## Financial Rehabilitation measures
## to support business recovery post-COVID-19

The Bank of Thailand, the Ministry of Finance, and related parties proposed two new measures to support business recovery and transformation post-COVID-19.

Since early 2020, the Thai economy has faced a number of challenges from the COVID-19 pandemic. Notwithstanding early signs of recovery in some sectors, overall economic recovery is expected to be gradual: the Thai economy is projected to recover to its pre-COVID-19 level in the third quarter of 2022. Moreover, the recovery is likely to be uneven, especially for SMEs with limited access to capital, as well as businesses that are hard-hit by the pandemic. The tourism sector, which employs more than 10 million jobs, will take 4-5 years for the number of tourists to recover to pre-COVID-19 level. The prolonged and increased level of uncertainties further impaired financial access of affected businesses. Those with outstanding debts also find it more difficult to negotiate debt restructuring in the absence of future income and cash flow projections.

Under such circumstances, the existing short-term relief measure through the Emergency Decree on the Provision of Financial Assistance for Entrepreneurs Affected by the COVID-19 Pandemic B.E. 2563 (Soft Loan Emergency Decree), enacted on 19 April 2020, is insufficient to handle the prolonged nature of the situation. To address this, the Bank of Thailand (BOT) and the Ministry of Finance (MOF) recognized the immediate need for additional financial measures, and the Cabinet today approved the proposed measures totaling 350 billion baht, with two-year loan withdrawal period and a possible one-year extension.

The Financial Rehabilitation measures' primary objective is to support viable businesses so that they can remain open, maintain employment, and have opportunities to recover and transform themselves for the post-COVID-19 world. The measures are designed with three underlying principles: <u>appropriate</u> under the current heightened risk outlook, <u>flexible</u> enough to withstand the rapidly-changing environment, and <u>inclusive</u> so that different needs in different sectors are addressed. Public agencies, financial institutions, as well as private sector representatives such as the Thai Chamber of Commerce, the Board of Trade of Thailand, and The Federation of Thai Industries have worked closely together in the designing the features to ensure that they adequately address business needs under the current context. The measures include:

1. Soft loan facility for businesses (totaling 250 billion baht) to support viable small and medium enterprises (SMEs) affected by the COVID-19 crisis. This measure aims to address limitations of the previous soft loan measure by expanding the pool of eligible borrowers to include both new and existing borrowers; expanding credit limit; expanding loan tenor; and amending the interest rates to better support business recovery. Furthermore, the loan facility will be supported by a credit guarantee scheme through the Thai Credit Guarantee Corporation (TCG) and receive additional exemptions or reductions on relevant taxes and fees. As a part of the loan facility, the BOT will provide funding for financial institutions at low funding rate to channel liquidity to businesses in need.

2. Debt restructuring through Asset Warehousing with Buy-Back options (totaling 100 billion baht) provides standardized debt restructuring program for adversely affected borrowers whose businesses require prolonged recovery period, while possessing

viable business models and collaterals. Under the program, businesses have the first rights to repurchase their collaterals at the agreed transferred price plus an additional carry cost at 1 percent per annum as well as incurred asset maintenance costs and other relevant fees. Businesses whose assets have been transferred may lease their assets from financial institutions to continue business operations; and the rents received by financial institutions will be deducted from the amounts to be repurchased by the businesses at a later date. Such scheme would shield businesses from having to sell collaterals at fire-sale price and provide opportunity to continue their business through the recovery. The BOT will support the program by providing low-cost funding to financial institutions equivalent to the asset-transferred price agreed upon by financial institutions and borrowers. At the same time, relevant public agencies will provide exemptions or reductions on taxes or relevant fees such as those levied on asset transfers during initial transfers and repurchases by original owners.

The measures are designed to utilize limited resources of both public and private sectors to yield greatest impact. In particular, liquidity will be channeled to support viable businesses to maintain employment and upskill employees as well as business transformation to recover from the crisis and subsequently benefit the overall economy. Moreover, there are other policy measures by the Bank of Thailand and the government to address different financial needs including a liquidity scheme for retail borrowers with short-term liquidity shortage through income-generating initiatives and a debt relief and restructuring measure for those with debt outstanding to alleviate over-indebtedness. Moreover, the Bank of Thailand's revised regulation on late payment calculation and interest rate penalty aims to support adversely affected borrowers. The revision will lower debt burden and promote fairness in financial services, while at the same time limiting build-up of non-performing loans in the financial system.

Public agencies, financial institutions, and those in the private sector have worked closely together in designing these market-based support measures that will address the needs of all parties involved. All parties are committed to actively take part and support the measures. Commercial banks, both Thai and foreign, will play a crucial role in screening and passing on reliefs to affected businesses so that they can recover and remain competitive. Government-owned Specialized Financial Institutions (SFIs) will fulfill their mission for increased access to capital and closing the financial gap. Lastly, the measures will help viable businesses affected by COVID-19 to recover, transform themselves, and, once again, return to be the driving forces for the Thai economy. The measures are expected to be in effect once the legal requirements and relevant procedures have been completed.

**Summary of the Draft on Financial Rehabilitation Measures**

<table>
<tr><th>Measures</th><th>Soft Loan Facility for Businesses</th><th>Debt Restructuring through Asset Warehousing with Buy-Back options</th></tr>
<tr><td>Total Credit Line</td><td>250 billion baht</td><td>100 billion baht</td></tr>
<tr><td>Period</td><td colspan="2">2-year loan withdrawal period from the BOT, maximum 5-year term loan</td></tr>
<tr><td>Objectives</td><td>Provide liquidity for business operations as well as for business recovery</td><td>Financial relief for affected businesses with prolonged recovery period</td></tr>
<tr><td>Target Groups</td><td>(1) Existing borrowers with existing credit line not exceeding 500 million baht as of 28 February 2021 and whose loan statuses are not NPL as of 31 December 2019<br>(2) New borrowers with no existing credit line with financial institutions (FIs) as of 28 February 2021</td><td>Borrowers with collaterals prior to 28 February 2021 whose loan statuses are not NPL as of 31 December 2019</td></tr>
<tr><td>Conditions</td><td>Loan offer<br>(1) Credit limits per borrower<br>(1.1) Existing borrower: not exceeding 30% of credit line as of 31 December 2019 or 28 February 2021, whichever is greater, but not exceeding 150 million baht<br>(1.2) New borrower: not exceeding 20 million baht<br>(2) Interest rate: FIs will provide loan with interest rate not exceed an average of 5% per annum for 5 years, and at 2% in the first 2 years. The government will subsidize interest for the first 6 months.<br><br>Loan guarantee<br>(1) Guarantee period: 10 years<br>(2) Compensation rate: not exceeding 40% of loan portfolio<br>(3) Fee: average at 1.75% per annum, which the government will compensate in total of 3.5% through government guarantee mechanisms by the Thai Credit Guarantee Corporation (TCG)</td><td>Both FIs and borrowers mutually agree to transfer collaterals for debt repayment purpose. Additional conditions include:<br>- A borrower has the first rights to repurchase collaterals back within 5 years. The repurchase price should not be higher than the transfer price plus carrying cost (1% per annum of the transfer price) as well as incurred asset maintenance costs and other relevant fees.<br>- A borrower has the first rights to rent the collateral asset. Rents received by FI will be deducted from the repurchase price. No additional maintenance costs shall be incurred if the borrower rents the asset.</td></tr>
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| **Government support** | **BOT**: liquidity support at 0.01% interest rate for FIs in providing loan**.**<br>**Government**:<br>1. MOF: support loan guarantee mechanisms<br>2. MOF, the Ministry of Interior, and the Ministry of Commerce: will reduce fees related to asset transfers to 0.01% and exempt mortgage registration and business collateral registration fees. | **BOT:** liquidity support at 0.01% to FIs for the value of asset transfers.<br><br>**Government:** MOF, the Ministry of Interior, and the Ministry of Commerce: reduce or exempt taxes and relevant fees for both the transfers and the repurchase of the assets for original owners**.** |