

Recent progress on the Bank of Thailand's financial and credit relief measures to relieve impacts of the COVID-19

In recent periods, the Bank of Thailand (BOT) has been implementing a series of measures to address liquidity problems facing households and businesses affected by the COVID-19 pandemic. Given high degree of uncertainties surrounding the pandemic, particularly how and when it would end, households and businesses with liquidity problems could thus face solvency risks, which would hinder economic recovery after the pandemic. In implementing the financial relief measures amidst high uncertainties, the BOT aims to address such problems in accordance with the following key principles.

1. The supports must reach those affected by the pandemic in a broad-based and timely manner.
2. They must not pose risks to the financial institution system.
3. They must not cause excessive fiscal burden on the government or tax burden on taxpayers going forward.
4. They should support the transformation of businesses to prepare for changes in consumer behaviors and business operations in the post-COVID environment.

Recent progress on four financial measures implemented thus far can be summarized as follows.

(1) Interest rate cuts Since February 2020, the Monetary Policy Committee (MPC) has delivered three policy rate cuts, and reduced the Financial Institutions Development Fund (FDIF) contribution rate to 0.23 percent of the deposit base for the duration of 2 years. These moves enabled financial institutions to cut the reference loan rates to the lowest level in 16 years, which helped lower the interest burden for floating-rate loans.

In addition, the BOT asked financial institutions to offer a 2 - 4 percent reduction in interest rate ceilings, service fees, and penalty charges on fixed-rate credit card and personal loans, effective from on August 1, 2020 onwards. Moreover, an adjustment was made to the calculation of late payment fees. Under the new calculation method, interest charges will only be applied on the specific installment that was missed, instead of on the entire outstanding loan. This new method would reduce interest burden on borrowers, and reflect the actual loss to the lenders.

(2) Debt payment holiday and debt reduction Empowered by the Emergency Decree on the Provision of Financial Assistance for Entrepreneurs Affected by the COVID-19 Pandemic, B.E. 2563 (2020) (Financial Assistance Emergency Decree), **the BOT issued a loan payment holiday of 6 months for all SMEs** with normal repayment status and a credit line not exceeding 100 million baht per financial institution as of end-2019. During the payment holiday, the pause payments will not be considered as missed payment. Furthermore, the BOT engaged with the Thai Bankers' Association to encourage commercial banks to consider **additional liquidity supports for SMEs** beyond measures previously announced.

For retail borrowers, including small SMEs who rely on personal loans, auto loans, and leasing for working capital to support business operations, on March 26, 2020, the BOT, together with financial institutions and non-bank financial services providers, agreed to adopt **minimum measures on debt moratorium and debt reduction to assist retail borrowers of all loan types for the duration of 3 months**. During this period, payment suspensions

would not be considered as missed payments. These measures would ensure sufficient cash flows for retail borrowers to sustain necessary expenditures and continue their business operations. Furthermore, financial institutions and other financial services providers continued to offer additional measures that were better than the minimum measures. As these phase I measures will soon expire, while the COVID-19 situation remains highly uncertain, **the BOT thus announced the Phase II minimum measures to assist retail borrowers** on June 19, 2020 to expand the scope and duration of the supports for borrowers affected by the COVID-19. This time, financial institutions were urged to offer a set of minimum measures on debt restructuring options for borrowers according to their loan types. The options could include, for example, minimum repayment reduction, loan maturity extension, or reduction in loan installments. Furthermore, financial institutions were asked to not demand repayment of the entire loan principal and all interests suspended or installments reduced during the debt holiday at once when the measures expire. Also, late payment fees or any other charges will not be applied on borrowers participating in this program.

(3) Additional lending In order to support businesses with liquidity needs and those requiring changes to the business operations to prepare for the new economic environment, the BOT, authorized by the Financial Assistance Emergency Decree, would provide soft loans of 500 billion baht for financial institutions, who would then on-lend the funds to SMEs. **To be eligible for the loans, SMEs must have a normal repayment status and a credit line of not exceeding 500 million baht with each financial institution as of end-2019.** The maximum drawdown for the soft loan is 20% of the loan outstanding as of end-2019, and the interest rates on these loans must not exceed 2 percent^{13/}.

The soft loans would be distributed to borrowers across a wide range of sectors^{14/}, most notably SMEs (1) in the provinces, (2) in sectors impacted by COVID-19 such as trading, manufacturing, and service, (3) of small size with 20 million baht or less in existing credit lines, and (4) rated as medium to high-risks by financial institutions.

However, the amount of soft loans granted to date remained small compared to the size of the program, which is 500 billion baht. This was partly because financial institutions had already issued some new loans previously using supports from other government programs and continued to do so (Chart 1). These programs included the Government Savings Bank Soft Loan Scheme^{15/}, which comprised the financial institutions on-lending program and the direct SME lending program, and the credit guarantee facilities by the Thai Credit Guarantee Corporation^{16/}. When new loans granted under the BOT soft loan program and other government SME loan support programs are combined, the amount of new loans would total over 200 billion baht. Moreover, as the economy began to recover and more businesses started to resume operations, the utilization of the BOT soft loans was expected to increase, supporting business liquidity needs and recovery.

^{13/} BOT Notification No. BOT.FPG1.2/2020 Financial Assistance to Small and Medium-sized Enterprises Affected by the COVID-19 Pandemic (April 22, 2020) (Thai version only)

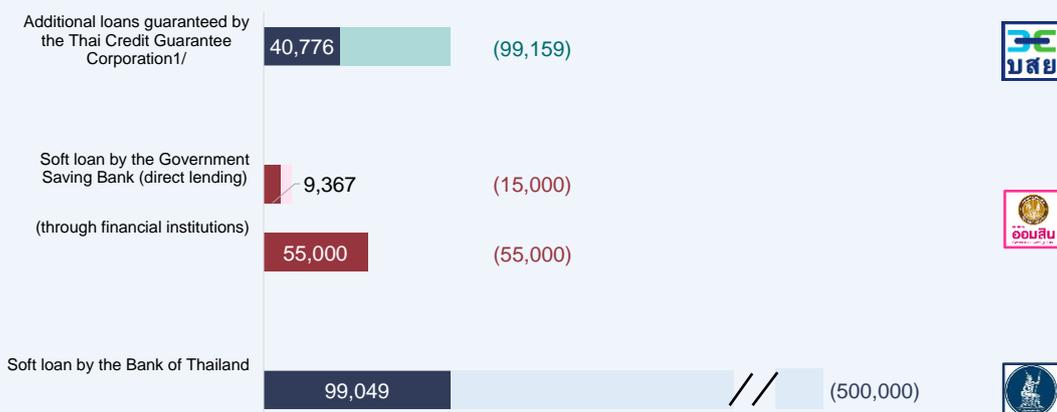
^{14/} The Bank of Thailand's mission to assist individuals and businesses during the COVID-19 pandemic (May 28, 2020). (Thai version only)

^{15/} Phase I Package of direct and indirect economic relief measures in response to impacts from Coronavirus (March 10, 2020) (Thai version only)

^{16/} The Funding Thai SMEs for Thailand program (January 7, 2020) (Thai version only)

Chart 1 Progress on additional liquidity supports to SMEs

New loan in million baht. () total loan amount of each measure



Note: ^{1/} Credit guarantee program implemented by the Thai Credit Guarantee Corporation since March 1, 2020 included

(1) Phase 8 of the Portfolio Guarantee Scheme : PGS8 and

(2) Phase 3 of the Credit Guarantee for Micro Entrepreneur

Source: Bank of Thailand (Data as of June 24, 2020)

With regard to retail borrowers, both existing and new, specialized financial institutions have implemented further credit support measures to assist their liquidity needs^{17/}. For example, the Government Savings Bank has launched a targeted loan program for freelancers and salary workers, while the Bank for Agriculture and Agricultural Cooperatives has announced a 20 billion baht emergency loan program for farm households.

(4) Debt restructuring: The BOT announced the relaxation of supervisory regulations^{18/} to encourage debt restructuring for business and household borrowers who were not yet classified as NPL. Restructuring options may include extension of loan repayment period, provision of additional working capital, interest reduction, or extension of loan maturity with lower interest rates that match declining income profile post-pandemic. Furthermore, the BOT relaxed rules in several areas. First, the classification of borrowers where the borrowers who were not yet classified as NPL can be immediately classified as normal if they could make repayments in accordance with the debt restructuring agreement. This restructuring would be considered pre-emptive, instead of Troubled Debt Restructuring (TDR). Moreover, the relaxation also applied to the classification of NPL borrowers who could comply with the restructuring agreement. Second, the loan loss provision rules were eased to facilitate debt restructuring for NPL borrowers.

The timeline of the debt restructuring program, as well as the debt holiday and reduction measures, are shown in Chart 2.

^{17/} Credit support measures for borrowers affected by the economic conditions and the COVID-19 pandemic, and the extension of new or additional credit lines.

^{18/} BOT Circular No. BOT.FPG (01)c 276/2020

Chart 2 The BOT issued a series of credit assistance and debt restructuring measures

Announcement date	Type of borrowers receiving assistance	Credit measures	Duration
Feb 28, 2020	All types of retail borrowers and SMEs	(1) Financial institutions implemented credit assistance measures including both liquidity provision and debt restructuring (2) Relaxed regulations regarding classification of borrowers and levels of loan loss provision so that financial institutions could accelerate the implementation of pro-active debt restructuring for borrowers	Jan 1, 2020 – Dec 31, 2021
Mar 26, 2020	All types of retail borrowers and small SMEs	Coordinate with financial institutions to issue minimum debt moratorium and debt reduction requirements for each type of borrowers	Depend on loan type
Apr 22, 2020	SMEs with a credit line not exceeding 100 million baht as of end-2019	Extended debt payment holiday	Apr 23 – Oct 22, 2020
Jun 19, 2020	All types of retail borrowers and small SMEs	Coordinate with financial institutions to introduce the second phase of minimum measures to postpone and reduce debt repayment burdens for each type of borrowers.	Depend on loan type

Looking ahead, the MPC emphasized the need to urge financial institutions to accelerate lending, using supports from the various measures implemented, in order to address liquidity problems in a targeted and timely manner. Moreover, while the government’s financial and fiscal relief measures remain in place to shore up borrowers’ liquidity, financial institutions should urgently implement a comprehensive debt restructuring program, particularly for household and SMEs, to make sure that they can make repayments in accordance with the debt restructuring agreements. Successful debt restructuring will contribute significantly to economic recovery going forward.