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Abstract

This paper is a study of the causes of Thai bubble which finally led to the financial crisis in 1997 and the effect of the bubble's collapse on the Thai financial sector especially financial companies and commercial banks. The financial restructuring and the measures of the Thai authorities and the IMF financial and technical assistance as well as some policy suggestions will be discussed. The events leading up to the speculative attacks on the Thai baht and the eventual decision to float the baht on July 2, 1997 are examined in some detail. Policy recommendations to spur the recovery of Thailand from its economic debacle are also provided.

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I. Introduction

The Thai economy recorded a high growth rate averaging 7 percent per annum with moderate inflation and a stable foreign exchange rate under the basket pegged system since the second half of 1980's. This good performance was, in part, due to the conservative monetary and fiscal policies. World demand for Thai exports encouraged domestic investment to be robust for export industries though the domestic saving was insufficient to finance these investments. The saving and investment gap had widened resulting in high interest rates in the money market. After the Plaza accord in 1985, the yen appreciation caused Japanese manufacturers to shift their production bases to Southeast Asian countries, particularly Thailand, while the Thai government policies promoted investment in export industries through the Board of Investment. The Thai economy was very vigorous. The financial deregulation and liberalization by the Thai authorities starting from the 1990's especially the Bangkok International Bank Facility (BIBF) also induced foreign capital flows both in real and financial investment. The attractive prospects of both internal and external markets with a high rate of profit led firms to expand their businesses with funds from domestic and foreign sources through debt instruments at low interest rates. The proliferation of financial investment in a lively stock market brought about the entry of small non-professional investors hoping to enjoy short-term gains rather than long-term fundamental returns. Some spent their money in speculative real estate development, reflected in rising land prices and a booming construction sector.

The authorities responded to the rapid capital inflows through traditional monetary policy instruments such as raising the discount rate, requiring commercial banks and the BIBF to submit reports on their credit plans for each year and mandating financial institutions to set reserves against substandard loans. Unfortunately, while these instruments had been implemented, the economic and financial system became subject to increasingly volatile capital movements. The currency speculation in the offshore market, the large current account deficit, the eroding confidence due to rumors of problems in some financial institutions as well as the export slump and the sovereign credit downgrading by international rating agencies deteriorated Thai economic confidence. The possibility of a currency devaluation or change in the exchange rate regime and liquidity problems of the financial institutions led to the suspension of operation of finance companies and the adoption of the managed float exchange rate regime on July 2, 1997. In order to rebuild confidence and strengthen the Thai financial system, the IMF supported adjustment program was sought on August 4, 1997.

This paper is a study of the causes of Thai bubble which finally led to the financial crisis in 1997 and the effect of the bubble's collapse on the Thai financial sector especially financial companies and commercial banks. The financial restructuring and the measures of the Thai authorities and the IMF financial and technical assistance as well as some policy suggestions will be discussed.

II. Thai Financial System Background

II.1. Structure of the Thai Financial System before 1997 [1/.]

Thailand has various kinds of financial institutions, most of them were privately owned. Over the years, commercial banks and financial companies have dominated the Thai financial market in terms of asset size, geographical coverage, and role in mobilizing savings and financing the country's economic development. The major difference between commercial banks and financial companies is in the method of mobilizing funds and the type of financing. While commercial banks obtain about 70 percent of their funds by taking deposits from the public, finance companies are prohibited by law to do so and they must rely on issuing promissory notes in the domestic market and overseas to obtain funds. Furthermore, branching regulations for finance companies have been restricted more than for commercial banks, thus forcing finance companies to concentrate their businesses only in Bangkok and nearby provinces. Because of such a limitation, the total assets of finance companies amount to only one-fourth of the assets of commercial banks. In competing with commercial banks for funds from the public, finance companies usually offer higher interest rates on their promissory notes than commercial banks do on deposits. Because of lower international interest rates and insufficient domestic savings to finance growing investment demand, commercial banks and finance companies in Thailand have increasingly turned to borrowing from overseas. On the lending side, commercial banks specialize in manufacturing and trade financing, while financial companies opt for personal consumption and real estate financing. At the end of 1996, there were 15 Thai commercial banks (with 3,730 branches) and 14 foreign banks' branches in Thailand , compared to 91 finance companies (with 59 branches).

The off-shore banking business has been formalized in Thailand with the establishment of the Bangkok International Banking Facility (BIBF) in March 1993. The main business of the BIBF is mobilizing foreign funds to finance domestic and foreign businesses in foreign currencies. So far, 48 BIBF licenses have been issued to 15 domestic banks, 12 foreign banks that already have branches in Thailand, and 21 new financial institutions from overseas. At the end of 1996, BIBF credits to domestic businesses amounted to 807.55 billion baht, accounting for 17.5% of total domestic credits extended by the banking system. In early 1995, the authorities expanded the off-shore banking business further by granting 37 licenses for Provincial International Banking Facilities (PIBF) to operate in areas outside Bangkok. The PIBF funding is from overseas as in the case of the BIBF. However, the PIBF can extend credits both in baht and in foreign currencies, while the BIBF can extend credits only in foreign currencies.

Besides commercial banks and financial companies, Thailand also has a variety of other financial institutions : namely, credit foncier companies, life insurance companies, and a number of specialized financial institutions established by the government for development purposes. (Of all types of financial institutions, only commercial banks, finance companies and credit foncier companies are under direct supervision and

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[1/.] Kittisrikangwan, Paiboon, Supapongse, Mathee and Jantarangs, Jaturong, " Monetary Policy Management in Thailand" *BOT Quarterly Bulletin* June 1995 p. 37- 50 examination by the Bank of Thailand). Chart 1 summarizes special characteristics of these financial institutions.

In addition to the above financial institutions, saving and agricultural cooperatives have also played an important part in mobilizing household savings and extending credits to their members. Savings cooperatives are organized mostly on an occupational basis. Agricultural cooperatives obtain most of their funds by collecting members' monthly subscriptions to capital and by borrowing from commercial banks and the Bank for Agriculture and Agricultural Cooperatives (BAAC). Saving cooperatives, on the other hand, rely almost exclusively on members' monthly subscriptions to capital. At the end of 1994, there were 2,474 agricultural cooperatives and 1,045 savings cooperatives in Thailand. Table 1 summarizes key statistics of financial institutions in Thailand.

During the past few years, private provident funds and mutual funds have also become increasingly important in mobilizing domestic savings. At the end of 1997, there were 768 private provident funds with a net asset value of 31.8 billion baht, and 208 mutual funds with a net asset value of 102.5 billion baht.

The money market in Thailand involves inter-bank lending, overdrafts, state enterprises and government bonds repurchase, negotiable CDs, commercial bills, and short-term promissory notes. Commercial banks and finance companies are by far the most active participants in the money market. Currently, there are no treasury bills in Thailand and the amount of government bonds outstanding has been declining steadily, due to the surplus in the fiscal balance for the past 7 years. Some government bonds have been redeemed before maturity. Outright trading in government bonds is very thin as commercial banks and finance companies need to hold them as part of legal reserves, officially called "liquid asset requirement", imposed by the Bank of Thailand. To increase liquidity of domestic bonds and debentures, the authorities and financial institutions in Thailand cooperated to establish the Bond Dealers' Club in November 1994. The volume of trading through the Bond Dealers' Club was high averaging 822.16 million baht per day with the new listed bonds value of 175,145 million baht during the year of 1996.

Large commercial banks and finance companies also have access to international financial markets (mainly Singapore and Hong Kong), thus providing them more flexibility in adjusting liquidity. For this reason, the linkage between the domestic money market and the foreign exchange market has become closer, and developments in one market may create an immediate impact on the other market.

As for the development of the exchange rate system, after the Second World War, economic difficulties and a serious shortage of foreign exchange forced Thailand to adopt the multiple exchange rate system. When the situation improved in 1963, the regime was switched to the par value system in which the value of the baht was fixed in terms of gold and, hence, the US dollar at the rate of baht 20.80 per US dollar. As a preparation for the maintenance of the prescribed baht parity, the authorities had earlier established the Exchange Equalization Fund (EEF) with the aim of stabilizing exchange rate movements within prescribed margins. With the success of the EEF, the parity of the baht could be maintained with little adjustment from time to time until 1978.

For a short period in 1978, after the abolition of the par value system, a system of pegging the baht to a basket of currencies was introduced. The system allowed greater flexibility in exchange rate adjustments to reflect more accurately economic and monetary conditions and conformed to the global trend. It also contributed to increased stability of the value of the baht since it was no longer tied to any particular currency. The exchange rate was determined solely by the EEF until the daily fixing system was employed from late-1978 to mid-1981. The strong appreciation of the US dollar relative to other currencies resulted in pressure to adjust the value of the baht. Thus, the Thai authorities devalued the baht twice in mid-1981. Nonetheless, public confidence could not be restored. In July 1981 a decision to abolish the daily fixing was made, the EEF determined the exchange rate independently and provided swap arrangements for commercial banks to hedge against exchange rate risk. The dollar exchange rate was fixed at 23 baht from July 1981 to November 1984.

Because of domestic economic difficulties and external disequilibrium that prevailed during the 1980s, partly as a result of world economic recession, it would be too damaging for the economy to maintain the fixed exchange rate against the US dollar which had appreciated rapidly. The authorities in November 1984 announced a devaluation of the baht by almost 15 percent against the US dollar. This step was taken in order to prevent the external balance from deteriorating further as the value of the baht unrealistically rose with the US dollar. The new rate of exchange was baht 27.0 per dollar and the dollar-pegging system was replaced by the system of pegging the baht to a basket of currencies. This exchange rate regime had lasted until July 2, 1997.

The capital market In 1953 Houseman & Co. Ltd., Siamerican Securities Ltd. and Z & R Investment and Consultants had started their businesses as middlemen for trading securities of leading Thai companies to foreigners for the first time in Thailand but the volume was very small. Until 1962, an unofficial stock exchange - the Bangkok Stock Exchange - had been in existence but was rather inactive. There were only 5 companies listed on the stock exchange on the first day of trade and the annual average volume of trade during 1964 to 1973 was about 90 million baht.[2/] In May 1974 a law (the Securities Exchange of Thailand Act) was promulgated to establish a new stock exchange and to place it under the general supervision of the Ministry of Finance. The law also required the Bangkok Stock Exchange to cease operations as a stock exchange within 9 months. In addition, another piece of legislation was pending that gave certain inducements for the public to hold shares listed on the stock exchange and for companies to become "public", i.e., listed on the stock exchange[3/].

The Stock Exchange of Thailand (SET) began to operate in 1975 with 5.39 million baht of market capitalization of 21 listed companies. The stock market started to be active in 1977, and increasing stock prices in the market induced companies to attempt to attract funds in the SET. By 1977 the number of listed companies increased about 3 times from 21 in 1975 up to 61 companies. The market capitalization also rose more than 6 times of 1975 levels with a value of 33 billion baht. During 1979 to 1986, the volume of trade in the SET slowed down due to the world recession. The world and domestic economic recovery since 1986 as well as high liquidity and low interest rates induced investors to come back to the SET. Moreover, the Thai government was interested in developing the capital market by restructuring the tax system for the capital market's investors, amending the legislation for foreign investors who need to send their returns back home. The high performance of the

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[2/] Industrial Finance Corporation of Thailand, *Annual Report 1990* (Thai Version) p. 134-137

[3/] Money and Financial Section, Department of Economic Research " Financial Institutions in Thailand" *Bank of Thailand Quarterly Bulletin* 1980 p.22.

listed companies also attracted the notice of both domestic and foreign investors. The foreign investors invested both directly and through mutual funds. Therefore, the value of trade rose to 25 billion baht with market capitalization of 75 billion baht. Since 1986, the SET has become one of the fastest-growing market in Asia. The SET market capitalization reached 3.3 trillion baht at the end of 1994 - a tremendous success when considering that the market capitalization in 1985 was only 49.5 billion baht, an effective growth rate of 59% per year. But due to the Mexico crisis and rumors of problems of Thai financial companies in the following years, the market had a slowdown and market capitalization was 2.6 trillion baht with the negative growth.

Monetary control instruments in the money market [4/]

1) Direct control Up until the late 1980s, the Thai financial system was still heavily regulated and monetary management was effected largely through the use of direct control measures.

Interest rate ceilings were imposed on loans and deposits of banks and financial companies. Selective credit control was enforced to the agricultural sector. Interest rates on loans to priority sectors were capped below general loan rates. Interest rates on government bonds and tender rates for Treasury bills were generally kept below market rates. From 1970 to 1992, commercial banks had been required to hold government securities amounting to a certain ratio of their deposits (16% at its highest) as a pre-condition for opening new branches. The foreign exchange rate had remained fixed with the US dollar before the basket peg system was introduced in 1984. These direct controls changed radically since 1989 with the onset of the liberalization drive. Interest rate ceilings were lifted one by one and were abolished completely in 1992. "Branch opening condition" was gradually lowered and was abandoned in 1993. Regulation on directed agricultural lending was relaxed to the extent that it has now become virtually non-binding. Exchange control was greatly relaxed through successive rounds of deregulation.

2) Money Market and Credit Operations The Bank of Thailand (BOT) adjusted relatively little in its credit operations through the various following windows.

The repurchase market for government and state enterprise bonds has been the most important window used for liquidity management purposes. It was created by the BOT in 1979 with a view to further the development of the fledgling money market, adding liquidity to government bonds, and providing the BOT with a means to monitor and intervene in the money market. The Repurchase (R/P) market today enables the BOT to influence developments in short-term liquidity and interest rates which in turn serve as references for other money market transactions. However, the R/P market still has some important shortcomings. First, the arrangement does not allow the BOT to take the initiative in its open market operations. Second, market participants prefer short-term transactions. To partly overcome the limitation on the BOT's ability to influence developments in liquidity over the longer term, the BOT has issued its own bonds with maturities of 6 months to 1 year.

The loan window embodies the traditional "lender of the last resort" function of the BOT. Originally, it was made available only to commercial banks. But beginning in

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[4/] Kittisrikangwan, Paiboon, Supapongse, Mathee and Jantarangs, Jaturong, *Ibid*. p.37-50.

November 1994, it was extended to finance companies. Loans are extended against the pledge of government and qualified state enterprise securities at 90% of face value for a maximum term of 7 days. Each institution is given a quota based on the size of its deposits or borrowing from the public. Borrowing from this window is subject to close scrutiny from the BOT.

Refinancing and other credit facilities are generally related to the developmental role of the BOT and its duty to preserve the stability of financial institutions. A case in point is the refinancing of commercial banks' credits to priority sectors, particularly the export sector. During the 1970s and 1980s the amount of refinancing grew rapidly, reaching some 40 billion baht, as interest charges remained fixed. In 1988, viewing relentless monetary pressure in the future, the BOT restructured the schemes by cutting the refinancing ratio to one-half thus forcing up effective costs for end-users. But in February 1994, the EXIM bank took over operation of the export credit refinancing scheme from the BOT. Hence it is expected that the BOT could gradually reduce this funding responsibility over time.

Operation of the **Exchange Equalization Fund** (EEF) represents another major window that banks can readily access in order to adjust their liquidity. The EEF announces the mid-rate for US$/Thai baht under the basket-pegged exchange rate policy and stands ready from 8.30 a.m.-12.00 noon to buy and sell US$ in unlimited amounts with banks at =0.02 baht from the mid-rate. Banks have used this open-ended facility as a means to adjust their foreign exchange position and their baht liquidity.

II. II. Financial Innovation and Modernization of the Thai Financial Market [5/]

Since the major exchange rate adjustment in 1984, which included a substantial devaluation and the adoption of a mutli-currency basket-pegging system, the Thai economy has experienced a period of unprecedented growth. In particular, during the period of 1988-1990 foreign investment increased at an astonishing rate of about of 50% per year and real economic growth rates averaged about 11.5% per annum.

The Thai economy was expected to continue to grow at a relatively high rate. If such growth is to be realized, the financial sector must be prepared to support greater real sector activity, as well as to withstand greater challenges that will be forthcoming as a result of deregulation in financial markets worldwide. The Bank of Thailand has initiated financial deregulation measures with a view to gearing the economy toward a more market-oriented approach, with reduced government intervention, while promoting efficient allocation of resources and savings, and maintaining Thailand's competitiveness in the world market.

The Thai financial sector has to gear up for future challenges as the Thai financial system gradually integrates itself to the world trading system following the recent trends towards globalization and liberalization of financial markets. Financial institutions would have to adapt themselves to be able to compete with foreign institutions as financial markets worldwide were expected to open up following the negotiations on trade in

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[5/] Tivakul, A and Svetarundra P. " Financial Innovation and Modernization of the Thai Financial Market" *Bank of Thailand Quarterly Bulletin* December 1993. P. 21-46.

services in the GATT Uruguay Round. Hence, liberalization of the financial market is a positive step in this respect.

Government Policy on Development of the Thai Financial System

A comprehensive financial reform plan was mapped out in 1990 to coordinate and synchronize several aspects of reform with the ultimate aim to enhance competitiveness, flexibility, and efficiency of the financial system. The first three-year financial development plan which ended in 1992 encompasses four major areas:

(1) Deregulation and liberalization : The major deregulation and liberalization measures were deregulation of interest rates, relaxation of foreign exchange control, expansion of the scope of financial institutions, and improving financial institutions' portfolio management

(2) Improving supervision of the financial system: The prudential requirements emphasized capital adequacy and asset quality. Thai commercial banks are subjected to a revised capital adequacy requirement in line with the rules of the Bank for International settlements (BIS). By January 1995, commercial banks were required to maintain 8 percent of capital to risk asset ratio. In addition, the BIS standard was expected to be implemented for finance companies in the near future.

(3) Development of financial instruments and services: To promote direct lending, it was necessary to create an alternative source of funding to satisfy the credit needs of businesses so as to maintain stable economic growth. Moreover, saving mobilization was deemed necessary to develop new financial instruments to provide alternatives for savers

(4) Development of a payment system: The Bank of Thailand has implemented a plan to modernize the country's payment system and proposed that the system comprise check clearing. electronic fund transfer, and Bank of Thailand (BOT) Net.

The authorities continued aims to further financial liberalization and deregulation measures the second three-year plan (1993-1995). Moreover, the measures for saving mobilization, and extension of financial services to rural areas, and further policies to develop Bangkok as a financial center have also been included in the second plan.

III. Thai Bubble Economy

III I.Thai Economy during 1986 – 1995 (Table 2)

Most of Thais had prefered the phrase: "The Overheating Thai Economy" during the period of the late 1980s to early 1990s because they had enjoyed a high economic growth rate, high salaries and a flourishing way of living. I, myself, had kept my eyes on the economic changes during that period and called it a "Bubble" and some agreed. The economic situations had changed dramatically and had the same characteristics as the Japanese bubble.

After the baht devaluation in November 1984, the Thai economy had developed through rapid export growth averaging over 20 percent per annum between 1986 and 1992. The structure of the economy also has been changed from agriculture to an industrial based economy. The financial liberalization and the relaxation of foreign exchange controls in 1990 contributed to the capital influx into the country.

Following the adverse effects of the Persian Gulf crisis in 1990 and the slowdown in world trade, the Thai economy appeared to return to a high-growth but more sustainable path. Economic expansion in 1991 moderated to 8 percent with most of the demand components easing off and inflation improved slightly to 5.7 percent compared with 6 percent in 1990. Exports, however, remained strong and increased net capital inflows resulted in a balance of payment surplus. Private investment and consumption expenditures grew more slowly while public consumption and government investment grew faster due to rapid expansion in basic infrastructure.

The political unrest in May 1992 led to a downturn in the Thai economy for one year. Production growth both in agricultural and non-agricultural sectors showed a slight deceleration from the previous year. The decline in private investment expenditure was linked in part to excess production capacity following the rapid investment during the past 4-5 years, as well as the excess supply of houses and condominiums in the market. In addition, both domestic and foreign investors adopted a wait-and-see attitude in regard to new projects to ascertain the political situation. However, manufactured exports continued to expand at a high rate as was the case of the previous year. This was due to the strong export competitiveness as Thailand's inflation rate remained low (4.1 percent) compared with those of competitors and the stable exchange rate helped reinforce exporters' confidence. In addition, expansion in investment over the past 3-4 years also underpinned the export of new manufactured products with relatively higher value-added, such as electric appliances, computers and parts, and plastic products.

The economic recovery which began at the end of 1992 was sustained in 1993. This year's expansion was underpinned by buoyant domestic demand, supported by a strong performance in manufactured exports. Economic stability remained satisfactory as inflation declined to 3.3 percent, the current account deficit edged up slightly to 6.5 percent of GDP, and international reserves rose to 6.9 months of imports. The economy grew by 8.3 percent, slightly higher than 8.1 percent in 1992.

The Thai economy recovered strongly in 1994 for the second consecutive year from the trough of 1992. In line with the pick up in the world economy, economic growth accelerated to 8.8 percent in 1994, driven by strong exports and robust domestic spending. Economic stability remained satisfactory although inflation edged up to 5 percent following the increase in agricultural prices. The trade deficit continued to decline relative to GDP while the current account deficit rose marginally to 5.4 percent of GDP, reflecting the decline in the service account surplus. With strong capital inflows, the balance of payments registered a surplus as the official reserves rose to approximately 7 months of imports.

In 1995, the Thai economy continued to grow strongly by 8.6 percent. The economic growth was driven mainly by exports and investment , and was supported by buoyant consumption spending. The continued strong expansion in aggregate demand, together with the increased import prices and the effects of the shortage of certain food items due to the flood during the second half of the year, led to increase pressure on prices. Inflation rose to 5.8 percent in this year. The current account deficit, as a percentage of GDP, also went up to 7.1 percent. Nevertheless, international reserves remained strong, totaling the equivalent of 6.3 months of imports. In addition, the fiscal position recorded a surplus, making it the eighth consecutive year of fiscal surplus.

III.II. Causes of the Bubble in Thailand

1. Increases of land prices and construction: In Thailand, during the late 1980s and early 1990s, buoyant exports in the world market enhanced domestic investment. There was a sharp increase in gross fixed capital formation of 22.96 percent in 1987 compared with 1.81 percent growth in the previous year. Capital investments went to manufactured export products, for example, computer and computer components and canned foods, whilst domestic investment went into electric appliances, vehicles and construction. An increase in investment continued for consecutive years with 33.18, 34.36 and 37.16 percent growth respectively since 1988. The continued bright investment prospects, the favorable domestic and foreign market conditions, the appreciation of the yen, and the continued efforts of the government to promote and support investment helped to strengthen foreign investors' confidence. Thus, foreign capital inflows from Japan, the United States, Taiwan, and Singapore increased by over 80 percent in 1989 included both direct investment and portfolio investment. The number of foreign projects approved by the BOI increased 198.3 percent in 1988 and the number of new enterprises registered increased 86.6 percent in the same year.

As a result of high investment, employment in all sectors increased and wages and salaries increased as well. Therefore, purchasing power increased and at the same time, the low interest rate policy encouraged people to buy new houses. The demand for housing increased as the number of newly registered housing units rose from 30,482 units in 1985 to 67,451 units in 1988 and 80,031 units in 1989. However, as the traffic problems in the Bangkok area worsened, employees spent a lot of time commuting to and from work. As a result, a new concept of condominiums or second homes near offices was introduced. The demand for condominiums increased from 3.2 percent of all types of residences in 1987 to 8.8 percent in 1989. The demand for first class office space in Bangkok increased from 741,427 square meters in 1985 to 1,073,434 square meters in 1988. Moreover, the government policy to relocate industries to rural areas as well as to promote tourism through "Visit Thailand Year" increased the demand for provincial land for industrial estates, golf courses, resorts, and hotel construction. The increase of these demands resulted in rising prices of land for housing, condominiums and factories. In Bangkok, land prices rose by 156.4 percent while land prices in the industrial and residential zone in the outskirts of Bangkok climbed 300 percent within three years. The jump in land prices was no ordinary increase according to inflation or real demand.

The annual growth rates of the construction sector between 1988 and 1990 were quite high at 11.6, 18.9 and 23.2 percent respectively. The high growth in the construction sector resulted in a shortage of construction materials such as cement, steel bars and gravel and pulled up the prices of buildings. The money market liquidity and the downward trend of interest rates created a situation favorable to the land development and construction business. In 1989, the Bank of Thailand cautioned commercial banks in providing financial support for investment in condominiums, and advised finance companies to consider financing of speculative projects which were not for residential housing with great care. Commercial banks'credit for construction and real estate businesses had increased drastically during 1987 and 1990; real estate business credit grew by 49 percent in 1987 and rose by nearly 80 percent during three years of 1988 to 1990. Credit for construction in 1988 expanded by 17.7 percent and climbed to the peak of 38 percent in 1990 (Table 3). Since 1991, both credits for real estate businesses and construction have decreased due to tight credit policies by the authorities, an over-supply of commercial spaces and housing and moderated economic growth. However, the construction sector recovered in 1994 due to public construction of infrastructure.

2. Increases of stock prices : The capital market of the Thai economy was inactive before 1985. The Bank of Thailand had provided financial assistance to enhance the stability of domestic financial institutions. The high liquidity, low level of interest rates and high economic growth in 1987 improved market performance and led to higher profits. As a consequence, a large number of foreign investors were attracted to invest in the Thai securities market (Table 4), particularly in the industrial and real estate sectors. Investment in the financial sector was very small compared to the total equity investment but very volatile since the financial liberalization and deregulation in 1993. However, the high economic growth rate and profit performance of the listed companies in the stock exchange of Thailand (SET) still attracted speculators to invest. This can be seen in the increasing daily average trading value and its high level of percentage of change for each year (Table 5). The growth rate of the average daily trading value in 1989 rose sharply from 27.95 percent in 1988 to 140.99 percent and still increased at the high level of 70 percent in 1990. The stock price also increased from the SET index of 386.73 in 1988 to 879.19 in 1989, a gain of 127 percent. With the improvement in the government's fiscal position, issuance of new financial instruments, such as convertible debentures and warrants was in accordance with the policy to promote the capital market.

During the period of 1990 to 1992, the SET index declined due to the Persian Gulf crisis. This crisis affected the economy through high oil prices and interest rates. Slumping overseas stock markets caused a diversion of capital out of the country. Also domestic political uncertainty adversely affected investors' confidence. By the end of 1992, the domestic political climate improved and this was reflected in an upturn of the capital market. The SET has been active since then due to the new issuance of securities, strong economic growth, the improved performance of most listed companies, and the financial liberalization. The exceptional rate of economic growth and the corresponding profit performance of the listed and authorized companies and the significant increase in foreign investment in the stock market contribute to the active trading in the SET. The value of common stocks, state enterprise bonds, and unit trusts reached record heights in 1989 with the average daily trading rose to 1,528 million baht, as against 633.4 million baht in the previous year. The market capitalization value of listed and authorized securities as a percentage of GDP rose to 39.5 percent, more than doubling the ratio of from 1988. The ratio of foreign investment to total trading volume also recorded growth of 14.4 percent in 1990. Hence, the securities prices rose continuously during this three year period.

3. Government Policies : After the recession in the first half of the 1980s, the Thai economy had started to recover by 1987 not only because of the competitiveness of Thai exports in the world market resulting from the devaluation of Thai baht in 1984 but also because of government policies. The buoyant exports had been promoted by the investment promotion particularly investment in manufacturing export goods or import substitution products. To induce industrial relocation to the rural areas, the tax privileges structure has been adjusted in favour of rural areas. Additional promotional efforts were also made to increase technology transfer and domestic research and development. The foreign investors rushed to invest in Thailand (Table. 6), especially in 1988. The amount of

16,162.4 million baht or 52.5 percent of total net flows of foreign direct investment in 1988 went to industrial investment. In order to get special privileges, many new manufacturing plants here established in rural areas including those in new provincial industrial estates. Hence, land prices which had increased in Bangkok began to rise throughout the country robustly. Furthermore, the reduction of import duties on industrial machinery from 30-60 percent to 5 percent also encouraged manufactured investment. The tax system had been restructured; the Value Added Tax (VAT) has been introduced and there was a the reduction of the personal income tax rate. In addition, the authorities supported the policy of privatization of state enterprises by allowing joint investments with the private sector in order to improve efficiency in operations and promote higher returns.

Moreover, in 1986, the interest on loans for housing was permitted to be deducted from ordinary personal income tax, but the amount must not exceed 7,000 baht per year. In 1989 the cabinet passed a resolution to allow foreigners to buy and own condominiums at up to 40 percent of the building area. In the same year the BOI permitted promoted foreign concerns to own land and build their own residences, providing they have no such facilities at the factory site and the housing land so acquired is not further than 50 kilometers by public road from the location of the plant, and of course the said land is outside Bangkok. These reforms attracted foreign investors to do business in Thailand and to invest in housing. The construction of commercial buildings and high-rise buildings both for residences and offices rose in response to increasing demand due to increased traffic congestion and high land prices. The share of flats and high-rise buildings in the housing stock increased from 1.02 percent in 1974 to 3.2 percent in 1987 to 5.5 percent in 1988 and 8.8 percent in 1989. The percentage composition of commercial buildings rose from 1.3 percent in 1984 to 27.5 percent in 1987 and decreased to 23.5 percent in 1991. Permitted municipal areas for condominium construction in 1988 increased 183.3 percent from the preceding year. Prices of residential housing have similarly changed because of the boom in land development and speculation, and high construction costs originating from high raw material prices and increased wages. The high-price range housing has changed from over 1 million baht in early 1980 decade to over 2 million baht per unit in 1987. Meanwhile the medium-price range has changed from 500,000 baht to under 1 million baht to the range of 600,000 to 2 million baht per unit.[6/] This meant that housing prices had risen by 100 percent.

4. Monetary Policies : The monetary authorities implemented monetary measures in line with the government's desire to promote investment, such as low interest rates to finance exporters and small scale industries in rural areas. Nevertheless, the financial institutions extended credits to sectors which were not beneficial to production in the long-run such as condominium undertakings, private consumption, entertainment businesses and land purchases which were not for residential purposes. As prices of land and property rose, speculation in the real estate market was financed by easy credit policies.

The financial deregulation both in eliminating interest rate and foreign exchange controls induced high investment and capital inflows. The financial liberalization allowed the scope of business of finance and securities companies to expand and they extended their

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[6/] Weena Thongkamsai, " Land Development and Construction" *Bangkok Bank Monthly Review* vol. 31 September 1990. P. 383 – 386.

services to provincial regions. This enabled the people in the provinces to engage in the trading of securities. Despite government caution, banks and finance companies continued to extend credit that was used for speculative purposes.

The financial liberalization allowed financial institutions to obtain funds at low cost and, at the same time, the uses of funds were shifted from the productive sector to the unproductive sector. Thai big firms registered in the stock market have also changed their sources of funds from borrowing from the financial institutions to issuing corporate bonds, securities and other instrument. Though data on businesses' sources and uses of funds are not available, the data of types of new securities issued in Thailand have shown that listed companies have increased their capital directly through the stock market instead of the money market. In 1989 new issuance of common and preferred shares rose 2.5 times and accounted for 338.7 billion baht while debentures increased about 21 times or rose from the value of 30.9 million baht to 658.1 million baht (Table 7) . Convertible debentures were introduced in 1989 followed by warrants in the following year. These new types of financial instruments have been introduced through financial innovation and modernization in order to develop Thailand's financial market to be a financial center in the region. Furthermore, credit controls in the money market discouraged business borrowing from the financial institutions. Thai authorities have tried to encourage development of the capital market as well.

Financial institutions in Thailand; mainly commercial banks and finance and securities companies; have also changed their methods of raising funds and uses of funds (Table 8). The share of sources of funds from the business and household sector for finance and securities companies increased from 57 percent in 1985 to 60 percent or more after 1989. The main sources of funds in the past; the Bank of Thailand, the commercial banks and the other finance and securities companies, had been reduced in their roles. Following the financial liberalization, the finance and securities companies could easily raise funds from the foreign market. Thus, the percentage of foreign lending to the total sources of funds rose from 1.4 percent in 1987 to 4.7 and 5.6 percent in 1990 and 1991 respectively; during 1989 and 1990 use of foreign funds grew by 140 and 177 percent compared with the preceding year.

During the same period, the share of deposits from the business and household sector for commercial banks (Table 9) remained at the same level and there was a downward trend in the growth of deposits. Thus, the business and household sector had shifted its saving behavior from commercial banks to the finance and securities companies. The role of the central bank and the other commercial banks in providing funds for commercial banks had declined while the foreign market started to strengthen its role in 1988.

Since 1987, the percentage change of credit lending to the business and household sector by the finance and securities companies increased more than the credit extended by commercial banks to the sector. The high performance of export growth in 1988 and 1989 encouraged commercial banks to extend foreign credit, particularly providing advances and loans for export bills, while the finance and securities companies were not been allowed to do so.

In 1988, net foreign investment also rushed into Thailand. Foreign investments increased in all sectors; but investment in the real estate business jumped by 235.56 and 400.91 percent during these two years (Table 6). This occurrence confirmed that the growth of the property business was not normal and apparently was influenced by speculation.

5. The shift of lending of the financial institutions: The Thai commercial banks' credit, especially credit for real estate also increased drastically from an average of 3 percent of total credit during 1976-86 to 4.5, 6.3 and 8.9 percent of total loans in 1987, 1988 and 1989 respectively, and has continued to increased up to nearly 11 percent of total loans since 1990 (Table 10). The commercial banks' credit extended to the real estate sector was 34.64 percent of manufacturing credit in 1989 or double that of 1986 and has continued to rise. Nevertheless, as aforementioned, the percentage growth in real estate loans during the period of 1988 to 1991 was very high, averaging 75 percent. Real estate loans grew more rapidly than manufacturing credits.

High growth in the Thai economy in the second half of the 1980s led to the increase in spending on real estate and luxury goods. Table 11 shows the shifting of credit extended by finance and securities companies towards real estate businesses and personal consumption. Loans for real estate increased dramatically beginning in 1987 with growth rising from 38.96 percent to 71.40 percent in 1990 while credit extended for personal consumption grew by 79.63 percent in 1989. Most of the increase in credit extended for personal consumption was for automobile hire purchases. The reason behind the high growth in the automobile hire purchase in the finance and securities industry is because commercial banks are not allowed to engage in the business of hire purchase. [7/]

Private consumption expenditure (at constant prices) registered a high growth rate of 10 and 9.5 percent in 1988 and 1989 respectively. This was due to the substantial increase in both farm incomes and incomes in the non-agricultural sector, especially in undertakings related to trading, exports and tourism, together with the market expansion in employment. In addition, the sharp increase in earnings from real estate and securities, while interest rates remained stable, induced the sharp expansion of expenditures particularly on durable goods such as vehicles, motorcycles, and electric appliances. As a result, total sales of motorcycles and motorcars in 1988 are estimated to have increased by over 30 percent the preceding year. The number of Thai tourists travelling abroad also increased dramatically.

IV. The Thai Economy after Bubble Period

The prosperity of the Thai economy has been reversed since the end of 1995. Deterioration of macroeconomic factors was exacerbated by volatile capital movements. The widened current account deficit and the misuse of short-term capital inflows resulted in a loss of foreign investors' confidence. Whilst the foreign credit rating agencies downgraded Thai securities, rumors regarding Thai financial institutions, anticipation of a currency devaluation or a change of the foreign exchange regime led to currency speculation and eventually this led to the financial crisis.

IV.I Macroeconomic Factors (Table 2)

1. Investment : There was a sharp decline in private investment after 1995 due to

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[7/] Prasarn Trairatvorakul, Prakid Panyashthiti, "Some Structural changes and Performances of Finance and Securities Companies in Thailand during 1981 – 1990". *Bank of Thailand Quarterly Bulletin* June 1992. P. 37 – 38 the slow down of domestic expenditures, high interest rates and the previous rapid growth. Particularly speculation that the Thai baht would have to be devalued made foreign investors hesitant to apply for BOI promotion. Thus, the number of projects approved or promotion certificates granted and promoted firms commencing operations declined dramatically. The lack of liquidity in the money market also affected inventory investment especially for agricultural product stocks. As for the public investment, central and local government increased their expenditures in large infrastructure projects such as interprovincial road networks, provision of water supply for agriculture and human resource development as well as investment in upgrading the quality of life and the improvement in science, technology, environment, and social conditions. State enterprises investment rose slowly concentrated on electricity, water and energy. Since the last quarter of 1997 under the IMF programme, state enterprises have begun to cut down their budgets.

The most obvious cases of the decline of investment spending can be seen in the manufacturing and construction sectors. Manufacturing output in export–oriented industries continued to grow at a modest rate. The construction sector contracted, particularly in private construction, because of the oversupply in the real estate sector, higher interest rates and the increasingly stringent credit policy of financial institutions. The credit extended to real estate and housing by the financial institutions declined drastically. But public construction continued to grow rapidly especially projects to improve infrastructure and provide employment or income in the rural areas.

2. Domestic expenditures : There was a contraction in domestic expenditures that reflected the fall in private investment and, to a lesser extent, the reduction in public consumption and inventory investment as well as the sharp moderation in private consumption. The decline in disposable income for households, was worsened by tax increases: incremental excise taxes as well as import duties on luxury items and the adjustment in the value added tax rate from 7 to 10 percent. Increased prices also reduced private consumption spending. Government consumption expenditure has accelerated in 1996 with notable increases in equipment and supplies, public utilities and defense. In 1997, it was reduced due to the budget cut.

3. External sector : Exports stagnated in 1996 after many years of robust growth due to supply shortages for fisheries and livestock, moderate demand in the world markets and the weakening competitiveness of some labor-intensive products. In 1997, exports rebounded owing to the baht depreciation on July 2. The devalued baht could not help Thai exports to continue increasing. In the first quarter of 1998 exports fell considerably while the trade partners' demand decelerated and the exporters experienced liquidity problems. Imports also declined markedly with the contraction of domestic demand and the weakened currency. The sharp slowdown in investment resulted in decrease of imports of raw materials and capital goods. In 1996, the current account still recorded a deficit even though there was a surplus in net capital inflows. As a result of the large surplus on the inflows, the balance of payments in this year registered a surplus. However after the baht depreciation in 1997, the trade deficit narrowed sharply with the decline in the current account deficit, meanwhile the private capital outflow caused the capital account to be in deficit and the balance of payments recorded a large deficit. In the first quarter of 1998,. the trade and current account have been in surplus and the balance of payments registered a surplus again, though there was a capital deficit.

IV.II. Thai Financial Sector after Bubble Economy

1. Money market : During 1995 and 1996 the liquidity in the market was very high due to massive private capital inflows. These inflows resulted in a decline in the market interest rate. Banks and finance companies shifted their lending to the real estate sector creating a misallocation of resources. Starting from the asset inflation during the bubble period, the Thai commercial banks expanded credits for real estate and housing loans, increasingly with the property as collateral. Those credits were overly expanded because of the high price assessment of the collateral. After the economy went into recession, asset deflation occurred and the collateral property price went lower than the credit received. Furthermore, some borrowers faced business problems, some could not repay their loans. Though the banks may take over the collateral properties, the selling prices are insufficient to cover the loans. Other financial companies also lent excessively and failed to appropriately assess credit risks. The number of borrowers who could not repay loans and interest increased dramatically. Bad loans rose particularly after regulations changed the definition of non-performing loans from those in which interest payments were three months overdue rather than six months overdue. Though the central bank encouraged financial institutions to extend loans and interest repayment period for financially troubled property developers and established the Resolution Property Trust Fund (RPTF) to purchase debts as well as assets from financially troubled property developers at a discount rate, the bad loans stood at more than 2.7 trillion baht or 45.9 percent of total outstanding credits at the end of 1998. In 1997, liquidity became very tight because of the problems with financial institutions. The speculation on the baht's devaluation led to large capital outflows and caused interest rates to adjust upward. The government tried to strenghten the financial institutions with the IMF's assistance but the inter bank rate rose to the highest level of 30 percent per annum in the latter half of September. After the baht slightly stabilized in the first quarter of 1998, the interest rates were stable and slightly declined and liquidity has improved.

2. The Capital market : The growth of the stock market in Thailand has declined gradually since 1995 as well as the market capitalization and the P/E Ratio. The Mexican crisis and financial troubles with Barings made investors more wary of emerging markets, while stock markets in the United States had become increasingly attractive. The decline in profit margins of export businesses on the SET lists as well as the export slump in the world market had frightened foreign investors. The SET index went down gradually along with the market capitalization. The volume of newly issued securities particularly, private securities, moderated during the time as a result of economic downturn and sluggish stock market. However, the Financial Institutions Development Fund (FIDF) increasingly issued new securities and bonds for use in its operations. The newly issued stocks as a result of the on-going recapitalization of the commercial banks also continue to rise. The volume of daily trade and the SET index fell consecutively both on the domestic board and the foreign board. In 1997 a total of 25 companies were delisted and the SET also posted the "C" sign (indicating a close watch for possible delisting) on 19 companies.

3. Surges in capital outflow: The growth of Thai economy during the past several years was largely financed by external funding and this caused an increase in the ratio of external debt to GDP, up to 49.9 percent in 1996. Most of these loans from abroad were short-term which contributed to the share of short-term debt at 50 percent of external debt in 1995. Since 1996 this share fell to 42 percent and to 37 percent in 1997 but this is still relatively high when compared with the emerging market countries. Those capital inflows had been resorted to during the capital market boom. Excessive leveraging of corporates resulted in misallocation and mismanagement of financial resources. Though the authorities imposed measures to discourage the inflow of short-term capital, vulnerability to external shocks could not be prevented. The pressure on the exchange rate and weakened economic fundamentals led foreign creditors to lose confidence in the Thai economy and to recall their funds. Foreign capital continued to flow out and contributed to the financial crisis.

4. Supervisory, Regulatory and Institutional Weakness : During the boom period with the financial reform and the establishment of the Bangkok International Banking Facility (BIBF) in the beginning of 1990, corporate firms could raise funds through borrowing in foreign markets. The increasing demand for financial managers in the private sector, resulting in high salaries, induced technocrats in governmental financial institutions to become private financial experts. The lack of official staff to supervise or regulate the growing financial institutions gave a misleading sense of security to the market. The other weakness was the ignorance or neglect from the authorities owing to the close relationship between the officers and the financial institutions' managing directors as they had worked in government office together before. Some of the young generation had no experiences with recession, slow growth or business cycles and had been employed without proper training. The lack of a clearly stated policy stance on allowing financial institutions to fail gave a misleading sense of security to the market players. The most important characteristic of the Thai financial system was the belief the authorities would not allow any bank to fail. This led to the misconduct of banking operations especially in the case of the Bangkok Bank of Commerce (BBC).

5. Currency Speculation : The high rate of growth and financial liberalization supported foreign capital inflows and led to the persistently high current account deficit. Under the basket pegged exchange rate regime, with the yen appreciation and the drop of US dollar, the baht value was expected to fall. The Thai authorities still guaranteed that they would defend the currency's value. In the last quarter of 1996, a sharp slowdown in Thai exports with negative export growth raised doubts over the nation's capacity to repay its 40 billion US dollar short-term debt. With the relatively higher yen and deutsche mark raising the prices of Thai imports and with Thailand's regional trade and capital account denominated mostly in US dollars, Thailand's terms of trade deteriorated. The pressures on the baht intensified forcing the Bank of Thailand (BOT) to intervene to stabilize the value of the baht. The policy in the first place helped prevent capital outflows. However, as the fundamentals of the economy weakened, the BOT had to intervene more heavily and imposed capital controls to separate the onshore and offshore baht markets. The temporary resumption of investor confidence was not supported by any signs of economic recovery. Capital flight prevailed in the second quarter of 1997 as the capital account continued to register a deficit. The Thai authorities eventually adopted a managed float exchange rate regime.[9/]

[9/] Bank of Thailand, " Focus on the Thai Crisis " *Bank of Thailand Economic Focus* , p. 6.

6. Suspended operation of financial companies : The downward trend of stock prices and asset prices led the finance companies to face trouble of uncollected interest income and repayment failures by debtors. The high interest rate and external capital financing during the bubble period dragged down firms'earnings and overall financial conditions.

In summary, under the basket- pegged exchange rate regime, the higher volatility of capital movements, together with increased fluctuations of exchange rates of the major currencies, the slowdown in exports which led to a wider current account deficits, and the downgrading of Thai securities by foreign analysts, led to capital flight. The exchange regime collapsed and then the Thai financial crisis began.

IV.III. Policy Reactions and Measures Implemented

1. Measures to deter capital inflows and defend the baht : To deter short-term capital inflows, the central bank required financial companies to maintain liquidity reserves at the Bank of Thailand equal to 7 percent of non-resident baht borrowing or deposits with maturities of less than 1 year, including the issuance of promissory notes, bills of exchange and NCDs in April 1996. The commercial banks and financial companies and BIBF were subject to the reserve requirement of 7 percent of their short-term borrowing or deposits from abroad in June 1996. These measures succeeded in slowing capital inflows but could not correct the misallocation of resources.

Pressure on the Thai baht intensified in December 1996 stemming from deteriorating economic fundamentals, looming problems in the financial sector, and widespread rumors of a currency devaluation. Foreign investors' confidence was shaken, promptly leading to the withdrawal of investments from Thailand. The BOT directly intervened in the market to stabilize it. Coupled with announcement of a substantial budget cut. This helped somewhat to restore foreign investors' confidence.[10/] (Chart 2)

Speculative attacks started in February 1997 and there were widespread rumors about a change in the exchange rate system and signs of a continued slowdown of exports. The BOT intervened heavily to preserve the integrity of the exchange rate system and maintain investors' confidence. Domestic liquidity was tightened, sending overnight interbank rates to as high as 30 percent from 9 – 15 percent at the beginning of the year.

Once speculative pressures subsided, the BOT instructed the finance companies to raise their capital and set up the Property Loan Management Organization (PLMO) to purchase and manage property loans from the financial institutions. The baht came under massive and sustained speculative attack in May 1997.

Towards the end of May in seeking to defend the baht the authorities created a 2 tier-foreign exchange market: onshore and offshore to deny the offshore market supply of baht. Foreign speculation was subdued until mid-June when Finance Minister resigned under political pressure. The demand from panicked local corporations to buy US dollars to hedge their foreign exchange exposure resulted in a heavy loss of reserves through the EED window. The BOT also intervened quietly to supply foreign currency to the market without stabilizing its operations. Short-term interest rates were raised to discourage demand for foreign currency, but to little avail. The crisis of confidence on the part of domestic

[10/] Bank of Thailand, Ibid. p. 24.

residents showed no sign of abating and was beyond the Bank's control. The Peg was abandoned on July 2, 1997. The exchange rate was then left to market forces under the floating rate regime. However, the Bank could intervene in the market from time to time to counter disorderly market conditions and smooth the exchange rate movements[11/].

2. Measure to strengthen the financial institutions : After asset deflation, the signs of bad debt and systemic risk increased. The Bank of Thailand supervised commercial banks to raise the BIS capital to risk asset ratio from 8 percent to 8.5 percent in October 1996, while the ratio of financial companies was raised twice to 8 percent in January 1998. The reserve requirement against doubtful debt of commercial banks and financial companies was also raised to 100 percent in December 1995 and June 1996, respectively. In June 1997, the Bank of Thailand mandated ten finance companies to increase their capital, while mergers and acquisitions among financial institutions were facilitated by the amendments of the laws governing the operations of financial institutions.[12/]

To restore foreign investors' confidence, the authorities suspended the operation of a total 58 finance companies, 16 of them on 27 June 1997 and another 42 on 5 August 1997. The Finance Institutions Development Fund (FIDF) was entrusted to provide a guarantee of the deposits and liabilities of the financial institutions and to prevent further bank runs and systemic risk. In October, 1997 the Financial Sector Restructuring Authority (FRA) and the Asset Management Corporation (AMC) were created. The objectives of FRA are to review the rehabilitation plans of the 58 suspended finance companies and oversee their liquidation process. The FRA, on December 8, 1997, made an announcement allowing two of the 58 suspended companies to re-open. The process of asset disposition for the remainder started with a public auction in early 1998. As of December 1998, the FRA had auctioned assets with a value of 7,6112.76 million baht. The AMC is entrusted with the responsibility of bidding for the lowest quality assets as a buyer of last resort to prevent fire sale of assets of the 56 closed finance companies, which in turn could undermine underlying collateral values in the financial system.[13/]

For the remaining financial institutions, the strategy has been to progressively strengthen their capital bases through a combination of realistic loan classification and provisioning (LCP) and private sector led recapitalization. The BOT announced new asset classification and provisioning requirements consistent with international best practices. Furthermore, the commercial banks signed Memoranda of Understanding (MOU) which required banks to maintain their capital adequacy ratio at a minimum of 8.5 percent. In connection with this, foreign investors are allowed to acquire majority shareholding in local financial institutions for up to 10 years, after which they will be grandfathered as to the amount of shares held and will not be permitted to take up new shares until their ratio is brought down to 49 percent. The banks that were unable to recapitalize on their own were taken over by the FIDF while the banks' managements were replaced and existing shareholders' capital written down and recapitalized to preserve the integrity of the financial system.[14/]

[11/] Bank of Thailand, *Ibid* p. 25 – 27
[12/] Bank of Thailand, *Ibid* p. 17- 18
[13/] Bank of Thailand, *Ibid*, p. 28.-29
[14/] Bank of Thailand, *Ibid*, p. 29

To facilitate corporate and financial restructuring, the Bankruptcy Act (1940) was amended to support the process of corporate reorganization. This will allow creditors to extend credit to a troubled firm without undermining their right of subsequent recovery. The process of foreclosure will also be accelerated in line with international practices to permit orderly resolution of NPLs.[15/]

3. Measures to recover the economy

To revitalize the economy, the real sector is to be promoted. Opportunities of the poor are to be improved through education or training in order to upgrade the competitiveness of exports. The government may consider providing incentives to encourage the private sector to invest more in technical progress and human capital development. Privatization is the another measure which can upgrade productive efficiency.

IV.IV. The IMF Program : Starting from August 21, 1997, Thailand has sought technical and financial assistance from the IMF. A 4 billion US dollar program was announced on August 20, 1997 with twelve withdrawals from the stand-by arrangement until the year 2000. The subsequent withdrawals can only be made after the Thai government meets all the performance criteria set out in the Memorandum on Economic Policy. The evaluation will be conducted every three months. This credit will be used solely to finance the balance of payments gap and to rebuild international reserves. Under the IMF program, the Thai government is committed to adherence to the policies outlined in the economic adjustment program to ensure the achievement of the medium-term program targets.

The initial objectives of the IMF program were as follows:

1) To maintain economic growth at 3-4 percent in 1997-98 and the achievement of potential growth rate of 6-7 percent over the medium term.
2) To reduce inflation to 4-5 percent after an initial increase to an average of 7-8 percent in 1997-98
3) To reduce the current account deficit to 5 percent of GDP in 1997 and to a sustainable level of 3 percent over the medium term.
4) To maintain gross international reserves at about 23 billion US dollars in 1997 and 25 billion US dollars in 1998; equivalent to approximately 4 months of imports.[16/]

IV.V. Policies committed and measures under the program

IV.V.1. Financial sector restructuring : In order to restructure the financial sector and restore public confidence, the authorities guaranteed the companies' depositors and creditors through a self-financed deposit insurance scheme and required the financial institutions to make sufficient loan loss provisions and to raise their capital. As was mentioned above, on October 14, 1997, the Bank of Thailand set up the Financial Restructuring Agency (FRA) to assess the 58 suspended finance companies and determine

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[15/] Bank of Thailand, *Ibid*. p. 31.

[16] Bank of Thailand, " IMF's Approval of the Stand-by Arrangement for the Macroeconomic Adjustment Program" Bank of Thailand News No.56/1997 . Download from http://www. bot.or.th

if they are to re-open, be merged or closed. After 56 of 58 companies finance companies were closed, their assets were classified and began to be disposed of by the FRA. The government has established two new financial institutions, namely, the Radhanasin Bank to bid for the high quality assets and the Asset Management Corporation (AMC) to bid for the lowest quality assets and participate effectively as a buyer of last resort. The FRA has successfully auctioned a substantial amount of physical assets since March 1998 and business loans will be bid by March 10, 1999.

Four medium sized banks: Siam City Bank, Bangkok Metropolitan Bank, Laem Thong Bank and Union Bank, were unable to raise capital. The government intervened by replacing their management, writing down the capital of existing shareholders and recapitalizing them through debt-equity conversion by the FIDF. At present, general guidelines for the sale of the three banks, Radhanasin Bank, Siam City Bank and Bangkok Metropolitan Bank, are under consideration by the cabinet. After the frameworks are approved, the financial officers will organize the auctions,possibly in June 1999. [17/]

The existing financial institutions have signed MOUs with the Bank of Thailand on recapitalization plans and succeeded in raising private capital mostly from foreign investors. The 35 remaining finance companies also are subject to the same recapitalization requirements and loan classification and provisioning rules as banks. Some finance companies have been recapitalized but seven small finance companies were unable to raise capital. The BOT intervened restructuring those companies on 18 May, 1998. The stated-owned finance company (KTT) is leading the consolidation effort (Table 12).

By mid August of 1998, the government announced a financial sector restructuring package to resolve Thailand's banking crisis, stabilize the banks'deposit base and help them to resume lending. There are four major aspects of the financial restructuring program. First, the consolidation of the banks and the finance companies has been accelerated through additional BOT interventions and proposed mergers. Second, private investment and entry into the banking system is to be encouraged through the early sale of two institutions, as well as the preparation of other state banks for eventual privatization. Third, public funds are to be provided for recapitalization all remaining financial institutions, with appropriate safeguards and conditions linked to progress in corporate debt restructuring. Fourth, a framework has been developed for the creation of private asset management companies.[18/] According to the August 14 package on financial sector restructuring, for the time being the BOT has completed negotiations with all banks and finance companies to ensure that they remain fully capitalized until June 1999.

As far as the financial sector restructuring is concerned, problem loans in Thailand need to be restructured. The Bank of Thailand developed detailed operational guidelines to make the new loan classification and provisioning rules to provide banks with incentives to restructure their loans. The Corporate Debt Restructuring Advisory Committee (CDRAC) is closely monitoring target groups. As of the end of January 1999, a total of 187.4 billion baht of corporate loans had been restructured meanwhile a total of 716.8 billion baht in corporate loans are in the process of restructuring talks. The government believes that the

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[17/] Bangkok Post, "Cabinet considers terms of bids" March 9, 1999. Download from http://www. Bangkok post/net/

[18/] Ministry of Finance, Press Release Regarding Fifth Letter of Intent August 25, 1998. P.5. Download from http://www.mof.go.th/.

financial reform program is working well.[19/] The other factor which is helpful to making financial sector and debt restructuring successful is the revision or amendment of legislation and regulation. The BOT law was revised in 1998. The Currency Act, the Bankruptcy Law and Civil and Commercial Code will be amended with support from G-7 central bank experts under the framework agreement with the IMF.

IV.V.II. Fiscal measures :The government committed itself to improve the fiscal balance from a deficit to a surplus of 1 percent of GDP in fiscal year 1997/98 by raising the value-added tax from 7 percent to 10 percent, effective 16 August 1997, cutting the budget and maintaining balance in the state-owned enterprise sector. As time passed by, however, the recession was more serious than anticipated and the public sector balance has been revised to minus 3 percent of GDP in the 1997/98 and for 1998/99 the fiscal deficit is now targeted at about 5 percent of GDP in order to support domestic demand. The budget should spend directly on the social safety net and related labor-intensive investment projects. The social safety net program will be financed by the Asian Development Bank with the following objectives :

1. to provide additional public sector employment for two years,
2. to upgrade skills of new entrants into the labor market,
3. to increase the existing means-tested cash transfer programs aimed at needy families and the elderly.
4. To increase the budgetary allocation for the secondary education loan program and expand the school lunch program,
5. To enhance opportunities for the unemployed to become entrepreneurs through expanded small loan facilities and training programs,
6. All of the above will lay the foundation for a new Social Sector Investment Program to be financed externally.[20/]

By the end of the year, the Labor Protection Act will be implemented. It establishes a public compensation fund for unpaid severance payments to be financed through paid fines by those in violation of the Labor Protection Act.

In the medium-term, privatization programs in the energy, transportation, public utility and communication sectors should be encouraged. The privatization process will be undertaken substantially by the end of 1999.

IV.V.III. Monetary and exchange rate policies : In the short run, the policies were centered on stabilizing conditions in the foreign exchange market. Interest rates were set within the range of 15 – 20 percent from November 1997 to March 1998 for the overnight repurchase rate. Since January 1998, the bath's value has been stable, money market interest rates have gradually declined and the minimum lending rate has fallen to the lowest in the decade at 9.5 percent (as of February 24, 1999) However, credit extension by the commercial banks has been hesitant because of the economic contraction and the long time it has taken to restore confidence in the private sector after the bashing industry has taken over the past 18 months. [21/]

[19/] Bangkok Post, " Problem Loans tipped to fall" March 9, 1999

[20/] Ministry of Finance, Press Release Regarding Sixth Letter of Intent No. 153/1998. P.3. Download from http://www.mof.go.th/

[21/] Bangkok Post, "Deposit rates won't fall below 5 % , says TBA" February 24, 1999. Download from http://www.bangkokpost.net/

The government also assured adequate availability of credit to the priority nonbank corporate sector, especially exporters, agricultural producers and small borrowers. The EXIM Bank of Thailand and the Industrial Finance Corporation of Thailand have negotiated trade finance facilities with the Japan Export - Import Bank and the Asian Development Bank; these facilities are being supported by the increased refinancing by the Bank of Thailand at concessional interest rates through commercial bank loans to exporters. In addition, existing facilities provide for the extension of some subsidized credit to agriculture, small business and low income housing.[22/]

IV.V.IV. Supporting and revitalizing the real sector : The government complimented the measures to support the poorest members of the society through the Social Safety Net Program which was financed by the Asian Development Bank, the World Bank and the OECF. The program includes projects to alleviate poverty, projects on education and health, and maintaining urban bus and rail fares at subsidized prices. [23/]

With the deepening recession, the government has made improvements in the social safety net program by increasing the current year expenditures, including the extension of the scholarship program, the improvement of employment generating public works programs and providing free medical treatment and the improvement of rural health care facilities. [24/]

IV.V.V. Market opening policies : Greater external openness should be considered in order to increase foreign direct investment flows into many sectors. Such increased investment flows will contribute directly to relieving the liquidity shortages in many sectors, especially in the property sector. The government will propose to Parliament amendments to the Alien Business Law as well as to other associated laws, aimed at liberalizing foreign investment limits in selected sectors, such as securities and brokerage services, condominiums and land-leasing arrangements.[25/] The Land code and Condominium Act should be amended to allow individual foreign investors to own land up to 1 rai for residential purposes and to allow Thai citizens married to foreigners to own land. The amendment of the lease provisions of the Civil and Commercial code extends the period for which foreigners may lease real estate property from 30 years to 50 years, renewable for an additional 50 years. Action on the aforementioned laws has been taken. The Bankruptcy Law was passed by the House of Representatives on March 3, 1999.[26/].

V. Suggestions and Conclusions

V.I. The Recent Economic Situation

[22/] Ministry of Finance, Press Release Regarding Third Letter of Intent February 24, 1998. Download from http://www.mof.go.th/

[23/] Ministry of Finance, Press Release Regarding Third Letter of Intent No. 15/1998 February 24, 1998 . Download from http://www.mof.go.th/

[24/] Ministry of Finance, Press Release Regarding Fourth Letter of Intent No. 90/1998 August 25, 1998. Download from http://www.mof.go.th/

[25/] Ministry of Finance, Press Release Regarding Fifth Letter of Intent No. 45/1998 May 26, 1998. Download from http://www.mof.go.th/

[26/] Bangkok Post, Bankruptcy bill passed into law March 4, 1999. Download from http://www. Bangkokpost.net/

After six months under the IMF's program, the government foresees that the economy will be stimulated and the financial sector will be strengthened because non-performing loans will fall to thirty percent of total lending in the banking system. There are some reasons for the expected economic recovery that require explanation. First, most companies have been successful in agreeing on debt restructuring with creditors and others are in the process as the Bank of Thailand is going to provide an arbitrator to rule on the differences between creditors with subordinated debts and secured creditors. Furthermore, new bankruptcy and foreclosure regulations will be implemented over the next several months, and these will increase the authority of creditors to enforce claims on delinquent borrowers. If the trend continues, the banks would be more willing to extend new loans. Moreover, the government's financial sector reform program was also working well as it had encouraged commercial banks to increase their capital. The financial institutions which could not raise capital in the private market have officially applied for tier-one capital from the government. At the same time, the government has issued bonds as tier-two capital to those financial institutions. The Board of Investment also reported positive signs for foreign direct investment after a business mission to the United States as well as the rising business cycle index released by the Department of Business Economics, of the Ministry of Commerce. The SET index in the capital market also has a trend to rise though investors have to remain cautious about local financial institutions, uncertain economic aspects and the need for firms to raise new capital. Meanwhile, the lending rate is supposed to fall further with the currency stability and modest inflation rate. Furthermore, the government will announce a new personal tax cut to boost consumption.

The private sector remains pessimistic. They believe that there are few signs of economic recovery by the first half of 1999. Economic growth still continues to be negative due to the decline in export prices and volumes. The declining sales both in the domestic and export markets with rising inventories will create cash-flow problems. Though interest rates have been coming down, companies are scaling back their investments and slashing their expenses. Banks are unwilling to accept new credit risks and refused to extend new loans because of the dismal state of the balance sheets of many firms. The cost of covering bad loans has cut into the capital base of financial institutions, limiting their ability to take on new assets. Moreover, some analysts believe that the Thai economy appears to be facing a " Japanese Syndrome" – interest rates are touching their lowest levels in decades but there is no sign they are helping to spur recovery. [27/] The lower interest rate was a consequence of deflation as the baht appreciated due to weak imports and a severe economic recession.

Corporate debt restructuring is a top priority for boosting asset quality and reviving the overall economy but progress has been complicated by technical details, regulatory bureaucracy and the lack of a supportive legal framework to push reluctant borrowers to the bargaining table.

V.II. Policy Suggestions

In order to spur the economy, accompanied by the present government's policies, the government should consider implementing the following short – run policies.

[27/] Bangkok Post " Deposit rates won't fall below 5%, says TBA" February 24, 1999. Download from http://www.bangkokpost.net

1.Monetary policies should aim to achieve stability in both the foreign exchange rate and interest rates. However, the interest rate gap between the prime rate and the interbank rate should be set at a difference of 3 percent or more. With this difference, at a minimum of 3 percent, banks can make profit. If the banks continue to earn profit for several years, the banks will be able to rebuild their capital base. The United States and Australia used this method before. During the yeas 1991 to 1993, the United States faced the problem of excess supply with the decreasing price in commercial properties and the banks' could not extend credits. The credit crunch caused many thousands of firms to become bankrupt. Though the lower interest rate policy had been introduced, the economy could not recover. The Federal Reserve rescued these banks through the profits from the interest rate gap. The prime rate at that time was set at 6 percent while the federal fund rate was pulled down to 3 percent. The 3 percent interest rate gap meant that, for the first time in the decade, the banks could gain profit and could raise their own capital. The banks were able to reduce their non-performing loans and could expand credit and the United states economy recovered in 1994 (Chart 3). Even now, this interest rate gap has been restored at about 3 percent. The same method had been used successfully in Australia in the first half of the 1990s decade but it was called the "Fat Spread" to revive the Australian economy which suffered from depressed prices and a credit crunch as in the United States[28/].

For a long period up to 1995, commercial banks in Thailand had enjoyed profit from the interest rate gap; which was wider than 3 percent. The banking sector was strong and there was no credit crunch problem. Of course the financial liberalization and deregulation reduced banks' profit from the interest rate gap and they had to find earnings from other services. The contraction of the economy and the asset price deflation, led to an increase in non-performing loans. Meanwhile the interest rate gap fell to about one percent (chart 4). The banks could not increase their own capital and began to lose money.

2. The government should slash the value – added tax from current level of 10 percent to a lower amount. The announcement on cutting the personal income tax should not be delayed in order to quickly stimulate demand. The decreased tax rate will have a multiplier effect on household consumption.[29/]

3. The policy on credit lines to small and medium enterprises (SME) should be transparent and full cooperation among the Ministries of Finance, Industry and Commerce is needed in order to revive the real sector. Manufacturing products with good prospects such as processed food and value added agricultural products should be emphasized.

4. The definition of non-performing loans should be changed back to loans that are six months over due instead of three months as at present. This reduces the number of bad loans. Furthermore, borrowers who can make interest payments should not be counted as bad debtors.

5. The deficit in the government budget should be continued and should be spent in rural areas to create jobs and develop labor skills. The budget deficit should be financed domestically instead of through foreign borrowing otherwise the current account will be in deficit as it was before the crisis.

[28/] Richard C. Koo. Nihon Keizai kaifuku he no aoi shashin (The Blue print to recover the Japanese Economy) p.91 – 95, p. 111-115, p.131-132, p.182

[29/] This multiplier effect should be estimated as well as the marginal propensity to consume of the Thais

V. III. Conclusion

In my opinion the measures and policies conducted by the Thai government under the IMF's consultation were of doubtful help to the Thai economy and may unnecessarily delay the recovery. It seems to me that the IMF has not worked sincerely to speed up the Thai economic recovery. The measures and policies implemented were structural and emphasized liberalization but neglected the need to stimulate aggregate demand. The finance minister, Mr. Tarrin Nimmanhaeminda, has put his priority aim on rehabilitation of the financial sector. He thought strengthening the financial sector would restore public confidence and the banks would be willing to extend credits. He has not paid attention to the real sector, particularly export industries and small and medium enterprises. Although some of these firms had export contracts, they were able to obtain bank loans. The number of bankrupt companies has increased significantly since 1998. They could not continue their production and workers were out of a job. Debt restructuring programs or financial assistance from the EXIM Bank are too late to help these firms. The financial recapitalization program seems to welcome foreign investors to buy Thai commercial banks' shares at cheap prices. The amendment or revision of associated laws also allows foreign investors to manage businesses as they wish. Foreigners may now enter sectors from which they had been prohibited, despite the presence of Thais that are jobless. However, the financial reform package announced on August 14, 1998 seemed to indicate that the government had come to a direct way to promote economic recovery. Thai financial institutions have some of the same characteristics of the financial institutions in the great depression in the United States in the 1930s. Lower interest rates did not work and the US government had issued bonds to buy financial institutions' preferred stock to help them increase their capital. Finally, financial institutions became healthy. For the time being, it is very difficult to say which is the best method to restore the viability of the Thai financial sector. I expect that the situation will not worsen. In order to evaluate the efficacy of the recovery measure, and policies, quantitative analysis of the multiplier effects on aggregate demand should be undertaken.

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[2/] Industrial Finance Corporation of Thailand, *Annual Report 1990* (Thai Version) p. 134-137
[3/] Money and Financial Section, Department of Economic Research " Financial Institutions in Thailand"
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[13/] Bank of Thailand, *Ibid*, p. 28.-29
[14/] Bank of Thailand, *Ibid*, p. 29
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28/ Richard C. Koo. Nihon Keizai kaifuku he no aoi shashin (The Blue print to recover the Japanese Economy) p.91 – 95, p. 111-115, p.131-132, p.182

29/ This multiplier effect should be estimated as well as the marginal propensity to consume of the Thais during this period.

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Table 1
Key statistics of financial institutions in thailand at the end of 1996

No.	Financial instituutions	No.	No. of branches	Assets*	Funds Mobilized from households*	Credits extended*
1.	Commercial banks	29	3,730	5,688,070.5	2,534,617.0	4,410,879.0
2.	Finance companies	91	59	1,767,943.1	552,894.6	1,546,940.1
3.	Credit foncier companies	12	-	8,517.7	4,856.9	6,321.3
4.	Agricultural cooperatives	2,474	-	26,800.0	10,600.0	20,000.0
5.	Saving cooperatives	1,045	-	126,800.0	90,800.0	112,200.0
6.	Life insurance companies	7	827	104,516.6	77,061.7	21,511.8
7.	Government Saving Bank	1	551	237,442.2	205,580.0	45,541.6
8.	Bank for Agriculture and Agricultural cooperatives	1	362	216,878.5	59,827.2	169,766.6
9.	Government Housing Bank	1	32	213,994.3	69,287.3	198,499.5
10.	Export-Import Bank of Thailand	1	4	34,623.8	-	8,672.0
11.	Industrial Finance Corp. of Thailand	1	8	145,031.1	-	121,288.0
12.	Small Industries Finance Corporation	1	-	683.2	-	409.7

*Unit : Million Baht
Source : Bank of Thailand Quaurterly Bulletin June 1998
Note : The data for Agricultural Cooperatives, Saving Cooperatives, Life Insurance Companies and the small Industrial Finance corporation are for the end of 1994.

Chart 1
Characteristics of financial institutions in Thailand other than commercial banks and finance companies

Financial institutions	Major sources of funds	Major uses of funds
Credit foncier companies	Issuing long-term promissory notes (70% of total funds)	Specializing in financing the purchase of immovable properties (land, houses)
Life insurance companies	Life insurance preminums (more than 70% of total funds)	Extending credits to policy holders and investing in shares, debentures, notes and Government bonds
Bank for Agriculture and Agricultural Cooperative (BAAC)	Taking deposit (mostly from households and commercial banks), issuing bonds and debentures, refinancing bills at Bank of Thailand, and borrowing from overseas	Specializing in agricultural and small development credits in outer provinces.
Government Saving Bank (GSB)	Taking deposits and issuing saving bonds (GSB uses its extensive network of branches and sub-branches around the country to mobilize small deposits).	About 70% of funds are invested in government bonds and deposited with commercial banks. Loans and overdrafts account for less than 20% of total use of funds.
Government Housing Bank (GHB)	Taking deposits and borrowing domestically.	Specializing in housing loans to low and middle income households.
Export-Import Bank of Thailand (EXIM bank)	Established in 1993. Initial capital and credits lines provided by the Bank of Thailand.	Specializing in export and import financing (including credit guarantees).
Industrial Finance Corp. Of Thailand	About 60% of total funds obtained by issuing bonds and debentures, and by borrowing from overseas.	Specializing in medium and long-term industrial loans.
Small Industrial Finance Corporation (SIFC)	SIFC was upgraded to the status of independent juridical entity in 1993. Capital (received from the government) and long-term borrowing from Industries Promotion Dept. (Ministry of Industry) account for 90% of funds.	Specializing in small industrial loans, including household businesses.

Source : BOT Quarterly Bulletin June 1995 P.39

Table 2
Thailand Key Macroeconomic Indicators : 1986 - 1997

Year	GDP Growth (%)	Inflation (CPI) (%)	Current Account (% of GDP)	Import Volume (% Change)	Export Volume (% Change)	International Reserves (Billion US)
1985	4.6	2.4	-4.1	-5.8	7.4	3.0
1986	5.5	1.9	0.6	3.5	17.4	3.8
1987	9.5	2.5	-0.8	28.0	19.3	5.2
1988	13.3	3.8	-2.7	39.1	24.9	7.1
1989	12.2	3.4	-3.7	20.6	24.3	10.5
1990	11.2	6.0	-8.3	22.2	11.9	14.3
1991	8.6	5.7	-7.5	8.7	19.1	18.4
1992	8.1	4.1	-5.5	7.6	12.3	21.2
1993	8.5	3.3	-4.9	11.1	11.7	25.4
1994	8.9	5.0	-5.4	16.2	18.4	30.3
1995	8.8	5.8	-7.8	16.0	37.1	37.0
1996	5.5	5.9	-7.9	1.9	-0.2	38.7
1997	-0.4	5.6	-7.9	-12.3	10.0	27.0
1998	-8.0	8.1	-2.0	-27.4	8.1	29.5

Source : Bank of Thailand, Quarterly Bulletin various issues
IMF, International Financial Statistic Yearbook, various isssues

Table 3
Annual Growth of Real Estate,
Housing and Construction Loans
by Commercial Banks (% change)

Year	Real Estate	Housing	Construction
1985	15.9	13.6	12.6
1986	6.8	20.6	3.8
1987	49.3	60.8	4.1
1988	75.4	50.7	17.6
1989	85.0	39.6	14.9
1990	76.5	37.5	38.0
1991	12.2	31.2	21.5
1992	22.6	32.4	22.6
1993	21.2	36.6	16.6
1994	17.8	35.4	33.6
1995	15.7	21.1	30.9
1996	6.8	16.8	26.7
1997	13.8	5.2	16.2

Sources : Bank of Thailand, Quarterly Bulletin various issues

Table 4
Net Flows of Foreign Equity Investment in Thailand

Year	% change of Industry	% change of Real Estate	% change of Financial	Industry as % of Total	Real Estate as % of Total	Financial % of Total
1990	10.6	-5.8	59.4	48.0	11.1	10.5
1991	-18.3	-2.1	-94.6	47.5	13.2	0.7
1992	-14.2	-57.5	17.8	33.8	4.7	0.7
1993	-47.8	560.0	465.1	21.6	37.6	4.7
1994	-47.0	15.3	-89.6	12.7	48.3	0.5
1995	277.3	22.5	275.5	32.0	39.3	1.4
1996	31.6	2.0	183.6	32.9	31.3	3.0
1997	171.8	-87.3	99.9	47.8	2.1	3.2

Source : calculted from Bank of Thailand, Net Foreign Investment in Thailand

Table 5
Securities Market Turnover in Thailand

Year	Average Trading Value (MB)	% of Change	High	SET Index Low	Close	% change of SET Index
1987	495.0	-	472.9	20.1	284.9	37.5
1988	633.4	28.0	471.5	287.7	386.7	35.7
1989	1526.4	141.0	879.2	391.2	879.2	127.3
1990	2595.6	70.0	1143.8	544.3	612.9	-30.3
1991	3237.3	24.7	908.9	582.5	711.4	16.1
1992	7530.7	132.6	963.0	667.8	893.4	25.6
1993	7800.0	3.6	1682.9	818.8	1682.9	88.4
1994	8628.0	10.6	1753.7	1196.6	1360.1	-19.2
1995	6239.7	-27.7	1472.0	1135.7	1280.8	-5.8
1996	5340.8	-14.4	1415.0	816.8	831.6	-35.1
1997	3763.6	-29.5	859.0	357.1	372.7	-55.2
1998	3331.1	-11.5	558.9	207.3	351.8	-5.6

Source : Bank of Thailand and calcualted data

Table 6
Net Foreign Investment in Thailand

Year	% change of Industry	% change of Real Estate	Industry as % of Total	Real Estate as % of Total
1988	240.3	235.6	52.5	4.7
1989	35.3	400.9	57.8	5.1
1990	41.8	18.5	47.8	15.6
1991	-23.1	-56.6	47.9	13.0
1992	-26.7	-57.3	46.4	7.1
1993	-34.6	1027.4	32.5	2.9
1994	-53.4	-36.7	26.1	40.2
1995	164.8	90.8	16.0	33.5
1996	27.1	-10.3	28.3	42.6
1997	148.9	-88.9	31.2	33.2

Source : Calculted from Bank of Thailand, Net Foreign Investment in Thailand

Table 7
Types of New Securities Issuances
in Thailand (Million Baht)

Year	Common Stocks	Debentures	Convertible Debentures	Warrants
1988	133.4	30.9	-	
1989	338.7	658.1	40.0	-
1990	575.2	551.2	75.6	-
1991	759.3	113.6	18.2	2,247.7
1992	1,248.0	5,107.0	4.9	3,408.8
1993	34,028.0	21,455.0	39,985.0	3,084.4
1994	82,065.0	82,536.0	27,514.0	880.0
1995	62,041.0	73,057.0	16,132.0	2,442.0
1996	64,971.0	92,534.0	40,530.0	470.0
1997	22,328.0	38,151.0	2,770.0	2,946.0

Source : Bank of Thailand

Table 8a
Flows of Funds of Finance and Securities Companies (% of Total)

Year	Uses of Funds						Sources of Funds				
	Cash & BOT	Com Banks	Finance Inst.	Business	Others	BOT	Com Banks	Business	Foreign	Finance Inst.	Others
1985	0.29	3.33	6.62	67.84	21.92	5.87	11.43	57.90	3.32	7.78	13.70
1986	0.21	2.49	6.31	66.90	24.09	7.28	12.05	56.02	3.01	8.87	12.77
1987	0.16	2.85	5.51	65.85	25.63	5.73	19.13	52.08	1.43	9.19	12.44
1988	0.15	2.91	5.20	72.95	18.80	5.14	12.59	58.57	1.33	9.72	12.65
1989	0.14	3.25	8.00	75.77	12.84	3.35	9.91	60.46	2.22	10.87	13.20
1990	0.49	1.98	4.28	83.83	9.42	2.41	7.46	62.02	4.75	7.87	15.49
1991	0.29	2.24	3.34	83.71	10.43	1.73	8.05	61.76	5.67	7.29	15.50
1992	0.37	2.78	2.72	86.69	7.43	0.56	7.70	60.85	6.12	5.38	19.39
1993	0.41	2.99	3.27	80.40	12.93	0.38	7.46	60.93	6.41	5.31	19.52
1994	0.45	2.33	3.26	85.00	8.95	0.13	8.16	63.05	5.87	4.57	18.22

Source : Calculated from Table of Assets and Liabilities of Finance and Securities Companies, Quarterly Bulletin, Bank of Thailand Various issues

Table 8b
Flows of Funds of Finance and Securities Companies (% of Total)

Year	Uses of Funds					Sources of Funds					
	Cash & BOT	Com Banks	Finance Inst.	Business	Others	BOT	Com Banks	Business	Foreign	Finance Inst.	Others
1986	-21.10	-19.87	2.45	6.02	18.19	33.44	13.40	4.01	-2.73	13.64	0.24
1987	-10.33	31.00	-0.16	12.55	21.65	-10.05	81.47	6.30	-45.43	18.50	11.40
1988	9.73	24.90	15.35	35.52	-10.30	9.84	-19.50	37.58	13.15	29.32	24.38
1989	31.79	60.47	121.05	49.04	-2.00	-6.52	12.92	48.11	140.02	60.44	49.75
1990	368.43	-20.96	-30.72	43.38	-4.94	-6.67	-2.40	32.95	177.20	-6.18	52.06
1991	-23.50	48.43	2.40	31.16	45.50	-5.69	41.66	30.80	56.96	21.66	31.42
1992	79.03	73.03	13.69	44.25	-0.72	-55.03	33.34	37.22	50.28	2.75	74.28
1993	49.72	45.11	62.51	25.33	134.98	-7.89	30.83	35.32	41.46	33.37	36.01
1994	47.62	2.89	31.46	39.49	-8.69	-55.71	44.34	36.52	20.96	13.64	23.17

Source : Calculated from Table of Assets and Liabilities of Finance and Securities Companies, Quarterly Bulletin, Bank of Thailand Various issues

Table 9a
Flows of Funds of Thai Commercial Banks (% of Total)

Year	Uses of Funds						Sources of Funds				
	Cash & BOT	Com Banks	Finance Inst.	Business	Others	BOT	Com Banks	Business	Foreign	Finance Inst.	Others
1985	2.97	1.84	4.56	67.44	23.20	3.66	1.79	74.09	6.43	0.67	13.36
1986	2.85	1.82	4.67	64.57	26.73	4.33	1.15	77.23	4.09	0.41	12.80
1987	2.73	2.43	5.48	65.17	24.20	4.46	2.46	76.39	3.94	0.19	12.55
1988	2.83	1.54	4.62	69.54	21.48	5.03	1.59	74.76	5.39	0.64	12.60
1989	2.37	1.38	4.24	73.26	18.75	2.89	1.41	76.14	5.98	1.04	12.54
1990	2.85	0.94	3.82	77.99	14.40	2.34	1.03	76.87	6.08	0.85	12.83
1991	2.78	1.06	4.34	78.20	13.62	1.73	1.05	77.42	5.71	0.48	13.61
1992	2.38	0.98	4.43	80.02	12.18	1.42	1.09	75.68	6.56	0.58	14.66
1993	2.30	1.02	3.95	79.15	13.58	0.66	1.06	71.56	10.99	0.62	15.10
1994	1.95	0.86	3.89	81.28	12.03	0.34	1.00	63.45	19.23	1.37	14.61

Source : Calculated from Table of Assets and Liabilities of Commercial Banks;
Quarterly Bulletin, Bank of Thailand, Various issues

Table 9b
Flows of Funds of Thai Commercial Banks (% of Change)

Year	Uses of Funds						Sources of Funds				
	Cash & BOT	Com Banks	Finance Inst.	Business	Others	BOT	Com Banks	Business	Foreign	Finance Inst.	Others
1986	4.43	-30.05	11.65	4.21	25.40	28.84	-30.15	13.45	-30.82	-33.51	4.26
1987	16.45	150.16	42.30	22.59	35.88	24.97	160.21	20.15	17.03	-42.40	19.16
1988	25.68	-23.14	2.30	29.48	13.12	36.98	-21.78	18.74	65.99	300.26	21.76
1989	4.45	11.62	14.38	31.31	8.83	#####	10.27	26.94	38.26	104.05	24.11
1990	52.56	-13.65	14.14	34.79	-2.76	2.72	-7.37	27.84	28.71	3.25	29.54
1991	17.17	35.35	36.48	20.45	13.56	#####	22.44	20.98	12.90	-32.61	27.37
1992	0.80	9.38	20.14	20.52	5.39	-3.40	22.54	15.13	35.25	44.01	26.90
1993	20.77	30.40	11.90	24.03	39.76	#####	21.73	18.57	110.28	33.91	29.11
1994	7.99	5.87	24.86	30.26	12.33	#####	20.21	12.48	121.77	179.36	22.74

Source : Calculated from Table of Assets and Liabilities of Commercial Banks;
Quarterly Bulletin, Bank of Thailand, Various issues

Table 10
Thai Commercial Banks' Credit for Real Estate

Year	Manufacturing as % of Total	Real Estate as % of Total	Real Estate as % of Manufacturing	% Change of Real Estate	% Change of Manufacturing
1986	22.76	3.78	16.62	6.78	1.93
1987	23.45	4.48	19.11	49.32	29.85
1988	25.83	6.27	24.29	75.39	38.03
1989	25.80	8.94	34.64	85.04	29.74
1990	25.11	11.89	47.37	76.60	29.12
1991	25.32	11.46	45.27	16.57	22.00
1992	23.73	11.51	48.49	21.23	13.18
1993	23.79	11.35	47.70	20.73	22.72
1994	23.46	10.90	46.47	18.40	21.55

Sources : Calculated from Bills, Loans and Overdrafts of Commercial Banks; Banks of Thailand Various Issues

Table 11
Market share of loans extended by finance companies classified by purposes

Year	Manufacturing as % of Total	Real Estate as % of Total	Personal Cons. % of Total	% Change of Real Estate	% Change of Manufacturing	% Change Personal
1986	22.86	11.87	18.92	10.98	-0.46	21.31
1987	21.25	14.88	22.30	38.96	3.03	30.67
1988	21.78	14.75	25.51	35.11	39.65	55.82
1989	18.41	17.70	29.71	85.00	30.36	79.63
1990	17.11	22.99	28.94	71.40	22.61	28.52

Source : Prasarn Trairatvorakul, Prakid Punyashthiti, Ibid. p.41

Table 12
Number of Commercial Banks
and Finance Companies in Thailand
As of January 1999

	Banks		Finance Companies	
	Intervened	Total Remaining	Closed/ Intervened	Total Remaining
End 1996	-	15	56 closed	91
Dec-97	-	15	-	35
Jan 1998*	1	16	-	36
Feb-98	3	16	7 intervened	36
May-98	-	16	5 intervened	36
Aug-98	2	16		36
		(13 after Consolidation is completed)		(24 after Consolidation is completed)

* Cabinet approved the proposal of establishing the Radanasin Bank and its subsidiaries Radanatun Finance and Radanasup Securities, in January 1998. Radanasin Bank started operation on March 16 th, 1998 and Radanatun Finance on February 23 rd, 1998.

Source : Ministry of Finance, Message from the Minister of Finance, 1999. Download fı
http://www.bot/or.th

Chart 2 % change of Baht :US$