Thailand. BMA's financial reports do not include

the revenues and expenses of the BTS extension projects and KT's financial performance. Currently, BMA's latest published audited financial report covers up to FY2015. The 2-year delay of available audited financial statements could constrain BMA's ability to access the capital market.

#### **RATING OUTLOOK**

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The "stable" outlook reflects BMA's reliable revenue sources and balanced budget policy. TRIS Rating expects that BMA will continue to receive support from the central government at all times.

Our base case scenario assumes BMA's revenues will range from Bt80,000 million to Bt85,000 million during FY2019-FY2021. Because it has a balanced budget policy, we expect expenditures will not exceed revenue. The total debt to revenue ratio will rise to over 90% from FY2019 onward if BMA acquires the two BTS extension projects from MRTA.

#### **RATING SENSITIVITIES**

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BMA's rating could be upgraded if BMA has a clear financial management framework for its investments and operations and discloses audited financial statements in a timely manner. In contrast, the rating downside case may occur if BMA loosens its financial discipline or runs a budget deficit for a prolonged period. A regulatory change that limits support from the central government will be a credit negative factor.

#### **ORGANIZATION STRUCTURE**

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BMA is Bangkok's local government, organized in accordance with the Bangkok Metropolitan Administration Act B.E. 2528 (the BMA Act). BMA, supervised by the Ministry of Interior, is responsible for the management of the Bangkok metropolis, which is divided into 50 districts. Bangkok is the capital city of Thailand and the nation's center of cultural, educational, political, and economic activity.

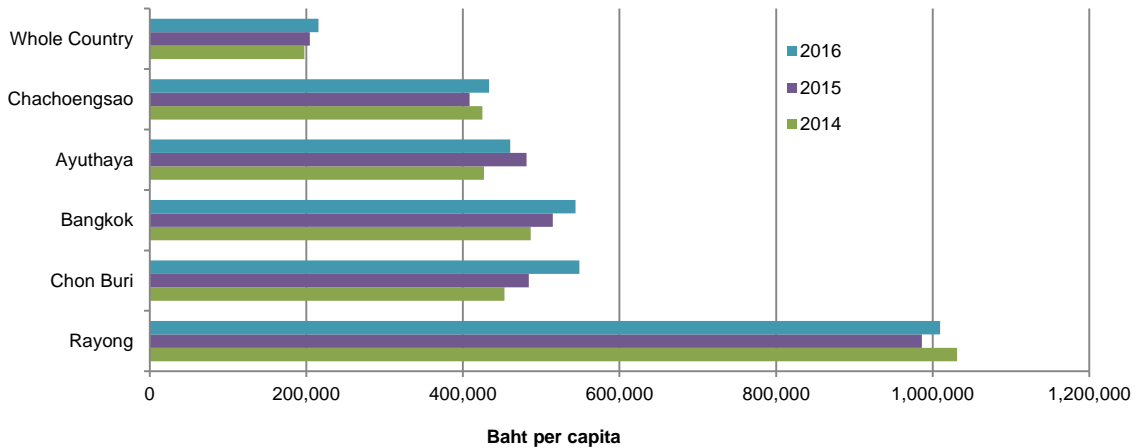
According to Article 89 of the BMA Act, BMA is authorized to perform 27 principal functions involving the development and management of public services in various areas, such as infrastructure, security, health, education, environment, and public welfare. The main objectives are the provision of adequate infrastructure and public services for the well-being of Bangkok's inhabitants and to facilitate social and economic development.

Bangkok is overseen by two main bodies, the Bangkok Metropolitan Council (BMC) and BMA. BMC is the legislative branch, the members of which are elected for a four-year term. The BMC convenes to consider all affairs under the responsibility of BMA. BMA is the administrative branch, which is headed by a governor who is elected for a four-year term by a majority of the registered voters in Bangkok. The governor appoints four deputy governors as executive administrators. The governor and his management team are responsible for policy formulation, while all operating activities are undertaken by permanent officers which are supervised by the Permanent Secretary of BMA.

After the coup d'état in May 2014, The National Council for Peace and Order (NCPO) issued announcement No. 86/2014 regarding the temporary recruitment of BMC members. As the term of the 61 members of the BMC expired on 28 August 2014, the NCPO selected 30 new BMC members to assume the legislative responsibilities. In addition, the NCPO temporarily prohibits the election of new governors of local governments. In October 2016, the NCPO invoked Section 44 of the interim constitution to appoint a new governor of BMA.

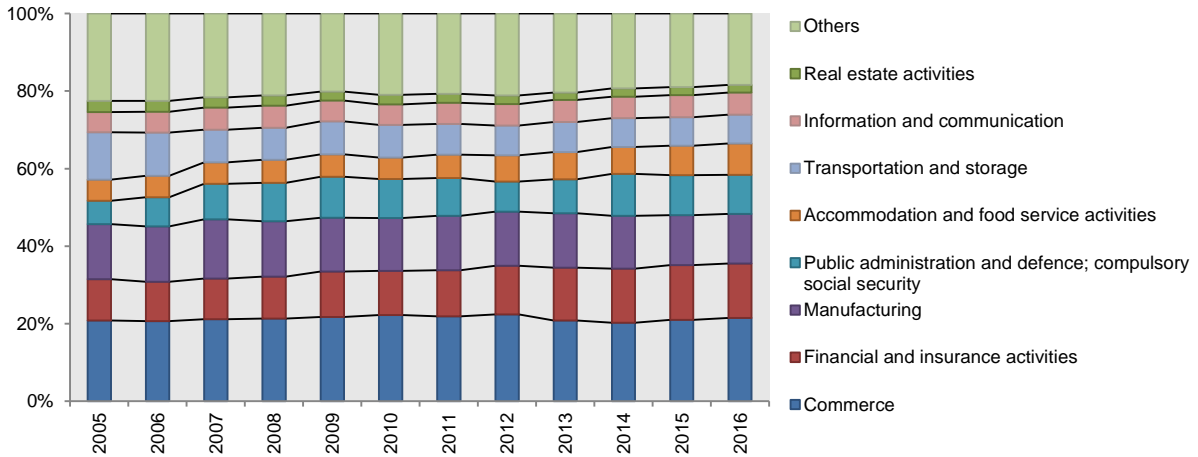
**KEY OPERING PERFORMANCE**

**Chart 1: GPP Per Capita of Major Provinces (Market Prices)**



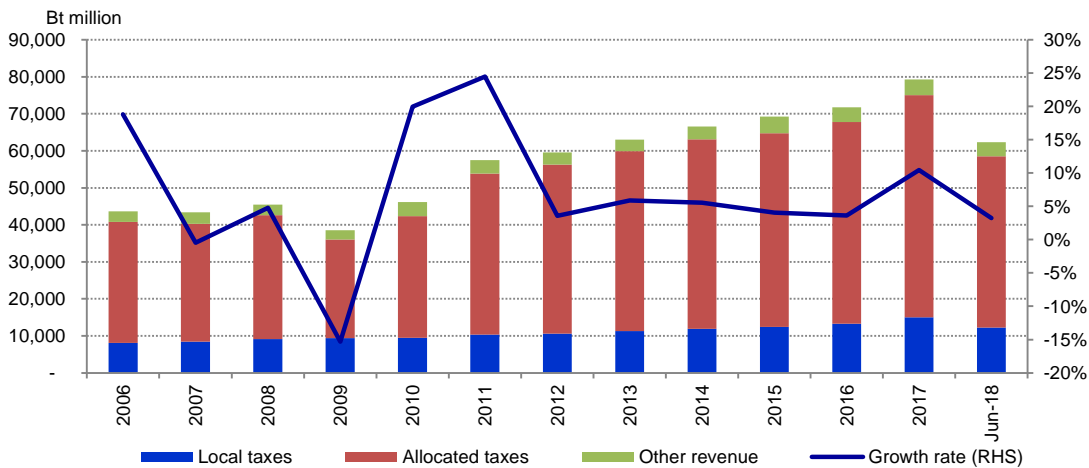
Source: National Economic and Social Development Board (NESDB)

**Chart 2: Gross Provincial Product (GPP) in Bangkok by Industry Sector**



Source: NESDB

**Chart 3: BMA's Record of Revenue Collection**



Source: BMA

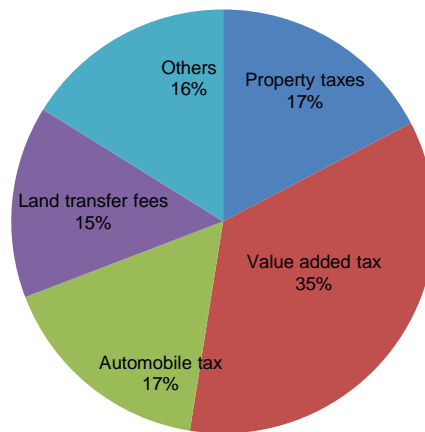
**Table 1: BMA's Revenue Breakdown**

Unit: %

Revenue	2012	2013	2014	2015	2016	2017	Jun 2018
1. Tax revenue							
1.1) Local taxes	18	18	18	18	18	19	20
1.2) Allocated taxes	77	77	77	76	76	76	74
2. Fees	2	2	2	2	2	2	2
3. Earnings on assets	1	2	1	1	1	1	1
4. Commercial revenue	0	0	0	0	0	0	0
5. Others	2	1	2	3	3	3	3
<b>Total revenue</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

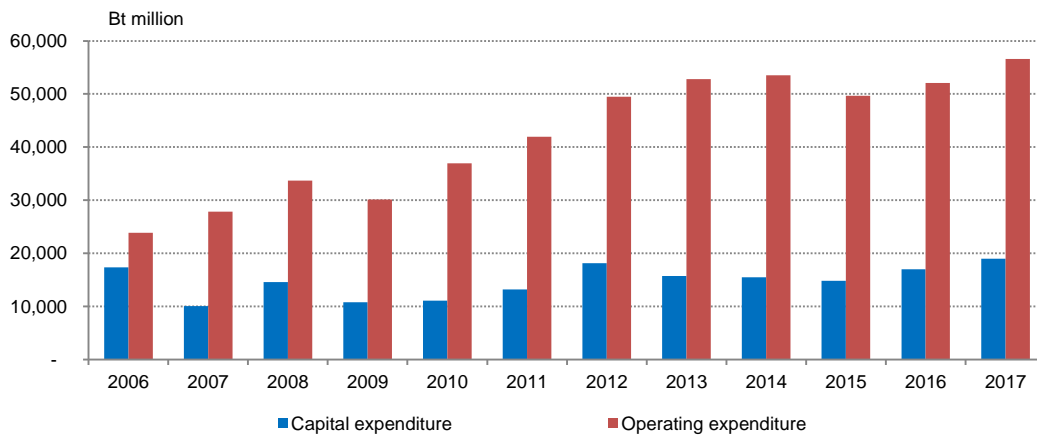
Source: BMA

**Chart 4: BMA's Revenue Breakdown by Type of Tax in 2017**



Source: BMA

**Chart 5: BMA's Capital Investments and Operating Expenditures**



Source: BMA

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\***

Unit: Bt million

	-----Year Ended 30 September -----				
	2017	2016	2015	2014	2013
Revenue	79,271	71,764	69,248	66,556	63,061
Subsidies	19,975	16,510	15,068	14,615	14,420
Total expenses	75,577	69,038	64,509	68,982	68,508
Operating balance	22,649	19,712	19,565	13,056	10,259
Capital expenditures (CAPEX)	18,955	16,987	14,827	15,482	15,705
Balance after CAPEX	3,694	2,726	4,739	(2,426)	(5,446)
Total debt	13,426	10,407	12,090	12,176	11,198
Operating balance to revenue (%)	28.57	27.47	28.25	19.62	16.27
Balance after CAPEX to revenue (%)	4.66	3.80	6.84	(3.65)	(8.64)
Total debt to revenue (%)	16.94	14.50	17.46	18.29	17.76
CAPEX to total expenditures (%)	25.08	24.60	22.98	22.44	22.92

\* Data from BMA's annual revenue and expenditure report as published in the Royal Gazette

**RELATED CRITERIA**

- Rating Methodology for Local Government, 23 August 2017

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**Bangkok Metropolitan Administration (BMA)**

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**Issuer Rating:**

AA+

**Rating Outlook:**

Stable

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**TRIS Rating Co., Ltd.**

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