LOCAL GOVERNMENT

Issuer Rating:	AA+
Outlook:	Stable

Last Review Date: 28/11/19

Company 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+", with a "stable" outlook. The rating is based on the importance of Bangkok as the capital city and economic center of Thailand. TRIS Rating expects BMA to receive ongoing support from the central government. 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 constraints 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 country's economic output than any other city in the country. According to the Office of the National Economic and Social Development Council (NESDC), the gross provincial product (GPP) of Bangkok in 2018, at current market prices, was THB5.4 trillion, equal to 32.9% of the country's gross domestic product (GDP).

From 2014 to 2018, the real GPP of Bangkok grew faster than the county's real GDP. The average real economic growth of Bangkok was 4.4% per year, higher than the country's average growth rate of 3.2% per year.

We expect the Thai economy to contract by 8.4%-9.1% in late 2020, after shrinking by 7.1% in the first half of the year. The drop is mainly attributed to the depth of the economic fallout from the Coronavirus Disease 2019 (COVID-19) pandemic. The pandemic has hit the key economic sectors, i.e., tourism and export sector, severely. TRIS Rating expects Bangkok's economy to contract in tandem with the country's GDP, but at a less-severe degree because of Bangkok's more diversified economy compared with other parts of the country.

Lower expenditures to cover revenue slump

In fiscal years (FY) 2020, BMA posted a total revenue of THB67.6 billion, a 19% decline from the previous year. This drop was mainly due to the government effecting the new property tax law, with a special 90% tax reduction to the taxpayers for the first year of effecting the new property tax law. In addition, revenues from automobile tax and special tax dropped sharply due to the COVID-19 economic fallout. According to its balance budget policy, in response to the drop in revenue, BMA reduced its unnecessary operating expenditures and postponed some of its capital expenditures to the next couple of years. However, for FY2020, BMA had set additional expenditures of THB2.7 billion. As a result, we project BMA to post a net fiscal deficit in FY2020.

For FY2021, BMA plans a balanced budget, with revenue and expenditures each equally set at THB75 billion. Over the projected period of FY2022 and FY2023, we forecast that BMA's revenue will grow moderately, in tandem with the recovery of the Thai economy and significant increases in property tax revenue.

In FY2019, BMA posted a total revenue of THB83.3 billion, a 3.6% increase from the previous year. BMA reported total expenditures of THB75.2 billion in FY2019, compared with THB72.2 billion in FY2018. As a result, BMA recorded

a net surplus of THB8.1 billion. The ratio of the balance after capital expenditures to revenue was 9.72% in FY2019.

Reliable tax revenue

Over 90% of BMA's total revenue is from taxes, which are considered 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 collected by other government agencies and distributed to BMA. Typically, local taxes account for 18% of BMA's total revenue. Allocated taxes make up the main portion (77%) of BMA's revenue. However, in FY2020, the contribution of local tax is expected to decline to around 5% of BMA's total revenue because of the government's special reduction on property tax to taxpayers in 2020. We expect the contribution of local tax to gradually increase as the government will likely scale back the property tax reduction in 2021.

Four key taxes comprising about 83% of BMA's total revenue during the past five years include property taxes, value added tax, land transfer fees, and automobile tax. The amounts collected under these four taxes hinge on the country's economic conditions. In addition, the government occasionally reduces one or more of these taxes to stimulate consumption or reduce tax burden on taxpayers. For example, the government offered the special reduction on property tax in 2020 to alleviate financial burden on taxpayers during the COVID-19 economic fallout. The government also reduced the land transfer fees to stimulate the property sector in FY2016. Therefore, tax collection can be negatively affected by changes in economic conditions and government policies.

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 plans its expenditures in accordance with projected revenues. A conservative revenue projection will 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 its expenditures, especially its capital investment budget for new projects. However, additional expenditures, if necessary, can be approved once auxiliary sources of revenue are verified. Auxiliary revenue could be in the form of cash on hand or actual revenue collected in excess of the budget.

High operating expenditures limit investment

A high level of operating expenditures constrains BMA's budget for other infrastructure projects. BMA's expenditures can be classified into two categories: operating expenditures and capital expenditures. Operating expenditures have accounted for around 75% of total expenditures annually for the past five years. In FY2019, operating expenditures amounted to THB56 billion, a slight decline of 0.5% from the previous year. Personnel expenditures are one of the key components of BMA's operating expenditures, accounting for 32% of total expenditures in FY2019.

During FY2013-FY2019, BMA spent around THB15-THB19 billion in capital expenditures per year. However, in FY2020, BMA reduced and postponed some of its capital expenditures due to the anticipated drop in revenue. BMA plans to increase capital expenditures in FY2021 as BMA expects to collect higher revenue. 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 continuously develop infrastructure in order to serve the growing needs of businesses and residents. Subsidies from the central government provide an alternative source of funds. However, government subsidies are usually involved with a lengthy approval process which may not meet the timely execution requirements in some instances. 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 undertakings in Bangkok.

BMA's debt includes KT obligations

At the end of September 2019, BMA's total debt was THB43.5 billion. We consider BMA's debt to include (i) loans for two Green Line skytrain extension projects, (ii) KT's loans, (iii) the net present value of the electric train procurement expenditures, in accordance with the operation and maintenance (O&M) agreement, (iv) an outstanding supplier credit from BTS Group Holdings PLC (BTS) as the electrical and mechanical (E&M) contractor for two Green Line extension projects, and (v) the net present value of hire purchase contracts for fleets of cars and garbage trucks which have tenors of five to seven years, respectively.

Green Line Skytrain concession to avoid debt burden

BMA's total debt will increase substantially following the acquisition of two Green Line Skytrain extension projects from the Mass Rapid Transit Authority of Thailand (MRTA) at a cost of around THB51.8 billion. As of September 2019, BMA received THB19.1 billion in loans from the Ministry of Finance (MOF) for the Southern extension of the Green Line Skytrain extension projects. The remaining loans for the Northern extension of the Green Line Skytrain extension projects are expected to be provided to BMA in FY2021. BMA is also responsible for investing in the E&M systems for both projects.

The cost of the two E&M systems is around THB20 billion. Currently, BMA is in the process of granting a new concession for the Green Line Skytrain to a prospective concessionaire. BMA expects all project debts will be transferred to the concessionaire in exchange for the concession, to avoid carrying huge debts.

Strong liquidity profile

BMA's liquidity position remains strong. In FY2019, BMA had a budget surplus of THB8.1 billion. Cash on hand rose to THB59.1 billion at the end of FY2019, from THB48.2 billion at the end of FY2018. We expect BMA to maintain an appropriate level of cash on hand to support its liquidity position, as a cushion for any shortfall in revenue collection.

BASE-CASE ASSUMPTIONS

TRIS Rating's assumptions for the performance of BMA during FY2020 to FY2023 are as follows:

- Revenue to range from THB67 billion to THB77 billion per annum.
- Expenditures will not exceed revenue, in line with the balanced budget policy.
- The total debt to revenue ratio will rise to over 90% from FY2021 onward if BMA acquires the two Green Line extension projects from MRTA.

RATING OUTLOOK

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

RATING SENSITIVITIES

BMA's potential for a rating upgrade is unlikely over the next couple of years because the high probability of a significant rise in BMA's leverage from the acquisition of two Green Line Skytrain extension projects. In contrast, a rating downside case may occur if BMA's financial discipline weakens or it runs a budget deficit for a prolonged period. A change in legal framework that limits support from the central government would also be a negative credit factor.

ORGANIZATION OVERVIEW

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

According to Article 89 of the BMA Act, BMA is authorized to perform 27 principal functions regarding 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 under the supervision of the Permanent Secretary of BMA.
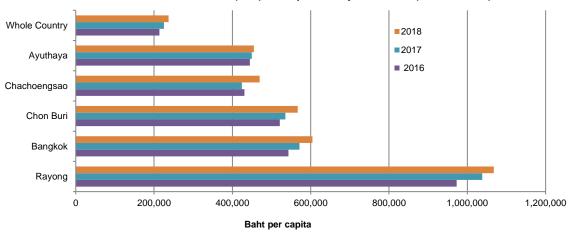
After the coup d'état in May 2014, the National Council for Peace and Order (NCPO) appointed 30 BMC members to assume legislative responsibilities in 2014 and appointed a new governor of BMA in 2016. The NCPO was dissolved after a new Cabinet was appointed following the general election in 2019. TRIS Rating believes a new BMA governor and BMC members will be elected in 2021.
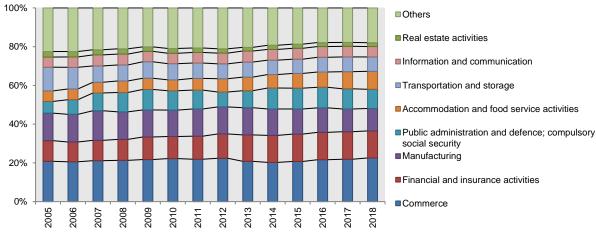
Chart 1: Gross Provincial Product (GPP) Per Capita of Major Provinces (Market Prices)
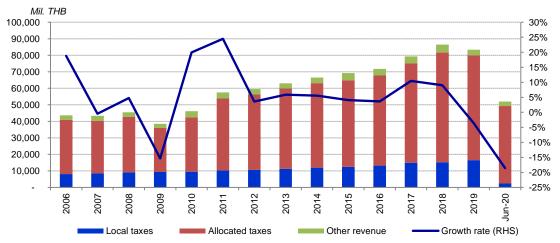

Source: National Economic and Social Development Council (NESDC)

Chart 2: GPP in Bangkok by Industry Sector

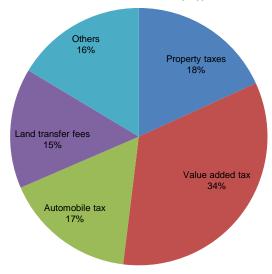*Source: NESDC*

Chart 3: BMA's Record of Revenue Collection

Source: BMA

Table 1: BMA's Revenue Breakdown

Unit: %

Revenue	2014	2015	2016	2017	2018	2019	Jun 2020
1. Tax revenue							
1.1) Local taxes	18	18	18	19	18	20	5
1.2) Allocated taxes	77	76	76	76	77	76	90
2. Fees	2	2	2	1	1	1	2
3. Earnings on assets	1	1	1	1	1	2	1
4. Commercial revenue	0	0	0	0	0	0	0
5. Others	2	3	3	3	3	1	2
Total revenue	100	100	100	100	100	100	100

Source: BMA

Chart 4: BMA's Revenue Breakdown by Type of Tax in 2019

Source: BMA

Chart 5: BMA's Capital Investments and Operating Expenditures

Source: BMA

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

| | ----------------------------Year Ended 30 September ---------------------- | | | | |
	2019	2018	2017	2016	2015
Revenue	83,339	86,444	79,271	71,764	69,248
Subsidies	21,494	20,895	19,975	16,510	15,068
Total expenses	75,204	72,251	75,577	69,038	64,509
Operating balance	27,373	30,187	22,649	19,712	19,565
Capital expenditures (CAPEX)	19,238	15,993	18,955	16,987	14,827
Balance after CAPEX	8,135	14,193	3,694	2,726	4,739
Total debt	43,485	14,664	12,896	10,356	12,029
Operating balance/revenue (%)	32.85	34.92	28.57	27.47	28.25
Balance after CAPEX/revenue (%)	9.76	16.42	4.66	3.80	6.84
Total debt/revenue (%)	52.18	16.96	16.27	14.43	17.37
CAPEX/total expenditures (%)	25.58	22.14	25.08	24.60	22.98

*   *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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Rating Outlook:	Stable