FINANCIAL CRISIS AND RESTRUCTURING IN THAILAND

EE 462 Development Macroeconomics

Semester 1/2019

Reference: Charoenseang, J., and Manakit, P. (2002). Financial crisis and restructuring in Thailand *Journal of Asian Economics, 13*, 597-613.

Outline of the Paper

1. Introduction
2. The evolution of the crisis in Thailand since 1980s
3. The restructuring process
4. Constraints on restructuring
5. Conclusion

Financial Crisis

- Increasing importance of financial sector
- In the case of Thailand, the financial crisis in 1997s had damaged the economy.

- Two explanations about the main causes of the crisis:
  - Weak economic fundamentals and policy inconsistencies

    → "First generation models"

  - Financial panic where expectations can influence macroeconomic policies

    → "Second generation models"

Evolution of the crisis in Thailand since 1980s

- Lower exports, but refused to devalue Thai baht
- Problems with financial institutions; high-risk lending activities due to moral hazard problem
- Currency devaluation in 1984 → improve exports
- Deficit current account since 1987 → foreign borrowing
- Financial liberalization during 1990s → large capital inflows
- But Thailand had weak financial system (less independent supervisory and regulatory activities)
- Large amount of short-term loans to fund long-term projects
- The borrowings were unhedged due to the pegged exchange rate

Table 1
Thailand macroeconomic indicators

Year	GDP growth rate (%)[a]	Inflation rate (%)	Unemployment rate (%)	Interest rate (%)[b]	Domestic credit (%)[c]	Deposit (%)	Export (%)	Import (%)	Trade balance/GDP	Current account/GDP	Net capital/GDP	International reserve	Exchange rate[d]
1980	4.80	19.70	0.90	16.50	18.80	24.40	23.08	24.00	−0.09	−6.40	0.08	3.05	20.48
1981	5.91	12.80	1.26	17.00	16.80	20.30	7.81	6.45	−0.09	−7.38	0.07	2.75	21.82
1982	5.35	5.20	3.56	16.00	22.40	24.90	−1.45	−15.15	−0.04	−2.84	0.05	2.68	23.00
1983	5.58	3.80	4.58	15.5–16.5	25.60	26.20	−7.35	21.43	−0.10	−7.24	0.04	2.55	23.00
1984	5.75	0.90	4.36	16.50	17.10	21.90	15.87	0.00	−0.07	−5.02	0.06	2.70	23.64
1985	4.65	2.40	4.97	15.50	8.40	12.20	−2.74	−8.82	−0.06	−3.86	0.05	3.00	27.16
1986	5.53	1.90	5.58	12.0–12.25	6.10	12.70	23.94	1.08	−0.01	0.70	−0.01	3.80	26.30
1987	9.52	2.50	5.92	11.50	17.60	19.80	31.82	41.49	−0.03	−0.59	0.02	5.20	25.74
1988	13.29	3.80	4.32	12.0	15.60	19.00	37.07	48.87	−0.06	−2.43	0.06	7.10	25.29
1989	12.19	5.40	3.59	12.5–13.5	19.80	26.80	25.16	27.27	−0.07	−3.32	0.08	10.50	25.70
1990	11.17	5.90	2.24	16.25	26.90	27.50	15.08	29.76	−0.11	−8.32	0.11	14.30	25.59
1991	8.56	5.73	3.12	14.00	15.50	21.40	23.58	15.60	−0.10	−7.53	0.12	18.40	25.52
1992	8.08	4.07	2.84	11.50	18.00	16.20	13.78	6.08	−0.07	−5.47	0.07	21.20	25.40
1993	8.30	3.30	2.62	10.50	22.70	19.20	13.66	12.47	−0.07	−4.87	0.08	25.40	25.32
1994	8.95	5.00	2.62	11.75	28.90	13.10	22.13	18.40	−0.06	−5.40	0.08	30.30	25.15
1995	9.20	5.80	1.71	13.75	22.90	18.20	24.61	31.84	−0.09	−7.86	0.13	37.00	24.92
1996	5.88	5.90	1.54	13.00–13.25	13.90	13.70	−1.80	0.57	−0.09	−7.90	0.11	38.70	25.34
1997	−1.45	5.60	1.51	15.25	34.50	16.00	3.66	−13.42	−0.03	−2.00	−0.03	27.00	31.37
1998	−10.50	8.10	4.37	11.50–12.00	−1.20	8.80	−6.75	−33.77	0.11	12.70	−0.09	29.50	41.37
1999	4.40	0.30	4.20	8.25–8.5	−4.20	−0.50	7.43	16.90	0.08	10.20	−0.06	34.80	37.84
2000P	4.60	1.60	3.61	7.50–8.25	−7.40	5.30	19.60	31.30	0.05	7.60	−0.08	32.70	40.16
2001P	1.80	1.60	3.36	7.00–7.50	−6.10	4.00	−6.90	−2.80	0.02	5.40	−0.05	33.00	44.48

Source: Bank of Thailand (online).

Table 2
Thailand external debt

Year	Million baht			
	Short-term external debt		Total external debt	
	End of period	As % of total external debt	End of period	As % of GDP
1990	10.417	35.5432	29.308	
1991	15.391	40.63309	37.878	
1992	18.914	43.35985	43.621	
1993	22.634	43.43754	52.107	41.68726
1994	29.179	44.98281	64.867	44.95758
1995	52.398	51.96565	100.832	60.02388
1996	47.743	43.90484	108.742	59.7847
1997	38.294	35.04338	109.276	69.37696
1998	28.44	27.06973	105.062	93.05842
1999	19.539	20.55633	95.051	77.66377
2000	14.694	18.43317	79.715	65.18584
2001	13.37	19.85152	67.35	58.72762

Source: Bank of Thailand (online).

Restructuring Process

1. Financial restructuring
   1. Segregation of financial institution
   2. Financial sector restructuring program in August 1998

2. Corporate debt restructuring
   1. Problems with delayed restructuring and use of reschedule instead
   2. The Thai Asset Management Corporation (TAMC)

Table 3

NPLs outstanding—classified by Financial Institution Group

	Million baht				
	1998	1999	2000	2001	2002 (February)
Private banks (% to total loans)	1,239,944 (40.48)	885,441 (30.59)	476,360 (18.00)	370,480 (14.42)	374,424 (14.53)
State-owned banks (% to total loans)	1,036,654 (62.45)	1,057,276 (62.84)	308,053 (21.63)	71,468 (5.59)	69,719 (5.46)
Foreign banks (full branch) (% to total loans)	74,244 (9.81)	61,575 (9.94)	38,176 (6.60)	16,590 (3.20)	11,787 (2.19)
Total commercial banks (% to total loans)	2,350,842 (42.90)	2,004,292 (38.57)	822,589 (17.70)	458,538 (10.50)	455,930 (10.38)
Finance companies (% to total loans)	323,691 (70.16)	90,133 (49.22)	34,752 (24.48)	15,453 (9.46)	14,754 (8.74)
Grand total (% to total loans)	2,674,533 (45.02)	2,094,425 (38.93)	857,341 (17.90)	473,991 (10.46)	470,684 (10.32)
New IBFs (% to total loans)			4960 (6.40)	2462 (4.81)	2028 (4.44)
Credit Foncier Companies (% to total loans)			1362 (40.92)	952 (24.30)	943 (21.05)
Total financial institutions (% to total loans)			863,663 (17.73)	477,405 (10.41)	473,655 (10.27)

Source: Bank of Thailand (online).

Remarks: (1) NPL = over 3 months past due loans; (2) excluding New IBFs and Credit Foncier Companies.

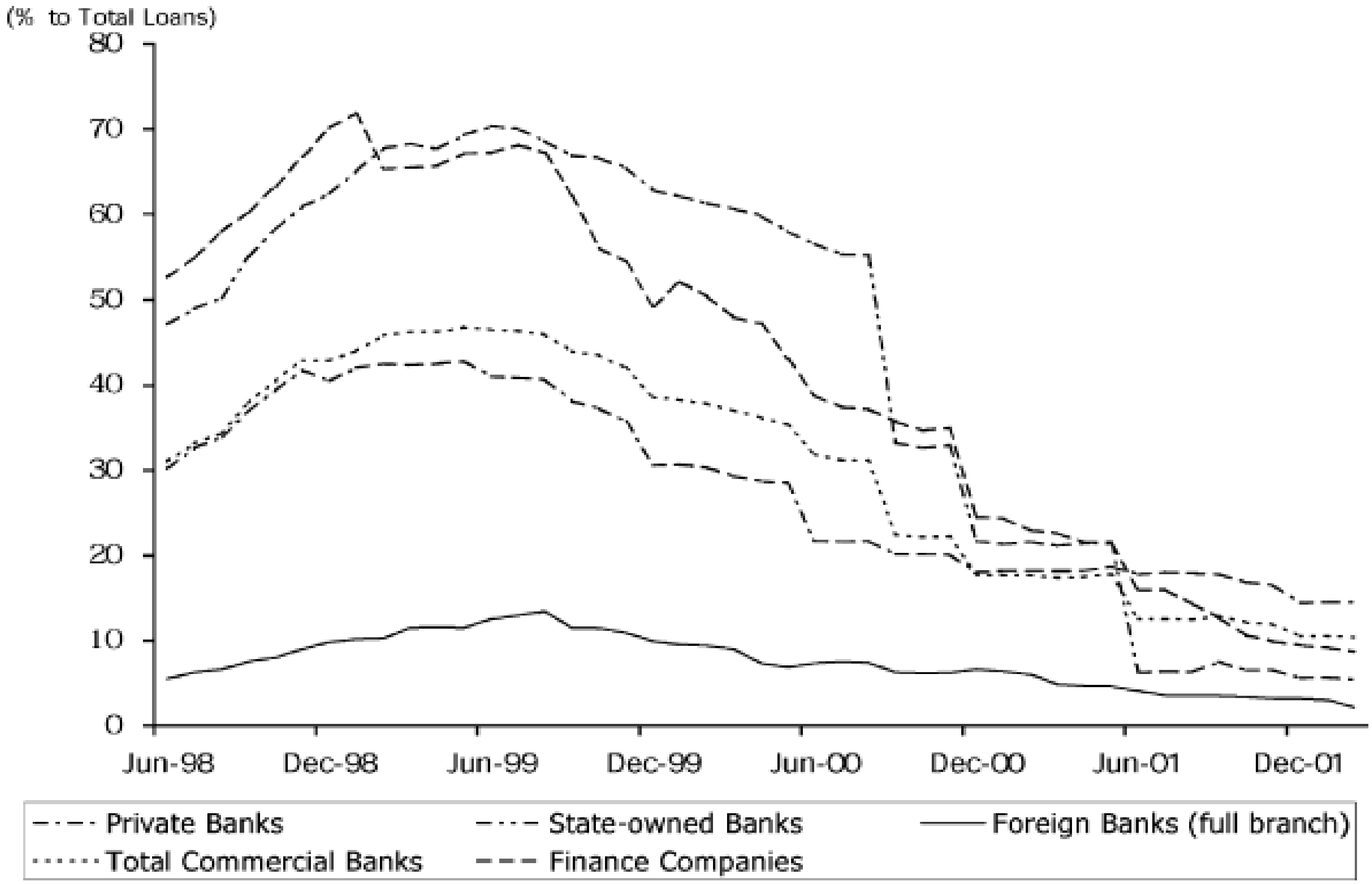

Fig. 1. NPLs outstanding—classified by Financial Institution Group.

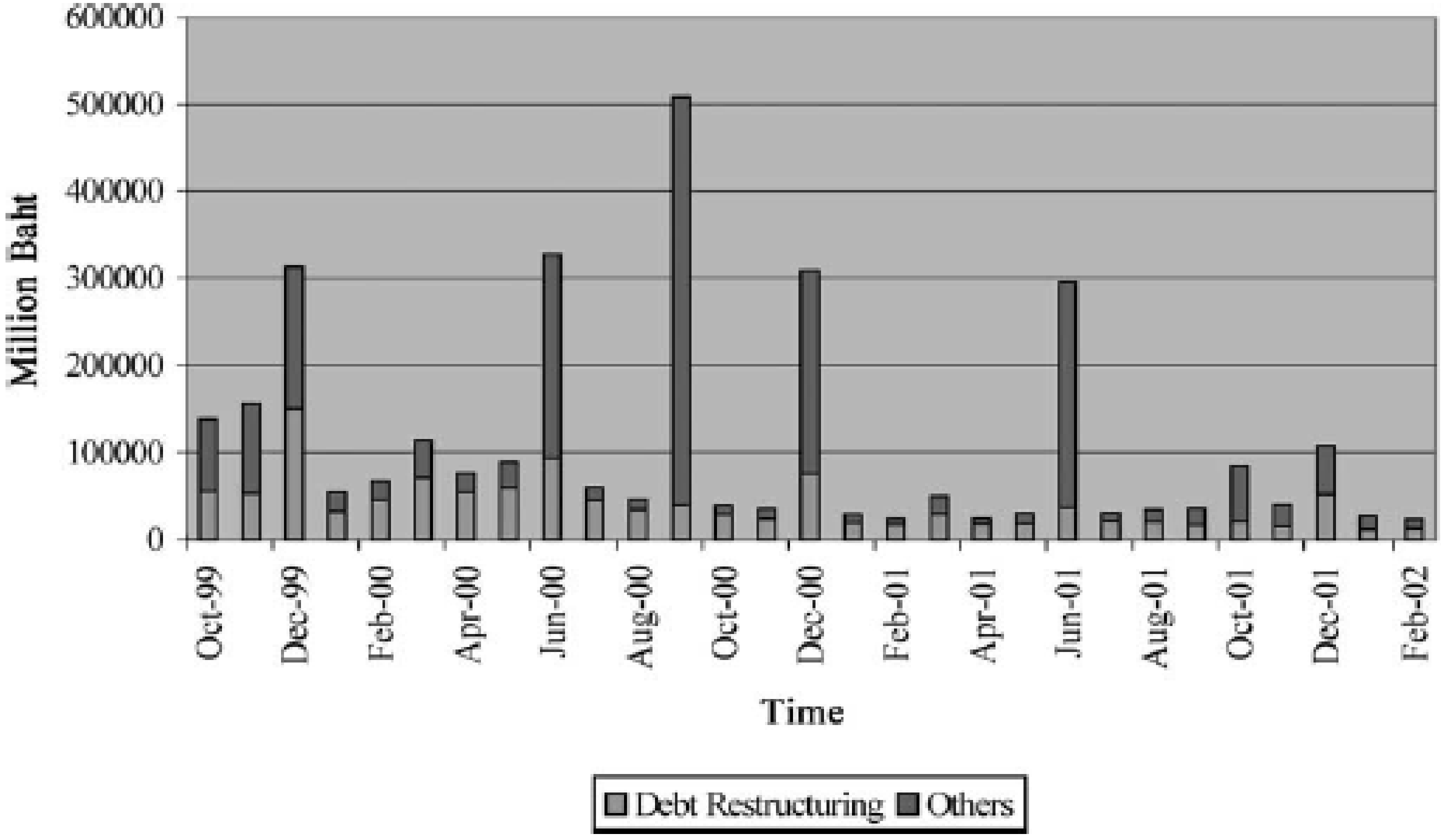

Fig. 2. Decrease in NPLs.

Table 4
Loan outstanding—classified by Financial Institution Group

	1998	1999	2000	2001	2002 (February)
Private banks	3,063,267	2,894,597	2,646,334	2,568,563	2,576,562
State-owned banks	1,660,068	1,682,553	1,424,138	1,278,681	1,277,516
Foreign banks (full branch)	756,505	619,327	578,068	518,973	538,633
Total commercial banks	5,479,840	5,196,477	4,648,540	4,366,217	4,392,711
Finance companies	461,365	183,106	141,940	163,270	168,739
Grand total (excluding New IBFs and Credit Foncier Companies)	5,941,205	5,379,583	4,790,480	4,529,487	4,561,450
New IBFs			77,480	51,175	45,714
Credit Foncier Companies			3327	3918	4480
Grand total			4,871,287	4,584,580	4,611,644

Source: Bank of Thailand (online).
Remarks: Loan Outstanding (Financial Institutions Group excluding New IBFs) in February 2002, as for calculating the ratio of NPL and total loans are excluding the followings: (1) bad debt write-off can be reaccountable will not count to NPL; (2) 100% provision of loss and doubtful loss classification of which non-collateral will not count into NPL.

Constraints on Restructuring

- Excess liquidity in the market due to low interest rate
- Limited role of monetary policy
- Burden from high public debt