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### Background of the Fund Debt

Bank of Thailand

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## The background of the Fund's debt

Thailand's economy has seen problems since 1996, starting with the slowdown in export value. Part of this is caused by intense competition from foreign countries such as China, Indonesia, etc. Another part is caused by the appreciation of the US dollar in the foreign exchange market. As a result, the baht, which has a high proportion of dollars in the money basket, appreciates as well. On the other hand, capital in the form of borrowings came in in a very large amount, causing financial institutions to grant credit without caution. The money was invested in real estate business. There is speculation in the stock market. When the economy is sluggish, there is a bad debt problem in the financial institution system. Many real estate development businesses face liquidity problems. As a result, finance companies that are financial institutions that lend to the real estate sector the most. It was affected by the economic slowdown before rumors of financial weakness followed for some time.

In early May 1996, Bangkok Bank of Commerce Co., Ltd. faced a lack of liquidity and affected its affiliated finance companies. After that, rumors about the finance company's financial status began to flow in succession. Until the beginning of September 1996, there was news that some finance and securities companies had financial problems to the point of being controlled by the authorities. Several financial institutions are named. Although the Bank of Thailand has come out to deny the news, but the flow of deposit withdrawals is still ongoing. The Financial Institutions Development Fund (FIF) has provided liquidity assistance to such financial institutions to repay depositors. And in the beginning of 1997, there was news of the depreciation of the baht and Moody's news, which will consider downgrading the long-term credit rating. In addition to affecting the movement of the exchange rate. Also affected the interest rates on short-term loans fluctuating between 10-30 percent per year. News of the lack of liquidity of finance companies began to spread, causing the flow of deposit withdrawals to spread continuously in a wide area. Although the Bank of Thailand has announced a list of 10 finance companies that need to increase capital in order to distinguish financial institutions that have financial problems. But the results show that people have no confidence. The flow of deposit withdrawals is becoming more and more widespread, and must request assistance from the Fund. Until mid-June 1997, the financial institutions that the Fund There must be more than 40 liquidity aids worth more than 200,000 million baht.

Finally, on June 27, 1997, the Ministry of Finance announced the suspension of financial institutions' operations temporarily. In order for those financial institutions to prepare a capital increase / merger plan, a total of 16 (Group 16) in the part of the people who deposit money. Officials granting the right to exchange for promissory notes with a specified time period of Krungthai Thanakit Finance and Securities Public Company Limited in full for the principal amount, and also receive interest as specified. In early July 1997, it was announced to float the baht. As a result, the situation of the financial institution system deteriorated further. Although the government through the cabinet has passed a resolution to guarantee depositors and creditors both domestically and internationally in the finance company system that has not been suspended, which is expected to be fully secure. The flow of deposit withdrawals from finance companies continued and on August 5, 1997, the Ministry of Finance announced the temporary suspension of the operations of 42 financial institutions. (Group 42) to separate finance companies facing stability problems from companies that can continue their normal business. In the case of people who deposit money, The official gave the right to exchange for a certificate of deposit of Krung Thai Bank Public Company Limited, similar to Group 16, for both domestic and foreign

On the same day (August 5, 1997), the Cabinet approved the rules and standards of deposit insurance for all depositors and creditors of all financial institutions that are still in operation. by assigning the Fund is the person implementing the said resolution as well as being a liquidity provider for Krung Thai Thanakit Finance and Securities Public Company Limited and Krung Thai Bank Public Company Limited to repay depositors who exchanged them for instruments of both financial institutions. from helping depositors in these financial institutions totaling 519,298 million baht.

The announcement of depositor and creditor insurance rules cannot instill the confidence of all depositors. The flow of deposit withdrawals in the financial institution system still exists due to various rumors, the situation of the baht value and the situation with high interest rates of more than 20% in the financial market. It also spread to medium and small banks. Until the government issued measures on August 14, 1998, consisting of several measures, i.e. changes in directors/executives, capital increase, mergers and acquisitions, and transfer of non-performing assets from financial institutions. so that financial institutions can conduct normal transactions Such measures require a large amount of money from the authorities. But the cost is lower than closing the business and paying back the depositors. In addition, the benefit is that normal debtors of those financial institutions can still use the service and disburse money as usual.

from the implementation of policies assigned by the Ministry of Finance, including measures to help depositors and help restore the financial position of financial institutions. As a result, the Fund A very high amount of money had to be borrowed in the system to support the implementation of various measures. And almost all of them are short-term loans from the money market. and suffered damages of more than 1.4 trillion baht according to the estimates prepared by the Fund and presented to the Cabinet in June 2002.

<u>Type of damage</u>	<u>Amount (million baht)</u>
1. Assistance to depositors	554,149
2. Business rehabilitation through capital increase	169,139
3. Business rehabilitation through non-performing debt management (NPL)	650,750
4. Net interest expenses and other expenses (after deducting remittances and other income)	<u>27,412</u>
<b>Net total damage</b>	<b><u>1,401,450</u></b>



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