Outline

- Thai Financial Crisis: Overview
- Causes of Thai Financial Crisis
- Impacts of the Crisis
- Recovery Strategies
- The Aftermath
- Conclusion
Thai Financial Crisis: Overview
Thai Financial Crisis: Overview

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1988-1995</td>
<td>Thai economic boom periods but with chronic CA deficit, weak financial systems and overvalued domestic currency.</td>
</tr>
<tr>
<td>May, 1997</td>
<td>Foreign speculators attack the baht. Thailand spends 90% of foreign reserves to defend the baht against speculative attack.</td>
</tr>
<tr>
<td>July 2, 1997</td>
<td>Thailand changes its exchange rate system from fixed exchange rate to managed-floated. At the same time, the Thai government also requests &quot;technical assistance&quot; from the IMF.</td>
</tr>
<tr>
<td>Aug. 5, 1997</td>
<td>Thailand receives a $17 billion loan from the IMF and agrees to adopt tough economic measures in return.</td>
</tr>
</tbody>
</table>
Thai Financial Crisis: Overview

Dec. 8, 1997  
56 insolvent finance companies and one commercial bank are closed. The remaining financial institutions suffer from financial panic.

Dec 31, 1997  
The index of Thailand’s stock market (The SET), ultimately declines from 787 in January 1997 to a low of 337 in December of that year. Thai economy turns into recession.

1997-1998  
Thai crisis spreads quickly from Thailand to other countries in the region including Malaysia, Indonesia, Philippines, South Korea and Japan. This leads to the Asian Crisis.
Causes of Thai Financial Crisis
The Causes of Economic Boom in Thailand

Since early 1990s, Thai economy had attracted massive volumes of capital inflow from aboard due to

- Its accommodating economic policies
- Healthy-looking conditions
- The recession of European Economy
- The stagflation of Japanese economy
The Causes of Economic Boom in Thailand

Thai Exchange Rate Regime before the crisis:

The exchange rate fixed to basket currency, especially US dollar. The baht had fluctuated very narrowly between 24.91-25.59 baht per dollar.
The Causes of Thai Financial Crisis

The obvious causes that are broadly discussed include:

- Weaknesses in domestic macro-economic fundamentals
- Weakness in the Financial System
- Financial liberalization and the volatile international capital flows
- Speculative Attacks and the Floatation of Baht
- Unstable political and social institutions
The Causes of Thai Financial Crisis

1. Weaknesses in domestic macro-economic fundamentals

Current Account Deficit

Thailand had had persistent current account deficit ranging from -5.08 to -8.10 % of GDP lowest among the other nations for most of the time in the sample

The main reasons of current account deficit as follow:
1. The real appreciation of Thai baht
2. A large increase in real wage
2. Weakness in the Financial System

2.1 Structure of the Financial System in Thailand
   Intermediaries for channeling foreign capital into domestic economy.

2.2 Asymmetric Information: Adverse Selection and Moral Hazard
   Adverse Selection: Tendency of lending money to investors, who are high-risk seekers.
   Moral Hazard: Lending money recklessly without a prudent procedure of lending contraction and monitoring.
3. Financial Liberalization and the Capital Flows

Why Thailand become attractive to a magnitude of capital inflow?

Why financial liberalization and capital inflows are key implication of the crisis?
4. Speculative Attacks and the Floatation of Baht

To defend the value of baht from speculative attack,

- Loss 4 billion dollars of the country’s foreign reserve
  *International Reserves during 1990-1999.ppt*

- Switch exchange rate regime
  Fixed Exchange Rate to Floating Exchange Rate
  *Thai Baht under fixed and floating exchange rate.ppt*
5. Political Institutions and the Crisis

Politics is one of the important factors of Thai financial crisis.

- Misconducts of financial institutions.
- The delay in policy implementation.
- The unstable political regime.
Impacts of Thai Financial Crisis
Impacts of Thai financial crisis

In Thailand:

• Highly depreciated baht because the lack of confidence in Thai economy

• Massive increase in external debt burden due to high dependency on foreign capital and deeply depreciated baht.
Impacts of Thai financial crisis

In Thailand:

• Financial institution crisis
  - Collapse of insolvent financial institutions
  - Remaining financial institutions suffering from financial panic
  - Liquidity crunch
  - Rising NPLs

<Vicious cycle>

<table>
<thead>
<tr>
<th>The non performing loan as a percentage of total loans of financial system</th>
</tr>
</thead>
<tbody>
<tr>
<td>End 1990</td>
</tr>
<tr>
<td>End 1995</td>
</tr>
<tr>
<td>End 1996</td>
</tr>
<tr>
<td>End 1997</td>
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<tr>
<td>June 1998</td>
</tr>
<tr>
<td>October 1998</td>
</tr>
<tr>
<td>September 1999</td>
</tr>
<tr>
<td>February 2000</td>
</tr>
</tbody>
</table>
**Impacts of Thai financial crisis**

**In Thailand:**

- **Stock Market crisis**
  Portfolio investment drawn out, stock market crash (SET index goes down over 70%).

- **Economic recessions**

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Real GDP Growth (%)</td>
<td>5.9</td>
<td>-1.4</td>
<td>-10.3</td>
<td>4.4</td>
</tr>
<tr>
<td>GDP ($bln)</td>
<td>182</td>
<td>151</td>
<td>112</td>
<td>123</td>
</tr>
<tr>
<td>Per capita GDP ($PPP*)</td>
<td>6741</td>
<td>6580</td>
<td>5817</td>
<td>6094</td>
</tr>
<tr>
<td>Unemployment (%)</td>
<td>3.5</td>
<td>3.2</td>
<td>7.3</td>
<td>6.2</td>
</tr>
<tr>
<td>Export ($bln)</td>
<td>56.0</td>
<td>58.4</td>
<td>54.5</td>
<td>58.5</td>
</tr>
<tr>
<td>Import ($bln)</td>
<td>72.2</td>
<td>63.3</td>
<td>42.4</td>
<td>49.9</td>
</tr>
<tr>
<td>CA Balance ($bln)</td>
<td>-6.2</td>
<td>-4.9</td>
<td>+2.1</td>
<td>+8.6</td>
</tr>
</tbody>
</table>

C↓ -- no in Thai economy and rising unemployment rate
I↓↓ -- no confidence in Thai economy and liquidity crunch
G↓↓ -- tight budget policy
TB↑ -- import decreases faster than export in 1998
Impacts of Thai financial crisis

In other Asian countries:

- Depreciation of exchange rates
- Financial institution crises
- Stock markets collapses
- Economic recessions
- Political instabilities

“The Asian Crisis”
Why Thai financial crisis becomes Asian Crisis:

- International investors’ lack of confidence as they think that similar problems (chronic current account deficit and weak financial system) also occur in other countries such as Malaysia, Indonesia, Philippines and South Korea.

- For other countries with better financial structure such as Japan, Hong Kong and Singapore, they suffer because of contagious effects.

Impacts of Thai financial crisis in other Asian countries:
Impacts of the crisis

Chronic CA Deficit and Weakness in Financial System

Foreign Exchange Crisis

Stock Market Crisis

Banking Crisis

Property Market Crisis

Economic Crisis

Political Crisis
Recovery Strategies: IMF and Its Roles in Thai Economic Crisis
IMF Assistance to Thailand During the Crisis

Financial Support:

• IMF support = USD 4 Billion

• Bilateral and Multilateral Support = USD 13.2 Billion

• Total = USD 17.2 Billion
Policy Package Suggested by IMF

- implement contractionary fiscal policies
  - $\downarrow G \uparrow T$
  - encourage privatization of SOEs
  - Fiscal Targeting on 1% of GDP budget surplus

This aimed to free-up resource to help financial restructuring and support the improvement of current account
• adopt new exchange rate policy to be managed float
• implement the contractionary monetary policies
  - ↑ domestic interest rate

This aimed to
  - stabilize the exchange rate
  - high rate of rollover the short-term foreign debt
  - stop further capital outflows as well as regain
    the market confidence during the shock
  - turn around the foreign reserve position
• adopting financial sector restructuring
  - Liquidation of 56 insolvent finance companies
  - Recapitalization of banking system
  - Issuance of Baht 500 billion in bonds to help Financial Institution Development Fund
  - Stringent rules and regulations on banking system
  - Corporate debt restructuring
  - Giving full guarantee of all depositors and creditors
Financial Sector Restructuring (cont’d)

This policy aimed to strengthen the banking system by closing possible loopholes on facilitating new credits by hurting as least people as possible.
Results

• Tight Fiscal Policies
  - no fiscal stimulus on social safety net
  - arguments on privatization
  - time and administrative lag on fiscal policies

• Tight Monetary Policies
  - unable to stop capital outflows due to lack of confidence
  - should aim more to control domestic inflation
• Financial Sector Restructuring

- stringent regulation in too short time frame creates shock in business sector → credit crunch and more NPLs creation in the economy
After 1999

The rapid spread of the Asian crisis and chronic recession bringing a larger-than-expected depreciation of the Baht, a sharp economic downturn and adverse regional economic developments—warranted revisions to the Thai program. The revisions were undertaken through a series of program reviews conducted in close consultation with the Thai authorities.
Adjustment of IMF Policies

1. Further Comprehensive Financial and Corporate Debt Restructuring
   - encouragement of commercial bank and financial institution consolidation
   - creation of asset management corporations
   - More regulation on new bankruptcy law and foreclosure
2. Monetary Policies
   - reduction of interest rate as exchange rate was relatively stable compared to the previous period

3. Fiscal Policies
   - change from tight to expansionary fiscal policies by
     a) Japanese Aid (Miyazawa Project)
     b) Tax rate reduction
     c) Oil price intervention
     d) Continuing SOE privatization
5. Other government measures and private sector assistance

• Liquidity accumulation in the economy
  - Industrial Finance Corporation of Thailand (IFCT)
  - SME Bank
  - EXIM Bank
  - BoT cooperated with strong commercial banks

• Foreign Reserve Accumulation by Private Sector
  - Dollar and gold donation raised by Mahabua Monk
The Aftermath
Lessons from the crisis

• Avoid asset inflation that boosts expansion in bubble economy.
• Degree of openness and timing of financial sector liberalization.
• Management on foreign investment – Quantity VS Quality.
• External Finance Dependency VS self-reliance
Lessons from the crisis

- Central bank restructuring + tighten controls over bank and financial institutions.
- Significance roles of credibility in destine an open economy.
- Economics performance → dependency on political stability.
- Maturity and currency mismatch of foreign loans → increased country’s vulnerability.
Current Situation

- In July 2003, Thailand repaid its final US$1.51bn batch of outstanding debts from US$17.2bn IMF bailout package. The repayment came two years ahead of schedule.

- Real GDP growth reached a strong 6.7% in 2003, leaded by domestic consumption and export.

- Expansionary economic policy, coupled with the expected upturn in the global economy, are expected to drive growth higher in 2004 to an average of 7.7%.

- The economy is expected to slow to a still respectable 4.9% in 2005, owing to some upward movement in interest rates and rising concern about the government’s off-budget liabilities.
## GDP by expenditure

Bt bln at constant 1996 prices; % change year on year in brackets

<table>
<thead>
<tr>
<th></th>
<th>2002a</th>
<th>2003a</th>
<th>2004b</th>
<th>2005b</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Private consumption</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1,766.9 (4.9)</td>
<td>1,878.7 (6.3)</td>
<td>2,014.6 (7.2)</td>
<td>2,132.1 (5.8)</td>
</tr>
<tr>
<td><strong>Public consumption</strong></td>
<td></td>
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<tr>
<td></td>
<td>291.7 (2.5)</td>
<td>295.3 (1.2)</td>
<td>317.5 (7.5)</td>
<td>350.6 (10.4)</td>
</tr>
<tr>
<td><strong>Gross fixed investment</strong></td>
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<td></td>
</tr>
<tr>
<td></td>
<td>643.3 (6.5)</td>
<td>718.5 (11.7)</td>
<td>851.6 (18.5)</td>
<td>931.1 (9.3)</td>
</tr>
<tr>
<td><strong>Exports of goods &amp; services</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2,093.5 (12.1)</td>
<td>2,228.5 (6.5)</td>
<td>2,409.5 (6.5)</td>
<td>2,5550.0 (5.8)</td>
</tr>
<tr>
<td><strong>Imports of goods &amp; services</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1,610.0 (13.6)</td>
<td>1,728.3 (7.3)</td>
<td>1,900.6 (10.0)</td>
<td>2,038.5 (7.3)</td>
</tr>
<tr>
<td><strong>Foreign balance</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>483.5 (1.1)</td>
<td>500.2 (0.5)</td>
<td>511.4 (0.5)</td>
<td>511.4 (0.1)</td>
</tr>
<tr>
<td><strong>GDP</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>3,239.0 (5.4)</td>
<td>3,457.4 (6.7)</td>
<td>3,724.6 (7.7)</td>
<td>3,954.3 (6.2)</td>
</tr>
</tbody>
</table>
Current Situation

- Household consumption is currently at an all-time high as a result of high levels of consumer confidence.
- Investment growth is recovering, primarily in the form of property development.
- Export growth will rise, but import growth is expected to grow at a faster pace.
- *current account* has recorded sizeable *surpluses*, comprises of an increased in international reserves which reached US$33.0 billion (6.5 months import cover).
Current Situation

• The appreciation of the baht with the US dollar exchange rate. (standing at BT39.3: US$1 on October 28th compared with Bt41.7: US$1 at end-June 2003).

• Inflationary pressures will remain low, partly owing to a stable and strong baht.

• Unemployment has fallen continuously from 4.4% in 1998 to 2.4% in 2002.

<table>
<thead>
<tr>
<th></th>
<th>2002a</th>
<th>2003a</th>
<th>2004b</th>
<th>2005b</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer price inflation</td>
<td>0.6</td>
<td>1.8</td>
<td>2.7</td>
<td>2.6</td>
</tr>
<tr>
<td>Unemployment rate</td>
<td>2.4</td>
<td>2.2</td>
<td>1.7</td>
<td>1.4</td>
</tr>
<tr>
<td>Exchange rate Bt:US$</td>
<td>43.0</td>
<td>41.5</td>
<td>39.7</td>
<td>40.1</td>
</tr>
</tbody>
</table>

a Actual. b Economist Intelligence Unit forecasts. c Economist Intelligence Unit estimates. d Derived using government finance and GDP data for fiscal years ending September 30th.
Government initiatives have played a significant role in driving the economy

- On budget initiatives include the Village Fund and Farmers’ Debt Suspension.
- Establish a “One Village, One Product” scheme in order to promote small-scale industries in rural areas.
- Off budget initiatives include the People’s Bank and the Government Housing Bank’s Mortgages for public servants.
Fiscal Policy

- Expansionary fiscal policy as a cushion for global slowdown
- Forecasting a *balanced budget* in fiscal year 2003/04 and expect the budget deficit to ease to just 0.7% of GDP in 2004/05.
- Policies to boost investment includes tax incentives to increase foreign investment in bonds and the creation of two equity funds to attract domestic investors.
- Thailand is scheduled to scrap all export subsidies by the end of 2005 under its WTO agreement, and import taxes will also be cut across the board.
Monetary Policy

• After the IMF program, the central bank announced the adoption of inflation targeting in May 2000.

• 14-day repurchase rate is lowered by 50 basis points to 1.25%.

• Given minimal inflationary pressure and the strength of the baht, interest rates are expected to remain on hold until late 2004, when Thai rates will be forced to move in line with rising international interest rates.
Trade Policy

• Aimed at export growth, including diversification of markets and higher-valued products.

• Thai export sector benefit from strong Chinese growth and regional trade (expected to average 8.4% in 2004-05).

• Promoting agricultural liberalization.
<table>
<thead>
<tr>
<th></th>
<th>2002a</th>
<th>2003a</th>
<th>2004b</th>
<th>2005b</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government balance (% of GDP)</td>
<td>-1.5</td>
<td>0.3</td>
<td>0.6</td>
<td>-0.1</td>
</tr>
<tr>
<td>Exports of goods fob (US$ bn)</td>
<td>66.8</td>
<td>78.4</td>
<td>89.4</td>
<td>96.9</td>
</tr>
<tr>
<td>Imports of goods fob (US$ bn)</td>
<td>57.0</td>
<td>66.7</td>
<td>78.9</td>
<td>86.7</td>
</tr>
<tr>
<td>Current-account balance (US$ bn)</td>
<td>7.7</td>
<td>9.4</td>
<td>8.6</td>
<td>8.3</td>
</tr>
<tr>
<td>Current-account balance (% of GDP)</td>
<td>6.0</td>
<td>6.7</td>
<td>5.3</td>
<td>4.8</td>
</tr>
<tr>
<td>Real GDP growth</td>
<td>5.4</td>
<td>6.7</td>
<td>7.7</td>
<td>6.2</td>
</tr>
<tr>
<td>External debt (year-end; US$ bn)</td>
<td>60.1</td>
<td>53.7</td>
<td>53.2</td>
<td>50.1</td>
</tr>
</tbody>
</table>
Conclusion
Conclusion

- GDP growth alone is not enough for sustainable economic development
- Domestic financial system must be strong and consistent.
- International financial system now links every country together.
- Financial liberalization should be orderly and gradual. Government intervention may be required to overcome the market failure.
- IMF’s standard recipe cannot solve problems of every country.
The End
Accessories
Thai Baht Under Fixed Exchange Rate

Year


Baht/US dollar

Thai Baht under fixed and floating exchange rate
Thai Baht Under Fixed and Floating Exchange Rate

Thai baht becomes under floating exchange rate (late 1997)
International Reserve (Million of US dollars)

The amount of international reserves

Year


0 5,000.0 10,000.0 15,000.0 20,000.0 25,000.0 30,000.0 35,000.0 40,000.0 45,000.0

The international reserve (Million of US dollars)
# Depreciation of Asian Exchange Rates (per US$)

<table>
<thead>
<tr>
<th>Currency</th>
<th>June 1997</th>
<th>Lowest Rate</th>
<th>Lowest Month</th>
<th>Depreciation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesian Rupiah</td>
<td>2427.9</td>
<td>13,995.9</td>
<td>July 1998</td>
<td>-83%</td>
</tr>
<tr>
<td>Thai Baht</td>
<td>24.318</td>
<td>52.551</td>
<td>January 1998</td>
<td>-53%</td>
</tr>
<tr>
<td>South Korean Won</td>
<td>887.03</td>
<td>1693.65</td>
<td>January 1998</td>
<td>-47%</td>
</tr>
<tr>
<td>Malaysian Ringgit</td>
<td>2.5157</td>
<td>4.1941</td>
<td>January 1998</td>
<td>-42%</td>
</tr>
<tr>
<td>Philippine Peso</td>
<td>26.355</td>
<td>43.657</td>
<td>September 1998</td>
<td>-40%</td>
</tr>
<tr>
<td>Japanese Yen</td>
<td>114.32</td>
<td>144.59</td>
<td>August 1998</td>
<td>-21%</td>
</tr>
<tr>
<td>Taiwan Dollar</td>
<td>27.882</td>
<td>34.699</td>
<td>August 1998</td>
<td>-20%</td>
</tr>
<tr>
<td>Singapore Dollar</td>
<td>1.4264</td>
<td>1.7566</td>
<td>August 1998</td>
<td>-19%</td>
</tr>
</tbody>
</table>
## Collapse of Stock Markets

<table>
<thead>
<tr>
<th>Stock Market</th>
<th>Highest Pre-Crisis Date</th>
<th>Lowest Date</th>
<th>Amount Depreciated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kuala Lumpur Composite</td>
<td>25 February 1997</td>
<td>1 September 1998</td>
<td>-79%</td>
</tr>
<tr>
<td>Bangkok SET</td>
<td>22 January 1997</td>
<td>4 September 1998</td>
<td>-76%</td>
</tr>
<tr>
<td>Philippines SE Composite</td>
<td>3 February 1997</td>
<td>11 September 1998</td>
<td>-67%</td>
</tr>
<tr>
<td>Jakarta SE Composite</td>
<td>8 July 1997</td>
<td>21 September 1998</td>
<td>-65%</td>
</tr>
<tr>
<td>Korea SE Composite (KOSPI)</td>
<td>17 June 1997</td>
<td>16 June 1998</td>
<td>-65%</td>
</tr>
<tr>
<td>Straits Times Index</td>
<td>17 February 1997</td>
<td>4 September 1998</td>
<td>-72%</td>
</tr>
<tr>
<td>Hang Seng</td>
<td>7 August 1997</td>
<td>13 August 1998</td>
<td>-60%</td>
</tr>
<tr>
<td>Taiwan SE Weighted</td>
<td>26 August 1997</td>
<td>5 February 1999</td>
<td>-46%</td>
</tr>
<tr>
<td>Nikkei Average</td>
<td>16 June 1997</td>
<td>9 October 1998</td>
<td>-38%</td>
</tr>
</tbody>
</table>
### Number of Quarters in Recession, I Q 1997-2Q 2000

<table>
<thead>
<tr>
<th>Country</th>
<th>Quarters</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thailand</td>
<td>6</td>
</tr>
<tr>
<td>Japan</td>
<td>6</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>5</td>
</tr>
<tr>
<td>Indonesia</td>
<td>5</td>
</tr>
<tr>
<td>Malaysia</td>
<td>5</td>
</tr>
<tr>
<td>South Korea</td>
<td>4</td>
</tr>
<tr>
<td>Philippines</td>
<td>3</td>
</tr>
<tr>
<td>Singapore</td>
<td>2</td>
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